

## ALT 5 – DIGITAL ASSETS MORNING CALL

*Fed hike, weak GDP and the implications for crypto assets*

NEW YORK, NEW YORK, US, July 28, 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.

- Fed rate hike accompanied by more concerns on economic growth

- Weak Q2 GDP suggests growth concerns are warranted

- Financial and digital assets reflect weaker macro conditions, but those same conditions will challenge more substantial gains



An important few days in terms of macro developments has brought another Fed rate hike and a weak reading on US economic growth. The initial reaction in bitcoin and ether was very positive after Wednesday's Fed decision, but less so after today's GDP data. Both reactions are in line with the gain, and subsequent decline the Nasdaq Composite (i.e., risk assets). We break down these events in more detail in an attempt to assess the broader implications for crypto token prices.

Fed hikes rates as expected, but hints at a slower pace of future tightening

First, the Federal Reserve raised policy rates 75 basis points Wednesday, as generally expected, putting the new Fed funds target range at 2.25%-2.50%. A key question now is how much more tightening will come, after the Fed has already raised rates 225 basis points in the past four months. Fed Chairman Powell suggested that the Fed funds rate could rise to the 3.0% to 3.5% by year-end, in line with Fed's last formal estimate made in June.

If that turns out to be the case, it suggests a significant slowing in the pace of Fed tightening for the remainder of this year. If so—and Powell was careful not to over commit to future policy moves—less tightening suggests less of a drag on economic growth, an outcome that should be positive for financial markets, including digital assets, other things being equal.

Fed may want to slow tightening, but it will depend on the future inflation readings

The question is whether the degree of Fed tightening will be sufficient to bring inflation back down, and that remains to be seen. Powell's comments Wednesday demonstrated continued resolve to achieve that, but he also signaled more concern about the effects of tighter policy on economic growth than he has in the recent past.

Crypto implications of these latest Fed developments

If the Fed sides more with supporting growth rather than fighting inflation, it would imply less tightening and stronger growth—which in theory is positive for crypto and financial assets—but could also keep inflation higher for longer.

As a side note, if the latter situation (higher inflation for longer) comes to pass, it could revive the discussion of bitcoin as an inflation hedge. However, bitcoin's poor track record on that front this year may well limit the traction those arguments receive, and that potential channel of support.

Importantly, the situation in the US and global economy remains fluid and markets could well see different messaging from the Fed and other policy makers in the months ahead. But the takeaway from Wednesday's Fed decision will be an important guide to markets in the near-term.

US GDP fell again in Q2, suggesting to some that the recession is already upon us

The other critical event was the US GDP data, which showed the economy fell 0.9% annualized in Q2, weaker than expected and following the -1.6% contraction in Q1. That fits some measures of a technical recession (two consecutive quarters of negative GDP), which will get a lot of attention in markets and the financial press. But perhaps more importantly, it highlights the marked slowing in US economic growth, recession or otherwise.

Financial and crypto assets already reflect bad news on the economy

The slowdown in growth is not a revelation and instead was being signaled by a number of indicators. And as we have discussed, financial markets have been adjusting to that reality, evident in the much lower valuations in US equities as well as lower bond yields. The US 10yr Treasury note yield has fallen to 2.68%, its lowest since April and down sharply from the 3.50% peak in June, with lower bond yields a traditional signal of slower growth expectations.

Bitcoin and ether correlation with risk assets remains relevant in the current market

Those developments have several important implications for crypto token prices. First, bitcoin and ether continue to show high correlation to movements in risk assets, like the Nasdaq Composite Index. So to the extent that those markets have factored in some good amount of the current economic and macro stresses, so too have bitcoin and ether. Moreover, it makes sense that both tokens have gained recently—and especially since late Wednesday—as the Nasdaq rebounded sharply after the Fed announcement.

Weak macro may not drive crypto much lower, but also inhibits more substantial upside

Second, and in the slightly bigger picture, the weaker economic backdrop is not something that will quickly be cured but instead is likely to remain a feature for the coming months, or longer. So while much of the bad news about the economy may be better reflected in the sizeable decline in tokens such as bitcoin and ether this year (making the June lows potential cycle lows for both tokens), the overall macro backdrop is likely to create headwinds to more substantial and sustained gains.

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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 to Banks, Broker Dealers, Funds, Family Offices, Professional Traders, Retail Traders, Digital Asset Exchanges, Digital Asset Brokers, Blockchain Developers, and Financial Information Providers. ALT 5's digital asset custodian services are secured by Fireblocks.

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