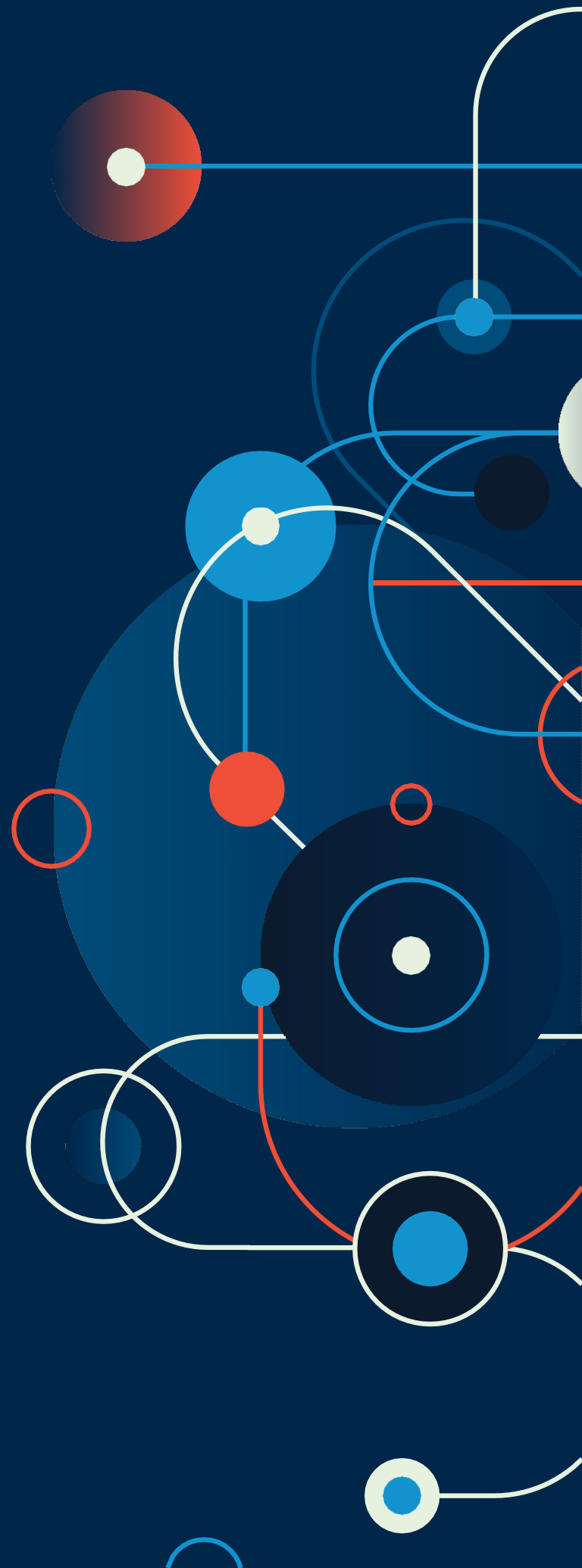




# GALAXY FUND MANAGEMENT NEWSLETTER

NOVEMBER 2020 IN REVIEW





# MARKET COMMENTARY

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After nearly one year of positive momentum for bitcoin and the broader digital assets landscape, November of 2020 will go down in the asset class's history as the "November to Remember". Bitcoin rose 43.66% to close the month at \$19,456.81 after hitting an all-time high just below \$20K before month-end. It also posted its largest market cap ever this month, just under \$365B according to Bloomberg price data. Additionally, the broader large cap digital asset market measured by the Bloomberg Galaxy Crypto Index (BGCI) rose 62.41% for a final close of 887.30. In addition to bitcoin, Ethereum (+58.44%) and XRP (+172.70%), the second- and third-largest holdings of the index, turned in strong monthly performances.

Over the past few years, we have discussed advances in infrastructure, regulation, and education around bitcoin and digital assets. But this past November should be remembered as a time when bitcoin became about the investor. As our CEO Mike Novogratz indicated, "the herd is coming," and now it seems the first members of that herd are beginning to arrive. Unsurprisingly, the first arrivals are the Alpha Mares—top of the herd hierarchy—or rather notable investors like Paul Tudor Jones, Bill Miller, and Stanley Druckenmiller.

Optically, price is reflecting the influx of new capital while positive sentiment towards the digitization of finance appears to be at an all-time high. But, as always, the substance is in the hard facts. As we look back on the past month and begin to turn the page toward 2021, it is important to understand these seemingly simple developments as transformative to this burgeoning asset class. Below are a few highlights that underscore how bitcoin has become an asset recognized on an institutional level.

## **Major Investors**

- Notable value investor Bill Miller emphasized that "every major bank, every major investment bank, and every major high-net-worth firm is going to eventually have some exposure to bitcoin or what's like it"
- Stanley Druckenmiller, arguably the world's best macro investor, recently announced his bitcoin position on CNBC
- Rick Rieder, CIO of the world's largest asset manager BlackRock, shared his thoughts on bitcoin's potential to replace gold in the future
- Ray Dalio, founder of the world's largest hedge fund Bridgewater Associates, conceded he "might be missing something with bitcoin"



- Paul Tudor Jones, another notable macro investor and vocal bitcoin holder, maintained his view that bitcoin reminds him of gold in 1970s

### **Financial Institutions**

- Citigroup, one of the world's largest global banks, published a research report suggesting bitcoin's 2021 year-end price target could possibly reach as high as \$318K
- BTIG Research published a report calling for a bitcoin 2021 year-end price target of \$50K
- SkyBridge, one of the world's most recognizable fund of funds, filed an SEC amendment allowing for investment into bitcoin with its \$3.6B fund
- Guggenheim, a \$295B AUM manager, filed to buy up to 10% bitcoin exposure in its \$5.3B Macro Fund
- World-renowned money manager Alliance Bernstein published a report recommending an allocation to digital assets

### **Regulation**

- Brian Brooks, Acting Comptroller of the Currency, testified on Capitol Hill to the US Senate about the importance of digital assets
- Cynthia Lummis, a noted bitcoin bull, was elected to the US Senate representing Wyoming

### **Additional Points of Note**

- Square (SQ) released Q3 earnings citing bitcoin revenue of 11X and gross profit of 15X YoY
- PayPal (PYPL), the digital payments unicorn with 325 million users worldwide, rolled out bitcoin and other large cap assets (Ethereum, Litecoin, and Bitcoin Cash) on its platform allowing for the purchase, sale, and use of digital assets

This was truly a “November to Remember”. As we approach 2021 and beyond, look for more members of “the herd” to follow.



# INDUSTRY INSIGHTS

**Bitcoin** made a new all-time high for the first time since December 2017. The heavy lifting was done during the month of November in which it gained 41.3%. US-based HNWIs, hedge funds, and asset managers led the charge. Between October 15th and November 15th—when bitcoin rose from \$11,600 to \$16,100—signs were abundant that US-based allocators were driving the price up. Day-of-week returns are part of that story: on Monday: bitcoin averaged +1.25%, on Tuesday: -0.25%, on Wednesday: +2.62%, on Thursday: +1.80%, and on Friday: +4.95%. Saturday and Sunday were -0.75% and -0.34% respectively. Another part of that story was the resoundingly positive mean hourly returns during US market hours: 10am close: +0.13%, 11am: +0.11%, 12pm: +0.07%, 1pm: +0.12%, 2pm: +0.07%, 3pm: +0.18%, and 4pm: +0.17%. The 9am close, too, when most funds will be in office: +0.18%. Only 7 of 16 non-US market hours had mean hourly returns above 0%.

Announcements of bitcoin purchases or changes of heart from well-known US investors backed up the empirical evidence. Legendary macro investor **Stanley Druckenmiller** shared with CNBC during November that he owns bitcoin, adding that it is attractive “as a store-of-value to both Millennials

and the new West Coast money.” **Guggenheim Investment Partners** filed an amendment with the SEC to allow its \$5BN Macro Opportunities Fund to gain exposure to bitcoin up to 10% of the fund. BlackRock’s Larry Fink said that bitcoin can possibly “evolve into a global market,” adding: “we look at it as something that’s real.” Meanwhile, Paul Tudor Jones, who shared his allocation earlier this year, quipped, “I’m going to assume that it’s at the wrong price for the possibilities and I’m going to assume the path forward from here is north.”

**Ethereum 2.0**, the initiative to increase the scalability of the Ethereum blockchain, launched the first phase of its roadmap on December 1st. The existing Ethereum implementation can famously only scale to 20-30 tx/s, causing gas prices to rise throughout 2020 and becoming unsustainable during late August and early September. Ethereum 2.0, a full redesign, will see throughput rise to ~3000 tx/s with additional gains coming from “off-chain” optimizations. Phase 0 is the first part in what will be a 2-year journey to make Ethereum 2.0 production-ready. Launching the chain required 524,288 ETH of deposits in a smart contract to provide the initial economic security. Now, more than 1,190,000 ETH have been deposited and



investors took it as a vote of confidence in November: ETH rose 58.0% that month.

**Facebook's Libra** project underwent significant changes in November. Now rebranded Diem, Facebook has attempted to refresh the image of the embattled initiative. In November, the Financial Times reported that Diem would launch in a more limited capacity as early as January 2020, citing sources close to the project. Diem now plans to launch a stablecoin 1:1 backed by the US Dollar. First, Diem had planned to launch a stablecoin backed by a basket of fiat currencies, then announced they would launch stablecoins for several fiat currencies. Now, it looks to be just 1:1 USD-backed. Facebook is hoping the change will appease US regulators.

In that vein, US Congressmembers Tlaib (D-MI), Garcia (D-IL), and Lynch (D-MA) announced the

**STABLE Act**, a bill attempting to regulate stablecoins, by declaring them as “dollar-denominated deposits” and therefore uniquely placing them under the purview of entities with banking licenses. While this would require Facebook to seek a banking license for Diem, it would also limit fiat-backed stablecoins like USDC and USDT, and crypto-backed stablecoins like Maker's Dai, potentially outlawing them under the new rules. Legal experts suggest that the STABLE Act is not likely to progress too far in Congress.

But while the US is pushing stablecoins out, **China** continues to push its central bank digital currency (CBDC) concept. JD.com will become the first electronic retailer to accept the digital Yuan. China's PBoC has continued to distribute digital Yuan through lotteries.

*Sources: Galaxy Digital Research, CoinGecko, The Block*

DATA POINT	11/30/2020	10/30/2020	DELTA
BGCI	887.30	546.34	62.41%
BITCOIN	\$19,456.81	\$13,543.64	43.66%
ETHEREUM	\$607.60	\$383.49	58.44%
XRP	\$0.6504	\$0.2385	172.70%
EOS	\$3.21	\$2.51	27.57%
Bitcoin Cash	\$314.04	\$260.96	20.34%
Litecoin	\$86.81	\$54.00	60.76%
Total Market Cap	\$535.31 B	\$403.11 B	



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