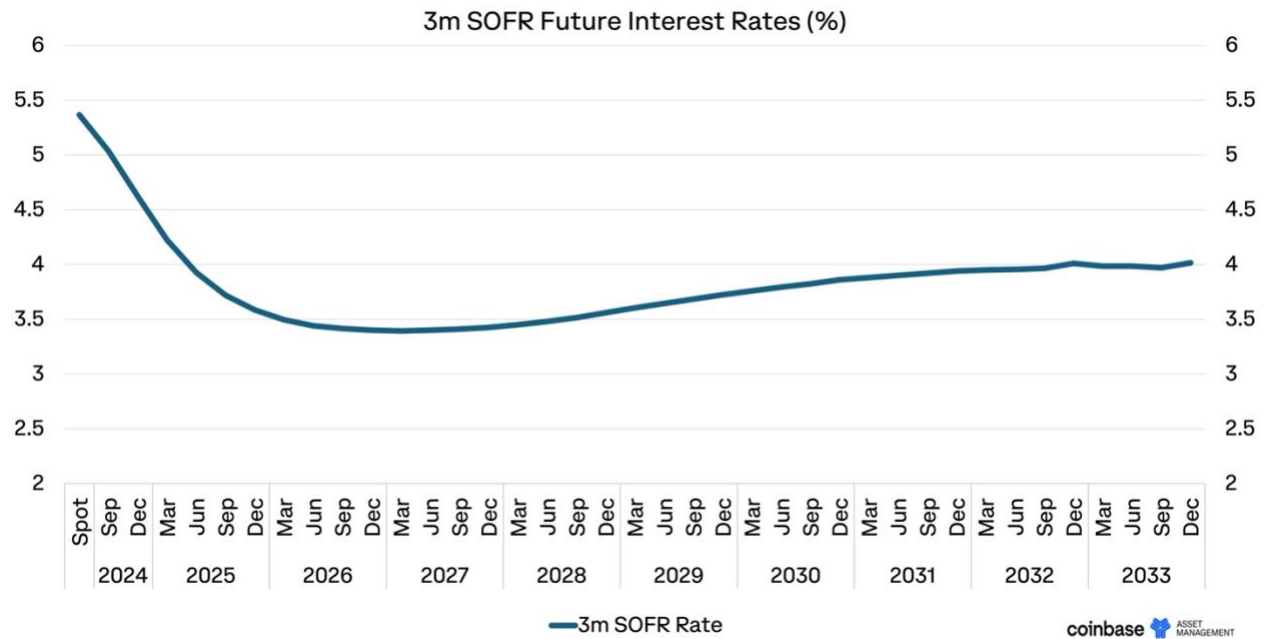


market notes: Political Winds of Change

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Figure 1: It's the economy (and the politics), stupid.



Source: CME Group. Wed Jul 31, pre-FOMC meeting. James Carville, 1992 iconic election [quip](#).

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8/2/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management

1. Why are bold policies on big issues so rare? Picture a country teetering on the brink of a debt crisis, where aging populations threaten to overwhelm public resources. Yet, there is a lack of preemptive action. Why? It's the politics, [stupid](#). Enduring short-term pain for long-term gain is the cost of tackling structural issues. By the time the benefits materialize, a political rival might reap the rewards. This leaves us stuck in a precarious balance—waiting for a crisis to force action.

2. The big issues are always hiding in plain sight. The world's fiscal watchdog recently projected US government deficits of 7% of GDP over the next five years, [warning](#) of the "pressing need to reverse the ongoing increase in public debt." It is reminiscent of the 1970s when fiscal excesses were [identified](#) as the root of the inflation problem, but it took nearly a decade to build a political consensus to change. Policy turns reactive, awaiting political tailwinds to execute change.

3. US crypto policies are a prime example of this quagmire, stalling and shifting course with the prevailing political winds. But those are increasingly tailwinds. The head of the Commodity Futures Trading Commission, who oversees Bitcoin and Ethereum futures, [testified](#) to the US Senate that “the single most important thing I have done, and continue to do, is advocate to this body to fill the regulatory gap” with legislative clarity. It’s coming.
4. A flash of light struck legislative bodies with the passage of crypto legislation. The US House [passed](#) the FIT21 crypto bill with bipartisan support, including 71 Democrats. It put crypto on the election map. Sure, it didn’t make it into law, but it sent a definitive message. Since then, the CFTC Chair argued that [70-80%](#) of crypto assets are commodities, not securities. And this week, the SEC [retracted](#) its request for a court ruling on several prominent crypto assets as securities.
5. Bitcoin and Ethereum entering the regulatory mainstream through exchange-traded products helps the narrative. So, too, does the strength of crypto infrastructure, sturdy to rapid trading volumes, including more than [\\$6 billion](#) for the ETH ETPs since their July inception. But will the prevailing winds continue? The politics says so. Away from the bluster of Bitcoin Nashville, former President Trump [delivered](#) clear signals. Four elements were most notable.
6. **First is the creation of an Advisory Council.** The objective is to “design transparent regulatory guidance for the benefit of the entire industry” in the first 100 days of office. The choice of days is more than symbolic. The first 100 days of office became the [benchmark in 1933](#) when President Roosevelt, with “nothing to fear but fear itself,” ushered unprecedented change in the depths of an economic depression.
7. **Second is a framework to foster growth in stablecoin:** “...we will create a framework to enable the safe and responsible expansion of stablecoins.” The US dollar is the killer tokenized asset in global financial markets, and a boon for US dollar demand. The modest [\\$183 billion](#) in stablecoin supports nearly [\\$30 trillion](#) of annualized trading volume, an efficiency unrivaled by traditional payment tools. Supporting stablecoin growth is wisely a strategic US priority.
8. **Third is linking US energy policy to Bitcoin mining:** “...the United States will have the number one lowest cost of energy and electricity of any nation on Earth. And with low energy costs, America will become the world's undisputed Bitcoin mining powerhouse.” Bitcoin mining is more of the tail wagging the dog of AI electricity demand. Power infrastructure will need to scale considerably to support new technologies, and Bitcoin miners will help make that a reality.
9. **Fourth is the creation of a Bitcoin Reserve:** “...our government has violated the cardinal rule that every Bitcoiner knows by heart: never sell your Bitcoin.” We see the commitment to hold Bitcoin that the US government currently owns as a down payment on a “Bitcoin reserve” more than a precommitment to build its size and scope. If Bitcoin plays the role of digital gold, the

next logical step would see diversification out of bullion and into Bitcoin. It's interesting, not immediate.

10. Is the signaling realistic? Absolutely. Such guidance will sharpen the focus around the vast body of work already in circulation. There are eleven crypto bills outstanding that would set a pathway of integrating crypto technologies into the US financial system. It would also mark a leap for global policy experiments, attentive to the integration of worldwide payment systems. The US dollar is the world's currency, and crypto technologies may help keep it that way.

11. But investors still have to be attentive to cyclical forces—it's still about the economy after all. As the odds of a US economic downturn rise, its depth will test the conviction of crypto bulls. Financial crises, not recessions, are the real shocks. And policy rates have room to quickly decline and cushion the downturn, as reflected by the bond market (Figure 1). Political, policy, and economic forces are aligning to build crypto adoption—that's the next leg of this bullish cycle.

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