

ALT 5 – DIGITAL ASSETS WEEKLY

*Risks in ether; macro outlook evolution;
more on crypto in 401k plans*

NEW YORK, NEW YORK, US, June 3, 2022 /EINPresswire.com/ -- ALT 5 Sigma Inc. a global fintech that provides next generation blockchain powered technologies for tokenization, trading, clearing, settlement, payment, and insured custodianship of digital instruments releases its Digital Assets Weekly.

- Ether underperforms bitcoin
- Macro focus shifts from inflation to growth
- Push back against US Labor Department guidance on crypto in 401k plans

The relative stasis in major crypto asset prices in the past three weeks has seen bitcoin and ether continue to consolidate at lower levels following their measurable declines in April and the first half of May. In some respects, the sideways price action could be viewed as constructive in the sense that both tokens have (thus far) managed to arrest their respective selloffs.

However, this does not appear to be an environment for complacency. First, as we highlight below, developments in the macro outlook suggest that the challenging backdrop for financial

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DIGITAL ASSETS WEEKLY



ETH/BTC decline threatens potentially key support

assets, including crypto, is likely to persist for some time longer.

ETH/BTC takes a hit

Second, and more specific to crypto, the ether/bitcoin cross (ETH/BTC) has fallen notably in recent weeks—i.e., ETH has underperformed BTC—and is approaching what could be an important support at the 0.057-0.060 area established by the series of lows over the past year.

Fallout from TerraUSD/LUNA

Part of the reason for ether's underperformance may stem from the continued fallout from the TerraUSD/LUNA collapse. The Terra breakdown was partly (or largely) a function of withdrawals from decentralized finance (defi) protocols, as higher yields generated in those platforms became unsustainable in an environment of declining token prices. Given that many of the smart contracts in defi are built on the Ethereum blockchain, the recent souring in defi generally may be resulting in some extra downward pressure on ether.

Uncertainty about the merge

In addition, ether is approaching what some have called the "merge" when it will switch from proof-of-work to proof-of-stake. The changeover has been delayed for some time as developers continue to test and work out any knowable issues in an effort to achieve a seamless transition. The delays and uncertainty around the changeover, which by the latest estimates may occur in Q3, could also be hampering ether's price.

Ether is approaching potentially critical support levels

The net result has left ether approaching some potentially important technical/chart levels. In addition to the 0.057-0.060 support area in ETH/BTC noted above, ether in US dollar terms is threatening support at the \$1,700 area, established by the series of lows in May-July of 2021 as well as the more recent spike low on May 12. A sustained break below that open scope to the April 2021 low of \$1,550 and potentially further.

Macro matters

The narrative in the macro backdrop has evolved from focusing almost exclusively on inflation to more recently concerns about future economic growth, and specifically recession risks. That stems in part from the more aggressive and concurrent policy tightening by a number of central banks around the world, risks from the war in Ukraine, the covid-related lockdowns in China, and the tax on growth imposed by inflation itself.

US jobs data was good, again...

Recent economic data has done little to allay those concerns, even though some of the readings are hardly dire. In the US, the May jobs report showed another healthy increase in employment (390K), a steady and low unemployment rate of 3.6%, and a modest deceleration in wages to 5.2% y/y from 5.5% in April.

...but that will keep the Fed more hawkish

On balance, the US jobs data describe what remains a strong—and tight—labor market. While that is certainly positive for growth, the inflationary risks stemming from the labor market are one of the key motivators behind the Federal Reserve's intention to continue to raise policy interest rates and slow demand.

It's not just the Fed, a host of other central banks are tightening too

As noted, other central banks have also been tightening monetary policy, or have signaled they will soon start. This past week, the Bank of Canada raised rates 50bp to 1.5% and indicated that further tightening is likely in the coming months.

In the coming week, the European Central Bank meets and, in a hawkish shift from their last meeting in April, is expected to announce the end of their asset purchase program (quantitative easing) this month and also signal that policy rates are likely to be increased in July. At the same time, central banks in Australia, Chile, India, Thailand and Peru are also expected to raise policy interest rates next week.

Downside risks to growth have become more of a focus

All of that policy tightening is taking place against a backdrop of unevenness and great uncertainty in global economic growth. The upshot is that economists and market participants are increasingly skeptical about central bank's ability to achieve a "soft landing," in other words to tighten policy aggressively enough to slow inflation without causing a recession.

Those concerns create a more challenging backdrop for crypto assets

The outcome will only be seen in the months and quarters ahead. While we think that a lot of the anticipated central bank tightening has already been priced into markets, the concerns about future growth are more recent, and markets have started to discount that too. That process is keeping downward pressure on equity prices and risk assets broadly, and creating a more challenging backdrop for crypto token prices, while it persists.

US Department of Labor guidance on crypto is contested

ForUsAll, a 401k provider, is suing the US Department of Labor (DOL) regarding its guidance on crypto assets in 401k plans. The DOL is responsible for oversight of 401k plans. In March it

published guidance citing crypto's high volatility and lack of broadly accepted valuation methods as reasons for its concerns, and added that companies that offer crypto currencies in their employee retirement plans can expect to be investigated.

ForUsAll is pushing back, saying the agency does not have the authority to "arbitrarily restrict entire asset classes," adding that the focus on crypto currency today could lead it to ban other investments in the future.

Fidelity has taken a different tact

In April, Fidelity Investments, the largest 401k administrator in the US, announced plans to allow crypto investments in the 401k plans it administers later this year. Thus far it has taken a different view than ForUsAll, saying it is the employer/sponsor that needs to consider the DOL's guidance and will ultimately decide whether a crypto offering will be included in their employee investment options. And there may well be other challenges to the DOL guidance going forward.

Crypto inclusion in 401k plans would be an important, medium-term support for token prices

To give a sense of the scale of potential investment, ForUsAll administers 401k plans totaling \$1.5 bln in assets while Fidelity administers plans totaling over \$2.5 trln. If these programs prove successful, other 401k plan administrators can be expected to follow suit and indeed, demand for crypto investment products from their clients—the employer/sponsor—is likely to increase as well. This would be potentially significant supportive development for crypto token prices over the medium to long term.

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ABOUT ALT 5 Sigma

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