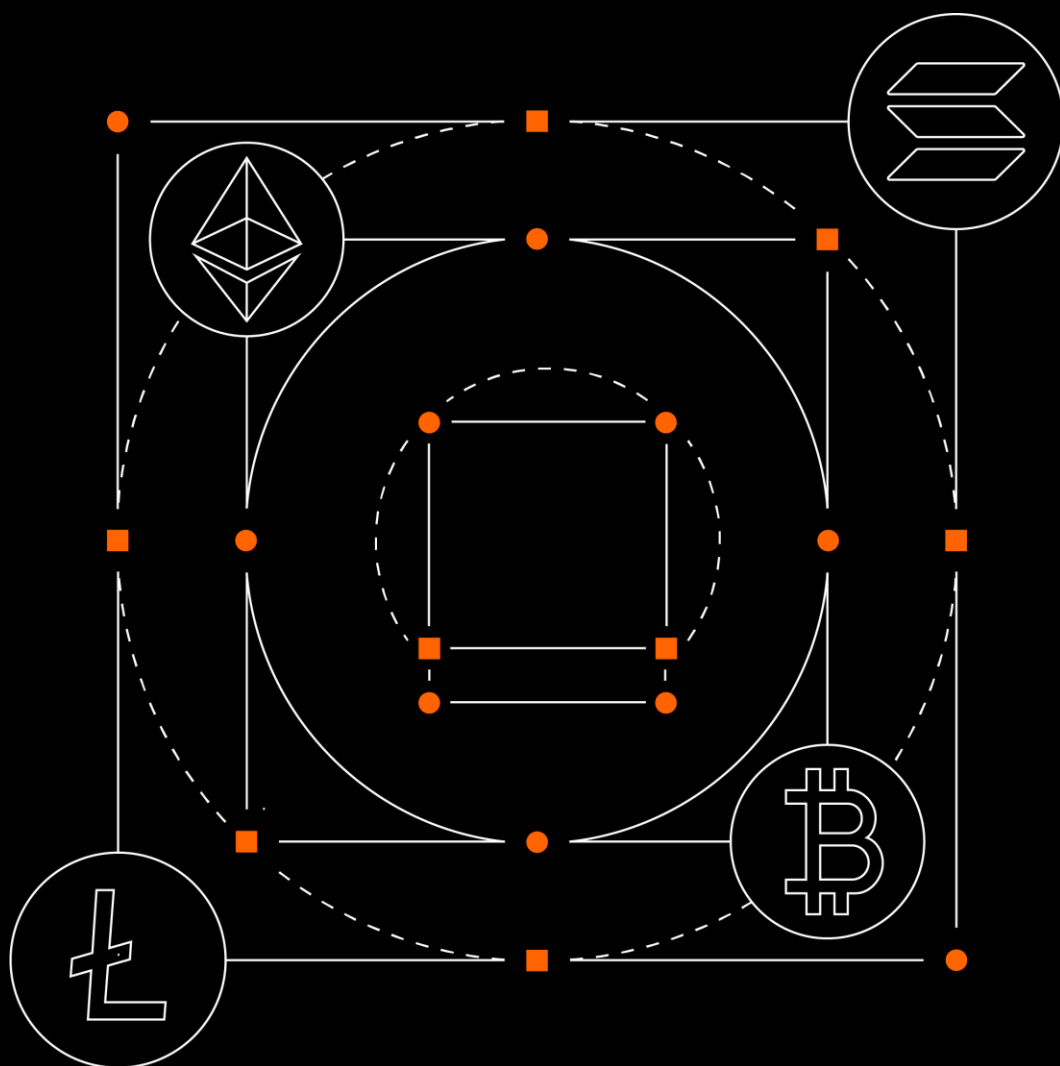


Market Commentary

Digital Assets Decoded

JUNE 2022



Market Commentary



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June 2022 Reflections

Digital asset prices continued to reflect the downward trend of the broader macroeconomic climate in June. The S&P 500 is down ~20% from the year start and the stock market had its worst first-half performance since 1970. Macroeconomic factors, like high inflation, rising energy costs, and concerns of an upcoming recession present a challenging environment for growth. Digital assets face their own idiosyncratic risks as the current “crypto winter” continues.

Throughout June, we saw multiple funds and platforms impacted by the difficult market. The multibillion-dollar digital asset hedge fund, Three Arrows Capital became insolvent, leading to a ripple effect across the asset class. Celsius filed for bankruptcy and BlockFi received a bailout from FTX after significant losses from bad loans.

Sentiment remains strong for Ethereum, as Ethereum’s Ropsten test network successfully “merged”, transitioning from a Proof-of-Work (PoW) consensus mechanism to Proof-of-Stake (PoS). With only two more testnet merges to go, Ethereum’s path to The Merge later this year has created a bullish outlook in the crypto community.

In regulatory news, Senators Lummis and Gillibrand proposed a nearly 70-page bipartisan bill titled the Responsible Financial Innovation Act (RFIA) that focuses on establishing a regulatory framework for digital assets. Regulation, especially after all the recently over-leveraging, is crucial for the long-term development of the crypto economy. Amongst many things, the RFIA provides terminological clarity on which digital assets are securities and which are commodities, establishes that



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the CFTC will have more authority to regulate and legislate crypto, enacts stablecoin policies, & provide more tax clarity toward digital assets. The discussion and regulatory focus stemming from the bill’s proposal stands as a big win for the digital asset space.

■ *Notable News*

- NYDFS announces regulatory guidance for stablecoins.
- Trading giants Citadel and Virtu announce partnership to begin building digital asset marketplace.
- Department of Justice publishes initial response to Biden Executive Order on Digital Assets.
- Solana Labs introduces its plan to launch Saga, a smartphone that has built-in web3 functionality.
- SEC rejects Grayscale's bid to convert closed-end fund GBTC into a spot ETF. On the same day, Grayscale then announces they have filed a lawsuit against the SEC in an effort to get an approval.
- ProShares launches Short Bitcoin Futures ETF.
- MicroStrategy continues to buy Bitcoin for corporate balance sheet adding another \$10mm.
- PayPal enables digital asset transfers to external wallets for BTC, ETH, LTC, and BCH to external wallets.
- Trading Platform FalconX raises \$150mm at \$8B valuation.

■ *Market Volatility*

- Crypto lending platform Celsius Network halts customer withdrawals mid-June due to illiquidity and losses from poorly collateralized loans. Company heads towards bankruptcy amidst restructuring/financing leaving users in limbo.
- BlockFi receives \$250mm bailout from FTX after suffering losses on bad loans to 3AC and others; FTX later acquires BlockFi for a total of \$275mm wiping out shareholders but pledged to protect customer funds are part of the deal.
- Babel Finance becomes insolvent on loans to 3AC and loses an estimated \$1B+.
- Crypto trading, lending, and servicing firm Voyager moves towards bankruptcy related to bad loans and 3AC contagion. The company is thought to be insolvent even after Alameda Research acquires a controlling stake.

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