PORTAL
ASSET MANAGEMENT

Market Commentary

June 2022

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01.
Market Overview

The intense volatility we have experienced since November 2021 continued and increased in June across all capital asset markets globally.

Bitcoin dropped -37% from nearly $32K to just below $19K in June bringing the total loss for 2022 YTD to -60% in its worst month since 2011. The overall market as represented by the CCI30 Index was down -33% in June and is down -69% YTD. The Portal Digital Fund finished June down -8.3% net of fees and is down -33.7% YTD.

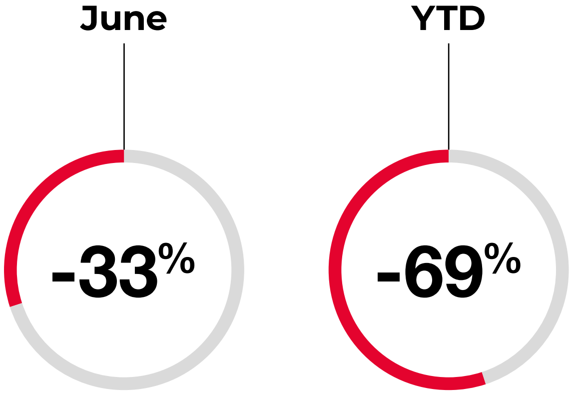
Whilst BTC and ETH were seen as a flight to safety in May after the Terra Luna collapse, they were sold off heavily in June given tightening liquidity and continuing deleveraging. They have however outperformed the smaller cap alt-coins as we have seen in previous cycles.

The correction that started in May with the collapse of Terra Luna was further exacerbated by news that one of the largest lenders in the space, Celsius Network, suspended withdrawals given a potential “run on the bank” and rumours of a bankruptcy filing. In addition, the insolvency and liquidation of 3 Arrows Capital, a well-established hedge fund, further rattled the market with wider margin calls expected. As the old adage goes; “All things come in three’s”, and those are three events the markets did not foresee or discount lightly.

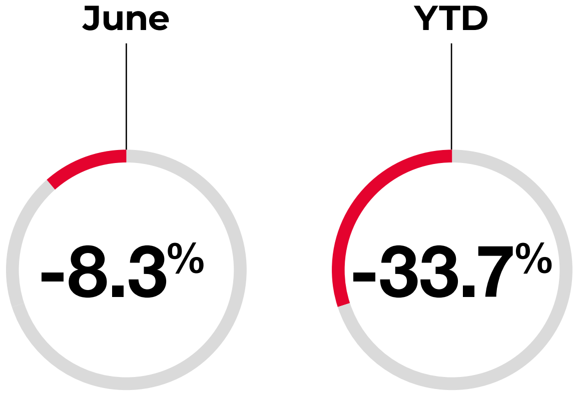
Market Valuations

As we stated in our Portal 2022 Outlook: **““As Fund Managers, we believe that the macro will always dominate the micro, and as such being on the right side of the thematic via astute asset allocation is more important than trying to pick the next “unicorn”. Successful asset allocation combined with prudent management of risk will always deliver superior risk adjusted returns in the long run.”**

CCI30 Index:



Portal Digital Fund:



Time to Buy?

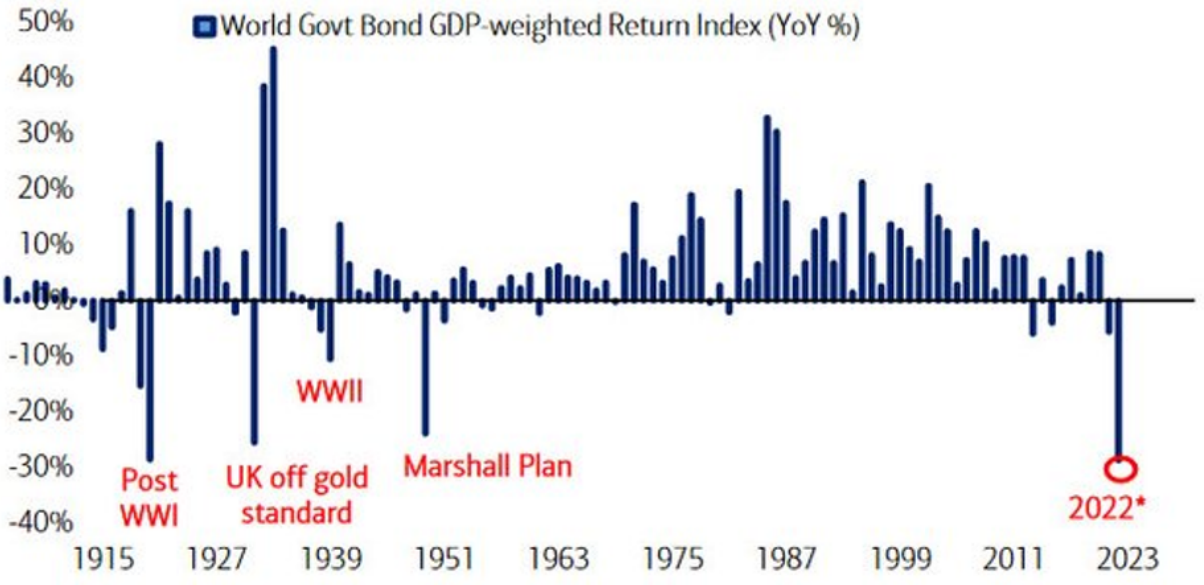
Asset	Price 6/30/2022	June	Q2	2022	From Recent High...	...on Date
		Price Changes				
Long Term Treasuries (TLT)	114.87	-1.45%	-13.03%	-22.48%	-25.64%	12/3/21
High Yield Bonds (HYG)	73.61	-7.41%	-10.55%	-15.40%	-16.43%	9/15/21
Commodities (DBC)	26.64	-7.50%	2.23%	28.20%	-12.05%	6/11/22
Real Estate (VNQ)	91.11	-8.03%	-15.93%	-21.46%	-21.43%	12/31/21
S&P 500 (SPX)	3,785.50	-8.39%	-16.45%	-20.58%	-21.17%	1/3/22
NASDAQ Composite (IXIC)	11,028.74	-8.71%	-22.44%	-29.51%	-31.26%	11/15/21
Solana (SOL)	32.32	-27.14%	-71.30%	-78.00%	-86.98%	11/8/21
Square (SQ)	61.46	-29.77%	-54.68%	-61.95%	-78.17%	8/5/21
Silvergate (SI)	53.53	-31.81%	-64.45%	-63.88%	-75.92%	11/3/21
Polkadot (DOT)	6.85	-33.40%	-67.62%	-73.49%	-87.43%	11/8/21
Bitcoin (BTC)	19,098.00	-36.53%	-55.77%	-56.46%	-71.68%	11/8/21
MicroStrategy (MSTR)	164.30	-37.93%	-66.22%	-69.82%	-80.87%	11/9/21
Coinbase (COIN)	47.02	-39.80%	-75.23%	-81.37%	-86.85%	11/9/21
Galaxy Digital (GLXY)	4.83	-40.59%	-77.32%	-78.68%	-88.55%	11/9/21
Ether (ETH)	1,033.00	-47.02%	-67.85%	-71.30%	-78.54%	11/8/21

Source: PostModern Partners; TradingView

Examining the chart above courtesy of PostModern Partners we note that no asset class been left unscathed outside of commodities which are being driven by a reset of their marginal cost curves due to inflation caused by higher oil and diesel prices. This is a broad-based macro global reset of risk premiums.

Indeed, US long term treasuries are on course for their worst year since 1865 as per the chart below. We expect this bubble, fuelled by growth in high yield debt has further to fall, along with real estate, which is the most overpriced asset class.

Chart 2: Government bonds on course for the worst year since 1865
World govt bond annual returns



Source: BofA Global Investment Strategy, Global Financial Data, *2022 YTD annualized

BofA GLOBAL RESEARCH

02.

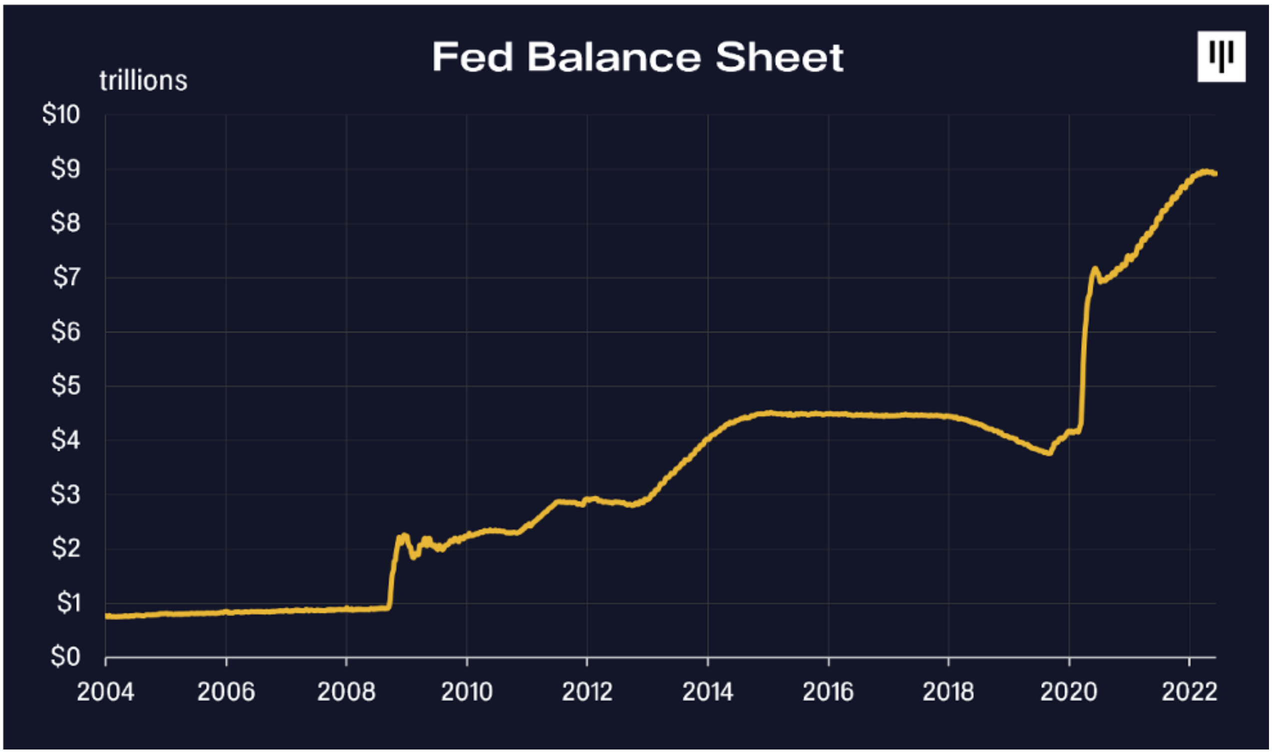
Global Macro Assessment

“Persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

As we reach the middle of the year, we look back on the past 6 months with both incredulity and perplexity. The current market turmoil is directly attributable to very poor policy decisions by both G7 governments globally and the privately owned central banks led by the US Federal Reserve. This is a completely self-inflicted DIY recession, which threatens to now become a depression with stagflation as defined by Lexico as: “Persistent high inflation combined with high unemployment and stagnant demand in a country's economy.”

So, the question we need to ask is “How did we get to this situation of runaway sticky inflation and sharply rising interest rates, falling liquidity and subsequent destruction of demand and wealth?”

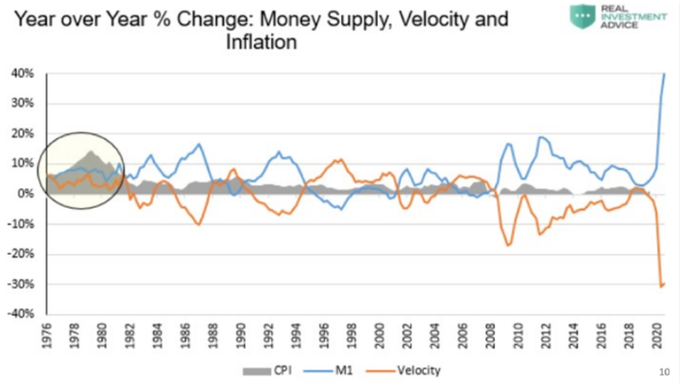
The first part of the answer as we discussed in previous market commentary in 2021 is that The Federal Reserve responded to the plandemic in March 2020 by introducing “unlimited quantitative easing” and flooded the world with liquidity. This pushed the Fed funding rate, and subsequently global interest rates that are set off the US 10-year treasury, to below zero. This was mostly done by manipulating the long bond yield as the Fed expanded its balance sheet by 120% in 2 years from $4 trillion in 2020 to $9 trillion in 2022, as per the chart below:



Source: Pantera Blockchain Letter, June 2022.

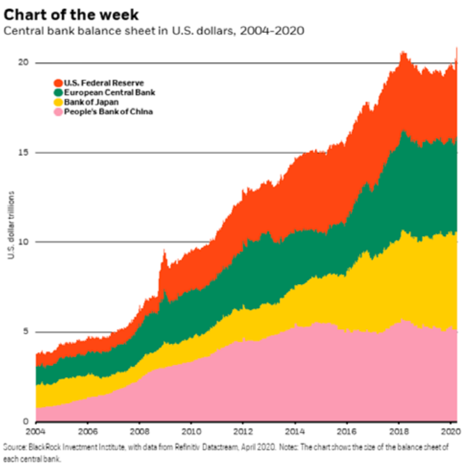
We discussed this in our MxV=PxQ commentary in 2021 as per the slides below:

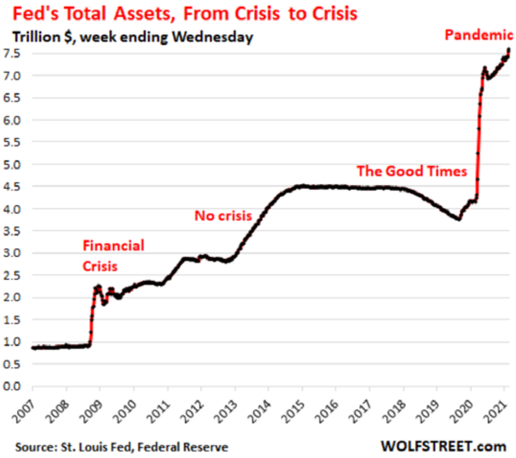
Money Supply, Velocity and Inflation



CENTRAL BANK BALANCE SHEET EXPLOSION

The Fed's balance sheet could easily be replaced with the phrase *abracadabra*;*





The second own goal was that this irrational expansion in balance sheet was coupled with a disastrous energy policy as the world rushes towards carbon neutrality by limiting growth in fossil fuels without providing a viable solution to compensate for the loss of oil production. Climate Change solutions need to be reviewed and implemented responsibly with due regard to energy prices.

Inflation is Coming!

M.V = P.T

M = Stock of money
V = Velocity of circulation
P = Prices
T = Total of monetary transactions during that same year

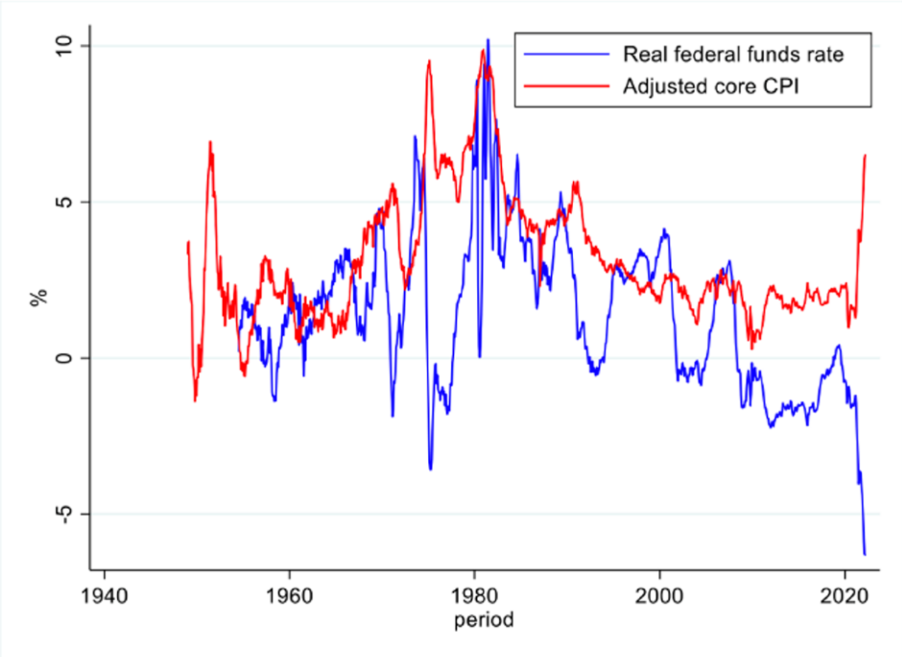
M x V

"Price" is the unknown

- Money Supply (M) is up exponentially.
- Velocity has fallen to unsustainably low levels → BUT: as the global economy begins recovers the velocity will increase.
- Total physical transactions has fallen --? Starting to recover.
- Therefore, the variable that needs to rise the most to balance the equation is Prices or INFLATION

The FED seems to have been asleep at the wheel and now is scrambling to reign in both inflation and their failing credibility. The concerning issue is that we believe due to the important changes in how CPI is measured over time there is an **underestimation of real inflation.** Subsequently, the output gap (the difference between the Real Federal Funds rate and Core CPI) is much wider than the market realises, closer to 13% as per the chart below which uses the Case-Shiller Index, a much better representation of core CPI.

Figure 7: Historical Policy Gap Using Estimates Adjusted for Treatment of OER



Sources: Bureau of Labor Statistics, Board of Governors of the Federal Reserve System, Authors' calculations
Notes: For adjusted core measure, homeownership costs are replaced with estimated OER pre-1983 and quantity weights are fixed at 2022 levels throughout. Real Federal Funds Rate is measured as the effective federal funds rate minus OER and weight-adjusted core inflation over the previous 12 months

What this means is that rates still have a long way to rise before we begin to see normalisation of the yield curve relative to inflationary expectations. Therefore, we expect the 10-year US Treasury yield to double from the current 2.9% to around 6%. This combined with oil continuing its rally to $150/bbl will see reduced consumer spending and the ability to service debt severely curtailed.

This leads us to the second part of our discussion on an assessment of and implications for de-coupling of cryptocurrency and digital assets ("crypto assets").

03.

Will Crypto Assets De-Couple?

Unfortunately, crypto seems to be thought of as a long-duration tech stock right now as per the table below which depicts big tech stock prices drawdowns from their 2021 highs vs BTC and ETH ranked from best to worst.

1.	NASDAQ Composite	**-31%**
2.	Tesla	**-41%**
3.	Meta (Facebook)	**-56%**
4.	Bitcoin	**-71%**
5.	Zoom	**-72%**
6.	Netflix	**-73%**
7.	Ethereum	**-78%**
8.	Block (Square)	**-78%**
9.	Coinbase	**-86%**

We expect the overall crypto asset market should outperform in the coming months for several reasons:

» Firstly, all risk assets have been decimated and their speculative premiums have been greatly diminished and this is even more true for crypto assets.

» Secondly, BTC's correlation to the S&P500 reached an all-time high of 0.76 during the depths of this latest correction, but it has spent the past decade trading between -0.2 to +0.2. Therefore, we would expect this correlation will begin falling back towards its 10-year mean of +0.17 over the next few months and indeed it could even turn negative as it reverts to its mean.

» Thirdly, it's inevitable that sophisticated investors realise that evolution in Blockchain-based applications is the only growth game left for the foreseeable future.

We have no clear view as to whether the crypto asset market has bottomed or when the next bull run will begin, but as a relative play against other risk assets, which are more directly connected with interest rate increases, crypto assets along with gold, and other commodities should outperform.

As a caveat, there is also a slim possibility that both the FED and investors in general turn from fear of inflation to the more pertinent fear of recession, which will give the FED wriggle room in slowing or even reversing rate hikes. There has also been significant investments via VC/PE in blockchain technology start-up's that should generate growth and excitement once the market bottoms.

04.
Conclusion

At this junction, crypto assets and commodities are the only viable alternatives in a world with massively rising rates.

It is well understood that all traditional asset classes are directly linked to interest rates. This is most notable in the price movement of bonds via their inverse relationship with interest rates. Equities are also linked to higher rates as their free cash flows are discounted at higher rates and their profitability is reduced by an increase in their interest burden.

Real Estate is also tied to rates via mortgages, but there tends to be a 6 to 9-month lag before its effect is fully felt. This is the real bubble and potential destroyer of wealth and bank as well as household balance sheets - the "safe" real estate and fixed income asset classes. Risk free return is now return free risk.

This is the first steeply rising rate environment since the turn of the century, and investors will be searching for alternatives to invest in that are not inversely related to interest rate increases. At this junction, crypto assets and commodities are the only viable alternatives in a world with massively rising rates.

In addition, given the continued debasement of the US Dollar, assets that are fixed in quantity look increasingly attractive. We are generally early to the trade, but never wrong on the macro or fundamentals. It may take a few more months for crypto assets to decouple, but when the dust settles I can easily see a world where bonds, stocks, real estate, and everything with a discounted cashflow is down – and blockchain, commodities, oil, gold, and other things that are truly not connected to rates, are up a ton.

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