

Bitcoin Brief

Market Update

The first quarter of 2022 ended on a high note with bitcoin breaking through the roughly \$38K - \$42K trading range and closing the month at \$45,596. Bitcoin was up 8.75% for March, closing the quarter nearly flat (-0.6%) after a tough start to the year for most asset classes, bitcoin included.

Rising interest rate fears and the expectation of tighter monetary conditions continue to be a focus for bitcoin investors. The Federal Reserve made good on its pledge to raise interest rates to fight inflation; on March 16th, the Federal Open Markets Committee (FOMC) raised the range for the Fed Funds rate by 0.25%. The market expects nine more hikes in 2022, and the Fed Funds futures market is pricing an implied rate of 2.87% in 12 months, well above today's 0.25%- 0.50% range. Bitcoin investors are keeping a close eye on how the Fed 1) deviates from this expectation and 2) plans to manage its nearly \$9T balance sheet, with an announcement related to the latter expected at the May 4th meeting.

March Towards Regulatory Clarity Continues

While the anticipated US Executive Order (EO) in March did not bring a tremendous amount of regulatory clarity for digital assets, it did assuage fears around the potential for a cryptocurrency ban as it all but confirmed that bitcoin and digital assets are here to stay. Perhaps more importantly, it demonstrates the US government's commitment to promoting onshore innovation and technology within a balanced regulatory framework. Interestingly, the EO did not explicitly call upon traditional financial regulators that have been vocal about supervising digital assets to help determine a framework. For example, the SEC, CFTC, and the OCC were only briefly mentioned in the report, which means that regulation may be driven by Congress as opposed to independent regulatory entities.

HIGHLIGHTS.

- March Towards Regulatory Clarity Continues
- Bitcoin Miners and Flared Gas
- Bitcoin is a Poor Choice for Criminals

MARKET STATS.

As of 3/31/22

| | |
|---------------------------------------|----------|
| BTC Price | \$45,596 |
| BTC Market Cap | \$865B |
| % of BTC Total Supply in Circulation | 90% |
| 3M Average Daily Bitcoin Transactions | ~252K |

NOTEWORTHY HEADLINES.

[Blackrock's Fink Says Russia Invasion Could Accelerate Crypto Adoption](#)

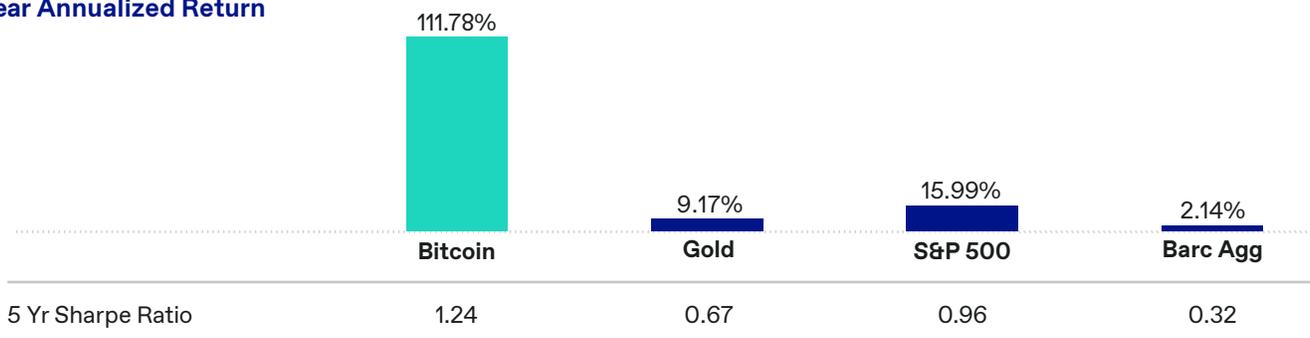
[Exxon Weighs Taking Gas-to-Bitcoin Pilot to Four Countries](#)

[South Korea's President Elect Vows Big Cryptocurrency Push](#)

[Ukraine Legalizes Crypto](#)

[Bank of America Sees No Crypto Winter Given User Adoption](#)

5 Year Annualized Return



Looking ahead, increased regulatory clarity may be a positive for price and ultimately help bitcoin move out of its tight trading range. NYDIG expects further clarity from the White House in 2H22 once initial deliverables set forth by the EO come due.

Bitcoin Miners and Flared Gas

ExxonMobil and ConocoPhillips are reportedly selling excess gas to bitcoin miners through a partnership with Crusoe Energy Systems. Miners are economically motivated to expend real-world resources to secure and expand the bitcoin blockchain and are increasingly using natural gas (methane) that would otherwise be discarded (flared) to power their mining rigs. Bitcoin miners that collocate near oil wells can source this low-cost energy and reduce carbon equivalent emissions by as much as 63%.¹

Flaring gas is the 160-year-old practice of burning excess gas when there is no productive use for it and it cannot be transported via pipelines.² This unused energy is completely wasted when flared, and CO₂ along with some methane, a greenhouse gas that is 80x more potent than CO₂,³ leaks during the flaring process. Bitcoin mining can present a cleaner alternative to this historically discarded energy.

Bitcoin is a Poor Choice for Criminals

One of the top misconceptions about bitcoin is that it is a tool for criminals. In fact, the open-source nature of the

Bitcoin blockchain makes the asset a poor choice for facilitating illicit activities. Law enforcement now has the requisite knowledge, tools, and skills to investigate criminal activity that is recorded on Bitcoin's freely shared, tamper-proof ledger.

For example, earlier in the year, a New York City couple was charged with conspiring to launder \$3.6B in bitcoin stolen from Bitfinex, one of the largest digital asset exchanges, nearly 6 years after the alleged crime. Authorities accuse Ilya Lichtenstein and his wife, Heather Morgan, of laundering 119,754 bitcoins back in 2016, an episode that shook what was still a nascent bitcoin community. The Justice Department recovered 80% of what was stolen, representing the Department's largest financial seizure ever, which will likely be returned to Bitfinex. This episode follows the FBI's recovery back in June '21 of \$2.3M paid as part of the Colonial Pipeline ransomware attack which took the FBI only 19 days to recoup.

No wonder over 99% of illicit activity is not associated with cryptocurrency; the best tool for criminal activity remains cold hard cash.⁴

| Performance | 1MO | 3MO | YTD | 1YR | 3YR* | 5YR* |
|--------------|--------|--------|--------|---------|---------|---------|
| Bitcoin | 8.75% | -0.59% | -0.59% | -22.19% | 123.60% | 111.78% |
| Gold | 1.49% | 5.92% | 5.92% | 13.45% | 14.45% | 9.17% |
| S&P 500 | 3.71% | -4.60% | -4.60% | 15.65% | 18.92% | 15.99% |
| Barclays Agg | -2.78% | -5.93% | -5.93% | -4.15% | 1.69% | 2.14% |

*Returns greater than 1 year are annualized.

| | 5YR Standard Deviation | 5YR Sharpe Ratio | 5YR Correlation to BTC |
|--------------|------------------------|------------------|------------------------|
| Bitcoin | 91.3% | 1.24 | - |
| Gold | 12.7% | 0.67 | 0.12 |
| S&P 500 | 15.8% | 0.96 | 0.26 |
| Barclays Agg | 3.6% | 0.32 | 0.17 |

Sources:

NYDIG, Bloomberg as of 3/31/22, unless noted otherwise. All prices are 4:00 pm ET prices on the last business day of each month. Barclays Agg represents the Bloomberg US Aggregate Total Return Bond Index. Bitcoin returns based on month-end 4pm prices. Monthly bitcoin prices prior to October 2018 are based on Coinbase 4pm pricing. In October 2018, NYDIG began generating bitcoin prices in accordance with NYDIG Asset Management's valuation policy for its bitcoin funds. The monthly bitcoin prices used after October 2018 reflect 4pm prices determined in accordance with such valuation policy, which is the same valuation policy that is used for NYDIG's funds. As there are two different pricing sources for bitcoin reflected, the historical performance of bitcoin shown may be different if the bitcoin prices in accordance with NYDIG Asset Management's valuation policy were used for the entire period or if the Coinbase pricing were used for the entire period. Performance data quoted represents past performance of bitcoin. Past performance of bitcoin is not indicative of future results. Bitcoin has historically exhibited high price volatility relative to more traditional asset classes. The value of an investment in bitcoin or the funds could decline rapidly, including to zero.

¹[CNBC](#), ConocoPhillips is selling extra gas to bitcoin miners in North Dakota (Feb 15, 2022).

²[World Bank](#), Gas Flaring Explained.

³[Bloomberg](#), Exxon Weighs Taking Gas-to-Bitcoin Pilot to Four Countries (March 24, 2022).

⁴[Chainalysis](#), 2022 Crypto Crime Report (February 2022).

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