# Changing return profile

Crypto Research Note | July 2023

Ron Akke, Dan Golosovker, Amar Patel

## Introduction

In previous reports, we've shown that cryptocurrencies tend to perform like highly-leveraged U.S. equities. That relationship has changed somewhat since the collapse of FTX, although it largely remains. For most of our client portfolio, U.S. equities are already their largest position. Adding additional highly levered U.S. equity-like exposure should be considered quite carefully. In this note, we'll share some recent market observations followed by analysis on investor holdings. Our data shows that this asset class continues to fall out of favor with private wealth investors.

## Key takeaways

- Bitcoin returns continue to largely track S&P 500 returns.
- Bitcoin pricing is range-bound subsequent to the FTX collapse.
- Holdings of cryptocurrencies and blockchain-related technologies by high-net-worth investors continue to decline.

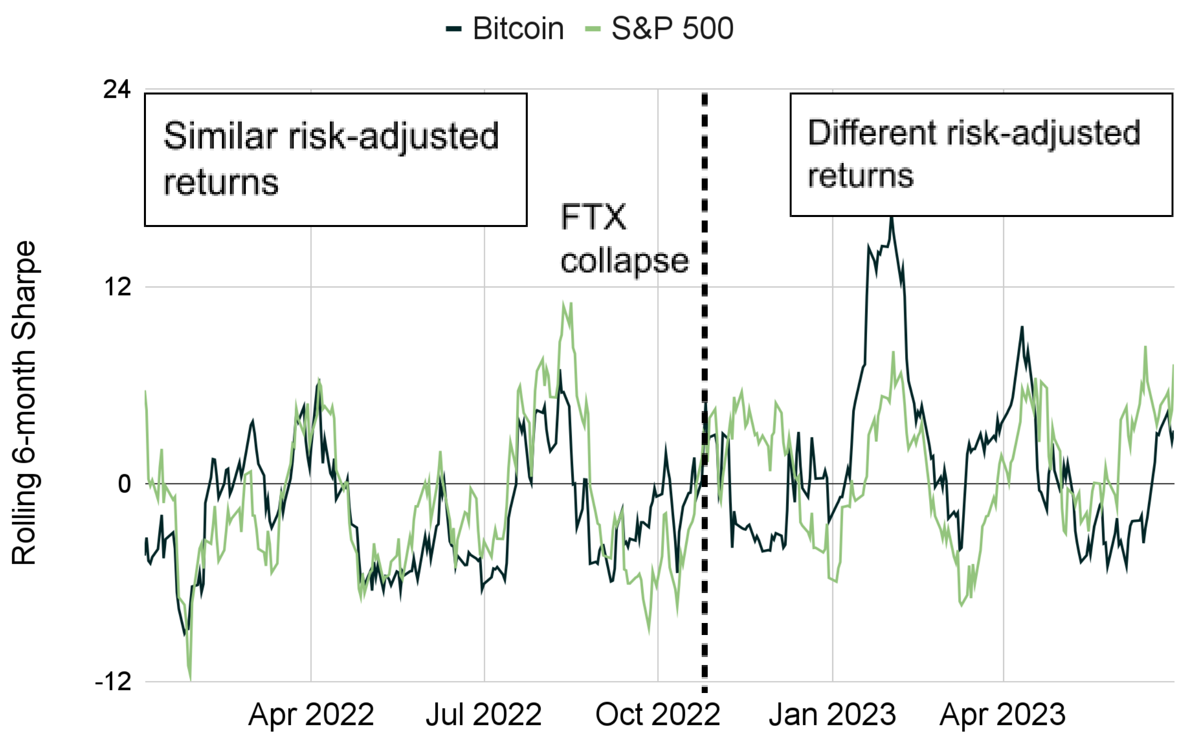
## Market update

As Exhibit 1 shows, before November 11, 2022, Bitcoin's risk-adjusted returns tightly followed U.S. equities, but after the collapse of FTX these two return streams somewhat decoupled over shorter time frames.

**Exhibit 1**

Risk-adjusted Bitcoin and S&P 500 returns have moved asynchronously in recent quarters

Rolling 6-month risk-adjusted excess returns, Jan. 1st, 2022 through June 30th, 2023




Source: ICE, Federal Reserve Bank of St. Louis

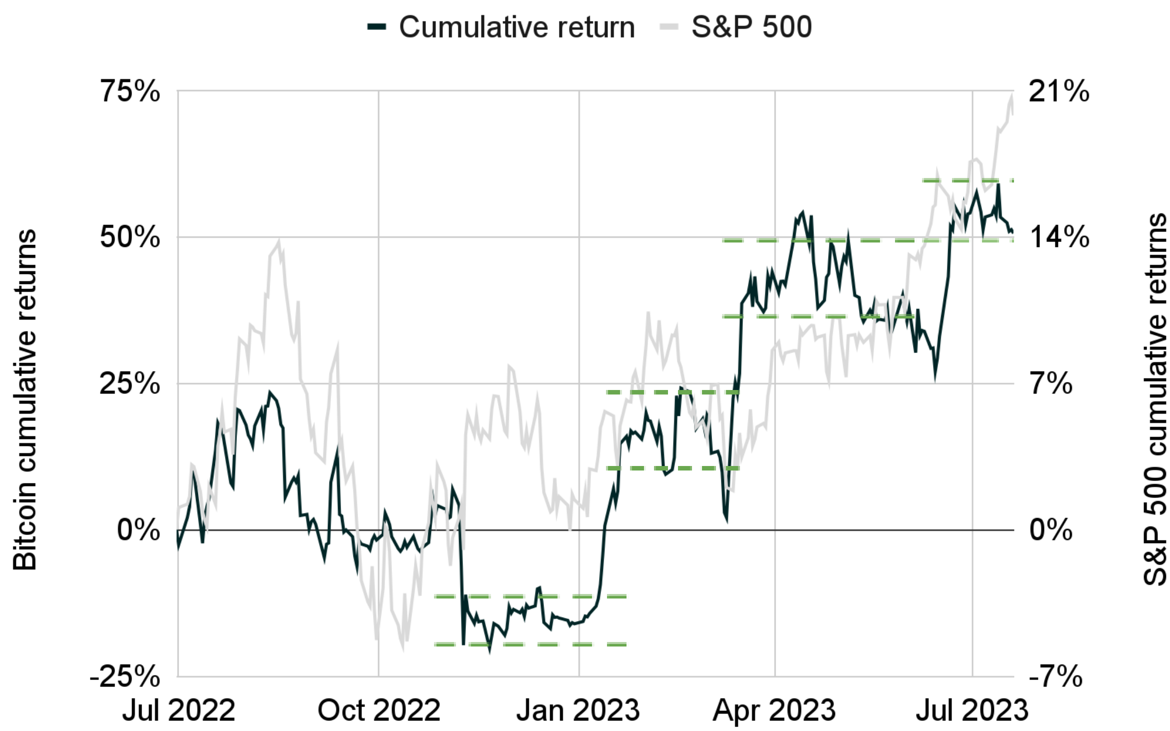
We calculate the 3-month Treasury bill total return to proxy as the risk-free rate to calculate excess returns. Rolling 6-month returns use daily data.

The difference in returns is due in part to new Bitcoin price behavior. The cryptocurrency has begun to trade within a narrow range for several weeks and then quickly jump to new levels. Zooming out, we see that crypto returns still generally follow the S&P 500, but with less day-to-day alignment.

**Exhibit 2**

Bitcoin has experienced periods of low volatility followed by jumps to align with the S&P 500

Bitcoin cumulative returns, July 1st, 2022 through July 20th, 2023




Source: ICE

## Portfolio update

Investors decreased their allocations to cryptocurrency and blockchain securities, particularly after the collapse of FTX in November, hitting a multi-year low in June 2023.

**Exhibit 3**

Investor allocations toward crypto fell to their lowest levels in June 2023

Cryptocurrency and blockchain holdings of the mean portfolio as % of assets, March 2020–June 2023

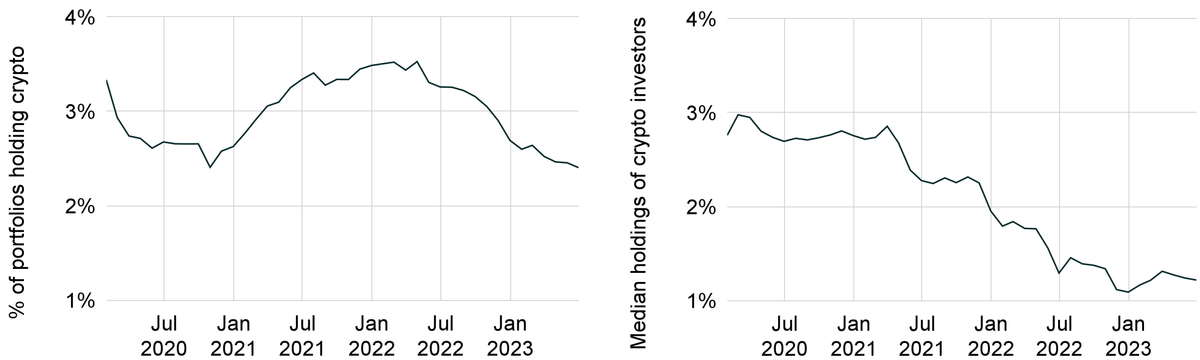

Source: Addepar

This decline in holdings on the platform is driven both by fewer portfolios investing in crypto as well as median crypto holdings among crypto investors declining over time.

**Exhibit 4**

Fewer investors are invested in crypto and those who are have reduced their holdings

Percentage of portfolios with crypto holdings, median crypto holdings as % of portfolio size among crypto investors, March 2020–June 2023




Source: Addepar

# Conclusion

We've shown that while risk-adjusted returns have decoupled following the collapse of FTX, Bitcoin and the S&P 500 generally continue to move together. But while U.S. equities are the largest exposure in portfolios, investors continue to divest their cryptocurrency holdings.

You're invited to read our companion notes on Q2 2023 portfolio positioning and performance. Please email **research@addepar.com** if you have any thoughts or suggestions on how this publication can be improved.

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