# market notes - Pulse of the Digital Economy? Sleepy is Strong.

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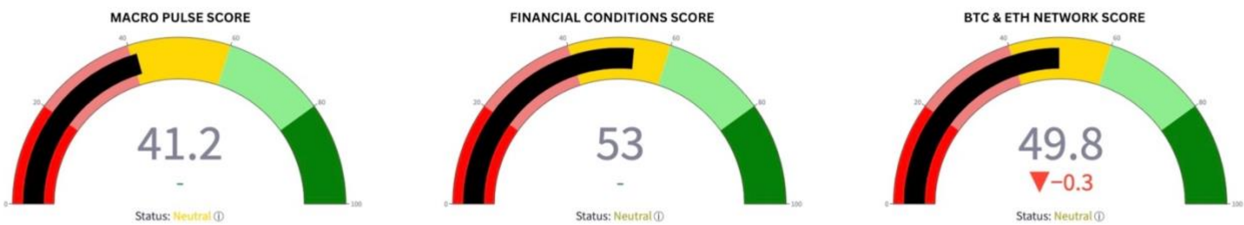
**Figure 1: Q3 Market Moves (%) – Golden Quarter**




| ASSETS | ASSET SCORE | DIRECTION | TRANSFER COUNT | VOLUME | ACTIVE USERS | USER GROWTH RATE | VALUATION | VELOCITY | NETWORK DISTRIBUTION |
|---|---|---|---|---|---|---|---|---|---|
| Bitcoin | 44.0 | Contracting | 42.5 | 64.1 | 26.1 | 55.0 | 45.0 | 4.1 | 70.9 |
| Ethereum | 55.6 | Growing | 38.7 | 83.8 | 13.0 | 29.6 | 25.7 | 99.4 | 99.2 |
| Cardano | 13.1 | Contracting | 6.8 | 3.8 | 8.2 | 27.5 | 12.1 | 32.9 | 0.3 |
| Bitcoin Cash | 36.5 | Contracting | 30.8 | 36.4 | 44.0 | 44.5 | 18.0 | 3.8 | 78.0 |
| Maker (on ETH) | 49.7 | Contracting | 42.9 | 15.6 | 41.3 | 16.1 | 34.2 | 99.8 | 98.0 |
| Litecoin | 61.3 | Growing | 97.1 | 33.3 | 39.5 | 49.4 | 10.7 | 100.0 | 99.0 |

Source: Snapshot from the Coinbase Asset Management Pulse on 10/11/2024.
The Pulse's macro reading is based on economic data from the Institute of Supply Managers.
The Digital Financial Conditions Index (DFCI) is based on short-term rates, credit, equity, and index. Data is drawn only from the digital ecosystem.
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.
"BTC & ETH network score" is derived from an equal weighting of the BTC and ETH scores.
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.

**market notes: Pulse of the Digital Economy? Sleepy is Strong**
**10/11/24 – Marcel Kasumovich, Deputy CIO, Coinbase Asset Management**

1. Garbage in, garbage out—it's a rule no algorithm can escape, yet automation in finance often overlooks it. As we accelerate into a future shaped by AI-driven markets, the history of quantitative investing offers a crucial reminder: even the most sophisticated models can fail when built on flawed assumptions. The disasters of LTCM in 1998 and the quant-crash in 2007 underscore that logic, and only logic, can safeguard against catastrophic failures—this is especially relevant today with the rapid rise of AI.

2. Blockchain data is vast, for instance. But it quickly becomes noise without structure. Identifying patterns in this chaos does not inherently reveal investment opportunities. This is where our Digital Pulse comes in. It distills the overwhelming flow of blockchain

data into a single, actionable metric, pointing investors toward the most relevant sectors. Rather than predicting the future, the quant tool serves as a guide, directing you on where to dig for ideas that could lead to valuable insights.

3. Let's start broad. What is the Macro Pulse telling us about the digital ecosystem? For most of the year, it has been recessionary, accurately signaling rising unemployment and declining inflation—precursors to policy rate cuts that are now widespread. But it's the severity of the downturn that matters most. Deep downturns are caused by financial fractures, where companies halt activity to rebuild cash flow as liquidity tightens. This cycle is different—imbalances lie more in public finances than in private ones.

4. Many signs point to a return to expansion. Historically, there's a 53% chance that the Macro Pulse will exit its recessionary state within the next three months. Qualitative indicators support this outlook. Copper prices—a global economic barometer—have rebounded to peaks seen in previous cycles, hinting at what some are calling an "inflationary recession." The market increasingly expects public sectors to adopt inflationary policies, and investors are turning to crypto assets as a potential solution.

5. There are signs of optimism, but not of hype. Like the Macro Pulse, financial conditions in the digital ecosystem are pushing back against the typical hype-cycle. Capital availability is now more selective. Take Maker, for example: its onchain volume scores a modest 15.6 on a scale of 0 to 100, showing that DeFi protocols have survived the crypto winter by adopting strict risk management (Figure 1). However, this discipline comes at a cost—Maker is currently trading 77% below its all-time highs.

6. This outlook is one of cautious optimism, future growth being tempered by discipline. This shapes a longer and more sustainable cycle instead of a brief, hype-driven boom. The uptrend that began in November 2022 remains intact. During the current quieter phase, the micro components of the Digital Pulse have the opportunity to shine. Tracking nearly 100 blockchain protocols, the tool provides real-time feedback on unique activities across networks, helping us focus on actionable opportunities.

7. When we zoom in on the two largest assets, Bitcoin and Ethereum, the Pulse reveals a sleepy score of 49.8. But the details tell different stories. Bitcoin's velocity score of 4.1 indicates that its demand is largely driven by long-term holders rather than transactional use cases. In contrast, Ethereum's velocity score of 99.4 showcases its active role as a platform for building user experiences. Despite these differences, we believe one common factor remains: institutions are on the sidelines, short on both.

8. Slow-burning cycles can often catch investors off guard by quietly building resilience. Bitcoin's low velocity reflects an overlooked pain threshold—the price point at which long-term holders are willing to sell and diversify into other assets. Meanwhile,

Ethereum's high velocity is attracting companies like Sony, which sees a blockchain future for its PlayStation ecosystem. Ethereum's infrastructure, including scaling solutions like the Optimism stack, is still growing to meet these use-case needs.

9. What asset stands out from these trends? Surprisingly, it is Litecoin with a strong Pulse of 61.3. Unlike Bitcoin's low velocity, Litecoin was designed to be a more efficient money mechanism, as reflected by its velocity score of 100. This is supported by strong user growth and transaction volume, making Litecoin an asset worth watching. No doubt, Litecoin is the dominant protocol for the BitPay payments processor, indicative of its infrastructure function. And it's off the radar.

10. In the bigger picture, it's all about scale. While today's tech companies built value monetizing high-margin networks, decentralized protocols are built on low margins, aiming to squeeze intermediaries to achieve massive scalability. The question for investors is clear: who will monetize these blockchain rails? Bitcoin has solidified itself as collateral, Ethereum is emerging as an application hub, and Litecoin may serve a crucial infrastructure role as mainstream companies move into the blockchain space.

11. The Raffles Family Office (RFO) Forum in Singapore reinforced these trends this week. The consensus was clear in our view: crypto is here to stay, and will integrate into portfolios. With the entry of experienced players, industry standards are rising, signaling a move toward greater maturity. The forum highlighted a critical shift from speculative hype to strategic decision-making. RFO provided a great platform for exploring the next steps in institutional engagement—we were grateful to participate.

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