



DIGITAL ASSETS

DECODED

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GALAXY

FUND MANAGEMENT



MARKET COMMENTARY



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Digital assets continued to sell off in January amidst a challenging market environment. Trading sessions throughout the month remained choppy and in a downtrend as volatility affected markets globally. Investors continued to express concerns about inflation, Fed tapering/rate hikes, and geopolitical unrest.

US national debt as of January 31 exceeded \$30 trillion for the first time¹, a nearly \$7 trillion increase from January 2020, reflecting increased federal borrowing during the pandemic. The market is trying to find a bottom amid the turbulence; many market strategists, including those at Goldman Sachs and J.P. Morgan, predict that the market will end the year higher, with J.P. Morgan estimating +15% in the S&P by EOY). We are also seeing J.P. Morgan's clients gear up to enter the stock market again, with 78% of those surveyed noting they are likely to increase their equity exposure over the coming weeks.

Digital assets, while historically uncorrelated, have been affected by these macro trends as large investors and institutions address them alongside other positions and challenges within their portfolios. Bitcoin and Ethereum market caps finished January down to \$700 billion and \$320 billion, respectively. The total crypto market cap ended the month at \$1.7 trillion.² That said, NFTs were red-hot amid the broader crypto market downturn, with the most popular

collections gaining as bitcoin and Ethereum fell. The psychology of NFTs has a lot to do with their immunity to the macro picture, as NFTs are less liquid and more like a luxury good.

Monthly NFT trading volume in January reached a record high of \$6.13 billion, growing 129% in that month relative to December.³ Much of the increase was due to the latest contender in the NFT marketplace sphere, LooksRare, which accumulated nearly \$2 billion in volume after its January launch.⁴ Ethereum was not the only blockchain that experienced a surge in NFT volume; total NFT sales on Solana surpassed \$1 billion in all-time volume in January as well.

In key industry news, India declared that income from the transfer of any virtual digital asset will be taxed in the highest income tax slab at a rate of 30%, providing much-anticipated clarity on crypto taxation within its Union Budget for the fiscal year 2022-2023. On the positive end, clarity in taxation suggests that crypto will not be banned in India as some had feared. The budget also provided a specific timeline for India's central bank digital currency (CBDC) launch, citing that a "digital rupee using blockchain and other technologies" will be issued by the Reserve Bank of India as soon as next year.⁵ Many view the move as a significant development towards legitimizing digital assets in India. In addition, bitcoin eclipsed \$3 trillion in payment transactions last year and now ranks third in payments behind Visa and Mastercard.⁶



NOTABLE NEWS

- For Bill Miller announced that he holds 50% of his net worth in bitcoin.⁷
- Solana saw significant investment in its ecosystem in January:
 - Phantom, a crypto wallet for accessing the Solana ecosystem, raised a \$109 million Series B round at a \$1.2 billion valuation.
 - NFT platform Metaplex raised \$46 million.
 - Decentralized exchange Serum raised \$100 million led by Tiger Global.
- Cash App began offering users access to the lightning network, furthering bitcoin transaction growth.⁸
- Fidelity kickstarted the process with the SEC to launch two ETFs that will track companies operating in the crypto and metaverse spaces. The Crypto Industry and Digital Payments ETF will seek to track the performance of a set of companies offering crypto mining, support services, blockchain technology solutions, and digital payments processing.⁹
- Google hired a former PayPal executive to run payments as they make a push into digital assets.¹⁰
- CMS holdings and FTX led the raise of a \$20 million Super PAC to deploy lobbying for digital assets.
- The Fed states it is open to privately-run stablecoins and the digital dollar.
- Fed Chair Gensler appoints Senate Aid Frayer as senior advisor on digital assets.
- The mayor of Rio de Janeiro moved 1% of the city's treasury into bitcoin.
- American Express is considering making points redeemable in crypto.¹¹
- Nike has hired a Director of Metaverse.¹²
- On the back of his positive comments on digital assets, Apple CEO Tim Cook sees “a lot of potential in the metaverse and will invest accordingly.”¹³
- Facebook stablecoin project Diem wound down, and Silvergate Bank acquired its assets for \$200 million.
- The US Senate hearing on stablecoins will be February 15, just days after the House of Representatives examines stablecoin regulation. Both hearings promise an examination of the President's Working Group on Financial Markets' Report on Stablecoins, which came out last November. In that report, the group urged Congress to limit stablecoin issuance to insured depository institutions.

NOTABLE CAPITAL RAISES

- FTX raised another \$400 million with its latest Series C round, bringing the exchange's valuation to \$32 billion. Combined with its US trading arm, FTX US, the FTX umbrella is the most valuable exchange at \$40 billion, surpassing Coinbase. The latest \$400 million funding round will go toward adding products and expanding the exchange's global footprint with additional licenses, FTX CEO Sam Bankman-Fried said in a statement. Acquisitions are expected to be the largest use of the funds, which is unsurprising given its latest flurry of acquisitions, including its purchase of Japanese rival, Liquid.¹⁴
- 776 Management, the VC firm owned by Reddit co-founder Alexis Ohanian, raised \$500 million for two new funds primarily focused on crypto. News of the new fund comes four months after Ohanian earmarked \$100 million to invest in building a decentralized social media network to run on Solana.
- Smart Contract platform NEAR raised a \$150 million ecosystem fund.
- Graph Protocol raised \$50 million led by Tiger Global.¹⁵
- Digital Swiss Banking Platform SEBA raised a \$119 million Series C round.¹⁶



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