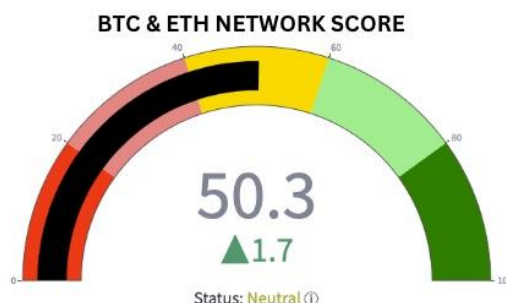
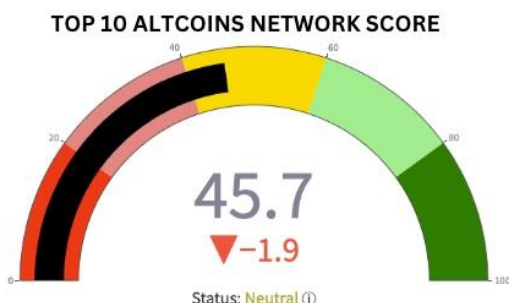


Digital Pulse Report: Shouldn't Happen

5 June 2024

Coinbase Asset Management

FUNDAMENTAL PULSE – WEEKLY NETWORK PERFORMANCE



Like broader crypto markets, the Digital Pulse is taking a breather. This is a positive sign for a longer cycle – fundamentals are not running too hot or cold.

ASSETS	ASSET SCORE	DIRECTION	7D CHANGE	30D CHANGE	1Y CHANGE
Top 10 Altcoins	46	Contracting	-1.9	-3.9	-8.2
BTC & ETH	50	Contracting	1.7	0.8	-6.3
Bitcoin	40	Contracting	4.2	3.8	-13.5
Ethereum	61	Growing	-0.8	-2.2	0.8
XRP	47	Contracting	4.3	-1.5	-0.5
Cardano	26	Contracting	1.4	-4.2	-52.6
Dogecoin	43	Contracting	-4.3	-16	-33.1
Chainlink	48	Contracting	-6.7	-5.4	19.4
Polygon	33	Contracting	3	-6.4	3.4
Litecoin	73	Growing	-1.4	2.8	-0.2
Bitcoin Cash	41	Contracting	-1.1	4.9	-8.2
Uniswap	60	Growing	-13.8	4.6	19.7
Stellar	51	Growing	-3.2	-4.5	-13.4
Ethereum Classic	41	Contracting	-5	-10.9	-0.1

*Snapshot from the Coinbase Asset Management Pulse on 06/04/2024. Pulse Report table includes the top twelve assets by market capitalization sourced from Coin Metrics. More than 70 assets and risk management tools are available for demonstration on request. Notes: The Scores are 12-month trailing percentile values. Changes on the gauge chart represent the seven-day change. “Top 10 Altcoins” are size-tilt weighted, the square root of market capitalization. “BTC & ETH” are equally weighted. 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 compare Asset Scores across assets.

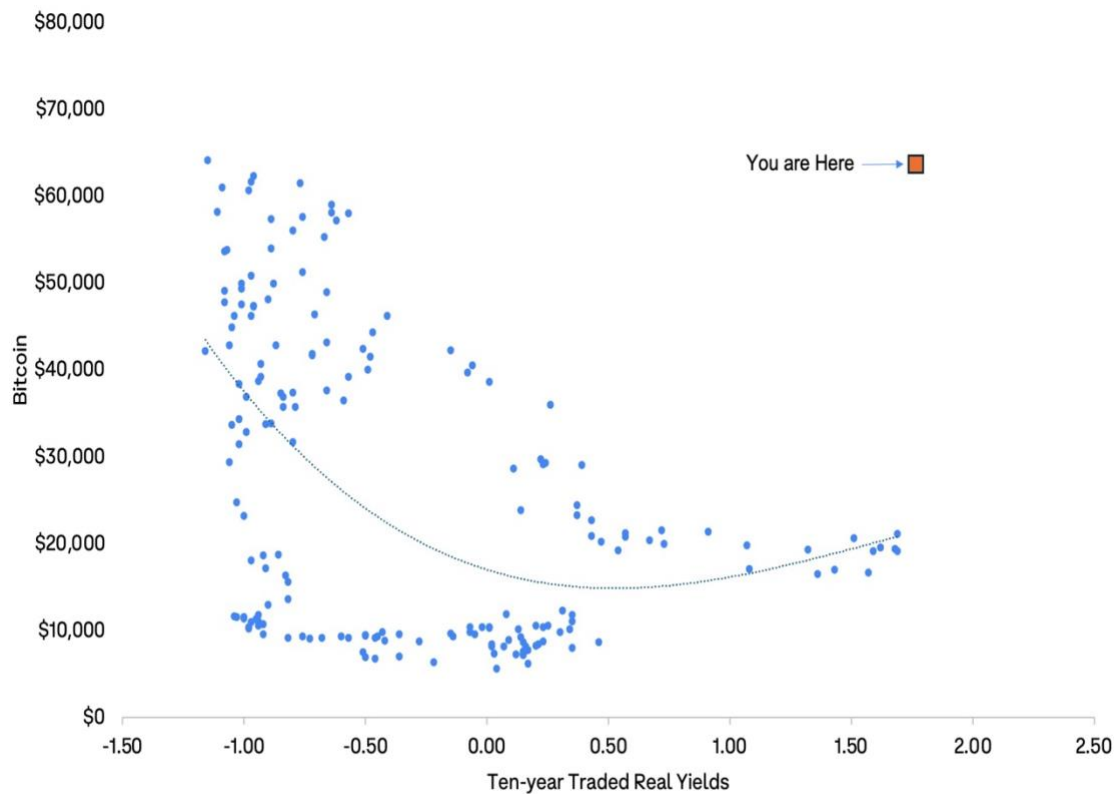
market notes: The Pulse of the Digital Asset Markets – A systematic snapshot of the digital ecosystem’s fundamental health.

Please see metric descriptions endnotes for details.

Shouldn't Happen: Things are happening that shouldn't be. An analyst can either assume that things will revert to "normal" or understand the differences from the past. Real interest rates are high by the standards of recent history and by policy projections. Ten-year real yields rose above 2% last year for the first time since 2008, having stayed there for the longest period since 2007. Real rates are also high relative to the 0.5% the Federal Reserve sees as appropriate in the longer term. When real rates are too high, credit contracts, economies recess, and non-yielding assets suffer. Assets like gold. Assets like Bitcoin. But that's not what's happening. True, crypto-asset markets haven't been trending since the March highs. But they are within a whisker of the November 2021 \$3 trillion peak in market capitalization. It's the economy (and fiscal policy), stupid. Another thing that shouldn't happen is large fiscal deficits when unemployment is low and inflation is high. What else shouldn't happen? Strong asset performance despite the rising risk of recession. But it's happening. Recessions are known for the deflationary impulse, restoring orthodoxy. Policy can afford orthodoxy today. Investors aren't afraid of recession – the policy response will reinforce inflationary dynamics. Markets are hoarding assets expected to be resilient in all weather conditions. Bitcoin is one of them. And that, too, shouldn't be happening.

THINGS THAT SHOULDN'T BE HAPPENING

Bitcoin, like gold, has no intrinsic yield. When real rates are “high,” demand usually slumps for non-yielding assets. That relationship held true for Bitcoin from 2019 to 2022. But that isn’t the case now. Markets are in an unfamiliar place—lost or found?



Source: FRED Economic Data St. Louis Fed. Blue dots are the period from 2019 to end-2022.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.
2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.
 - 2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.
 - 2.2 High Transfer Count & Lower Volume: Indicates higher retail activity or exchanges amongst small accounts.
 - 2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.
 - 2.4 High Transfer Count & Higher Volume: Indicates high network usage. A persistent trend is substantial.
3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.
 - 3.1 High Value: High network usage and high demand.
 - 3.2 Low Value: Low network usage and low demand.
4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.
 - 4.1 High Value: Indicates users being added to the network at an increasing rate.
 - 4.2 Low Value: Indicates users being added to the network at a slower pace.
5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.
 - 5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.
 - 5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.
 - 5.3 Medium value: Asset is reasonably valued—sustainable demand for transactions.
6. Velocity: This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help assess an asset's market-relevant supply.
 - 6.1 High Value: There is greater circulation of coins in the network and use for payments.
 - 6.2 Lower Value: There is lower circulation of coins in the network and use for payments.
7. Network distribution: The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).
 - 7.1 High Value: Signifies high distribution of supply and higher decentralization.
 - 7.2 Low Value: Low supply distribution and heavy concentration amongst a few wallets.

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