WHY THIS BITCOIN ALL-TIME HIGH IS DIFFERENT

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On December 16th, bitcoin passed the $20,000 threshold for the first time. For some, this evokes memories of the “Crypto Winter” that followed December 2017, the last time the asset traded near this range.

But this is another story.

Underlying this month’s all-time high are clear signs that the bitcoin market has matured considerably. While the range may be the same, bitcoin’s landscape—and outlook—are markedly different. Here are six reasons why.

1

LESS RETAIL SPECULATION, MORE HEAVYWEIGHT ALLOCATION

Unlike traditional financial instruments, bitcoin started as a "bottom up" revolution; retail adopters drove much of its early growth. And retail was a key factor in bitcoin's first ascent to $19K, in which the asset nearly tripled over the course of just four weeks.

One indication of that retail speculation is Google Trends, a solid proxy for mass interest in topics. With its data you can track aggregated query volumes over time (100 represents peak interest in a topic).

It is clear from the four-year data that we are nowhere near late-2017 retail interest levels today. This suggests that today's growth is less about retail mania and more about institutional investors.

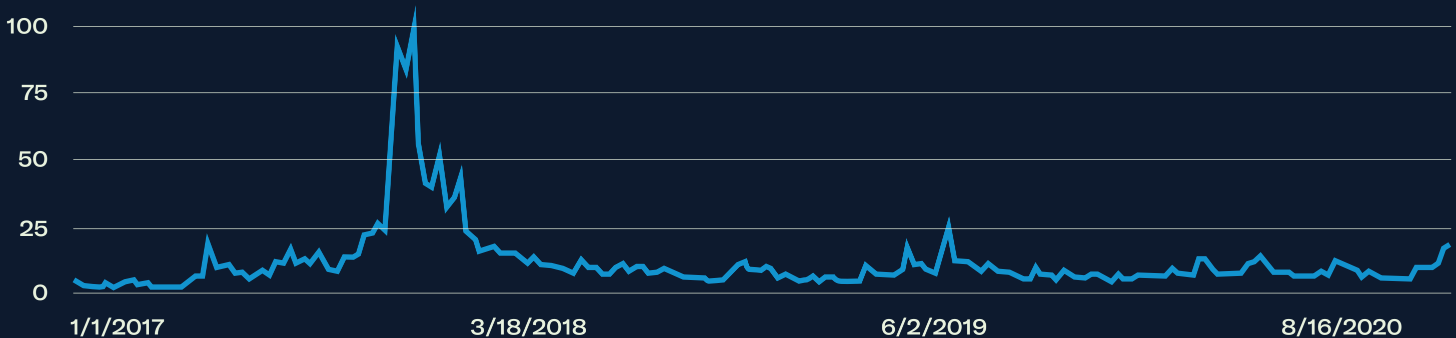
Indeed, heavyweights' interest in bitcoin has accelerated rapidly this year. Legendary macro and value investors Paul Tudor Jones, Bill Miller, and Stanley Druckenmiller have all publicly supported the asset, to name a few. The list of Wall Street firms warming up to bitcoin is expanding too, with Guggenheim Partners preparing to make room for it in their funds, and BlackRock's Larry Fink remarking that bitcoin could "evolve into a global market asset". Those "top down" investors are starting to make waves: the 169-year old insurance firm MassMutual just announced a bitcoin purchase worth $100 million, a move which J.P. Morgan strategists said may presage a $600 billion influx of institutional capital into the asset.[1]

2

SPOT LIQUIDITY REVEALS A HEALTHIER MARKET

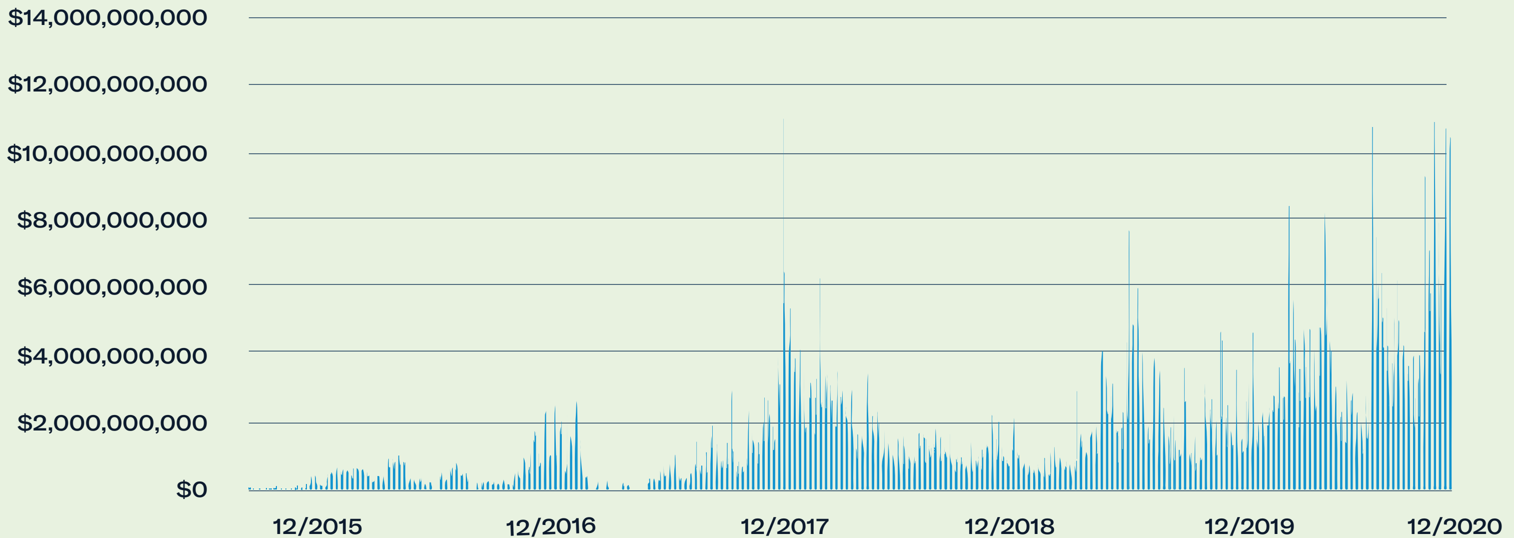
Market liquidity refers to the health of an overall market; a liquid market is one in which assets can be easily bought and sold at stable, transparent prices. Lower liquidity leads to less stable prices for an asset: slippage and price manipulation are risks, and price dips can turn into flash crashes. This explains what we saw after bitcoin hit $19K in 2017. Bitcoin's market is healthier than ever as evidenced by its trade volume, the best indication of spot liquidity. In the months leading up to the 2017 high, bitcoin's 24-hour volume was typically between $1 - $3BN. In the months leading up to this all-time high, that same metric was significantly higher.

[1] Source: Bloomberg, JPMorgan Says MassMutual's Bitcoin Foray Signals Widening Demand, December 2020



Source: Google Trends

BITCOIN DAILY SPOT VOLUME



Source: Galaxy Digital Research

3

THE REGULATORY ENVIRONMENT HAS EVOLVED

The regulatory environment has matured rapidly over the last three years. From that perspective, crypto—particularly bitcoin—looks less like the "wild west" that it was in the early 2010s and more like a traditional asset.

In mid-2018, the staff at the Securities and Exchange Commission (SEC) clarified bitcoin's status as a non-security, an important assessment as debate around cryptocurrency regulation was often focused on coins' status as securities. Earlier this year, the Office of the Comptroller of the Currency (OCC) clarified their stance on custody: financial institutions may custody digital assets on behalf of their clients. And Kraken, a San Francisco-based exchange, recently announced that they received approval for a banking charter in Wyoming—the first digital asset company to do so.

The list of such regulatory developments goes on. All have strengthened bitcoin as an investable asset, further preparing it for a place alongside traditional assets in portfolios.

4

INSTITUTIONAL SERVICE PROVIDERS HAVE ENTERED THE ARENA

Another important part of this puzzle: the recent entrance of institutional service providers to the bitcoin sphere (and the institutional-grade products they now make possible). The last three years have seen significant developments in these areas.

Blue chip names such as CME, Fidelity, and Bakkt (majority-owned by Intercontinental Exchange) are setting new standards for the custody, trading, and settlement of digital assets. They are collectively subject to regulatory oversight from the SEC, CFTC, and FINRA. Additionally, they are audited by Big Four accounting firms, and have received SOC reports as a result of routine independent SOC exams. Galaxy Digital itself has played a role in crypto's institutional infrastructure build. In partnership with Bloomberg, we launched the Bloomberg Galaxy Crypto Index (ticker: BGCI) in 2018 and the Bloomberg Galaxy Bitcoin Index (ticker: BTC) in 2020 to improve data integrity and standardization across digital assets.

Institutional interest means little without the right infrastructure. Now, unlike three years ago, that interest can be met with institutional-grade products. Many institutional investors have "done the work", and the lowered barriers to entry finally allow them to express their view.

5

WE ARE NOW IN AN UNPRECEDENTED MACRO ENVIRONMENT

In 2017, there was little reason for many to care about bitcoin beyond the price action itself. Bitcoin had not yet solidified its lane as digital gold, and the macro environment was relatively untroubled. Today, with interest rates pinned near zero, trillions of dollars of fiscal stimulus being printed, and aggregate global debt expected to soar to $277 trillion by year-end, it is a different story.

The fundamental shift in the macroeconomic landscape has created a supportive backdrop for bitcoin. Bitcoin provides potential downside protection as a compelling macro hedge. Its uncorrelated nature makes it an attractive portfolio diversifier in uncertain times: correlation to equities remains stable during most time periods between -0.2 and 0.2. Moreover, bitcoin's fixed supply—there will only ever be 21 million—stands in sharp contrast to the Federal Reserve's rampant money printing. May's halving event lowered the coin's annual inflation rate from 3.6% to 1.8%. At 14.9% of GDP in Fiscal Year 2020, the federal deficit is almost twice as large as it was at the worst of the Great Recession in 2009. Bitcoin was born out of that recession, and it stands to shine in an increasingly uncertain 2021.

6

THE ADOPTION STORY HAS EXPANDED

Bitcoin is no longer dominated by computer scientists and Libertarians—or by retail investors frantically downloading exchange apps to make speculative bets, as we saw in late-2017. Institutional-grade fund structures are now attracting high-net-worth individuals, financial advisors, and family offices. And, as mentioned previously, investing heavyweights and institutions are now allocating.

But perhaps the most interesting part of the adoption curve has been corporate treasuries. From August to October alone, MicroStrategy (NASDAQ: MSTR) and Square (NASDAQ: SQ) made nearly $500 million in publicly disclosed balance sheet investments. MicroStrategy "has recognized bitcoin as a legitimate investment asset that can be superior to cash and accordingly has made bitcoin the principal holding in its treasury reserve strategy." It now plans to raise $400 million to buy even more bitcoin. Square nodded to the macro environment: "Given the rapid evolution of cryptocurrency and unprecedented uncertainty from a macroeconomic and currency regime perspective, we believe now is the right time for us to expand our largely USD-denominated balance sheet and make a meaningful investment in bitcoin."

We anticipate that more corporate treasuries will follow MicroStrategy and Square's lead as concern about the weakening of the U.S. Dollar continues to increase.

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