

ALT 5 – DIGITAL ASSETS MORNING CALL

Dissecting the cascading effects of higher inflation

NEW YORK, NEW YORK, US, June 14, 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 Morning Call.

- The latest turn in the macro outlook continues to pressure crypto token prices

- A higher inflation, weaker growth outlook is being priced in

- Investor leverage and crypto's higher volatility have compounded its losses

Major crypto tokens remain under pressure as early-Tuesday trading has seen an extension of the already-sizeable price declines evident since late last week.

Inflation outlook as the catalyst

Markets continue to focus on last week's surprisingly high US inflation data as the catalyst for the move but it is useful to dissect the cascading effects that the CPI print have had on financial markets, including crypto assets.

The market narrative has shifted

Prior to last week's CPI data, consider that the market narrative had shifted in at least two important ways. First, there was the notion that inflation had "peaked" or was at least close to peaking. The idea that upcoming inflation prints would begin to show some deceleration from

The graphic features the text "ALT5" in a large, bold, sans-serif font. The "ALT" is in black, and the "5" is in a bright blue color. Below this, the words "DIGITAL ASSETS" and "MORNING CALL" are stacked in a smaller, bold, black, sans-serif font.

(what had been) the 8.5% peak reported in March would negate the need for even more aggressive Fed tightening going forward. It might even allow a “pause” in the Fed tightening cycle in the autumn to give the economy (and financial assets) a breather as inflation slowed.

More Fed tightening is now expected

Instead, the 8.6% May CPI print represented a new cycle high and also included details which suggested the potential for even higher inflation in the months ahead, causing the market to price in more Fed tightening than it had previously. As a result, markets now expect a 75bp rate hike this week instead of 50bp, and those expectations were bolstered in the past 24 hours by a Wall Street Journal article saying the larger rate hike is “on the table” for discussion at the FOMC meeting which concludes Wednesday.

The combination of increased Fed tightening expectations and the accompanying rise in market interest rates (Treasury yields made new cycle highs yesterday as well) raises the cost funding for investors in a manner that almost mechanically reduces market valuations. That dynamic pressured financial assets broadly, including crypto assets, and remains a factor in the market.

Downside risks to economic growth have increased

The second development in the market narrative of recent weeks was the increased concerns about future economic growth. In the US, the combination of Fed tightening and the economic drag imposed by high inflation were already dampening growth forecasts.

The US growth outlook was further downgraded by global developments, including China’s covid-related economic restrictions, the spillover effects of the war in Ukraine on Europe and elsewhere, and the pinch stemming from higher energy and commodity prices. Slower global growth/demand would have negative ripple effects on the US economy.

The US CPI data compounded those concerns, due to the shift towards even more restrictive Fed policy as well as inflation’s erosion of purchasing power and the associated hit that poses on consumption (which is around two-thirds of GDP). The combination imposes downside risks to future economic growth and increase the risk of a recession.

Slower economic growth implies lower investment returns

In simple terms, investment returns are partly a function of the underlying pace of economic growth. As such, a slower pace of GDP implies lower investment returns than would otherwise be the case, other things being equal. And that would imply headwinds for crypto assets as well.

Higher volatility assets get sold first

Financial market dynamics are also playing a role in the current selloff. First, crypto is a high volatility market. In a period of declining market prices, professional investors will tend to reduce their holdings (sell) their higher vol positions first, a process that can help to reduce the overall scale of their losses, but which also can also leave crypto prices especially vulnerable.

Leverage is harder to measure, but it's also a contributor to the selloff

Second, and less easily measured in real time, is the impact of leverage. Many professional investors use leverage to build their positions, a tactic that enables them to outperform markets when prices are rising, but exposes them to greater losses in down markets. In the current environment, the closing out of leveraged positions also looks to be a contributing factor to the outsized losses seen in most markets, including crypto.

Moreover, leverage may also be a contributing factor to the suspension of withdrawals on the Celsius platform. It remains to be seen how that specific situation will be resolved, but with the Terra/LUNA collapse still fresh in the minds of investors, it is adding to negative sentiment in crypto broadly.

Macro remains the driving force for crypto and financial markets broadly

There is no tidy conclusion to these thoughts. Instead, we will continue to highlight the importance of the macro backdrop for the crypto asset space.

These latest macro developments have taken their toll on crypto prices and financial assets broadly. Importantly, the macro changes do not diminish the use cases for crypto and blockchain technology. Nonetheless, that notion probably will not get much airtime in the current environment, where the more urgent focus is on risk management and market positioning in a period of shifting macro dynamics.

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ABOUT ALT 5 Sigma

ALT 5 Sigma is a global fintech that provides next generation blockchain powered technologies for the trading, clearing, settlement, payment, and insured custodianship of digital instruments. ALT 5 was founded by financial industry specialists out of the necessity to provide the digital asset economy with security, accessibility, transparency, and compliance. ALT 5 provides its clients the ability to buy, sell and hold digital assets in a safe and secure environment deployed with the best practices of the financial industry. ALT 5 Sigma's products and services are available

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