Market Commentary

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July 2022 Reflections

Over the course of July, investors broadly resumed buying cryptocurrencies and other risk assets, including stocks. Assets broadly rose after data showed the U.S. economy shrank for a second consecutive quarter, falling at inflation and a seasonally adjusted annual rate of 0.9%. Despite the gloomy economic news, investors focused on how the data might play into the Federal Reserve's monetary tightening calculus. For many, the data suggested the Fed might ease up on its pace of interest-rate hikes to avoid putting the economy into a recession.

As the market moved off its lows, investors continued to assess the fallout of crypto's steep decline through mid-June. Several major crypto platforms that populate "CeFi" filed for bankruptcy, laying bare the extent of their losses, including crypto investment platform Celsius, hedge fund Three Arrows Capital, and crypto lender Voyager Digital.

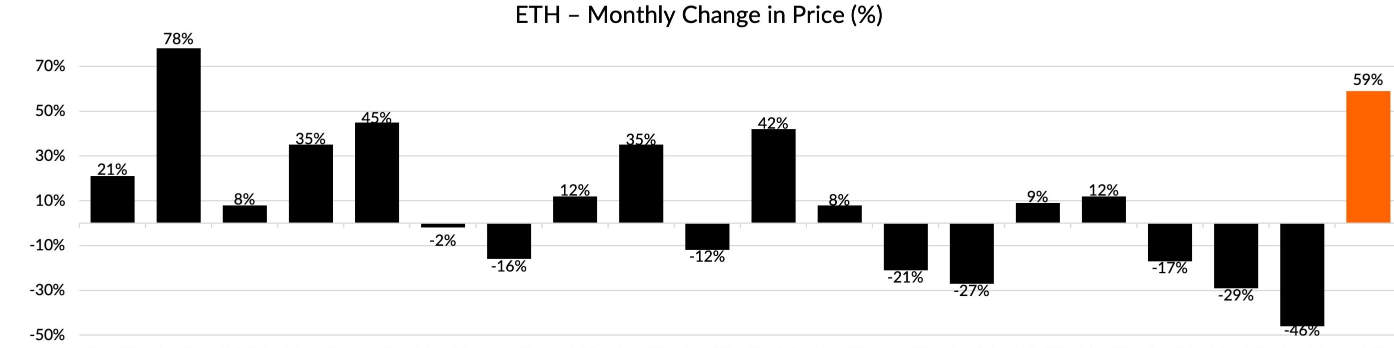
Regulators also remained busy by launching a host of cases and investigations, including levying allegations of insider trading against a former Coinbase employee and two of his associates.

Despite the market backdrop, digital assets rose, halting the recent wave of selling. The market cap across all cryptocurrencies increased 30% to $1.1 trillion, regaining digital assets' trillion-dollar status and marking the biggest monthly gain since October, according to data compiled by Galaxy Research. Bitcoin rose 18%, notching its strongest month since March, halting a three-month losing streak. Meanwhile, Ethereum rose 61%, its strongest month since January 2021.

Ethereum outperformed bitcoin and other cryptocurrencies in anticipation of the Merge, which will see the network move from its current energy-intensive proof-of-work mechanism to proof-of-stake. The long-awaited upgrade is expected to go live in September and will help the network scale, changing all core functionalities of Ethereum, including block production, transaction finalization, and network issuance. Ultimately, the Merge is expected to lead to lower gas costs across the Ethereum network.

The Merge is the most high-profile and consequential layer-1 blockchain transformation in the history of cryptocurrencies. No network of Ethereum's size and importance has undergone such a dramatic change. While the potential for setbacks is slim due to the immense amount of testing by developers, execution risks associated with the Merge have the potential to negatively impact Ethereum's value and reputation.

ETH – Monthly Change in Price (%)



Data: Coin Gecko

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