

Digital Pulse Report: Bitcoin Bonds

FUNDAMENTAL PULSE – WEEKLY NETWORK PERFORMANCE

COINBASE SIZE TILT INDEX NETWORK SCORE



BTC & ETH NETWORK SCORE



Fundamentals of the crypto ecosystem appear sluggish on the network scores of the majors. But the weak Bitcoin score is driven by the lack of velocity. We do not believe it's a downside price risk.

| ASSETS | ASSET SCORE | DIRECTION | 7D CHANGE | 30D CHANGE | 1Y CHANGE |
|--------------------------|-------------|-------------|-----------|------------|-----------|
| Coinbase Size Tilt Index | 38.8 | Contracting | -3.5 | 2.7 | -15.8 |
| BTC & ETH | 42.9 | Contracting | -2.1 | 4.0 | -11.4 |
| Bitcoin | 28.7 | Contracting | -6.7 | 2.9 | -25 |
| Ethereum | 57.2 | Growing | 2.4 | 5.1 | 2.2 |
| Cardano | 22.6 | Contracting | -3.9 | -7.7 | -44.7 |
| Bitcoin Cash | 19.0 | Contracting | -14 | -11.1 | -25 |
| Polygon | 14.8 | Contracting | -10.4 | -11.4 | -33.1 |
| Uniswap | 70.6 | Growing | 8.2 | 27.2 | 13.4 |
| Litecoin | 79.9 | Growing | 3.4 | 5.4 | 15 |

Snapshot from the Coinbase Asset Management Pulse on 06/17/2024.

There are currently nine assets in the Coinbase Size Tilt Index. Of these, seven have sufficient data on Coin Metrics for CBAM to perform the Pulse calculations of the Coinbase Size Tilt Network Score (Top Left). Polkadot and Solana presently do not have sufficient data for the Pulse calculations. The Coinbase Size-Tilt Index Network Score is derived by using market cap size tilt weights (square root of market cap) and multiplying by the individual asset scores, for the seven assets that have scores. For the "BTC & ETH network score", this aggregate score is derived from an equal weighting of the BTC and ETH scores.

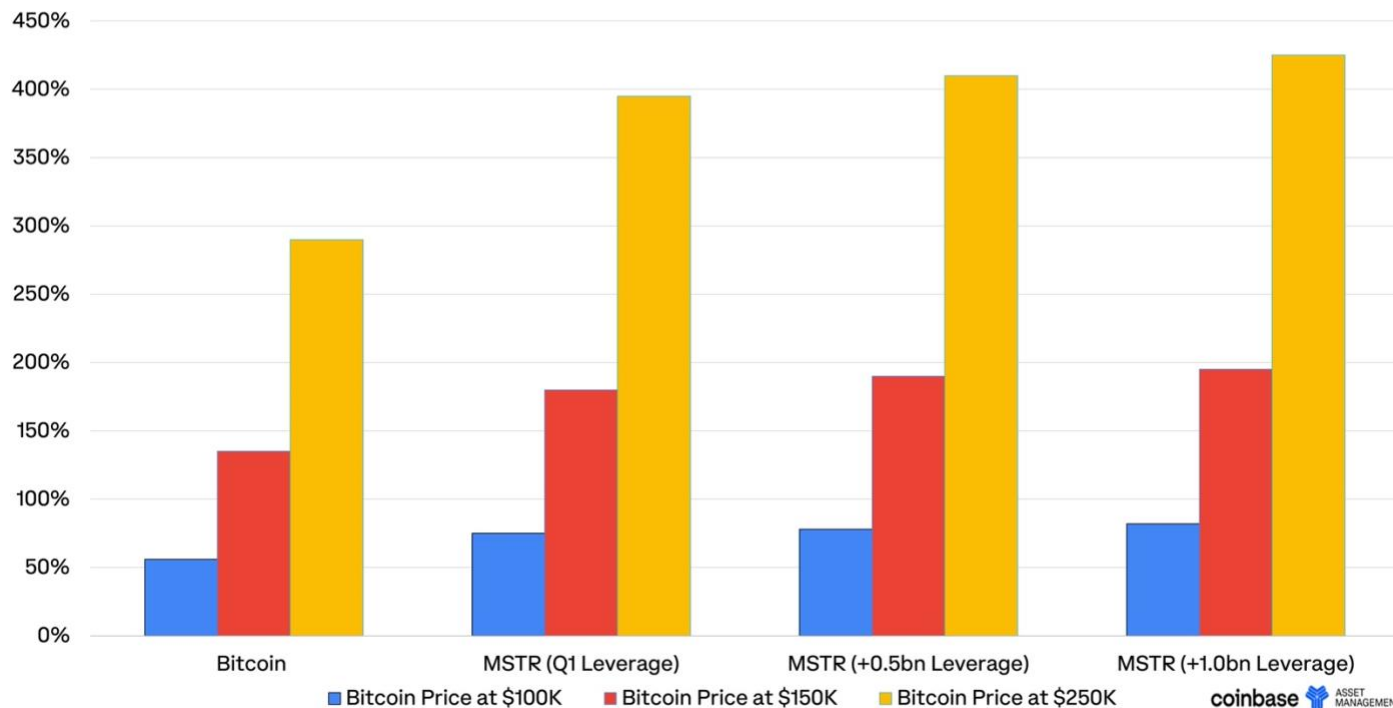
Pulse scores are 12-month trailing percentile values. Changes on the gauge charts (top left, top right) represent the seven-day change. High > 60, Neutral 40 to 60, Low < 40. A score of 41.8 means the score is better than 41.8% of its values in the past 365 days. Asset scores are unique and sensitive to changes in a particular asset. Readers should not attempt to use these metrics to value these assets in a cross-sectional manner.

market notes: The Pulse of the Digital Asset Markets – A systematic snapshot of the digital ecosystem's fundamental health. Please see metric descriptions endnotes for details.

Bitcoin Bonds: Onchain data is an ocean for analysts. Everything is visible to all, which can be overwhelming when you don't know what you are looking for. Our Digital Pulse translates this raw data into relatable categories, providing a singular, simple score of network health. One category is velocity, which remains pinned to the zero line for Bitcoin. What's going on? Bitcoin is increasingly used as digital gold rather than a tech platform. Take MicroStrategy's recent convertible debt [offering](#). Institutional investors now hold a staggering [12.6%](#) of all bitcoins, with MicroStrategy being the [largest](#) public company holder. These bitcoins are parked under a digital mattress and are not broadly circulated for transactions. And this behavior also reflects a maturing market. While MicroStrategy holds onto Bitcoin, investors in its debt offerings are seeking bond-like returns. Although the interest rates on these debt offerings are less than 1%, their value converts to cash or stock of a company whose value is tethered to Bitcoin's future price. How do you get a bond-like return? One strategy is to sell call options on Bitcoin against the conversion value of the bond, which can currently generate annualized returns of around [40%](#). MicroStrategy is turning Bitcoin into a high-yield asset for bond portfolios, reducing Bitcoin volatility in the process. It's a sign of market maturity – sophistication will only rise as crypto enters the mainstream.

MICROSTRATEGY BITCOIN BOND

MicroStrategy owns more than 1% of the fully diluted bitcoin supply. Its debt issuance to fund those purchases tether the company's net asset value to the future price of Bitcoin. The key analysis for investors is whether the interest expense stays low enough to be affordable for MicroStrategy's operating business, a software company. So far, so good.



Source: MicroStrategy Investor Statement ([page 9](#)).

Metric Definitions

1. Volume: The sum of native units transferred between addresses onchain.
2. Transfer Count: The number of transfers between addresses.
3. Active Addresses: These are the addresses actively participating in the network by receiving or sending ledger changes. This includes activities such as value transfers, signing blocks, and other forms of ledger change activity.
4. Address Growth Rate: The rate at which new addresses with non-zero balances are added to the network.
5. Valuation: This metric compares the onchain volume to the realized capitalization. The realized capitalization is a revised form of market capitalization that accounts for the coin's value when it was last spent.
6. Velocity: This indicator measures the rate at which coins circulate in the network. It is measured by onchain volume divided by active supply. In this instance, this metric is primarily used to help assess an asset's market-relevant supply.
7. Network Distribution: The metric used, the Supply Equality Ratio (SER), compares the smallest accounts (the sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (the sum held by the top 1% addresses).

These metrics are constructed over specific timeframes, such as 1 day, 7 days, and 30 days. For instance, the one-week on-chain volume represents the total number of native units transferred over a week.

The seven-day change in on-chain volume is the difference between the on-chain volume on a given day and the volume from seven days earlier.

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