Rivemont - Weekly Update #275

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Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

Another excellent week for bitcoin and the cryptocurrency market in general. Bitcoin's remarkable performance stands in stark contrast to the downward trend of major banks, which continued to decline following the collapse of Silicon Valley Bank and Signature Bank earlier this month. In addition, the global banking sector came under further pressure following Sunday's announcement of the emergency acquisition of crisis-hit rival Credit Suisse by Swiss banking giant UBS for more than $3 billion.

The most interesting thing about the current performance is that it increases the decoupling from stock market assets, trading more alongside gold, but with

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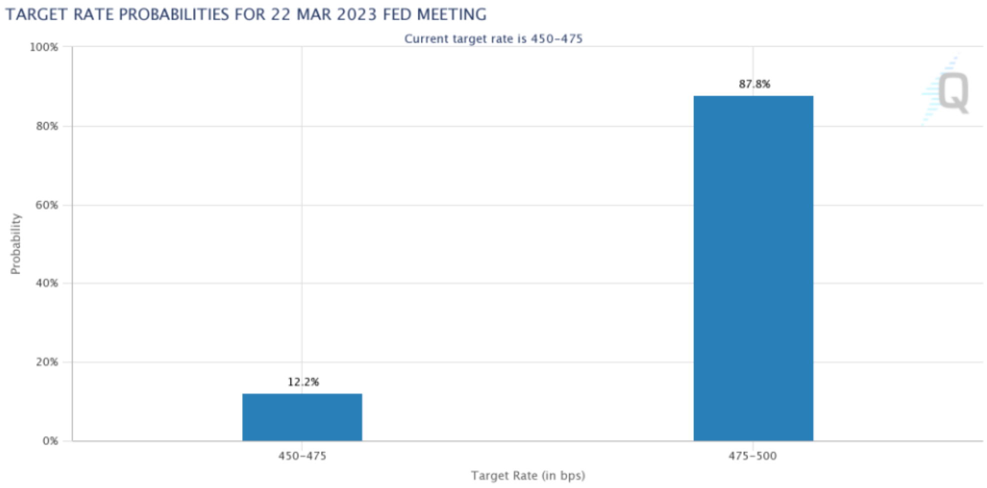
much higher returns. Will these bank failures and the risks of the fractional reserve principle be the catalysts towards the expression and recognition of the true fundamental qualities that bring value to bitcoin?

It is the macroeconomic factors that have nonetheless driven the overall markets over the past year. A new page will be written in this book today as the US Fed announces its next decision on interest rates. While the vast majority of analysts are expecting a quarter point hike, today's decision goes beyond just the rate that will be announced. Indeed, two weeks ago, the Fed persisted in its message that it had to continue to be aggressive in order to bring inflation back to its desired 2% threshold. Analysts then mostly agreed on a 50 point increase. However, it was the rapid rise in rates that led to the current banking crisis. The Fed is therefore caught between its desire to fight inflation and to mitigate this pressure on the sector. It is in this context that a 25 point hike now seems favored. However, a simple status quo is not impossible. Indeed, markets are now factoring in the chances of the Fed interrupting the cycle, as data from CME Group's FedWatch tool shows.



What could each scenario mean for the markets? While it is always difficult to be definitive on the subject, it seems at least logical that:

- An unexpected 50 point rise would be bearish on all markets. A priori, this would be a bearish scenario for bitcoin and all assets considered risk-on. At the same time, however, the danger that such a rise would pose to the banking sector could accelerate the transition discussed at the beginning of the text and quickly push many investors into bitcoin.

- A 25-point hike means that the Fed sees no imminent danger either on the inflation side or on the banking sector side. This is the neutral scenario. We will then have to wait for the speech following the announcement to see what the intentions are going to be, which will have more impact on the markets than the hike itself.

- A pause would be a sure sign of panic and possibly an announcement that the banking crisis is much more critical than the average person thinks. This would definitely be an explosive bullish scenario for bitcoin.

We are not alone in pointing out that the most important element of the current rise is that it is not occurring in tandem with a rise in risk-on assets like the last bull run. Bitcoin's value proposition is fully on display in the context of the current banking crisis, which will only "attract more institutions" to the BTC market over time, believes Cathie Wood, CEO of ARK Invest. "The fact that bitcoin has moved in a very different way than the stock markets, in particular, has been very instructive," she added in an interview with Bloomberg yesterday.

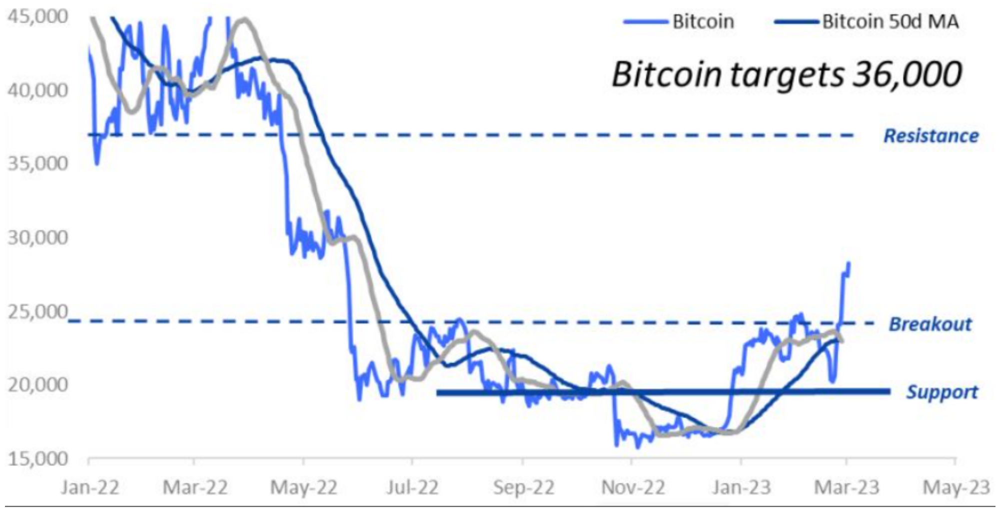
The 513-page annual report released yesterday by the White House reinforced the negatives of digital assets, throwing another governmental cold shower on the asset class. The President's Economic Report for 2023, released simultaneously with the Council of Economic Advisers' annual update, contains several references to digital assets. The report asserts that blockchain technology has fostered the emergence of financially innovative digital assets, which have proven to be highly volatile and prone to fraud. Then, unsurprisingly, the report goes on to decry cryptocurrencies compared to the traditional financial system: "Although advocates often claim that digital assets, particularly crypto assets, are a revolutionary innovation, the design of these assets frequently reflects an ignorance of basic economic principles that have been learned in economics and finance over centuries. [...] This inadequate design is often detrimental to consumers and investors." Should we really have expected anything else?

Emails obtained by Protect the Public's Trust and forwarded to the Washington Examiner reveal that FTX, which has since filed for bankruptcy, tried to curry favor with the FDIC by setting up an initial meeting with the regulator's chairman just months before the exchange collapsed. "We are in the unusual position of begging the federal government to regulate us," Wetjen wrote, who also said he "firmly" believed that "the FTX risk model is a superior model." So much for that last part. An FDIC spokesperson confirmed to the Washington Examiner that Mr. Gruenberg from the FDIC and FTX had one sole meeting after all.

The IRS and the U.S. Treasury Department have announced plans to issue guidance that could align the treatment of NFTs with that of physical collectibles such as art, coins, antiques and alcohol, which cannot be added to savers' retirement accounts. In addition, the classification of NFTs as collectibles could affect how they are taxed when traded or sold in secondary markets. The IRS is currently inviting comments on these intentions in order to ultimately file its recommendations.

The Crypto Fear and Greed Index reaches its highest level since bitcoin's all-time high price. An update to the index on March 20 showed a score of 68, placing it firmly in greed territory. The index aims to numerically measure current emotions and feelings toward Bitcoin and the cryptocurrency market, assigning a maximum score of 100. The last time the index reached a score above 66 was on November 16, 2021, a few days after Bitcoin's all-time record high of over $69,000 was set. We wouldn't have believed this just a few months ago!

If the favorable conditions for Bitcoin continue, the path could be clear to the resistance at $36,000. Markus Thielen, head of research at Matrixport, meanwhile, predicts a continuation of the rise over the course of the year to the $45,000 level. Charles Edwards, founder and CEO of the investment firm Capriole, predicted an even more ambitious price target of $100,000



Beyond simple predictions, an obvious observation can be made. The 200-week moving average has always been considered the lifeline of bitcoin. The few times it has been breached on the downside, its recovery on the upside has led to very large subsequent increases. This is exactly the picture that has been painted by price action. If the past rhymes with the future, this could be just the beginning of the rebound.

The fund's capital has been fully exposed since the key resistance at $25,000 has been broken. While the majority of this is invested in bitcoin, we have maintained a position of about 30% in ETH. This position has underperformed bitcoin this week, but history has shown us that ETH often follows BTC in bullish surges. We don't want to miss this opportunity.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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