



DIGITAL ASSETS

**DECODED**

DECEMBER 2021 IN REVIEW

**GALAXY**

FUND MANAGEMENT



# MARKET COMMENTARY



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Digital assets sold off in December in a challenging market environment against the backdrop of year-end seasonality, portfolio rebalancing, profit-taking, and tax considerations. From a macro perspective, global markets saw choppy trading and varying volumes as the holidays, Omicron, and concerns regarding interest rate policy arose.

Zooming out to the broader industry, crypto custodial firms focused on the institutional market experienced a significant upswing in funding in 2021, including NYDIG, Anchorage, Fireblocks, and Ledger. The Block predicts the space will continue to grow as traditional financial institutions enter or expand their digital asset offerings, including custody, either directly or by partnering with an existing custodian.

Centralized exchanges reported over \$14 trillion in trading volume for the year, a 689% increase from 2020 volumes. Binance continues dominating the centralized crypto exchange market, facilitating 67% of total volumes in 2021. However, the volume reported by decentralized exchanges (DEXes) continues to close in on that gap. DEXes reported more than \$1 trillion in trading volumes in 2021, a massive 858% increase compared to 2020 volumes.



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## NOTABLE DEVELOPMENTS

- Former Google CEO Eric Schmidt will become a strategic advisor for Chainlink Labs.
- Visa plans to launch a crypto advisory service as adoption grows.
- MicroStrategy bought 1,434 bitcoin for \$82.4 million at an average price of \$57,477. MicroStrategy also announced it is considering lending to generate yield on its 122,000 bitcoin. While the company has not taken any steps to do so, they are looking at ways to put the bitcoin on its balance sheet to work.
- Meta piloted instant crypto payments on WhatsApp using its Novi digital assets wallet.
- Twitch co-founder Justin Kan plans to launch a Solana-based gaming NFT marketplace.
- Public insurance firm Lemonade confirmed they hold bitcoin on their balance sheet.
- U.S. Senators asked the Treasury to release guidance for crypto brokers by year-end.
- Nike acquired NFT sneakers and collectibles studio RTFKT.
- Shopify is launching its beta version of an NFT marketplace.
- Instagram is considering NFT integration as mass adoption heightens.
- Pro-crypto U.S. Senator Cynthia Lummis is set to introduce an “expansive crypto bill” in 2022.
- Financial messaging giant SWIFT announced plans to explore the tokenized asset market in 2022.

In addition to this industry-wide news, we see a deeper focus on web3 emerging. “NFT” searches recently passed “crypto,” according to worldwide Google search trends. According to a release, Sotheby’s earned \$100 million from NFT sales in 2021. Notable auctions include NFTs from the Crypto Punks and Bored Ape Yacht Club collections. Sotheby’s is one of the first art institutions to lean into NFTs, which has paid off. Its sales from NFTs make up a sizable portion of the \$6 billion of revenue it did in 2021.

Zooming in on the DeFi sector of web3, we see an attractive rate of return relative to other sectors right now, including gaming, NFTs, and Layer 1 valuations. Stablecoin supply grew by 388% last year, according to The Block Research, due to demand from DeFi platforms. (Stablecoins are used to transact in synthetic dollars and dampen volatility when trading between tokens.) Demand increased for stablecoins due to users looking to generate yield in DeFi protocols. We are beginning to see the DeFi market refocus on projects with good fundamentals. These, along with other developments listed below, make DeFi a sector to watch.

## DEFI DEVELOPMENTS

- DEX SundaeSwap launched on Cardano testnet.
- Polygon acquired Mir in a \$400 million deal to scale Ethereum and web3.
- Kickstarter announced a plan for a decentralized crowdfunding protocol built on Celo.
- Coinbase launched DeFi Yield Services outside of the U.S.
- Yearn Finance launched its YFI buyback program to distribute earnings to token holders.
- Switzerland’s SEBA Bank aims to use Aave’s institutional DeFi platform.
- DEX protocol Uniswap went live on Ethereum-scaling platform Polygon.
- Web browser Opera will integrate with Polygon, opening the decentralized app ecosystem to 80 million users.



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