



Digital Asset Market Perspective

Q2 in Review

July 2025

Dear Investors,

June extended the moderate uptrend we saw in May, with digital assets continuing to trade in a cautiously optimistic environment. Bitcoin closed the quarter at USD 107,300 — up 2.6% — although this strength remains largely confined to BTC, while the broader market continues to lag. Bitcoin dominance held steady at around 64%.

The second quarter will be remembered for its tariff-induced volatility. Markets initially sold off sharply following the US tariff announcements — less severe than in equities, but notable nonetheless. However, digital assets quickly shrugged off the political noise, recovering steadily and culminating in Bitcoin reaching a new all-time high of USD 112,000. While most altcoins have yet to break new highs, the mood heading into H2 2025 remains one of cautious optimism.

Volumes remain subdued, with many market participants still on the sidelines, waiting to see whether this rally has legs. That said, the institutional and regulatory backdrop continues to improve. One of the most significant developments has been the passage of the GENIUS Act — a bipartisan bill set to establish the first federal framework for “payment stablecoins.” The bill passed the Senate and is widely expected to become law by year-end.

Derivatives markets reflect the low-volatility environment. Implied volatility in options is near historic lows, and the lack of skew at the front end suggests a balance between upside and downside expectations. Futures have returned to a contango structure, pointing to some underlying bullish positioning — but still far from euphoric.

Macro & Market Backdrop: Tariff Turmoil Dents American Exceptionalism

Q2 began with a shock. The so-called “Liberation Day” tariffs sent tremors through global markets as the US announced sweeping import duties of 25–27% — levels not seen since the Smoot-Hawley Act of the 1930s. Retaliatory measures from key trading partners, especially China and the EU, only deepened concerns. The episode led many investors to question the reliability of the US as a beacon of free trade and a driver of global growth.

Initially, US Treasury yields fell below 4% in a classic flight to safety. But sentiment quickly reversed. Concerns about US credibility and the economic fallout led to a steep sell-off in Treasuries, equities, and the US dollar in tandem. By April 9, the 10y Yield reversed sharply to 4.5% — the steepest three-day rise since 1982. On the longer end of the curve, the situation looked even more grim with the 30Y yield reaching levels last seen in 2007. At the same time, the US dollar lost significant grounds vs. a basket of currencies, as measured by the US dollar index (DXY). Historically, this marks an anomaly, as the US dollar typically appreciates when yields rise.

Mounting pressure forced the US administration into a partial U-turn, offering a 90-day tariff reprieve for most partners and striking a preliminary deal with China (though details remain vague). The episode initially spurred talks of a big rotation from US markets to the rest of the world and especially European equity markets. Although the narrative seems compelling, the US has quietly staged a comeback, narrowing the gap to European equity markets year-to-date. Tech stocks (ex-Tesla) regained momentum, with the “Magnificent 7” index up roughly 38% from April lows, propelling the S&P 500 to new all-time highs in the process.

Yields also partially normalized, and investor anxiety faded. Despite the daily headlines and the grim economic outlook, much of the political noise has yet to translate into hard data: inflation, growth, and earnings remain solid. Resilient employment figures, strong earnings, a de-escalation in political rhetoric, aggressive corporate buybacks and a Pavlovian reflex by investors, especially retail investors, to buy the dip have all contributed to the rebound. It is interesting to note that household equity ownership in the US has now reached an all-time high. About half of all US household wealth is now tied to equities.

Even the controversial “Big Beautiful Bill,” which recently passed the Senate and the House by a narrow margin, has not rattled markets. In the short term, the bill should be supportive of equities. However, over the medium term the bill is projected to significantly widen the US deficit and could add upward pressure on inflation and Treasury yields.



So is everything back to normal? While equity and Treasury markets appear to have stabilized, the same cannot be said for the US dollar. While TINA (“there is no alternative”) may have been the mantra of the markets for the past decades, the recent US dollar performance is starting to put a dent in this narrative. Measured by the US dollar index, the greenback had its worst start to the year since 1973, the end of the gold-backed Bretton Woods monetary system. The administration’s erratic policy signals, growing deficit concerns tied to the “Big Beautiful Bill,” and fears of a less independent, more dovish Fed have deterred international capital. Although US dollar dominance remains intact for now, increased hedging activity by foreign investors has capped any sustained recovery.

Finally, we want to briefly touch on the Iran-Israel conflict. From a financial market perspective, the most remarkable aspect has been how little it moved the needle. Oil prices reacted modestly, but compared to the Russia-Ukraine war where Brent hit prices upwards of USD 130 per barrel, the response was muted. The VIX barely budged, and even US military involvement failed to trigger a broad sell-off. This lack of market reaction suggests a fundamental shift in the region’s strategic importance. Two decades ago, such a conflict might have sparked a global panic. Today, US energy independence has reduced the West’s economic sensitivity to Middle Eastern tensions. While a closure of the Strait of Hormuz would undoubtedly have global repercussions, the likelihood of such an action seems remote, particularly given China’s dependence on the route.

US10Y Treasury Yields

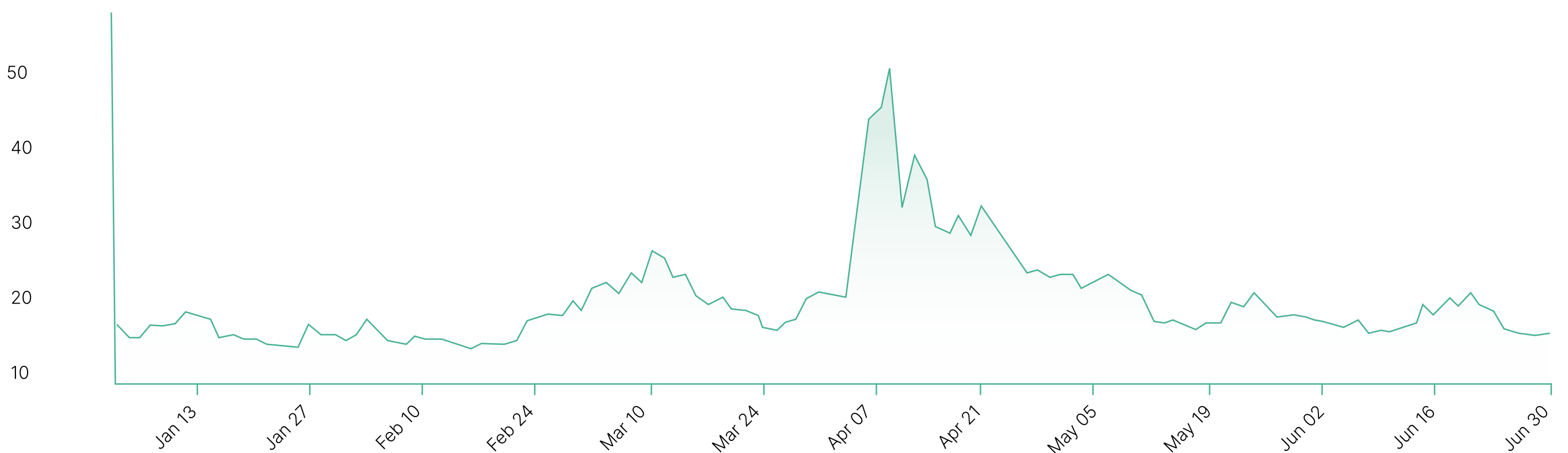
US10Y Treasury Yields are normalizing after a tumultuous second quarter



Source: CNBC

VIX

After hitting its highest level since Covid pandemic, the VIX retreated towards its longer term average at the end of the second quarter



Source: CBOE Global markets

The S&P 500 has been on a tear since hitting its April lows

Propelled by the magnificent 7 stocks, the index has gained 24.6% in the last 2.5 months, hitting new all time highs in the process.



Source: TradingView

The USD index (DXY)

The USD index (DXY) bears the brunt of the US administration's erratic policies.



Source: MarketWatch

Digital Assets: Slow But Steady

As noted in our previous publications, digital assets were not immune to the tariff-driven market turmoil. However, relative to their historical volatility, crypto markets proved resilient — suggesting a potential decoupling from traditional risk assets.

Bitcoin, in particular, rebounded more quickly than equities, reaching a new all-time high on May 22. As previously noted, the early stages of the rally were marked by price increases outpacing trading volumes, pointing to low conviction and underexposure — often referred to as a “hated rally.” Since then, sentiment has improved meaningfully. Trading volumes have returned to pre-tariff levels, and aggregate BTC futures open interest has followed suit, reaching levels last seen in January.

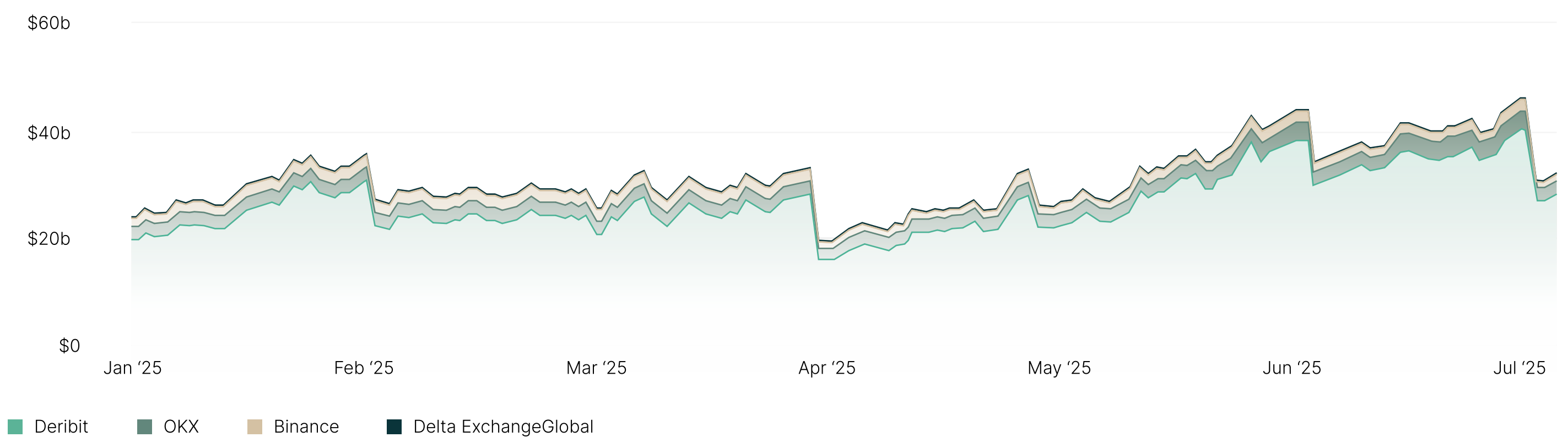
Funding rates for both Bitcoin and Ethereum are now hovering near their longer-term averages, though still far from euphoric territory. Spot Bitcoin ETFs have seen mostly positive inflows over recent weeks, with assets under management steadily climbing to new all-time highs — both in USD and BTC terms — indicating broader participation in the rally, at least on the Bitcoin side.

In the options market, aggregate open interest in Bitcoin options has reached new record highs. Implied volatility for both calls and puts has fallen to historically low levels, suggesting that shorting volatility has become the consensus trade. The absence of skew at the front end implies a market evenly balanced between upside and downside expectations.

Overall, Bitcoin remains the dominant force in the market. Its dominance increased from approximately 60% to 64% over the quarter. Historically, such phases of high Bitcoin dominance have often preceded sustained altcoin rallies. In both the 2017 and 2021 cycles, altcoin rallies followed BTC all-time highs with a lag of 2–6 months. While recent strength in Ethereum — up 75% from its April lows — is encouraging, it remains too early to determine whether positive sentiment in Bitcoin will fully spill over into the broader altcoin market.

Aggregate Open Interest on BTC options

Aggregate Open Interest on BTC options has increased significantly over May and hit new all-time highs as of the end of June.



Source: The Block. Updated: Jul 2, 2025

BTC DVOL Index Vol of Vol



The Deribit DVOL Index — a measure of 30-day implied volatility akin to the VIX — currently trades near its lowest levels since its inception in March 2021. This reflects a notable degree of complacency in the options market, with limited pricing of extreme upside or downside moves.

Closing Thoughts

The second quarter of 2025 unfolded in three distinct phases. It began with sharp drawdowns as digital assets reacted to global tariff shocks, followed by a strong — but low-conviction — rebound in April. This gave way to a more stable and constructive environment in May and June, marked by gradually rising volumes and a shift in sentiment. Market participation picked up notably, particularly in the derivatives space, and Bitcoin continued to lead the recovery. While altcoins have yet to reclaim prior highs, recent strength in select Layer-1s — especially Ethereum — suggests that the rally may soon broaden beyond Bitcoin. Overall, the steady pace of recovery and improving volume profile point to a cautiously optimistic outlook as we enter the second half of the year.

Individual Fund Commentary below

- BTC alpha FoF – June net performance indicative: 0.40% (1.06% Q2)
- Market neutral FoF - May net performance indicative: 0.52% (1.75% Q2)

Our market-neutral allocations delivered mixed results over the quarter. On the positive side, the strategies demonstrated their ability to manage risk effectively, generating positive returns in what was a challenging market environment. However, classic arbitrage-focused strategies lagged behind their historical averages, largely due to subdued trading volumes, lower volatility, and a general slowdown in market activity.

As noted in previous updates, these strategies depend on active markets to capture inefficiencies in arbitrage, funding spreads, lending rates, and market-making. With compressed volatility and limited directional conviction, both the quantity and quality of tradeable signals declined, making outperformance more difficult.

In contrast, our DeFi exposures performed strongly, with several strategies exceeding their historical return targets — even in the face of declining markets and underperforming governance tokens. We continue to see attractive alpha opportunities in this segment, in part because so few institutional-grade managers are equipped to systematically capture them.

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Looking ahead, the increase in market activity and trading volumes seen in June should help broaden the opportunity set across most of our target funds.

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