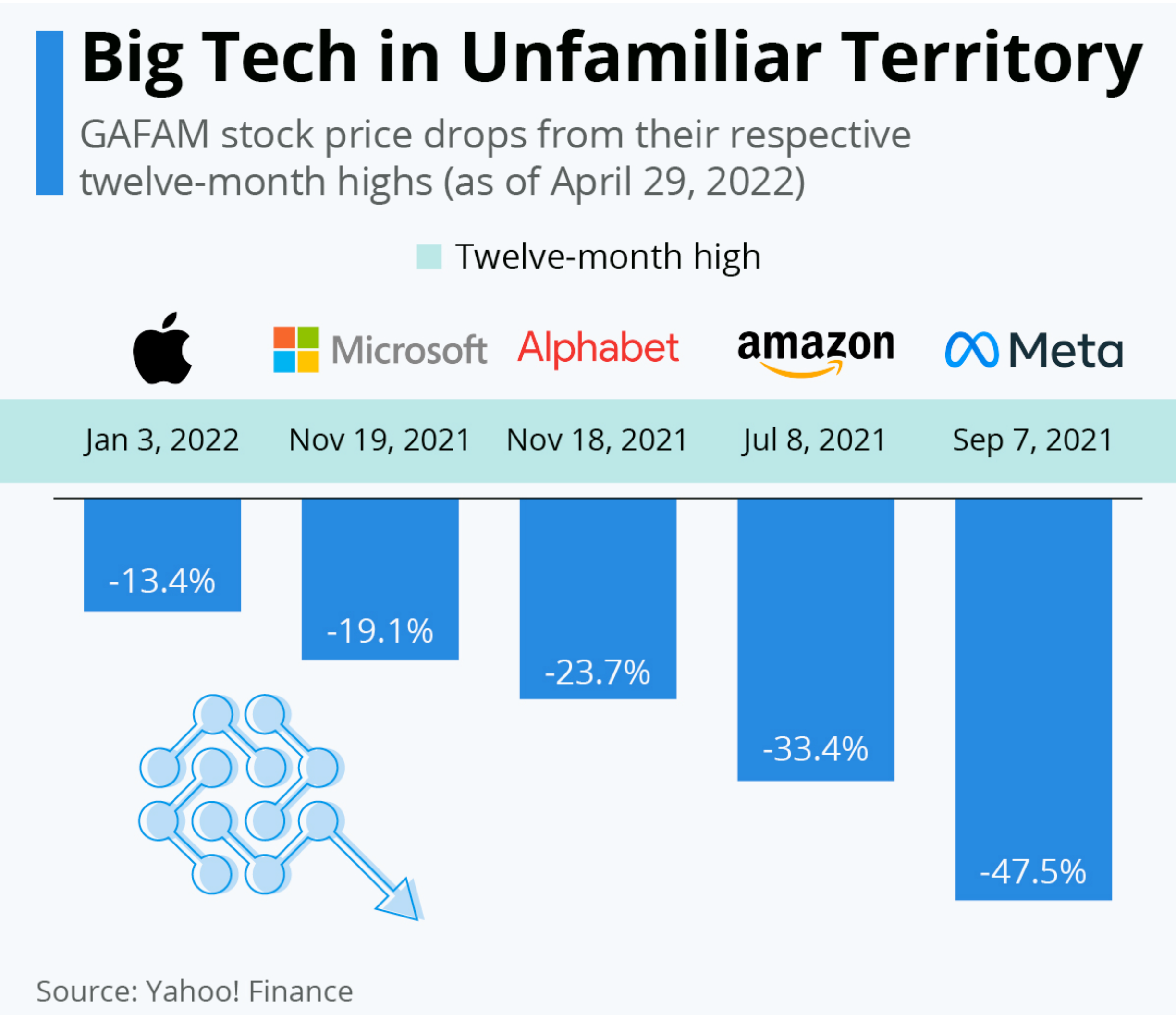
PORTAL
ASSET MANAGEMENT

Market Commentary - April 2022

The Volatility Continues

April was a turbulent month across the entire investment landscape as US fixed income yields spiked and this caused monthly declines across all risk assets, most notably tech stocks as per the graphic below, which cryptocurrency and digital assets ("crypto assets") continue to be correlated with in the short-term. The Portal Digital Fund was down -6.2% versus Bitcoin down -17.3% and the broader market as represented by the CCI30 Index down -25.3% in April. We are pleased that we have also reached the milestone of our full two-year audited track record for the Portal Digital Fund.



Source: https://www.statista.com/chart/26672/tech-stock-correction/

Market Outlook

Although we expect that there could be further downside in the short term as BTC and crypto assets in general continue to trade in line with other risk assets, we remain convinced that there will be a decoupling of crypto assets as their adoption and user base continues to grow at triple digits annually, driving their earnings, community growth and valuations. Most notably we have seen ETH's earnings reaching $9.9bn in 2021, and we expect this could double in 2022 given that in Q1 2022 ETH's revenue grew 46% from $1.6bn to $2.4bn.[1]

We discussed this expected market turmoil towards the end of last year, and we have been well positioned for what's unfolding with the highest cash levels since the PDF's inception. As we stated in our "Portal 2022 Outlook" report we believe that *"Inflation is being vastly underestimated – rates are going to rise much faster and higher than expected, increasing volatility across all asset classes!".* This played out as expected and the high growth tech stocks and DeFi assets in particular are feeling the brunt of the selloff.

We reiterate that investors are looking through the cycle and focusing on the very positive fundamental outlook for crypto assets as evidenced by the continued growth in market participants and adoption of crypto assets.[2] Although we expected that inflation would surprise significantly to the upside and we would be in a risk-off environment for Q1 2022, this has been exacerbated by the conflict in the Ukraine. The result has been that 10-year US treasury yields are now above 3% for the first time since 2018.

We now expect inflation to peak and fall more rapidly than expected towards the end of 2022, giving the FED cause to pause and slow rate hikes. This is supply-side driven inflation, which is easy to remedy if there is the political will, which we expect will be forced by the respective unhappy populaces.

Globalisation has been reversed with the plandemic lockdowns and supply chain disruptions, particularly in China, and now all western economies face sharply rising inflation and growth-sapping interest rate rises to try and pull this inflation back. This is a turning point for Fiat-based currencies that continue to be debased, and we will see continued adoption and integration of crypto assets as the backlash against big tech and banks continues via Web3.

Portfolio Positioning

Our view is that at some point crypto will decouple from equities and other risk assets, but prices are continuing to be driven by unrelated geopolitical events rather than crypto-specific fundamentals – I do believe that it is only a matter of

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[1] https://blockchain.news/news/ethereum-revenue-hit-$9.9-billion-in-2021-as-eth-emerges-as-the-most-searched-project

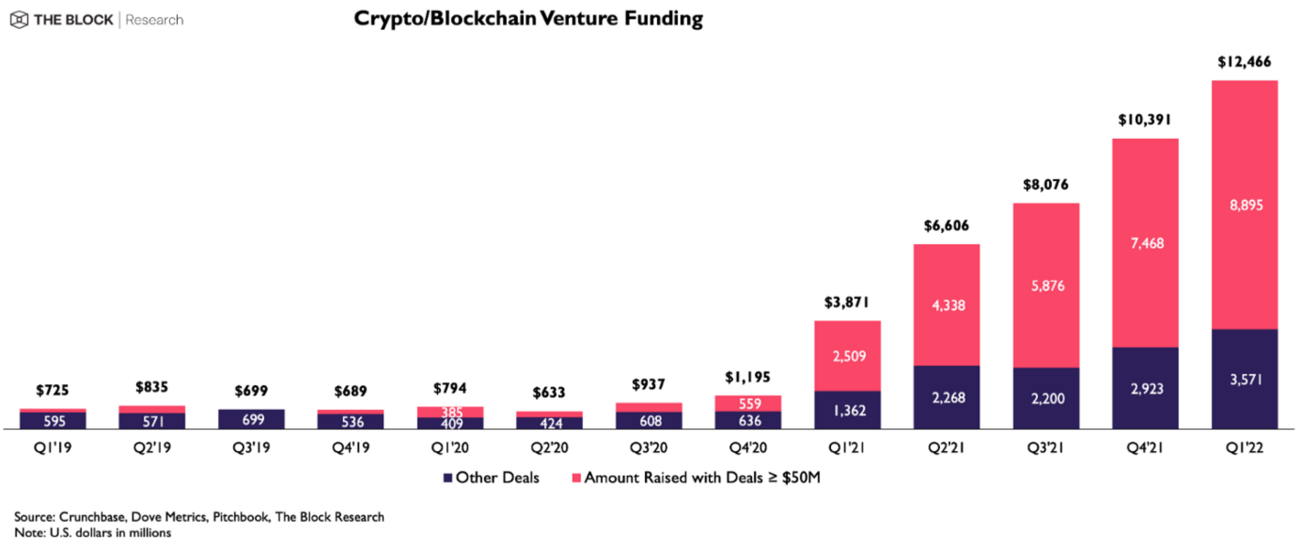
[2] https://newsletter.banklesshq.com/p/state-of-ethereum-q1-2022?s=r

time until this changes. Alternatives in general and crypto assets specifically are the only option going forward.

If it doesn't decouple then we could see a prolonged bear market that matches the tech wreck that's unfolding. I don't see this as realistic as crypto assets such as ETH, lending pools and exchanges are growing earnings at 500%+ pa and big tech is imploding on all metrics. What we are seeing is the fall of the old, centralised fiat-based system (controlled by the banks-tech-pharma complex) and the rise of the new based on Web3 and decentralisation.

The big risk to us is if regulators derail this but we are comfortable with the positive developments as established, well informed institutions that manage sovereign wealth such as Bridgewater ($97bn FuM)[3] and Brevan Howard ($40bn FuM)[4] enter the space alongside Point72 ($22bn FuM).[5] These firms are well placed to assess regulatory risk and would not be setting up crypto asset funds if they were not comfortable with the regulatory risk.

The chart below shows the trend in VC investing in the crypto asset space and this is a forebearer of massive amount of new product coming to market over the next 12-18 months.



The Tipping Point

This is a very difficult time for institutional investors as there is no visibility from an asset allocation perspective. Fixed income and real estate will be under pressure with rising interest rates, and the momentum equities trade of long tech vs short industrials is unwinding sharply. Two years ago when we started the PDF there was not much real institutional interest in crypto assets. This has changed as crypto assets have gone mainstream. Two years from now, I believe

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[3] https://www.coindesk.com/business/2022/03/21/ray-dalios-bridgewater-investing-in-crypto-fund-sources/
[4] https://blockworks.co/sources-brevan-howard-launches-first-digital-assets-fund-in-massive-crypto-push/
[5] https://www.theblockcrypto.com/post/104522/steve-cohen-point72-crypto-market

almost every institution will be forced to have a crypto asset strategy or risk losing assets to their competitors that do. Currently we feel that we are in that tempestuous period of adoption.

Conclusion and takeaways

The full impact of pandemic-induced stimulus and supply disruption is becoming clear – it's the end of the massive credit supercycle started in the 1970's when the deregulated banks in the USA and allowed for collateralisation and rehypothecation of debt which spawned the rise in Leveraged Buyouts (LBO's) in the 1980's, the Dotcom bubble of the 1990's and then commodities boom fuelled by Mortgage Backed Securities and the integrations of the BRICS. (Brazil, Russia, India, China and South Africa) which represented 2.6 billion people in 2000, or about 40% of world population and drove demand for commodities and skills from 2000-2016 when the construction cycle cooled.

Examining how the market reacted over the past month it is evident that investors are beginning to look through negative news flow and focus on the underlying opportunity that crypto assets represent given their continued positive headlines. Post the 50%+ drawdown and concerns around government intervention / overreach into fiat currencies, we believe that current valuations represent a very favourable risk vs reward opportunity for crypto assets.

We finish with an excerpt from Ray Dalio, founder and CIO of Bridgewater: The 75-year debt supercycle is coming to an end:[6]

"We are seven years into the expansion phase of the business/short-term debt cycle — which typically lasts about eight to 10 years — and near the end of the expansion phase of a long-term debt cycle, which typically lasts about 50 to 75 years.

What I am contending is that there are limits to spending growth financed by a combination of debt and money. When these limits are reached, it marks the end of the upward phase of the long-term debt cycle. In 1935, this scenario was dubbed "pushing on a string."

We are at the mercy of the macro environment and global markets for now and we continue to focus on researching new opportunities and building distribution whilst remaining conservatively positioned to ride out the volatility

Please feel free to contact me should you have any enquiries.

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[6] https://www.linkedin.com/pulse/how-can-we-tell-first-battle-long-war-control-world-order-ray-dalio/?trk=eml-email_series_follow_newsletter_01-hero-1title_link&midToken=AQGmpBSQgkw1JA&fromEmail=fromEmail&ut=0jNCdAYujuzGc1

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