market notes - Perception is Reality–Cash or Crypto.

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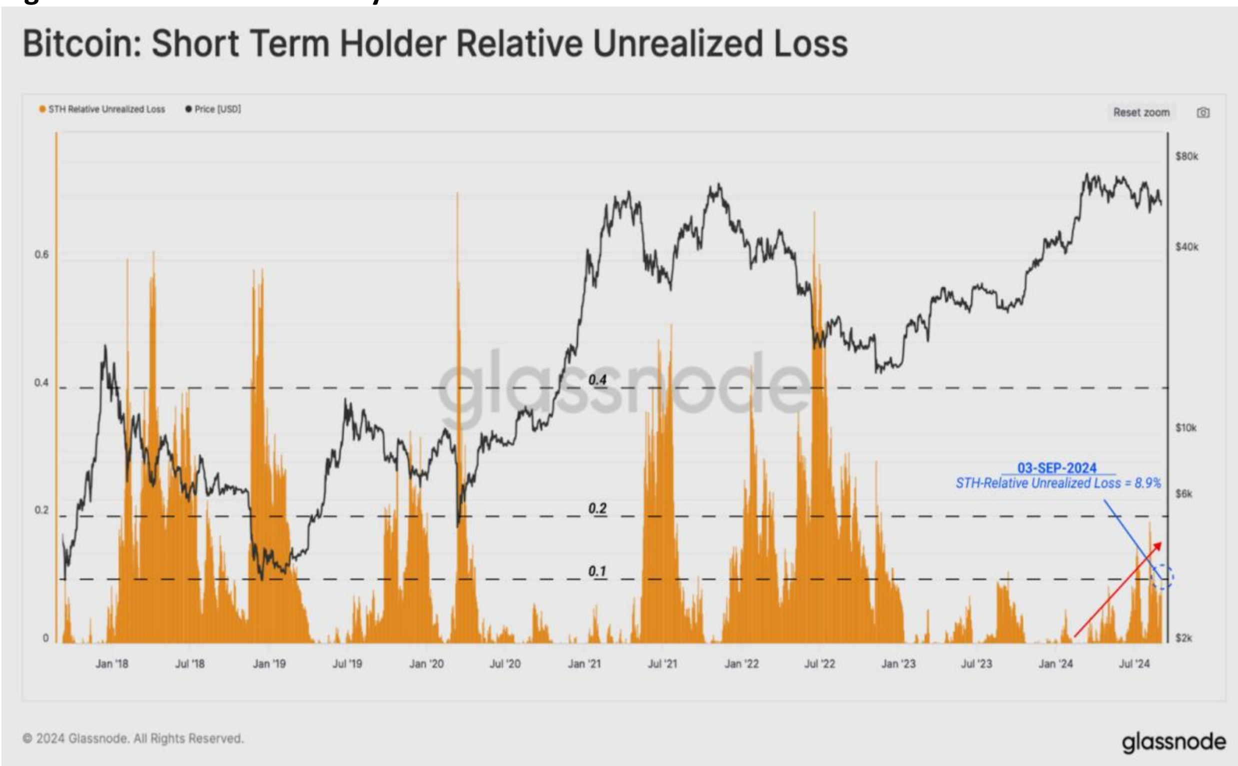
Figure 1: Short-Term Anxiety



Source: glassnode insights. The Week On-Chain.

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9/13/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management

1. Think crypto has complex analytics? Try unraveling *paraskevidekatriaphobia*—the irrational fear of Friday the 13th, rooted in ancient Greek. But it's more than just folklore. The hesitation to travel on Friday the 13th cuts nearly one billion dollars from the global economy. Perception is reality. This concept dominates market analytics when trends are unclear—just like now. If we all believe $58,512 is critical support for Bitcoin, for example, then it is.

2. Analyze, don't judge. Technical patterns follow new trends; they don't create them. Macro forces shape market movements, and understanding both is the ultimate form of market respect. Follow the facts. Crypto markets peaked at a $2.6 trillion capitalization in March—just shy of the $2.9 trillion all-time high. While this price pattern resembles November 2021, the differences are what really matter now.

3. Differences like cash. Money market holdings in the United States have surged to over $6 trillion, far exceeding previous cycle highs. It's not just institutional investors—retail cash holdings have more than doubled the previous cycle highs to $2.5 trillion. This trend has been rising for two years, fueled by rapid rate hikes. But being long cash isn't an investment—it's a defensive move, a way to wait out the market and pounce on new trends after a crash.

4. What's next? Cash has gone from "trash" to acting like gold. But gold is usually under pressure when that happens, not making new highs like now. For US investors, cash is the safe place to hide. But for international investors, gold is the asset of choice, driven by foreign central banks. Gold's rise reflects fears of future inflation, which US cash holders currently consider remote. It's a tension, like a tightrope ready to snap—the clash between inflation and deflation.

5. Old trends start to break at these crossroads and hints of new ones emerge. When unexpected things happen, it's not the markets that are wrong—it's the models. Cash holders look to the late 1990s for inspiration, when demand surged during the tech bubble only to collapse as capital shifted to new trends—like China's rise and the commodity boom. Gold enthusiasts remember the inflation volatility of the 1970s protecting purchasing power.

6. Crypto has signaled these tensions early yet again, true to its open-market nature. Where do investors in the crypto ecosystem hide during uncertainty? Bitcoin and stablecoin. The dominance of these two assets has increased in this cycle, opposite to previous norms. Bitcoin's market share has grown to 56% from 40%, and fiat-based stablecoins—led by the US dollar—have hit new highs despite regulatory friction.

7. The tension in high-level data is equally clear at the micro mechanics. Look closer at Bitcoin reward halving and miners. Bitcoin surged after the past three halving cycles. Returns one-year after the halving were 18-times higher than returns in the year leading up to the event. But this time, Bitcoin prices have dropped about 10% since the April halving. Adding to the break in trends, the Bitcoin mining hashrate has surged to all-time highs despite weaker prices.

8. Irregularities are not confined to Bitcoin. Ethereum's economic dominance is growing, yet its share of the crypto market is shrinking. With nearly 5,000 applications and a total locked value 10-times higher than its nearest competitor, Ethereum's sluggish price performance is notable. Rationalizations abound—like cheaper Layer 2 solutions cutting into Ethereum's revenues. It's yet another oddity. Sacrificing revenue for network share is a feature for new tech, not a bug.

9. When tensions peak between short-term traders and long-term investors—one breaks. Short-term traders are facing unrealized Bitcoin losses of about 10%, a clear warning sign of weakness ahead (Figure 1). These losses are largely offset by gains from long-term holders, a bullish signal seen in both 2017 and 2021. What breaks the logjam? Macro clarity. When investors move away from cash, expect a fast and furious reallocation of risk.

10. Will that happen with a deflationary recession? A standard scenario would see a sharp downturn in asset prices, and cash proving to be a wise position. But the core theme of this cycle is that historical norms are unreliable. Even if a recession comes, it might look different—a rare mix of rising unemployment and sticky inflation. Why? The same reasons as in the 1970s: too much fiscal spending. And the upcoming US election won't solve it no matter the outcome.

11. It’s likely a pause in crypto, not a change in trend. Gold–physical, digital or otherwise–wins. The decline in cash balances that comes with macro clarity will signal a rise in risk appetites. That’s when you will also see less defensive posture within the crypto complex, and a potential rotation away from Bitcoin dominance. There would likely be a lot of active alpha when that happens—investor perceptions will change with these new realities.

13. PS: Friday 13th really is a cheaper travel day.

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