

Crypto Hedge Fund Performance Update

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In July, crypto & digital asset hedge fund strategies performed modestly once again. The VisionTrack Crypto Hedge Fund Composite Index lost -1.39% bringing the year-to-date return to +22.66%. Bitcoin dropped -4.07% bringing its year-to-date performance to +76.47%. The Bloomberg Galaxy Crypto Index was down -0.63% bringing the year-to-date performance to +55.38%. ETH lost -3.99% recording a year-to-date return of +54.86%.

The VisionTrack Fundamental Index shaved -0.82% in July bringing its through-July performance to +39.97%. The VisionTrack Quant Directional Index was down -3.13% showcasing +13.76% year-to-date. And, the VisionTrack Market Neutral Index added +1.39% performing +8.69% YTD.

Speculation to price and increased interest from a US BTC Spot ETF approval has largely centered attention from crypto-natives and traditional institutional shops through the summer. In early August, rumors circulated as to the amount of total fund flows a BTC Spot ETF could attract once approved. This past week, Fundstrat's Tom Lee appeared on CNBC stating "If the spot bitcoin gets approved, I think the demand will be greater than the daily supply" predicting over \$150k per Bitcoin.

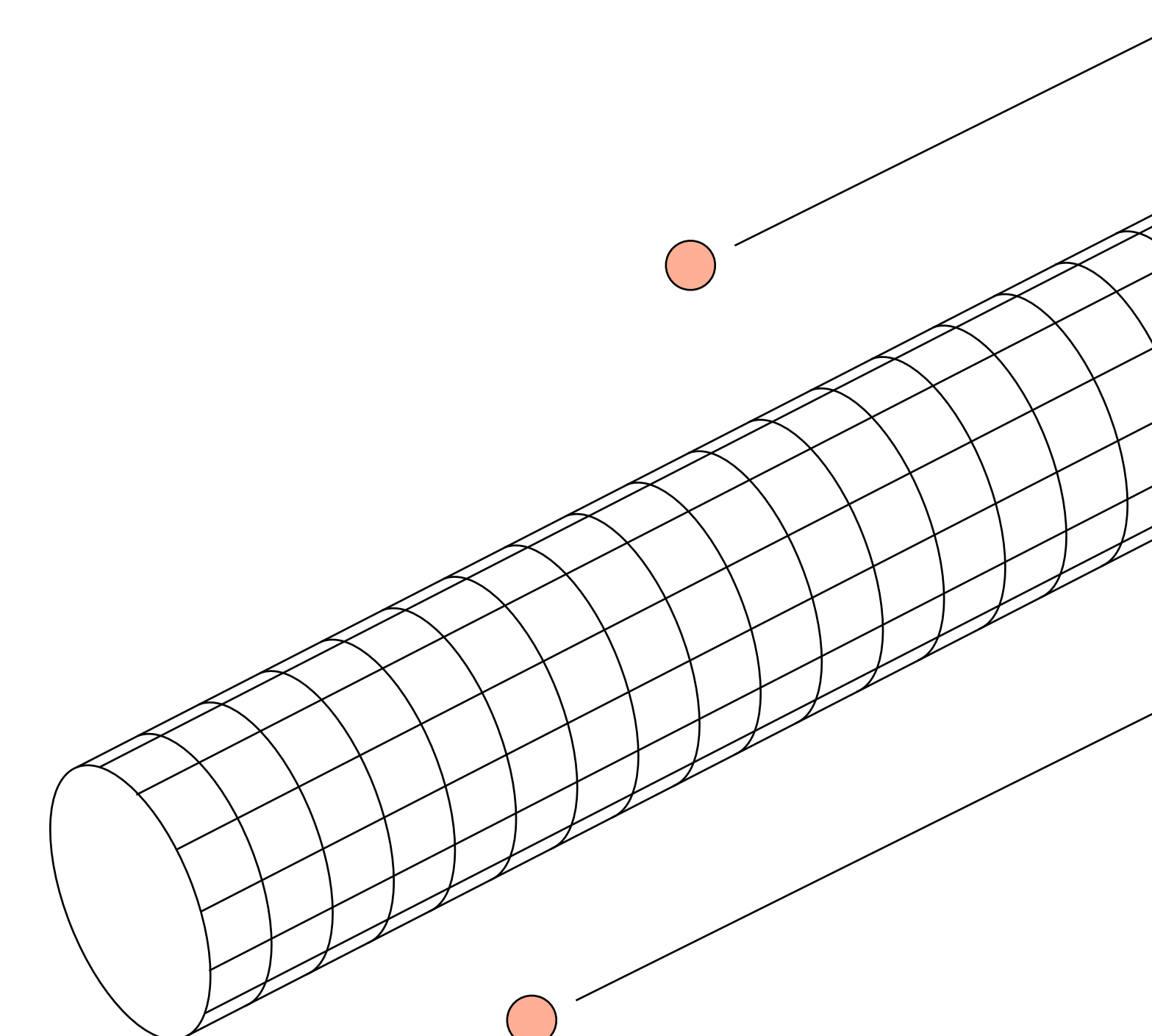
Despite the positive speculation, in the final weeks of July, Coinshares reported digital asset investment products saw outflows of -\$107m, the third largest drawdown of the year. On the year, however, single asset and multi-asset products tracked by Coinshares reported net +\$364.5m in total net inflows, with roughly +\$427m YTD for BTC. The presumption from July outflows is profit-taking from summer tailwinds.

CEX Data as collected by WuBlockchain through July supports this framing. In July, a decrease of -7.6% for futures trading volume on major centralized exchanges occurred, though spot trading volume remained flat. Further, Bitcoin's 30d realized volatility declined to near all-time lows to end last week. On Friday morning (7/18), daily vol touched 0.17, a level not seen in over five years. Shortly thereafter, nearly \$1b in liquidations across assets occurred in 24 hours. Bitcoin, which was trading around \$28k-\$29k, now trades just below \$26k at the time of writing.

It's increasingly apparent, fundraising narratives for all actively managed crypto fund products are dependent on Bitcoin's outperformance and US Spot ETF approval. Other crypto-sub-specific narratives are lackluster among retail and institutions. Though actively managed crypto hedge funds continue to come to market, many firms have not raised at intended capacities, and are primarily focused on CEX trading for top assets by market capitalization. In crypto venture capital, fundraising targets as tracked by VisionTrack are just shy of ~\$4b across 33 funds at the time of writing. This is down from ~\$33b across 179 funds from Jan 2022 - August 2022.

Narratives from crypto's fundraising cycle in 2021-2022 are not translating to the current environment. Why?

The US Federal Debt is \$32T with US Federal Tax Revenue at \$4.6T. Let's assume the US Federal Debt balloons to \$50T in the next 5-10 years. US Nominal GDP today is \$26.8T with Debt to GDP at 122.7%. At 5% interest rates on \$50T, this is \$2.5T in interest expense. These are vastly unhealthy conditions for monetary policy, however, my expectation shared with many in crypto is US Government spending will continue.



CRYPTO HEDGE FUND VisionTrack Composite Index	JULY 2023 -1.39%	LATEST VALUE 513.99	YTD 22.66%
CRYPTO HEDGE FUND VisionTrack Fundamental Index	JULY 2023 -0.82%	LATEST VALUE 581.17	YTD 39.97%
CRYPTO HEDGE FUND VisionTrack Quantitative Index	JULY 2023 -3.13%	LATEST VALUE 537.34	YTD 13.76%
CRYPTO HEDGE FUND VisionTrack Market Neutral Index	JULY 2023 1.39%	LATEST VALUE 279.31	YTD 8.69%
Bitcoin	JULY 2023 -4.07%	LATEST VALUE 287.22	YTD 76.47%

This has been and will continue to be a championed point of cryptocurrency adoption. The macro narrative for non-sovereign money hasn't changed.

The US Government could raise taxes to relieve the burden of spending and lower the total budget that is its interest. Additionally, the US Government could aim to increase GDP, increasing its share in tax revenue. Both methods could offset the burden of a historically high interest rate environment with historically high debt. However, with this amount of debt and continued spending policy, the Fed will eventually be forced to lower interest rates.

At the time of writing, the effective federal funds rate (EFFR) is 5.33%, the US2YR is yielding 4.97%, the US10YR is yielding 4.32%, the US30YR is yielding 4.45%. The US10YR reaching its highest level in over a decade.

With such continued spending policy and the already high levels of debt, the US Fed will eventually, forcibly lower interest rates. I suspect an interest rate decrease from 5-6% to 2% so to maintain a more stable fiscal environment. Under the presumption inflation is aligned with the Fed's mandate of 1-2%, it would be healthy to see this occur anytime from 2024-2025.

From August's announcement, CPI recorded 3.2% YoY, Exp. 3.3%. And Core CPI recorded 4.7% YoY, Exp. 4.7%. To assess and forecast transparent data regarding inflation, Truflation, an independent economic and financial data group leveraging on-chain information, recorded the US Inflation rate at 2.72%, down from 9.77% a year ago. Inflation as tracked by Trulation has recorded increasing

inflation since its low on August 12th, suggesting inflation might not yet be "defeated."

Should inflation come down and stay down, US Equities and Alternative Assets will balloon back up irrespective of growth or fundamentals. Excess spending of another \$10T or more over the next 5-10 years will have to rejuvenate asset price inflation similar to 2009 - 2019. With a federal debt burden this large and interest rates coming down in 1-2 years' time, it will be a mistake to not have exposure in alternatives. Crypto will capture market share, it's inevitable.

In the intermediate term, allocators and fund managers alike are still navigating the challenges of a quick hiking cycle with attention growing to concerns on real estate, energy, and the consumer. Firms better positioned in the last 12-16 months have traded AI and superconductor narratives among the top US tech firms, though focusing attention on economic data and the Fed's signaling.

Returning to the Bitcoin Spot ETF approval process, crypto's central narrative, low volume and volatility in the market should not be of concern on a longer time horizon. Should approval for a Bitcoin Spot ETF come at any time in 2024, allocators will then be better positioned for alternative assets.

If you are a digital asset fund manager and would like to contribute your performance results to VisionTrack to be eligible for inclusion in our VisionTrack Indices, please reach out to us at visiontrack@galaxy.com.

For more information on our updated methodology as well as downloadable monthly data, please visit our website at <https://visiontrack.galaxy.com>.

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