PORTAL
ASSET MANAGEMENT

Market Commentary - December 2022

Market Overview

December was a choppy month that saw the market initially rally 5% and then fall around 15% mid-month on fears of continued contagion. The Portal Digital Fund (PDF) finished December down -3.4% net of fees vs the overall market as represented by the CCI30 Index down -12.6% and BTC down -3.8%. The PDF was down -42.1% net of fees for FY22 vs the market down -72.8% and BTC down -64.2%.

After the Storm, Will There Be Light?

2022 will be the year of "The Great Deleveraging" with all asset classes hit by rising interest rates and tightening liquidity. Cryptocurrency and digital assets ('crypto assets') market capitalisation fell by 75% from the peak in November 2021 to the trough in December 2022.

January has started off with a strong rally as the overall market has bounced 17% driven by both an improving macro with slowing inflation and an inverted yield curve, and supported by very positive news in the crypto space such as Amazon Web Services partnering with Avalanche to scale Blockchain solutions for both enterprises and governments, and El Salvador passing a law allowing Bitcoin bond issuance, as well as Ondo launching tokenized US Treasuries and bonds, targeting $100 Billion Stablecoin market, all very positive for both government and institutional adoption globally.

As per a recent newsletter by Postmodern Partners puts it: *"It must be noted that although many effective, well-regarded, large-cap Layer 1 protocols declined by more than 80%, DeFi platforms with collateralized loans and automatic liquidation mechanisms remained intact."*

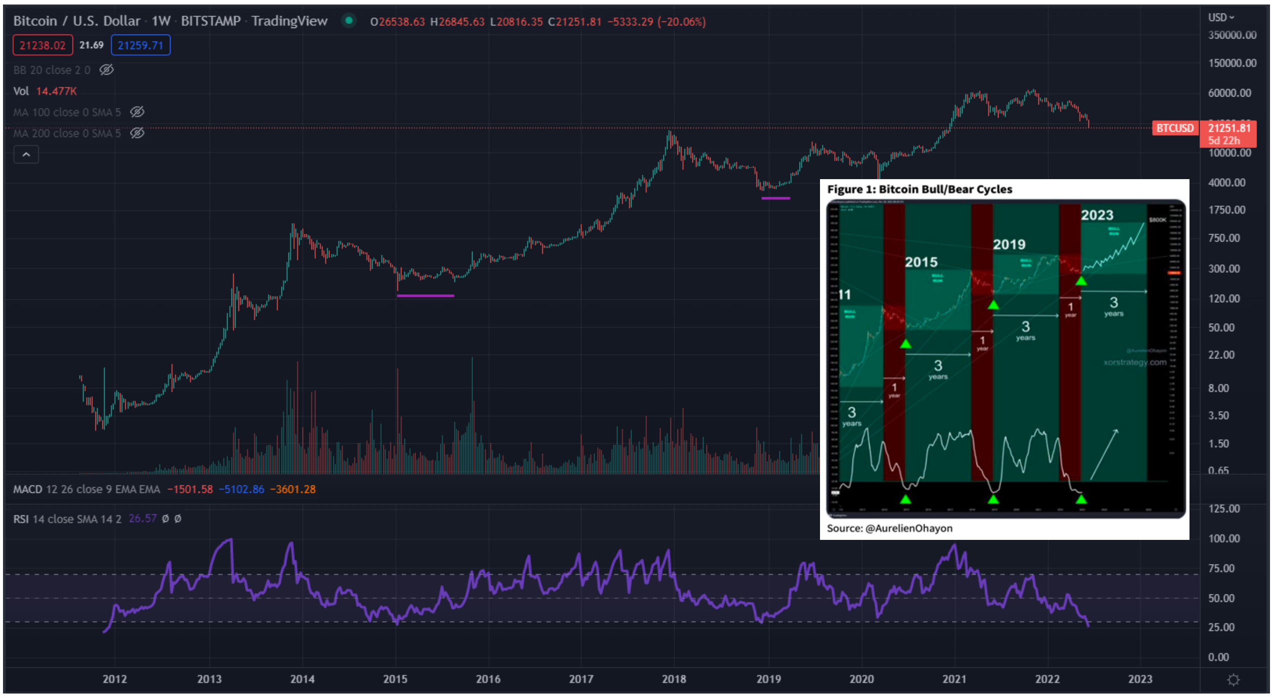
Digital asset code, likely to disrupt all aspects of commercial and financial intermediary functions in the coming decade, also remained perfectly intact and continued to develop in 2022 with a solid underpin of VC funding.

This in and of itself is very reassuring: If DeFi was going to 'break' then it would've done so at the point of maximum stress in November with fears of contagion around Binance and all other exchanges.

Given its resilience, we are cautiously confident that we will see green shoots in H1 2023. Technically, the market is very oversold, in fact the most oversold since March 2020 as per the charts below courtesy of Trading View:

BTC RSI – 2 Years

BTC RSI – 10 Years



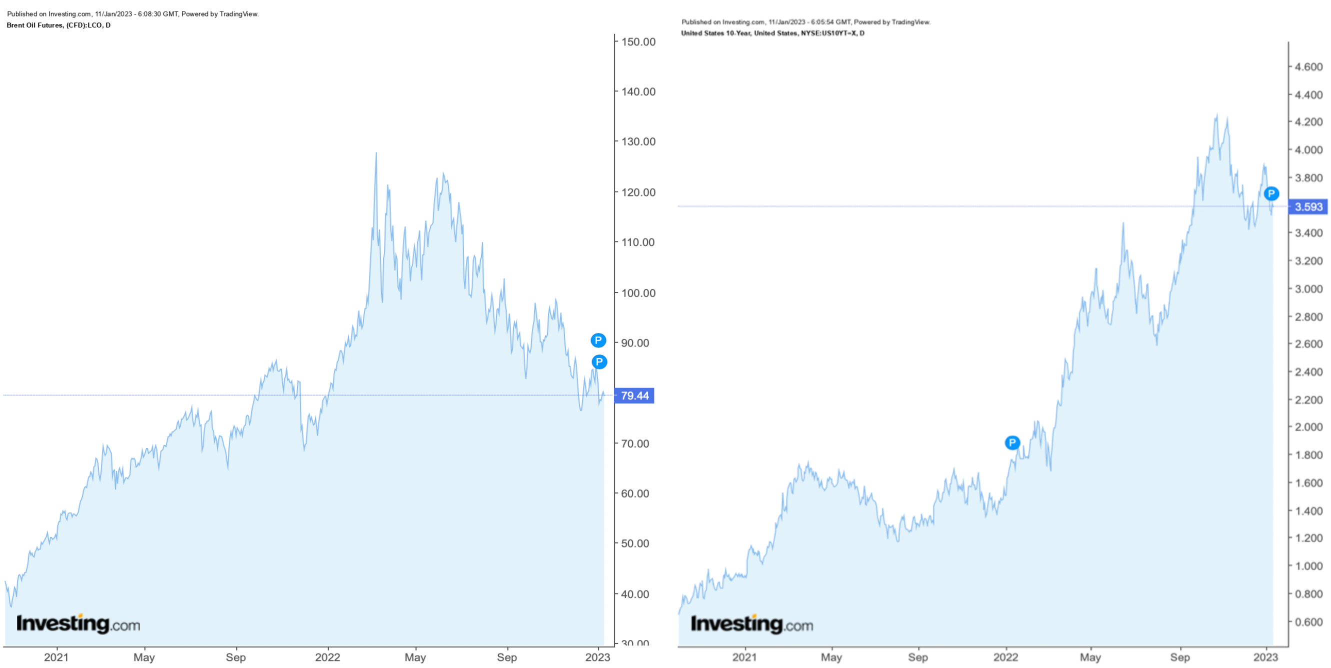
If we zoom out a decade, we can see that each time the RSI reached this level of oversold as much as 2012, 2015 and 2019 it is followed by a solid rally that takes BTC to new all-time highs. Supporting this fundamentally is the expectation of the next BTC halving in the next year, expected latest May 2024. The deflationary impact of having the supply of BTC reduced by 50% in the next 12-15 months provides a solid underpin for a liquidity driven rally.

Conclusion

We expect a moderation of inflation in 2023, evidenced by the weak growth in recent wage inflation numbers rising slower than expected. The jobs market is cooling, rapidly, and as such a recession is now in full swing. Consumer demand will be destroyed, and this will give the Fed reason to not only pause but reduce rates.

Indeed the 10-Year US Treasury is down -70bps, or -17%, from its peak in October 2022. We are aligned with the fixed income market in expecting short-term rates to begin to ease as soon as Q2 2023. We expect this will give long-duration risk assets such as crypto assets room for a decent recovery. This is further supported by the reduction in oil price by -38% from its peak in June 2022, as per the charts below:

Brent Oil vs UST 10 Year Treasury



We reiterate that we continue to believe that crypto assets provide the best long-term opportunity of all asset classes and will outperform significantly when global macro-economic conditions moderate and confidence in risk assets and this sector is restored, which we expect to begin in H1 2023. As we see in all of nature, no storm lasts forever, and the sun will eventually rise again.

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

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