



# BXE CAPITAL

## the Jagger Fund

### **Q1 2022 Recap**

- Through March 31, 2022 -

[www.bxecapital.com](http://www.bxecapital.com)  
[ir@bxecapital.com](mailto:ir@bxecapital.com)

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# Q1 2022 RECAP AGENDA - THROUGH MARCH 31, 2022



- Q1 2022 Market & Trends
- Current Macro View
- Future Outlook

# Q1 2022 MARKET & TRENDS

# Q1 2022 IN REVIEW - NOTABLE EVENTS



## Q1 2022

- Biden issued US executive order on crypto
- Two countries have made Bitcoin legal tender (El Salvador & Central African Republic)
- Stripe launches payment services for crypto businesses
- Colorado first state to accept cryptocurrency tax payments
- Blackrock (largest money manager in the world) files for Blockchain Tech ETF
- Mastercard expands consulting services to cover cryptocurrency, NFTs, open banking
- KPMG Canada adds Bitcoin, Ethereum, to corporate balance sheet
- Luna Foundation Guard raised \$1B for a bitcoin reserve
- Dubai granted Binance a virtual asset license
- Microstrategy bought more BTC with \$205M loan
- EU approved rules targeting transfers to unhosted wallets
- Putin declared war on Ukraine
- Russia's Sberbank receives license to issue digital assets
- Ukraine's Zelenskyy signs virtual assets bill into law, legalizing crypto
- Sberbank Launches first ETF in Russia
- Jamaica completes CBDC pilot, expects rollout next year
- US Banks form Group to Offer USDF Stablecoin
- Tonga to make Bitcoin Legal Tender
- OCC Comptroller calls for Federal Collaboration with Crypto Intermediaries
- Google cards to Store Bitcoin and Crypto
- Bitcoin Network Volume Surpasses American Express
- Korea's Bank to Launch Country's First Crypto Investment Fund

# BIDEN EXECUTIVE ORDER ON CRYPTO



## Basics

- Issued March 9, 2022
- Represents a much needed step toward putting in place coordinated and comprehensive policies that will support the growth of the US-based blockchain and digital asset markets

## Key Objectives

- Responsible financial innovation
- The growth of the crypto economy and the need for US technological leadership and competitiveness
- Urgency on research and development of a Central Bank Digital Currency (CBDC)
- Illicit finance and national security risks
- Interagency and international coordination
- The requirement to build a regulatory framework to address regulatory gaps for potential systematic and consumer protection risks including of privacy, custody and disclosures

**90 Days**

**120 Days**

**180 Days**

**210 Days**

- Individual agency reports on agency financing
- AC Report on strengthening international law enforcement cooperation
- Interagency coordination plan on illicit finance
- Framework for international interagency engagement
- CBDC Report
- AC Report on Legislative changes to implement CBDC
- OSTP/CTO Report on technological infrastructure, capacity and expertise needed to facilitate and support CBDC
- Consumer/Investor/Business protection report with policy changes
- AC Report on law enforcement role and policy proposal
- Report on Climate and energy
- Framework on enhancing US economic competitiveness
- AC Report on legislative proposal to implement CBDC
- FSOC Report on Digital asset proposal on risks and policy proposals

# KEY HEADLINES



 coindesk

## Fidelity, Vanguard, Schwab Funds Have Been Loading Up on Crypto Mining Stocks

**EXCLUSIVE** Goldman Sachs restarts cryptocurrency desk amid bitcoin boom

By Anna Irrera, Iain Withers and Lawrence White

## UBS Explores Offering Crypto Investments to Rich Clients

- Swiss bank seeing strong demand from wealthiest investors
- Follows U.S. and Swiss rivals replying to client demand

## Bridgewater CFO Dalby Leaving for Bitcoin Services Firm

- Dalby is latest industry leader to move into cryptocurrency
- NYDIG offers services such as Bitcoin custody and execution

DIGITAL CURRENCIES

## U.S. Bank to offer custody service for digital assets

BITCOIN

## BlackRock fund bought bitcoin futures in January, regulatory filings show



by Michael McSweeney

CRYPTO & BLOCKCHAIN

## Bitcoin About-Face: JPMorgan Opens Crypto Trading To All Clients

FINANCE

## Morgan Stanley becomes the first big U.S. bank to offer its wealthy clients access to bitcoin funds

# CRYPTO & BLOCKCHAIN VC INVESTMENT YTD 2022



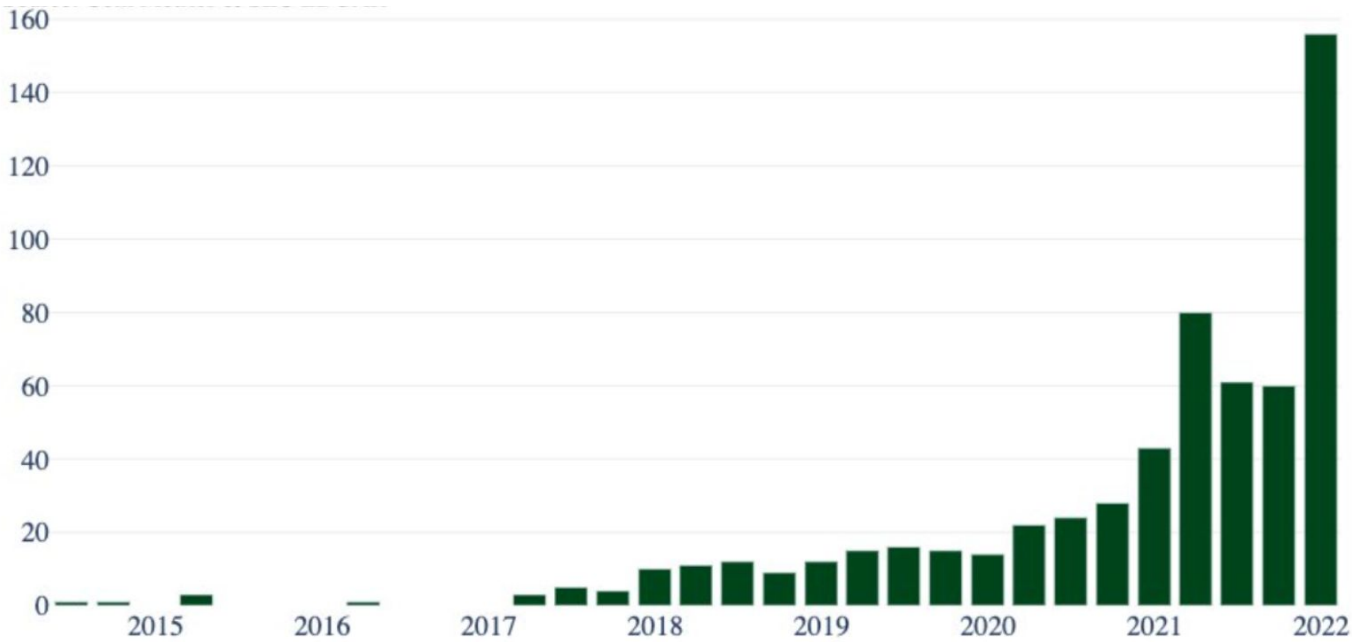
Company	Date	Amount (USD)	Description
FTX Ventures	1/14/2022	2,000,000,000	General Crypto
Pantera	1/18/2022	1,000,000,000	Equity and tokens
Electric Capital	3/1/2022	1,000,000,000	\$400M for equity investments, \$600M for tokens
Bain Capital Crypto	3/8/2022	560,000,000	Crypto infrastructure and DeFi
Sequoia Capital	2/17/2022	500,000,000	Tokens
Crypto.com	1/18/2022	500,000,000	Crypto startups
776 Ventures	2/1/2022	500,000,000	Early stage venture
Avalanche Foundation	3/9/2022	290,000,000	Gaming, DeFi, and institutional use cases
Castle Island Ventures	2/16/2022	250,000,000	General Crypto
Bessemer Venture Partners	3/10/2022	250,000,000	General Crypto
Spartan Group	3/9/2022	200,000,000	Metaverse Fund focusing on digital ownership
Hack VC	2/25/2022	200,000,000	General Crypto
South Korean Government	3/3/2022	187,000,000	Metaverse Fund
A&T	2/24/2022	100,000,000	General Crypto
Total		<b>\$7,537,000,000</b>	



Source: Coindesk, PR Newswire

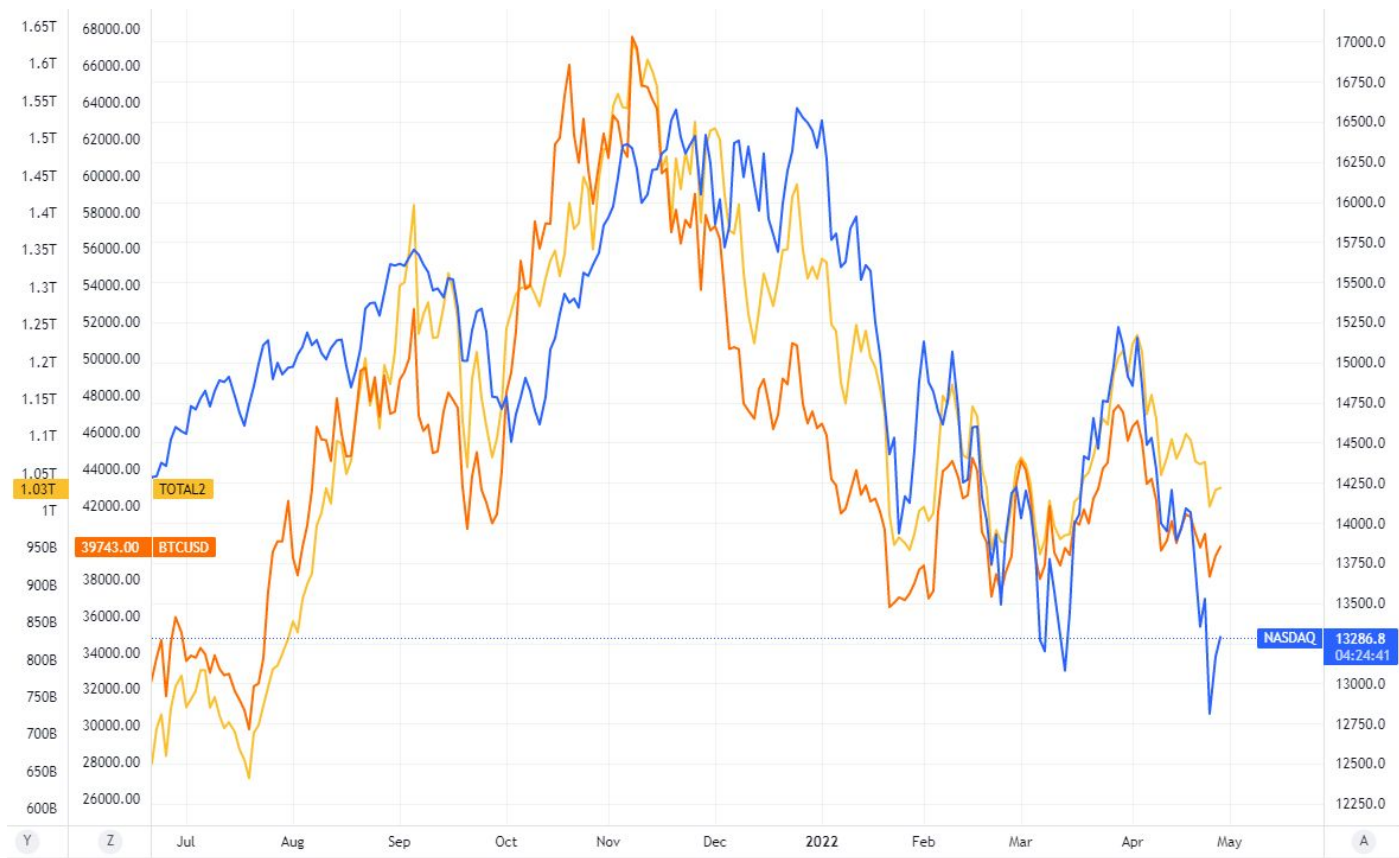


# Number of 13F SEC Files Mentioning Bitcoin Hit ATH

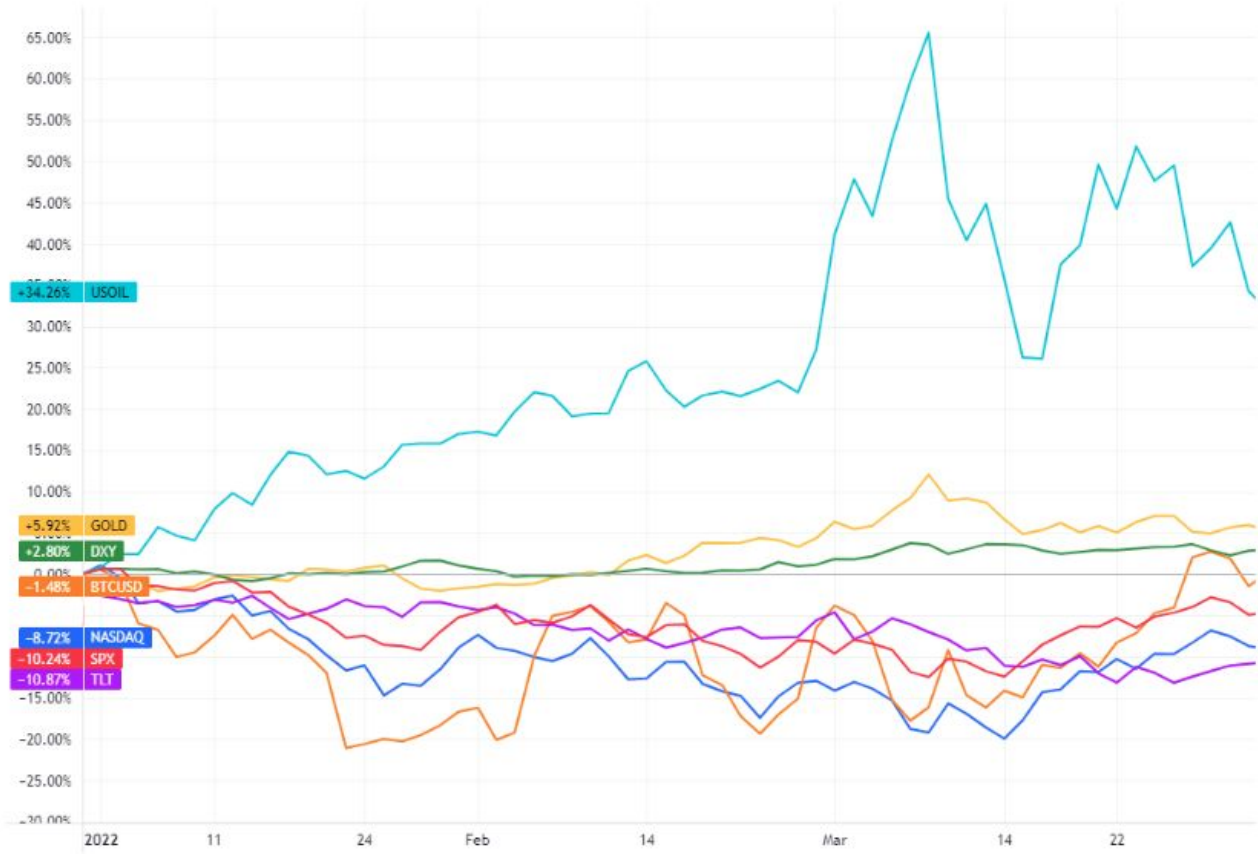


Source: Coin Metrics & SEC EDGAR

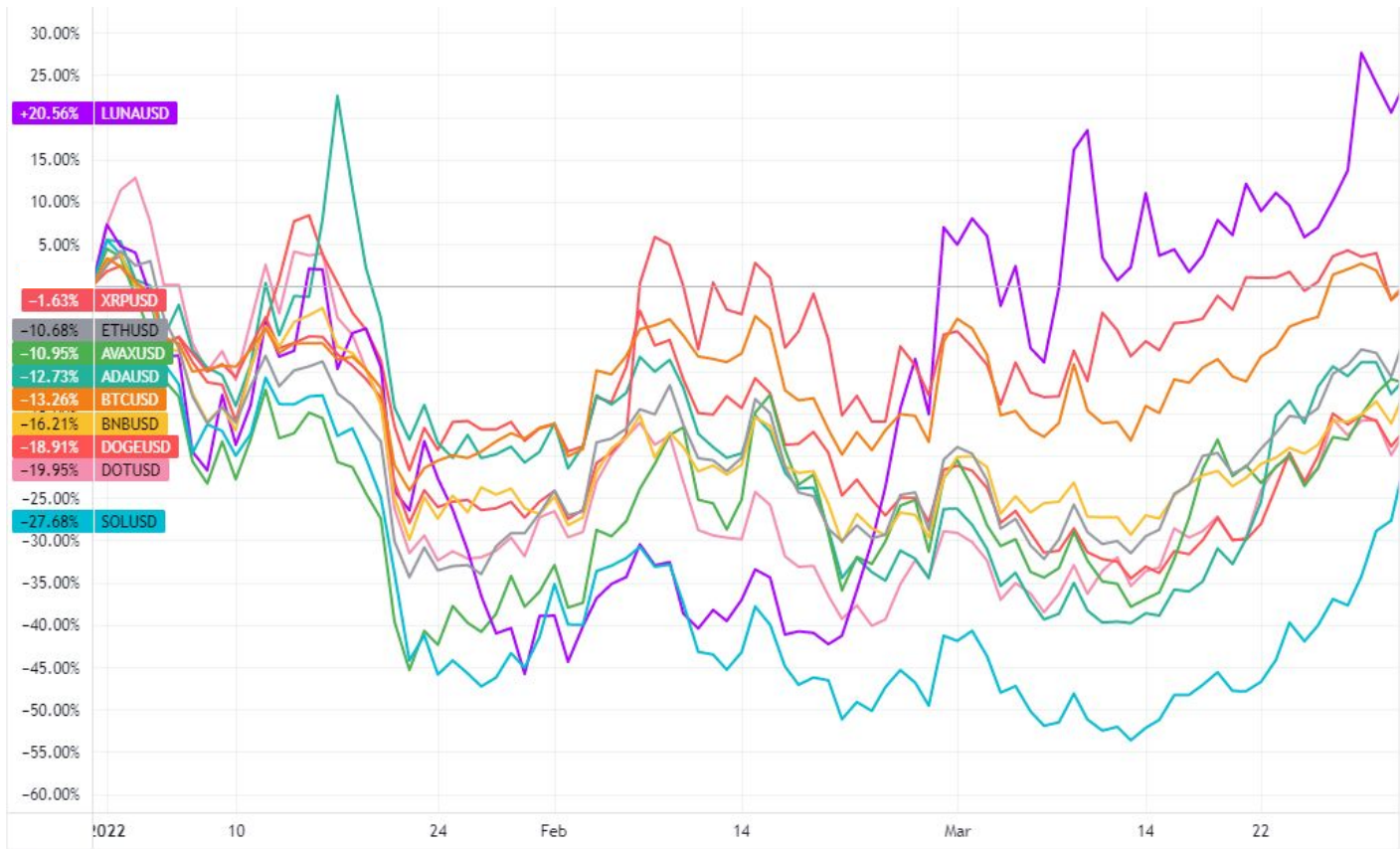
# BITCOIN VS. ALT COINS VS. NASDAQ (HIGH CORRELATIONS IN Q1)



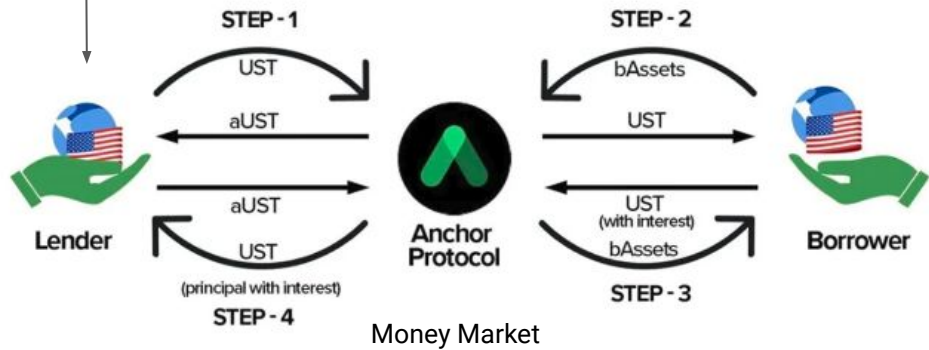
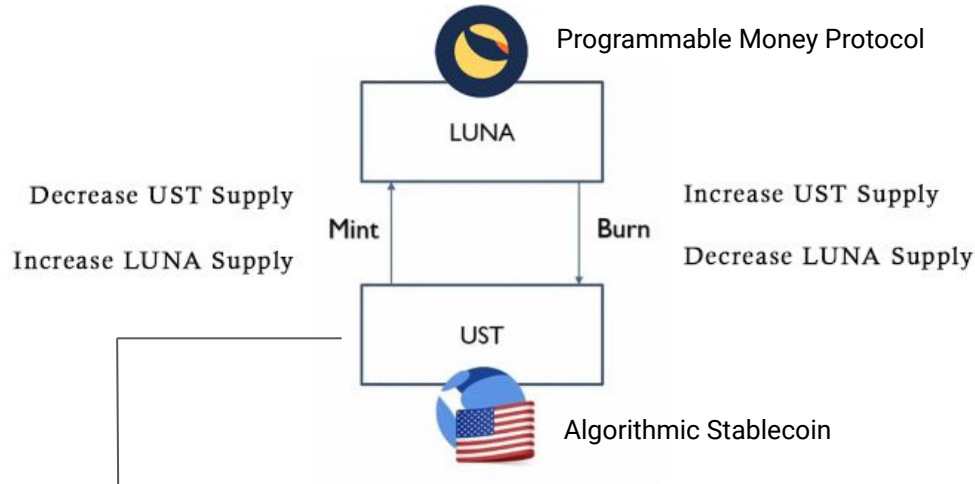
# BITCOIN VS. MAJOR ASSET CLASSES (Q1 ROTATION INTO COMMODITIES)



# TOP 10 CRYPTOCURRENCES RETURNS (LUNA WAS THE OUTPERFORMER)



# UST/LUNA TOKEN-ECONOMICS



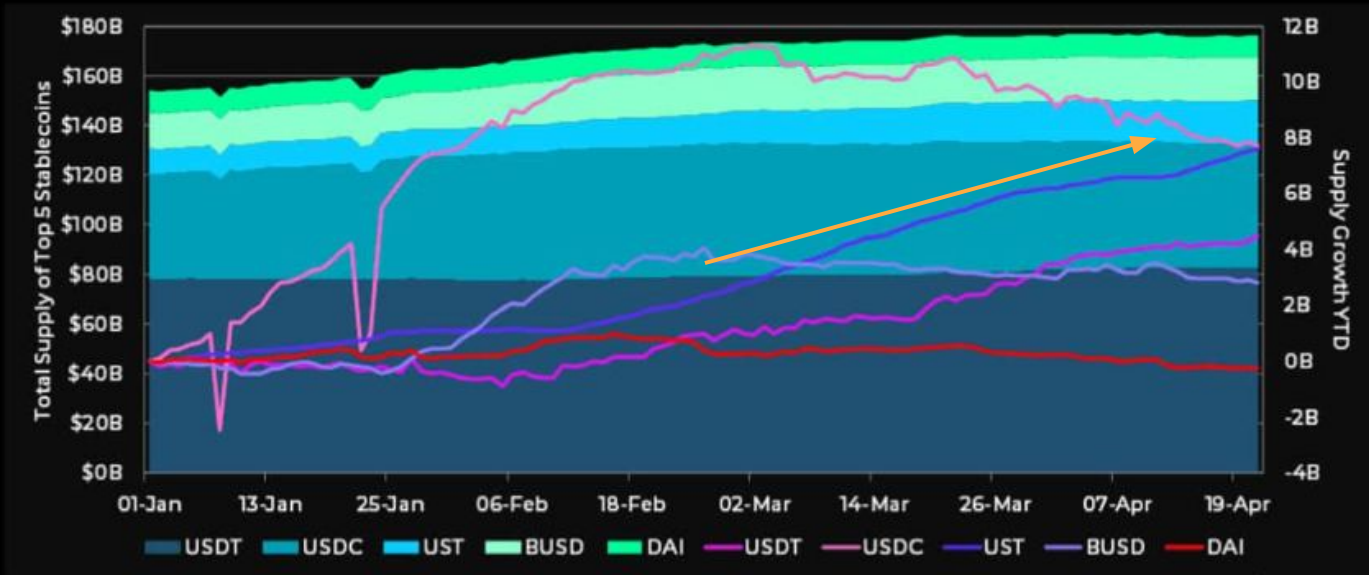
UST - Terra USD  
aUST - Anchor Terra  
bAssets - Bonded Assets

# UST GROWTH (FIRST SUCCESSFUL ALGORITHMIC STABLE TOKEN)



## UST Supply Surpasses BUSD, USDC Growth Retraces

Total Supply of Top 5 Stablecoins vs YTD Supply Growth



Data as of April 21<sup>st</sup>, 2022  
Source: Defi Llama, CoinGecko

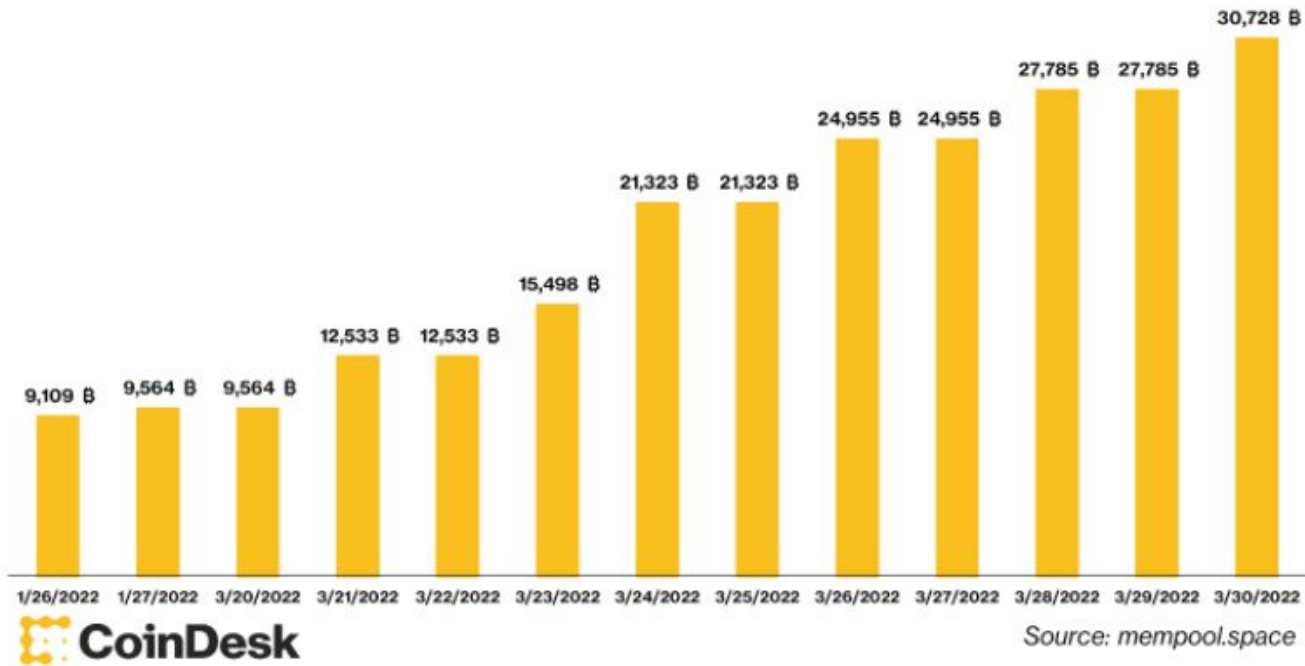


DELPHI DIGITAL

# LUNA FOUNDATION BUYING BTC TO PROTECT UST PEG IN CASE OF MASS REDEMPTIONS

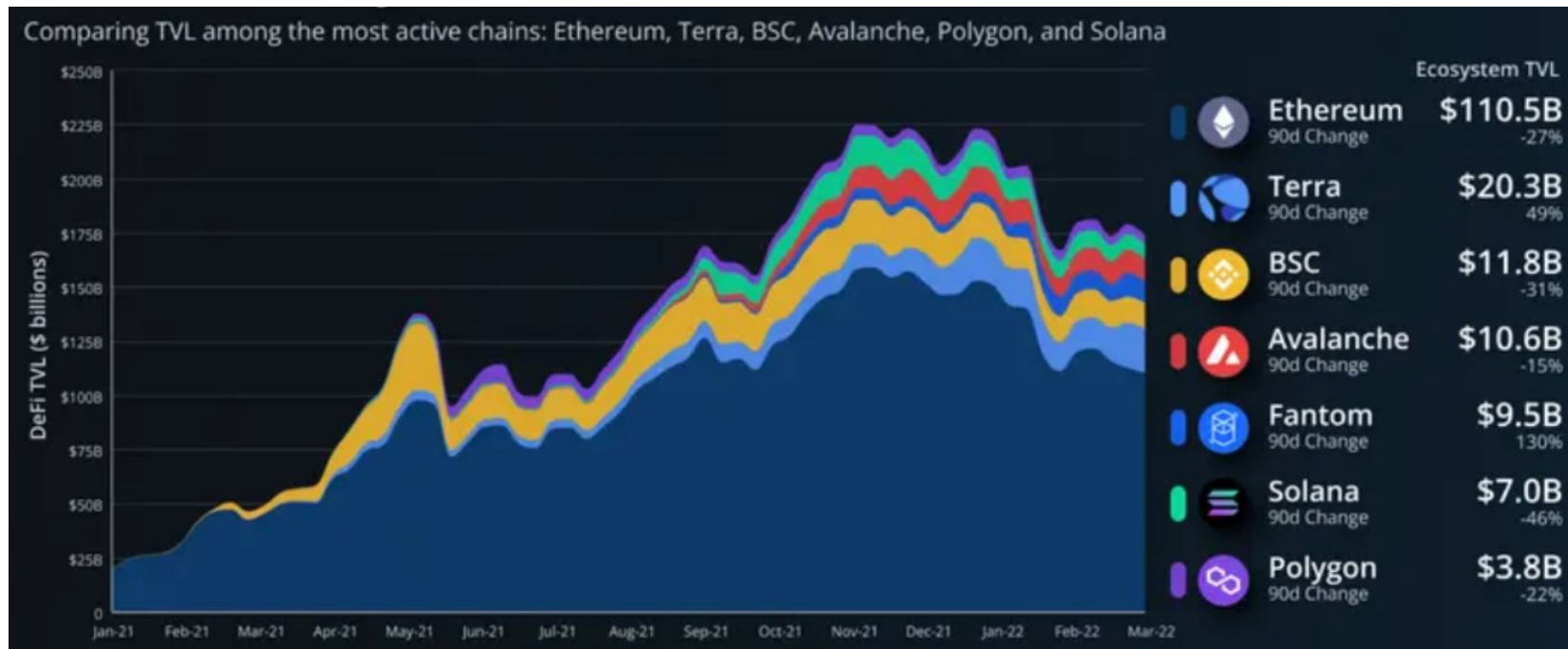


The Luna Foundation Guard Purchased 30,728 Bitcoins in Q1 2022





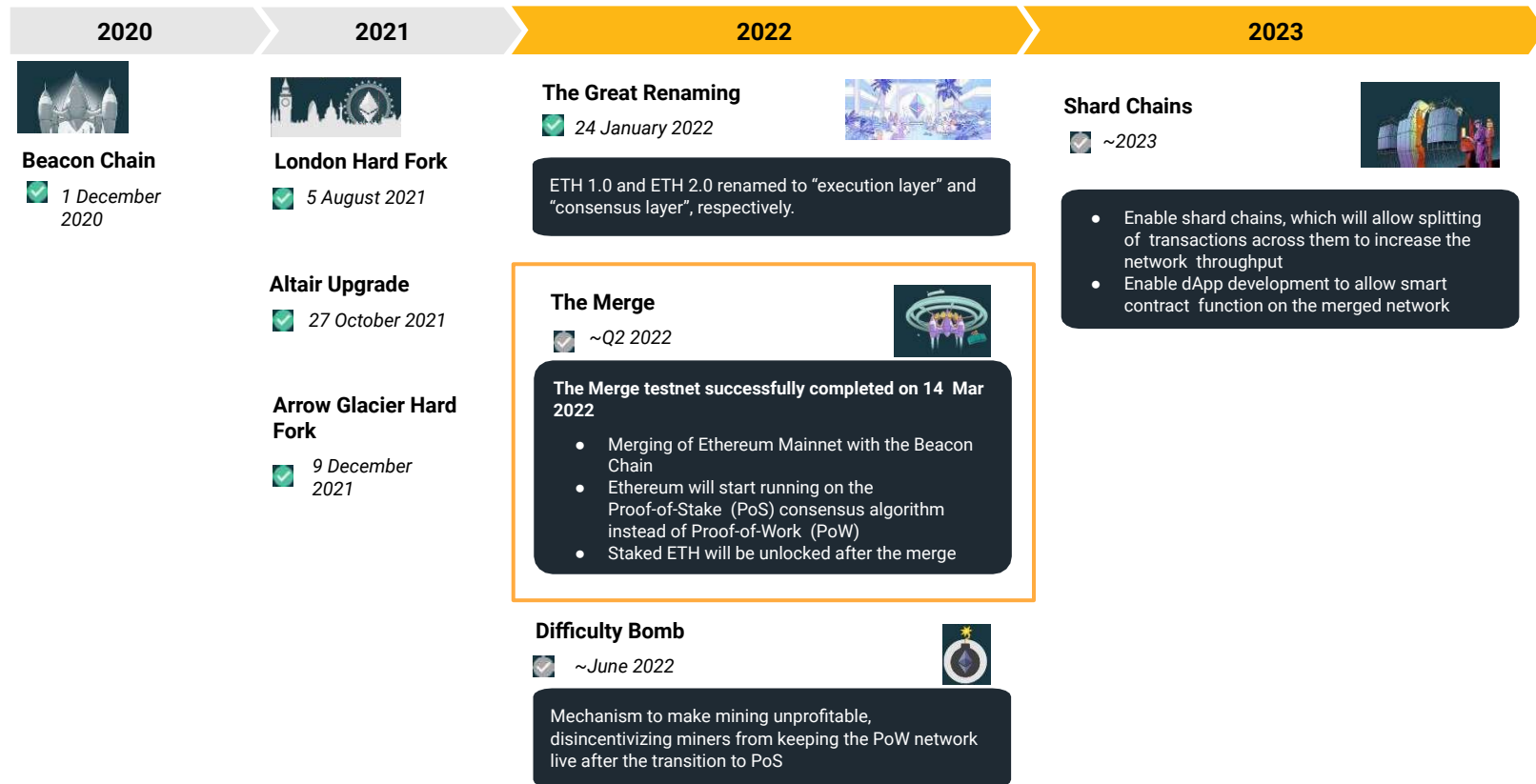
# TOTAL VALUE LOCKED ACROSS MOST ACTIVE ECOSYSTEMS



Sources: Messari, DeFi Llama as of 3/8/2022



# ROADMAP TO ETH 2.0 (THE MERGE)



# MOMENTUM BUILDS FOR ETHEREUM PoS MERGE (ETH 2.0)



## The **Ethereum** Proof-of-Stake Merge

Get ready for the future of  
"the blockchain".

 Ethereum History

 Proof of Work



 Proof of Stake

 Proof of Stake

### Key Benefits Of Merge:

- Will convert ETH from PoW to PoS Blockchain
- Ethereum becomes approx. 98% more energy efficient (shift from PoW to PoS)
- Drop ETH Inflation from 4.3% to approx .3% (equivalent of 3 Bitcoin Halvings)
- Anticipated to increase ETH staking rewards from approx 4-5% to 9-12% APR
- Could become a pseudo commodity-like bond which pays investors monthly yields

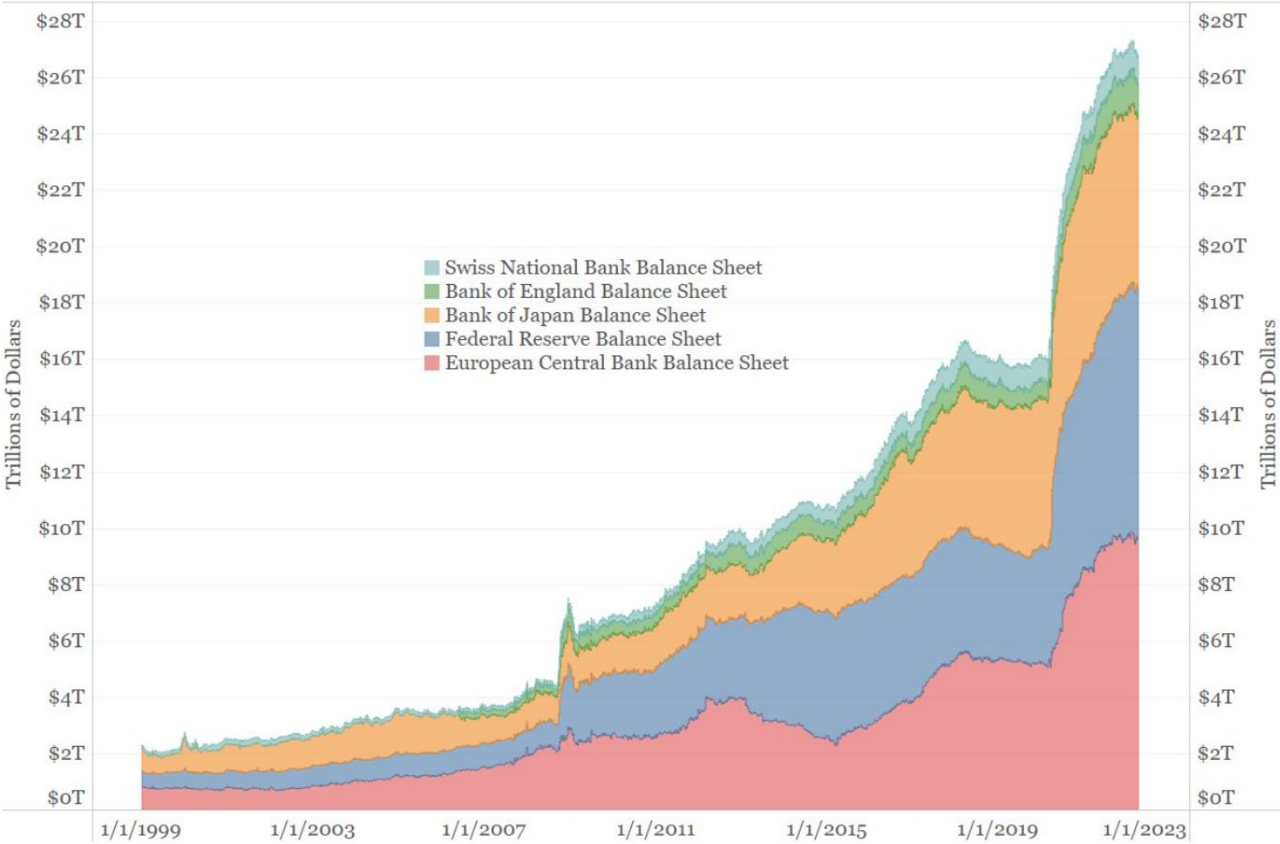
# CURRENT MACRO VIEW

# STAGFLATION HAS ARRIVED



Index	Pre-Pandemic	Last Reading	Note
CPI Inflation	2.3%	8.5%	40-Year High
ECI Wage Inflation	3.1%	4.5%	40-Year High
S&P/Case-Shiller U.S. Home Price Inflation	4.3%	19.8%	43-Year High
10-Year Bond Yield	1.9%	2.8%	
Real Rates (10-Year less CPI)	-0.8%	-5.7%	70-Year Low
Employment Participation Rate	63.4%	62.4%	
Unemployment Rate	3.5%	3.6%	20bps from 50-Year Low
GDP Growth	1.9%	-1.4%	
Fed Balance Sheet Size	\$4.1 Trillion	\$9.0 Trillion	All-Time High
Fed Funds Effective Rate	1.6%	0.2%	10bps from All-Time Low

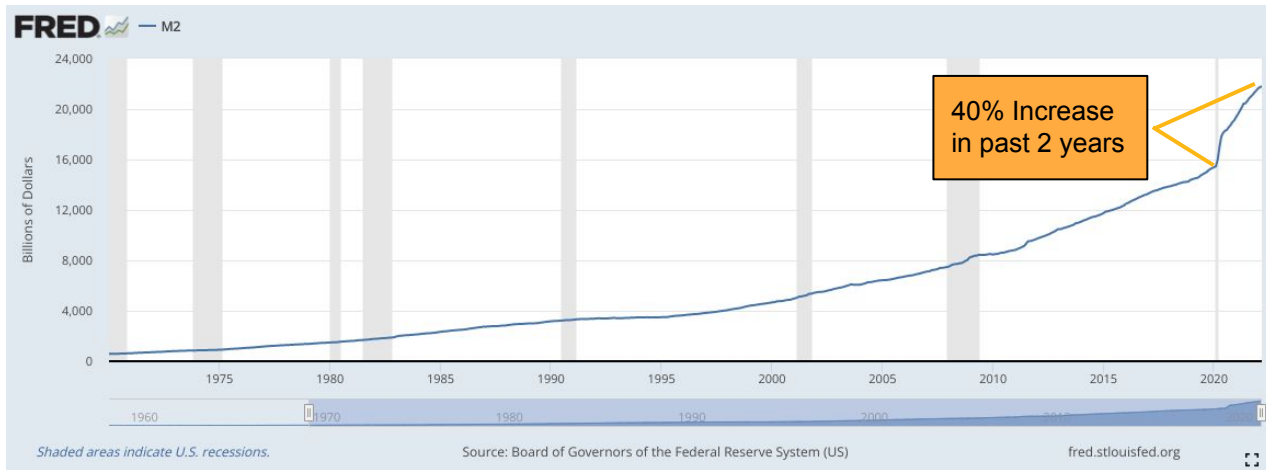
# MAJOR CENTRAL BANK BALANCE SHEETS



Data Source: Fed, ECB, BoJ, BoE, SNB, Bloomberg

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<https://www.biancoresearch.com/>

# THE FED PRINTED 40% OF ALL DOLLARS IN THE PAST 2 YEARS



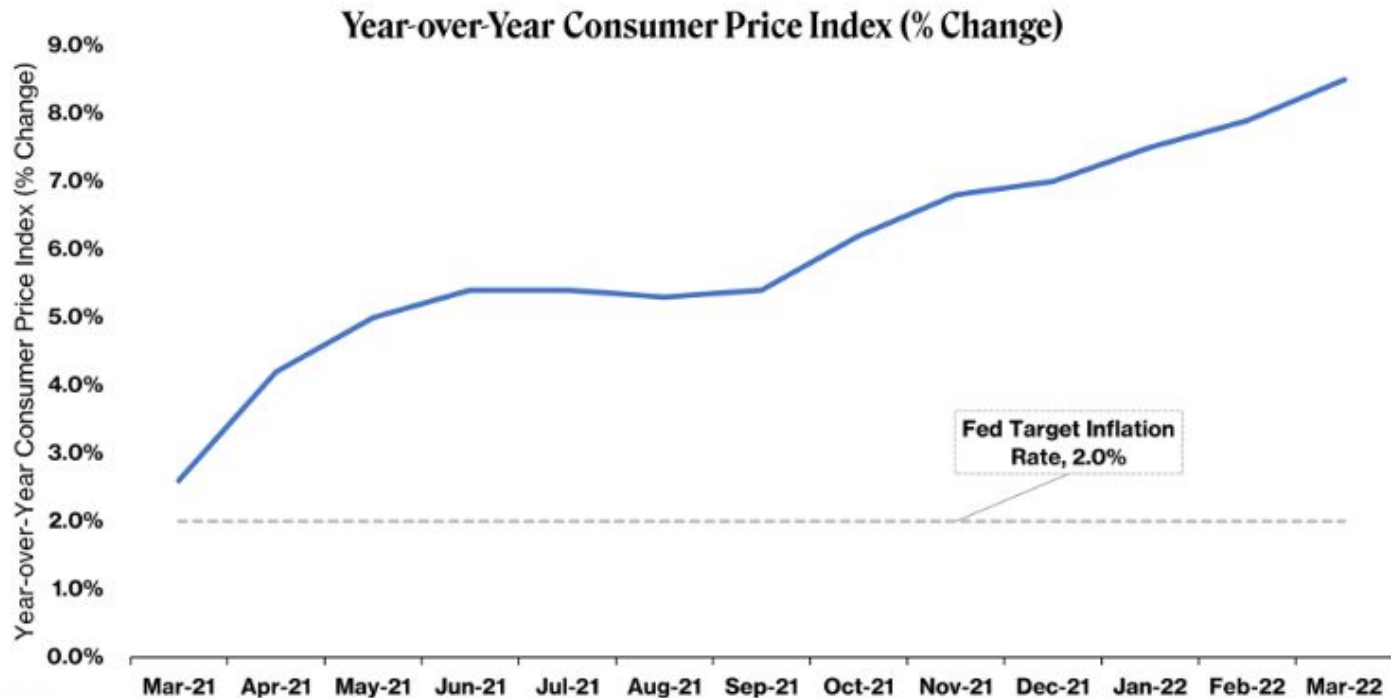
➤ **INFLATIONARY ASSET**

➤ **DEFLATIONARY ASSET**

Year	Block Subsidy (BTC)	Block Subsidy/Day (BTC)	Inflation Rate (Annual)*
2020	6.25	900	1.79%
2024	3.13	450	0.83%
2028	1.56	225	0.40%
2032	0.78	112.5	0.20%
2036	0.39	56.3	0.10%
2040	0.2	28.1	0.05%
2044	0.1	14.1	0.02%
2048	0.05	7	0.01%
2052	0.02	3.5	0.01%

\*At start of period

# CONSUMER PRICE INDEX GROWTH TO 40 YEAR HIGHS

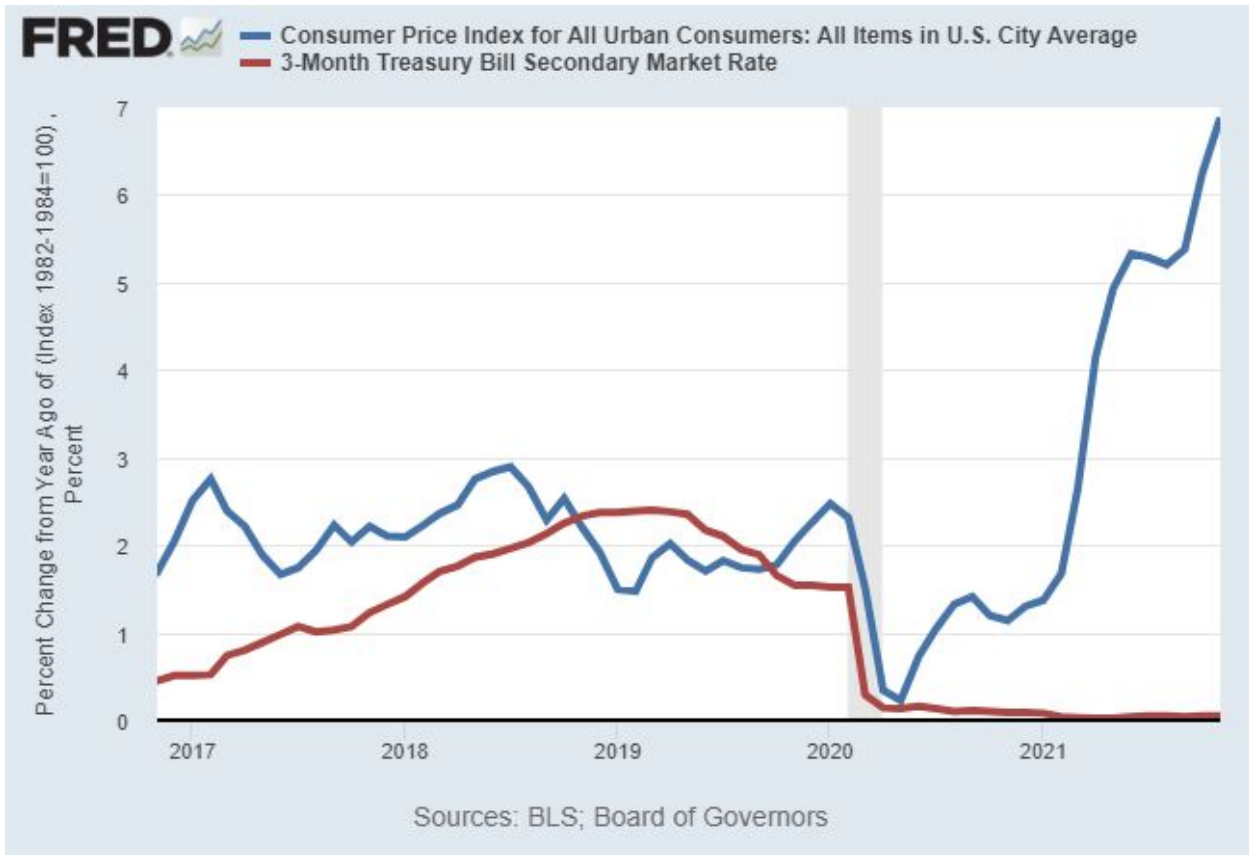


# US NATIONAL DEBT > \$30 TRILLION (DEBT-TO-GDP = 125%)





# FED CAN ONLY RAISE RATES SO HIGH TO FIGHT INFLATION



Given the US Government has over \$30T in federal debt:

For every 1% average interest rate on that debt, the government would owe over \$300B in annual interest.

Policymakers are in a difficult situation. Raise rates too much, crash risk assets, the economy and employment and overburden the gov't with unsustainable debt load.

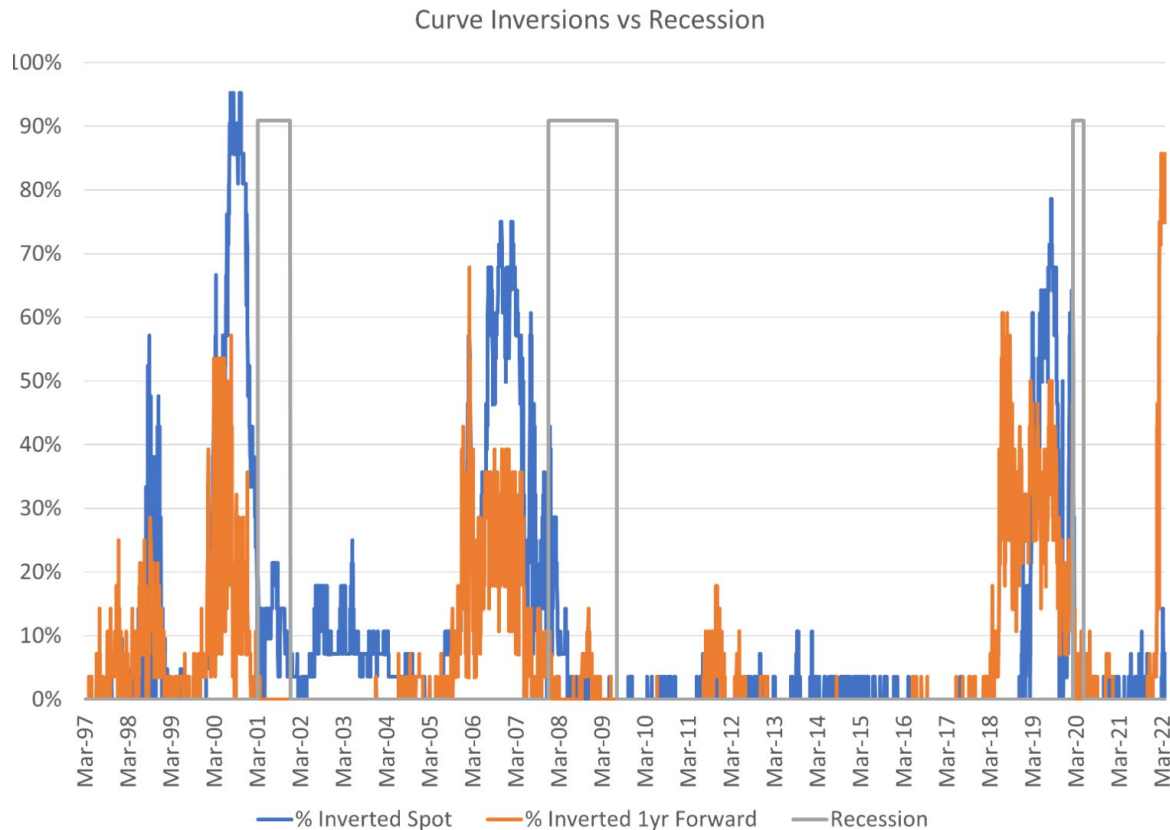
# SIGNS OF TROUBLE IN TRADITIONAL MARKETS



- 2/10 Yr Yield Curve Inversion has predicted 100% of recessions since 1978 -



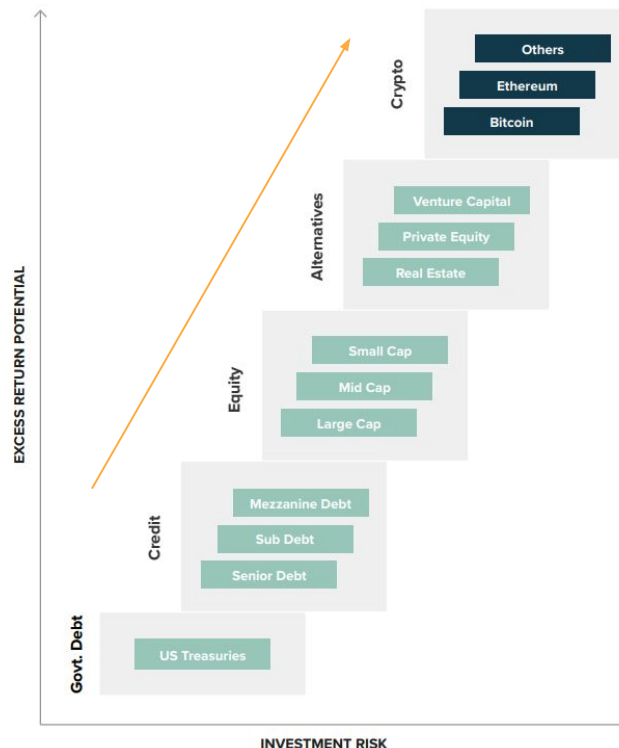
# INVERTED YIELD CURVE LEADING INDICATOR FOR A RECESSION



# HIGH INFLATION ENVIRONMENT WILL DRIVE INVESTORS INTO HIGH VOL ASSETS



FIGURE 1: ILLUSTRATIVE ASSET CLASS RISK & RETURN FRONTIER<sup>3</sup>



- High Inflation Environment will drive Institutional investors further out the risk curve into Digital Assets

<sup>3</sup> Grayscale, John Street Capital inspired, illustrative generalization based on data from Figure 10, Figure 11, and Appendix 3

# CURRENCY DEVALUATION WILL FUEL GROWTH IN CRYPTO



## ATTITUDES + BARRIERS:

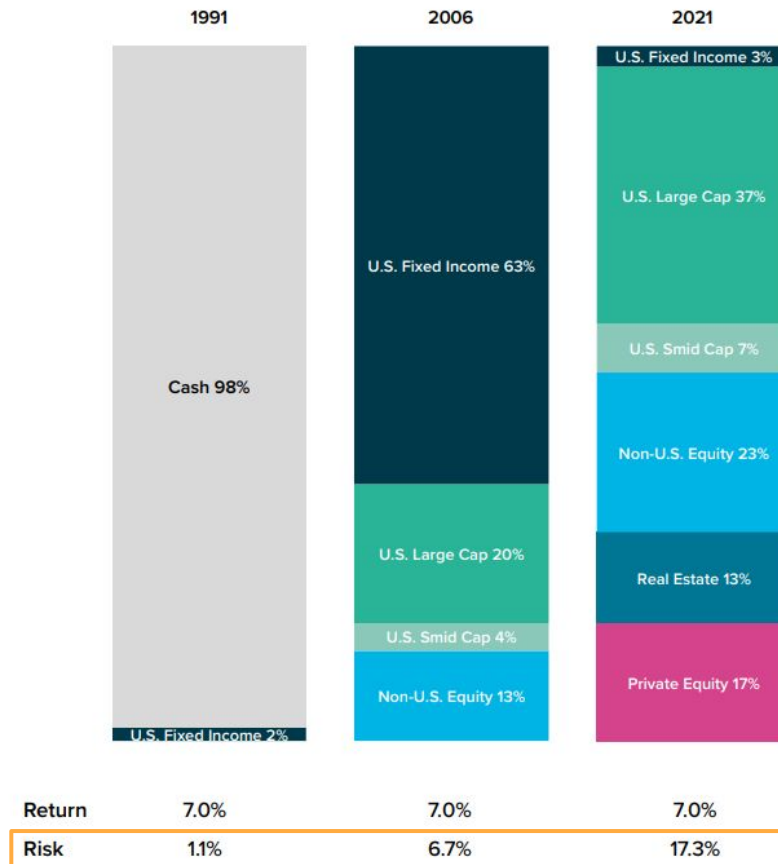
### Currency devaluation fuels 2022 intent

Respondents in countries with 50% or more devaluation\* against the dollar over the last 10 years were more than 5 times as likely to say they plan to purchase crypto in the coming year, compared to those who experienced less than 50% inflation over the same time period.

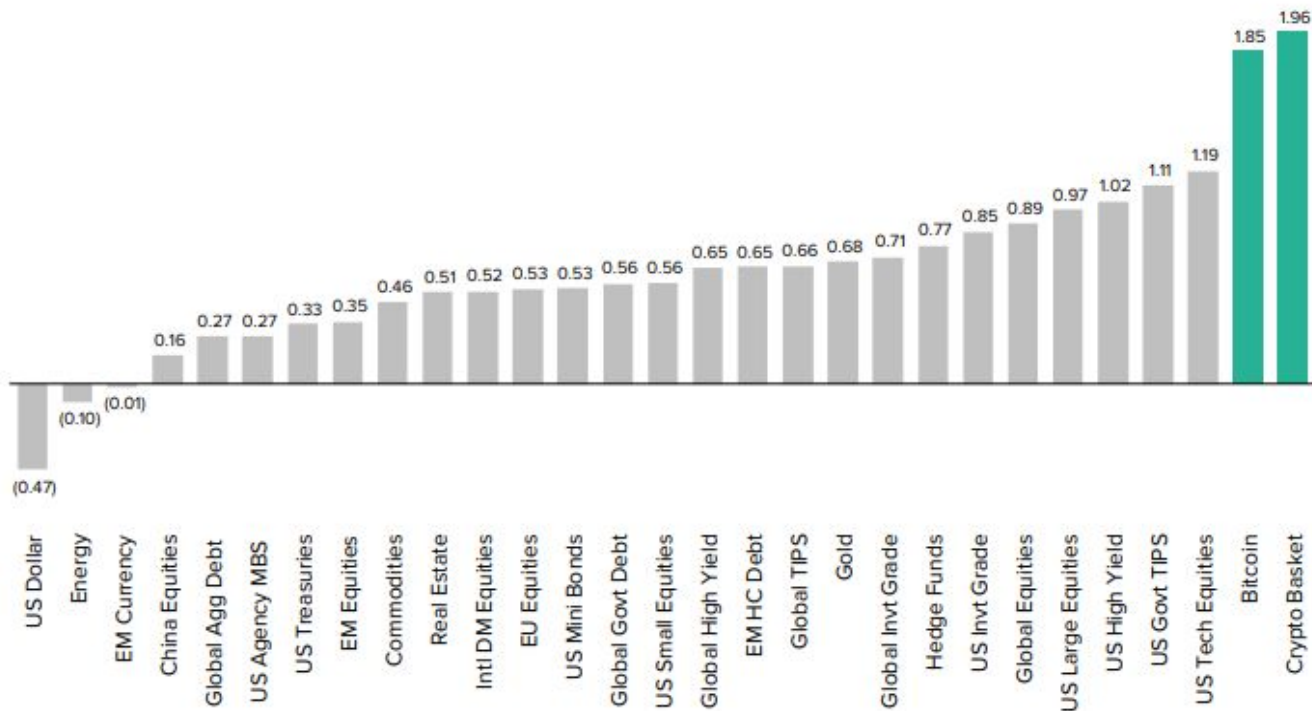
Country (currency)	% Likely to purchase cryptocurrency within next year (base: non-owners)	% devaluation against USD 2011-2021
Norway (NOK)	3%	46.43%
Denmark (DKK)	4%	16.67%
Hong Kong (HKD)	5%	0.00%
Australia (AUD)	6%	-25.00%
Singapore (SGD)	7%	8.33%
France (EUR)	8%	-14.29%
UK (GBP)	8%	0.00%
Ireland (EUR)	9%	-14.29%
Germany (EUR)	11%	-14.29%
South Africa (ZAR)	32%	102.74%
Mexico (MXN)	32%	63.71%
India (INR)	40%	58.58%
Brazil (BRL)	45%	217.65%

\*Currency devaluation is defined as the percent change between the average exchange rate for a local currency to USD in 2011 and 2021 using historical exchange rate data available from [the Federal Reserve](#).

# WHAT INVESTORS NEED TO OWN TO REACH 7% RETURNS (CHANGING INVESTMENT LANDSCAPE)



# SHARPE RATIOS OF VARIOUS ASSET CLASSES



# GLOBAL 60/40 PORTFOLIO ADJUSTED TO INCLUDE CRYPTO



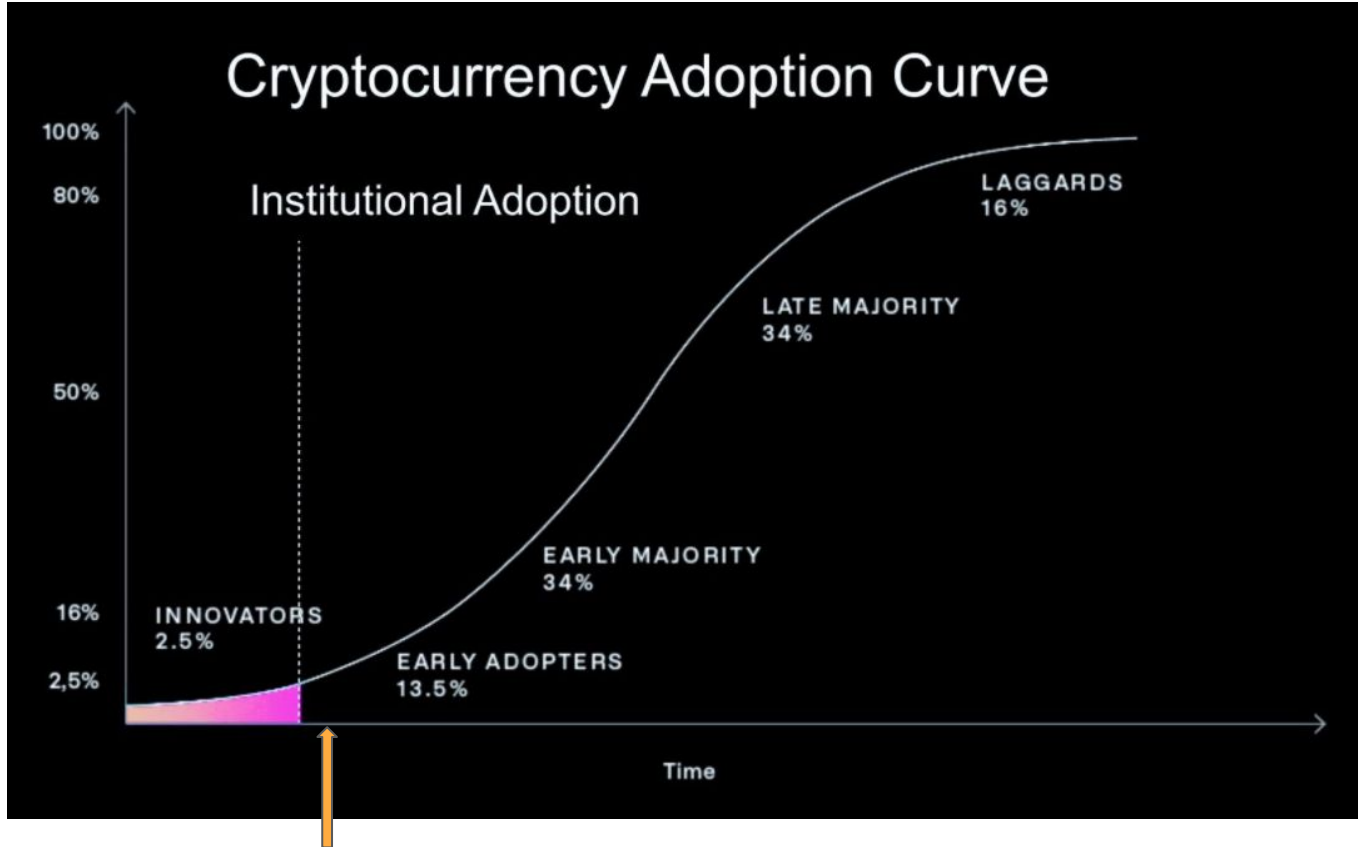
Stocks/Bonds/Crypto	60%/40%/0%	59%/40%/1%	58%/39%/3%	57%/38%/5%
Total Return (Cumulative)	42.8%	47.8%	58.6%	69.9%
Excess Return (vs. 60/40)	0.0%	5.0%	15.8%	27.0%
Total Return (Annualized)	12.6%	13.9%	16.6%	19.3%
Risk (Annualized Std Dev)	11.9%	11.8%	12.0%	12.3%
Portfolio Sharpe Ratio	0.85	0.97	1.18	1.37
Maximum Drawdown	-21.6%	-21.8%	-22.5%	-23.2%





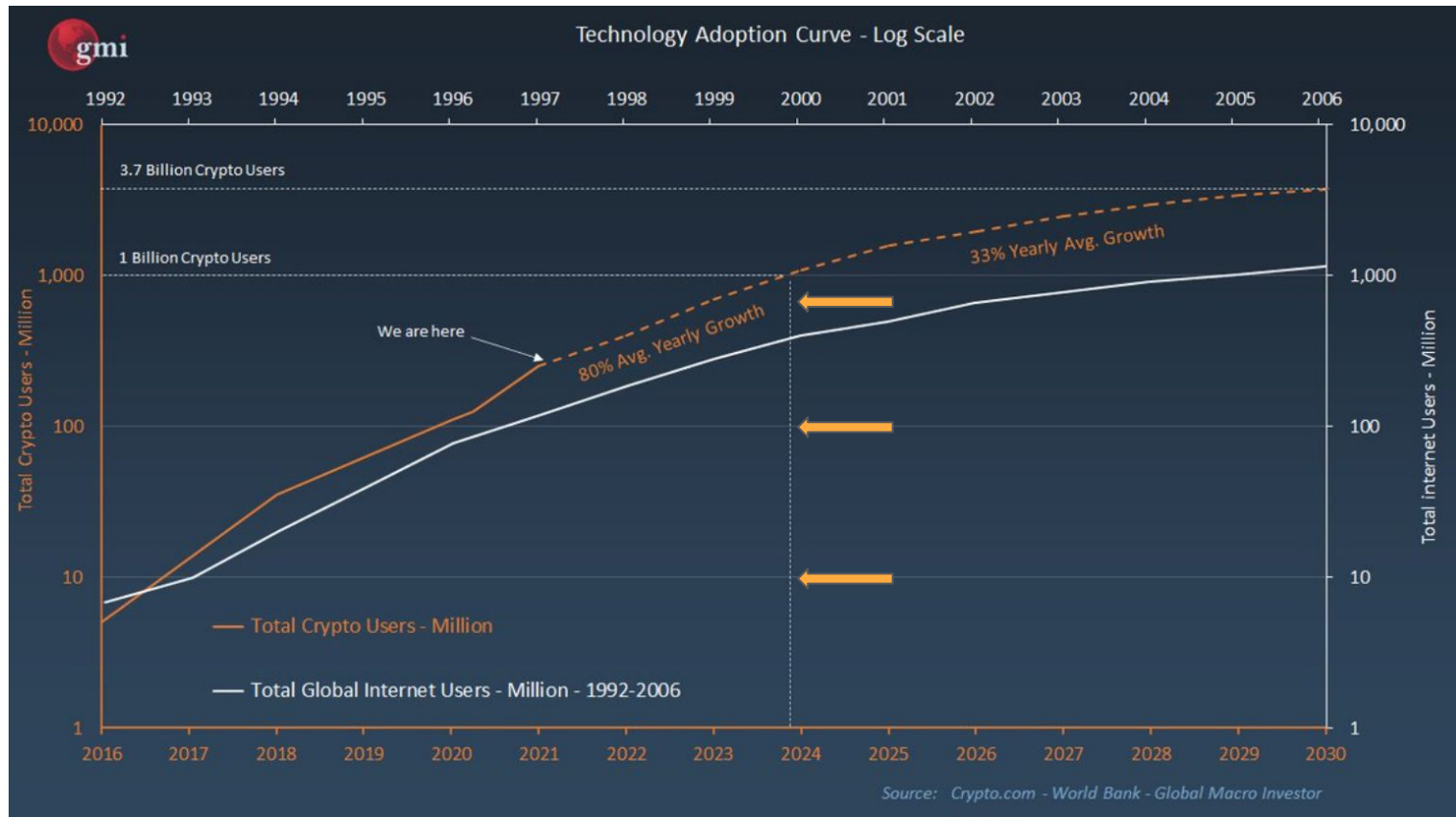
# FUTURE OUTLOOK

# CRYPTOCURRENCY ADOPTION CURVE (MOVING INTO EARLY ADOPTERS PHASE)

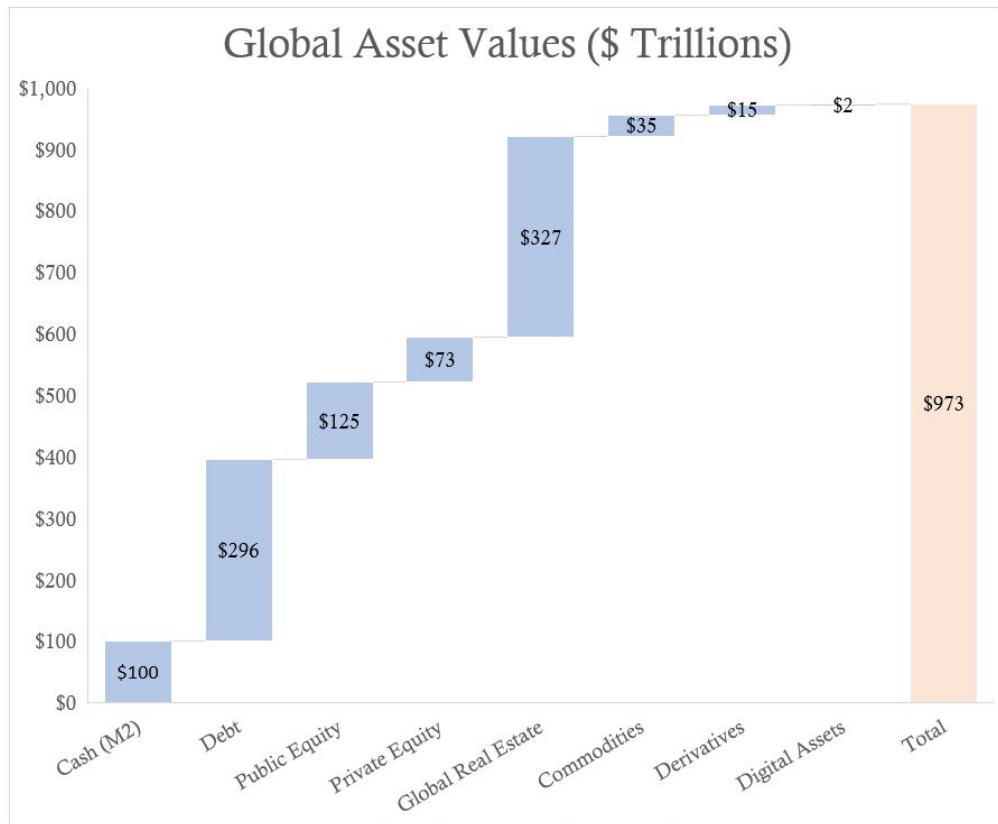


We Are Here (approx. 3-4% Global Adoption)

# CRYPTO ADOPTION CURVE STEEPER THAN INTERNET ADOPTION

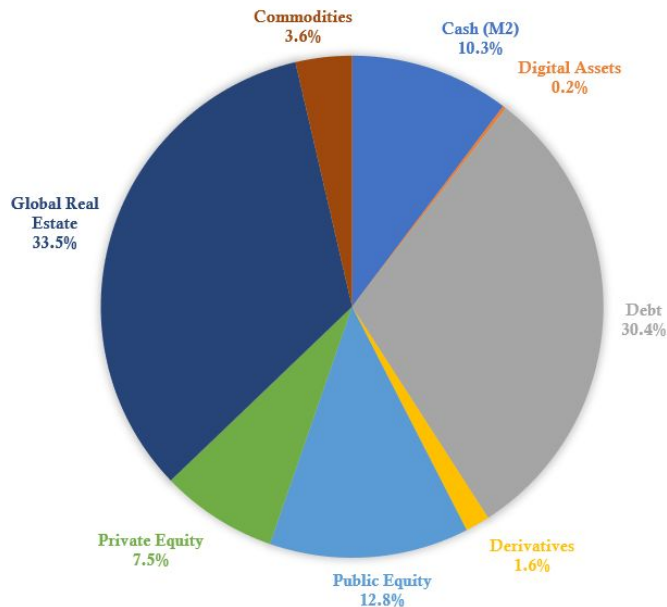


# GLOBAL ASSET VALUE BY ASSET CLASS (CRYPTO MARKET <\$2T)



Sources: Cash (M2) - Bloomberg Global Money Supply Index; Debt - IIF Debt Monitor; Public Equity - SIFMA; Private Equity - BXE Capital Estimates; Global Real Estate - Savills; Commodities - Comdex, World Gold Council, CFM Group; Derivatives - BIS (Market Value); Digital Assets - CoinMarketCap

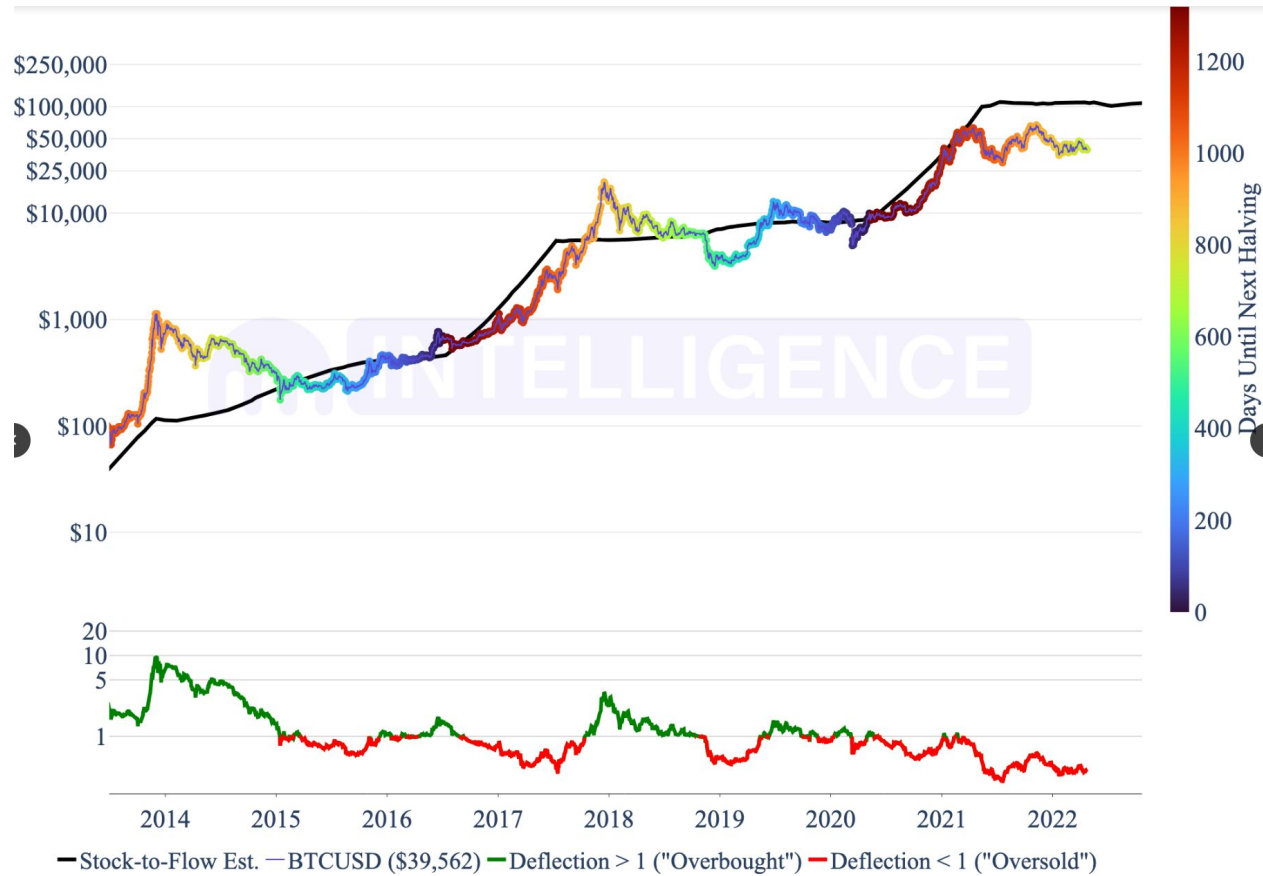
GLOBAL ASSET VALUE BY ASSET CLASS



# BITCOIN'S LOGARITHMIC GROWTH CURVE: A PROXY FOR DIGITAL ASSETS



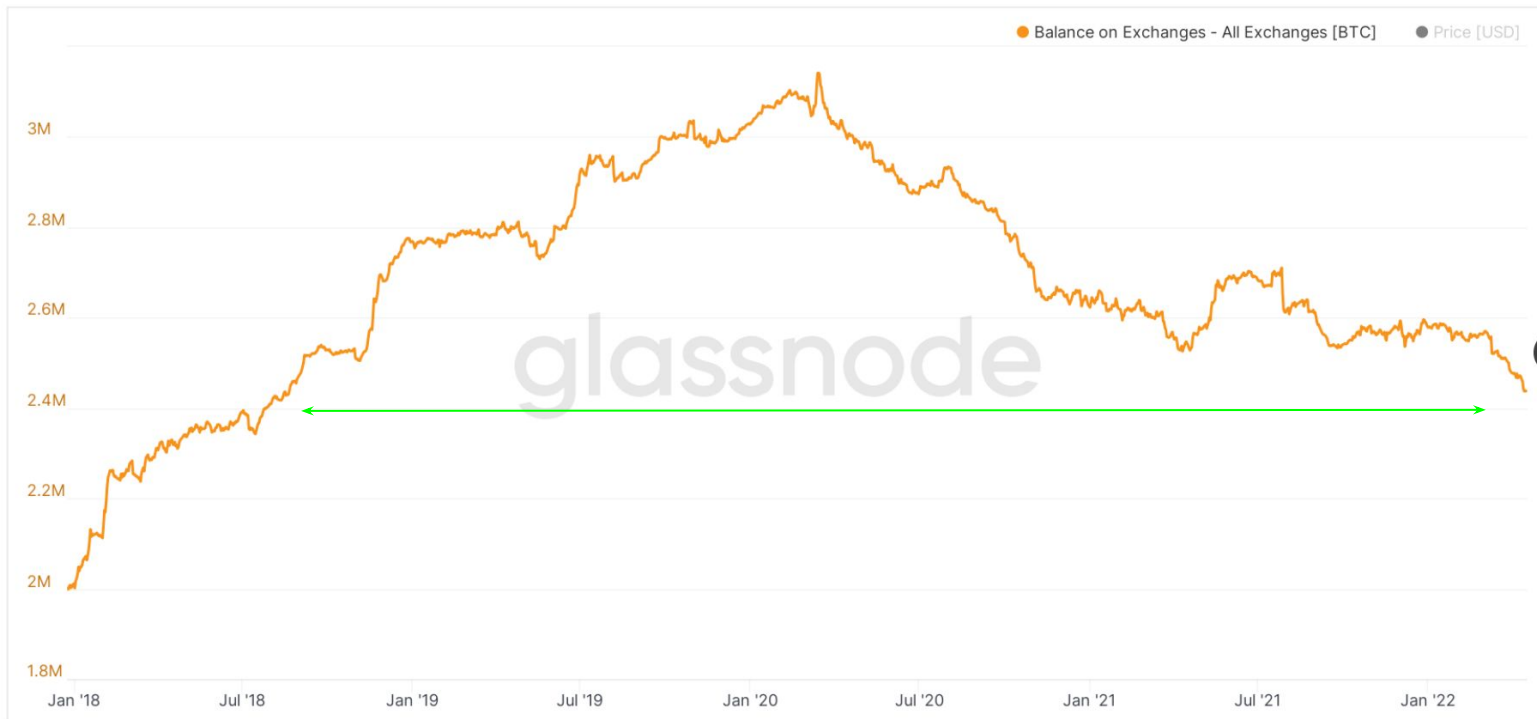
# BITCOIN'S STOCK-TO-FLOW CHART



# BITCOIN BALANCE ON EXCHANGE HITS 4-YEAR LOW



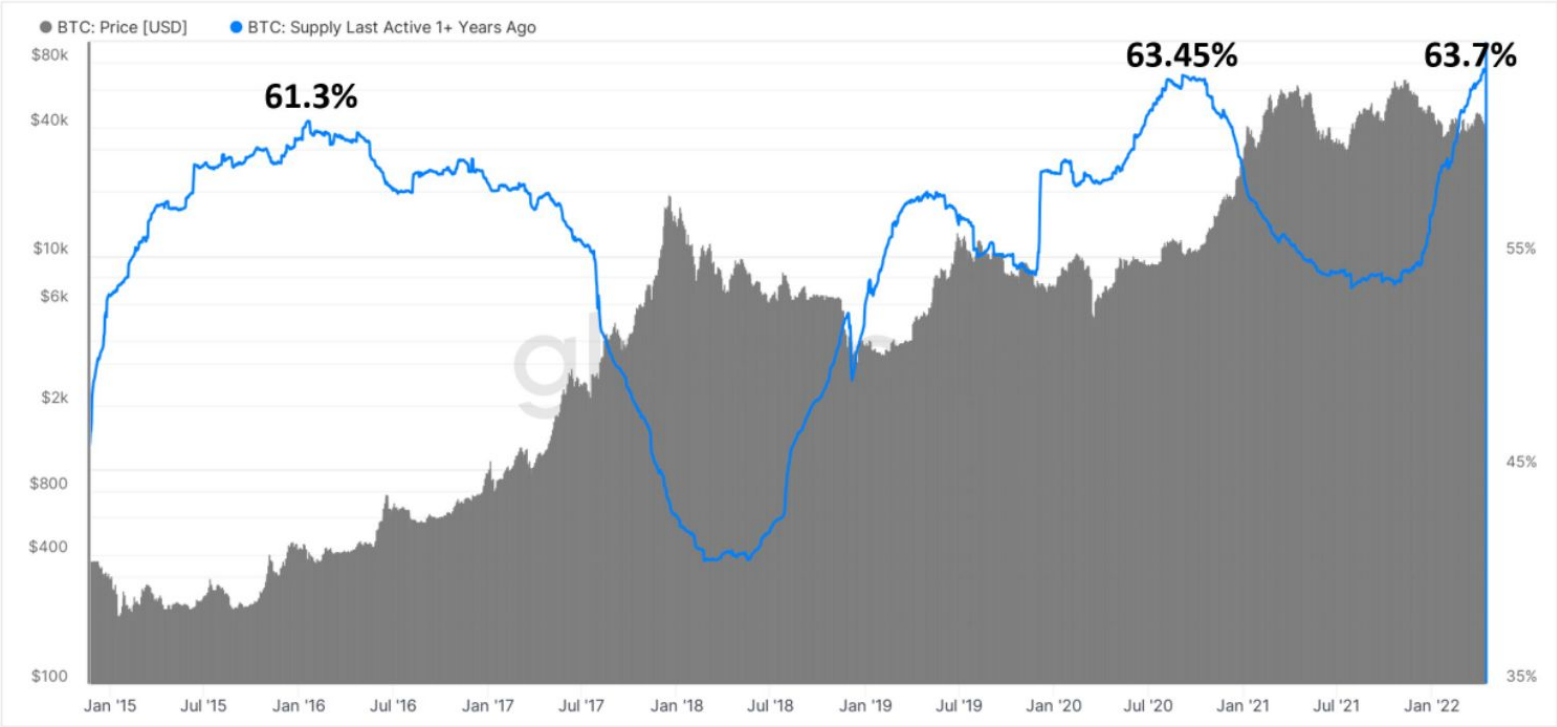
Bitcoin: Balance on Exchanges [BTC] - All Exchanges



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# SUPPLY NOT MOVED IN AT LEAST 1 YEAR AT ALL TIME HIGH

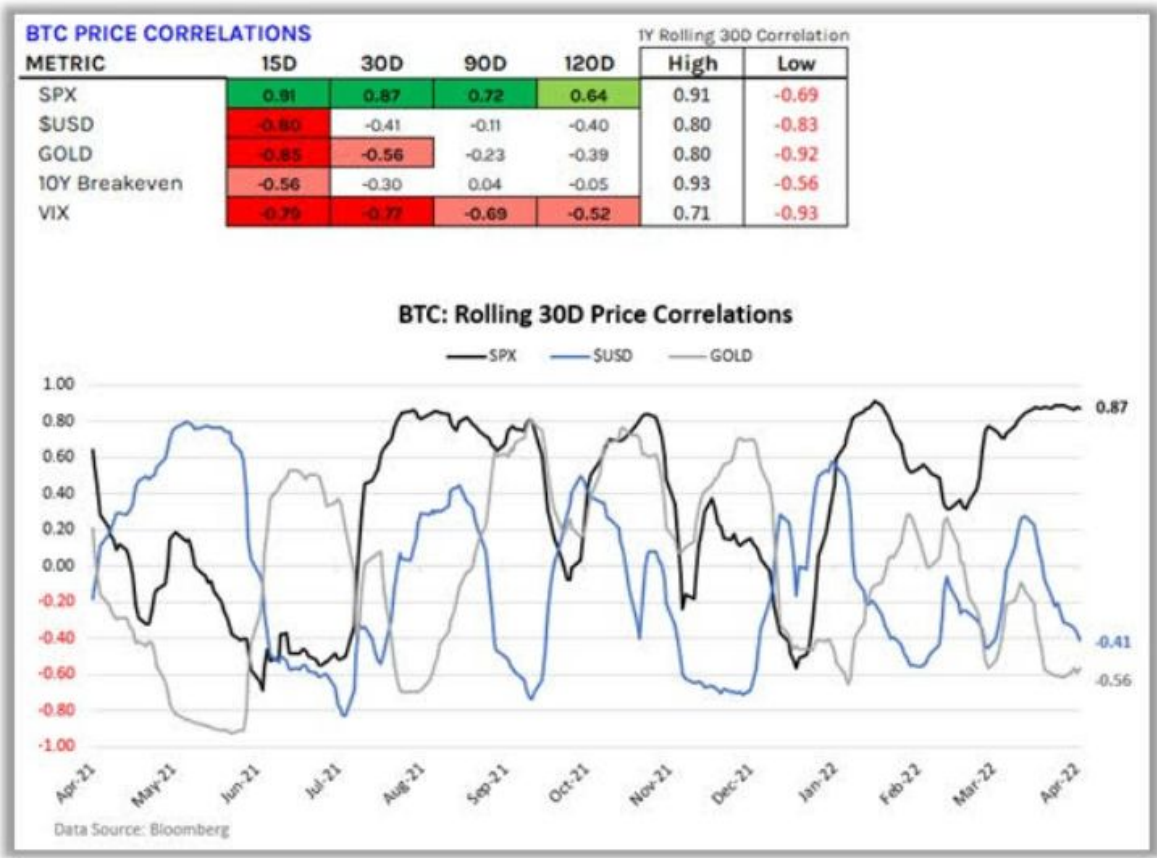


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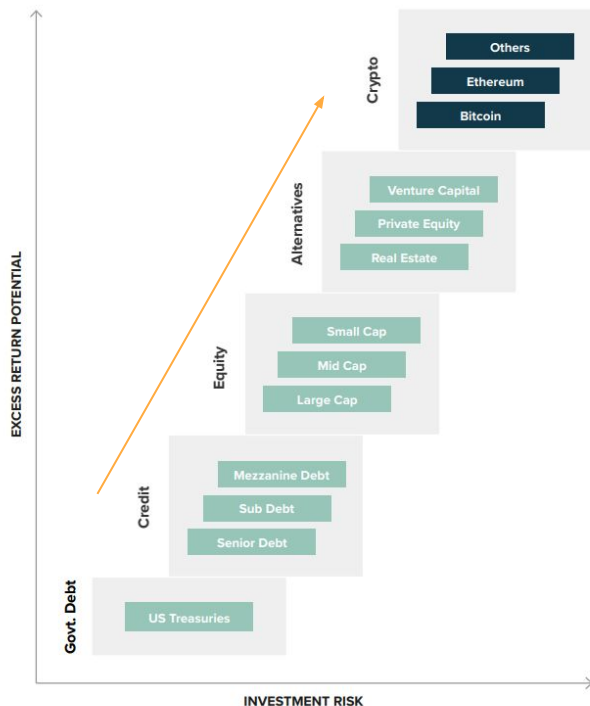
# BITCOIN PRICE CORRELATIONS: BTC AS A PROXY FOR CRYPTO SPACE



# OUR BASE CASE: CRYPTO CORRELATIONS TO EQUITIES BREAK DOWN IN THE NEAR FUTURE



FIGURE 1: ILLUSTRATIVE ASSET CLASS RISK & RETURN FRONTIER<sup>3</sup>



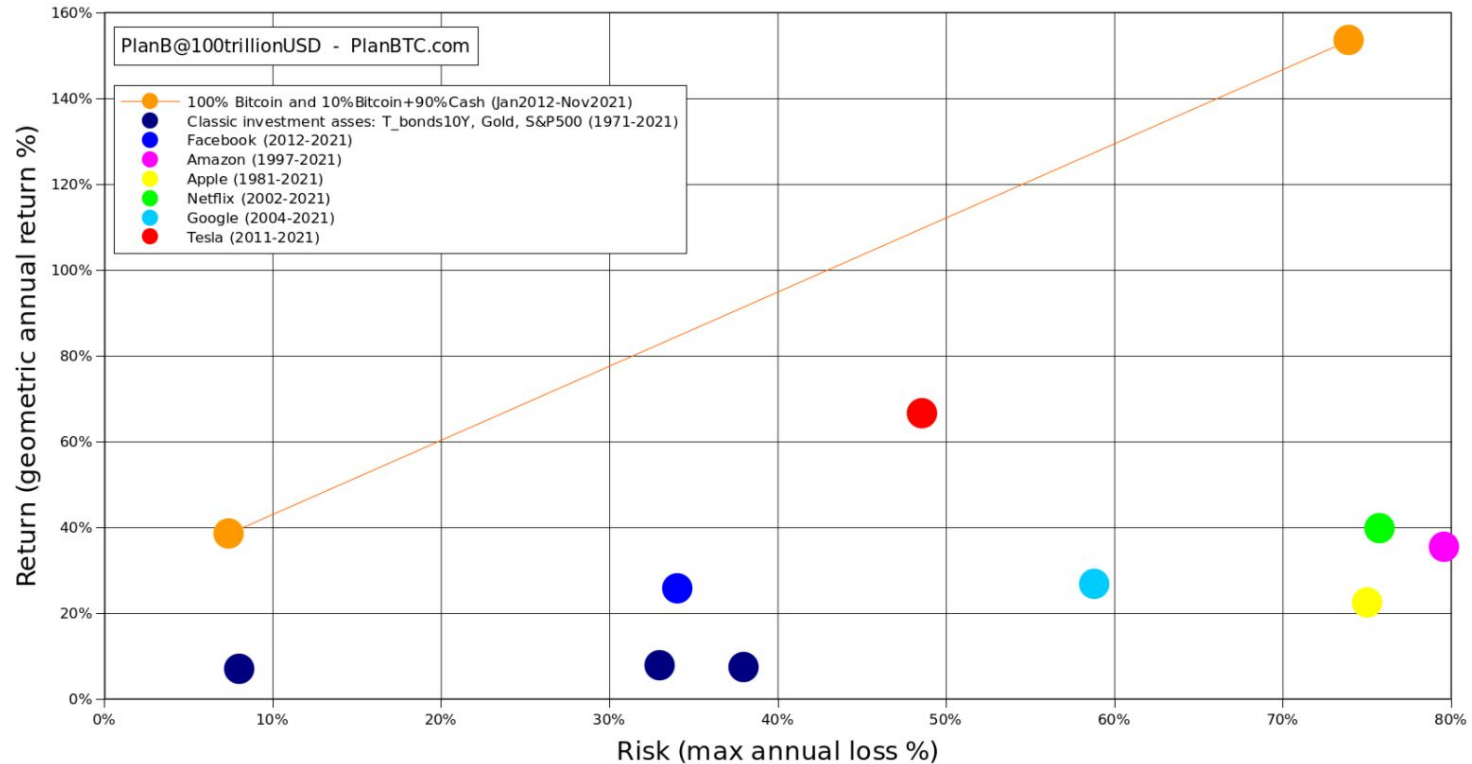
- Institutional investors control over \$100 Trillion in assets (Total Market capitalization of Crypto space is a mere \$1.8T)
- Institutional investors have near zero exposure to Digital Assets
- According to Fidelity research, 70% of institutional investors are planning to buy Digital Assets in the near future
- Once these investors move into the Digital Asset space, we believe these flows will dislodge the existing correlations

3. Grayscale, John Street Capital inspired, illustrative generalization based on data from Figure 10, Figure 11, and Appendix 3

# BITCOIN'S RISK-ADJUSTED RETURNS SUPERIOR TO ALL OTHER ASSETS



## Bitcoin has better risk-adjusted returns than all other assets



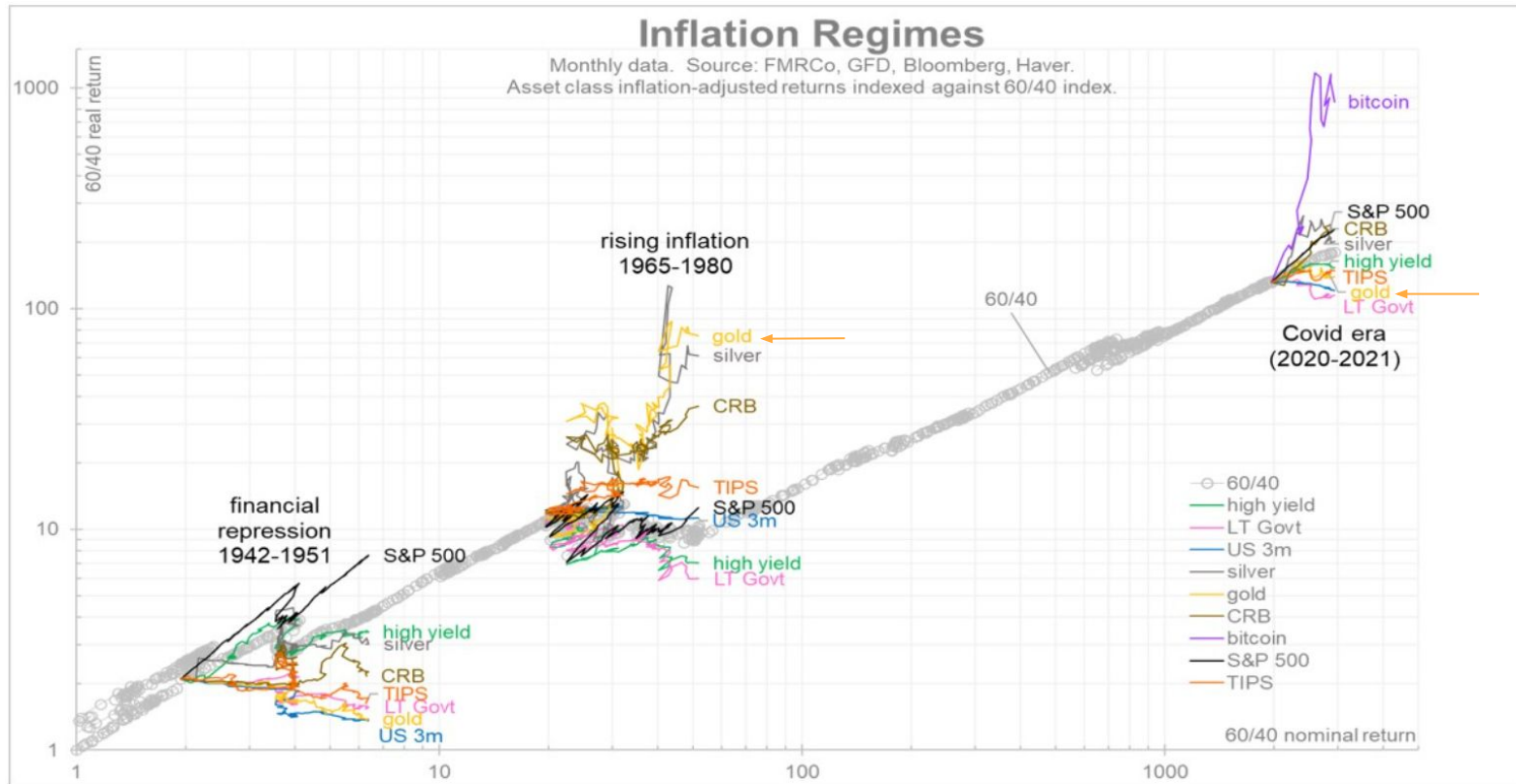
# ASSET CLASS RETURNS OVER PAST DECADE (BTC TOP PERFORMER 8/10 YRS)



FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Bitcoin 218%	Bitcoin 5428%	Real Estate 23%	Bitcoin 36%	Bitcoin 120%	Bitcoin 1375%	US Dollar 4%	Bitcoin 95%	Bitcoin 305%	Bitcoin 60%
EM HC Debt 18%	US Small Equities 37%	US Dollar 13%	US Dollar 9%	US Small Equities 19%	EM Equities 34%	US Treasuries 1%	US Large Equities 29%	Gold 25%	Energy 52%
US High Yield 16%	US Large Equities 30%	US Large Equities 11%	EM HC Debt 1%	US High Yield 17%	Intl DM Equities 22%	Global Agg Debt -1%	Real Estate 24%	US Small Equities 18%	Real Estate 37%
Real Estate 16%	Intl DM Equities 19%	US Inv Grade 7%	US Treasuries 1%	Energy 16%	US Large Equities 19%	US Govt TIPS -1%	US Large Equities 24%	US Large Equities 16%	Commodities 27%
EM Equities 15%	US High Yield 7%	US Treasuries 5%	US Inv Grade -1%	Commodities 11%	Gold 14%	Gold -2%	Intl DM Equities 18%	EM Equities 16%	US Large Equities 27%
US Small Equities 15%	Energy 5%	EM HC Debt 5%	US Large Equities -1%	EM HC Debt 10%	US Small Equities 13%	US High Yield -2%	Gold 18%	US Govt TIPS 12%	US Small Equities 14%
Intl DM Equities 14%	US Dollar 0%	US Govt TIPS 4%	Real Estate -1%	US Large Equities 10%	EM Currency 11%	EM HC Debt -2%	EM Equities 15%	US Inv Grade 10%	Intl DM Equities 9%
US Large Equities 13%	Real Estate -1%	US Small Equities 4%	US Govt TIPS -2%	EM Equities 9%	EM HC Debt 8%	US Inv Grade -3%	US Inv Grade 15%	Global Agg Debt 9%	US Dollar 6%
US Inv Grade 10%	US Inv Grade -2%	US High Yield 2%	Global Agg Debt -3%	Gold 8%	US High Yield 8%	EM Currency -4%	US High Yield 14%	US Treasuries 8%	US Govt TIPS 6%
US Govt TIPS 7%	EM Currency -2%	Global Agg Debt 1%	Intl DM Equities -3%	US Inv Grade 6%	Global Agg Debt 7%	US Large Equities -6%	EM HC Debt 13%	US High Yield 7%	US High Yield 5%
Gold 7%	Global Agg Debt -3%	Gold -1%	US High Yield -4%	US Govt TIPS 5%	US Inv Grade 6%	Real Estate -8%	Energy 12%	EM HC Debt 7%	EM Currency 1%
EM Currency 6%	US Treasuries -3%	EM Currency -4%	US Small Equities -6%	Real Estate 5%	Real Estate 5%	US Small Equities -12%	US Govt TIPS 9%	Intl DM Equities 5%	US Inv Grade -1%
Global Agg Debt 4%	EM HC Debt -4%	EM Equities -5%	EM Currency -7%	US Dollar 4%	US Govt TIPS 3%	Energy -13%	US Treasuries 7%	EM Currency 3%	EM HC Debt -2%
US Treasuries 2%	EM Equities -5%	Intl DM Equities -7%	Gold -10%	EM Currency 3%	US Treasuries 2%	Commodities -13%	Global Agg Debt 7%	Commodities -4%	US Treasuries -2%
US Dollar -1%	US Govt TIPS -9%	Commodities -17%	EM Equities -17%	Global Agg Debt 2%	Commodities 1%	Intl DM Equities -16%	Commodities 5%	US Dollar -7%	Gold -4%
Commodities -1%	Commodities -10%	Energy -39%	Commodities -25%	US Treasuries 1%	Energy -4%	EM Equities -17%	EM Currency 3%	Real Estate -8%	EM Equities -5%
Energy -9%	Gold -28%	Bitcoin -58%	Energy -39%	Intl DM Equities -2%	US Dollar -10%	Bitcoin -74%	US Dollar 0%	Energy -43%	Global Agg Debt -5%

Date: 12/31/11 to 12/31/21, Bloomberg, Asset Details: Appendix 2

# WHICH ASSETS PERFORM WELL DURING INFLATIONARY PERIODS



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 01/02/2022. Past performance is no guarantee of future results.





# THE CLIFFS NOTES VERSION OF OUR BASE CASE VIEW:

## Short Term

- The Fed will likely continue to raise rates to try to subdue inflation
- Shift from QE (quantitative easing) to QT (Quantitative tightening)
- The dollar rallies
- Risk assets (stocks, crypto, etc.) sell off

## Medium Term

- Strong dollar becomes a wrecking ball to foreign nations who have debt denominated in the dollar and make payments in their native currency
- Strong dollar also stifles exports out of the U.S. (they become too expensive)
- Rising rates make it more tenuous for the Fed to service their \$30 Trillion dollars of Debt
- Rising rates and QT materially negatively impact the stock market and push the economy into a recession thus forcing the Fed to reverse their stance and resume QE and artificially suppressing interest rates

## Long Term

- Resumption of printing more dollars (QE) to stimulate the economy, the dollar weakens which should help foster tremendous growth in risk assets (i.e. Digital Assets)
- High inflation environment should push more investors out the risk curve into Digital Assets to offset high inflation rates
- Currency debasement around the world should push investors into Digital Assets to protect their wealth and earning power

# APPENDIX

# Sources

- [BarclayHedge](#)
- [Bloomberg](#)
- [CoinDesk](#)
- [Coin Market Cap](#)
- [CryptoCurrencyChart](#)
- [DappRadar](#)
- [Dapp.com](#)
- [Digital Asset Research](#)
- [IcoData.io](#)
- [TokenData](#)



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