

# Q1 2025 Investor Letter

April 2025

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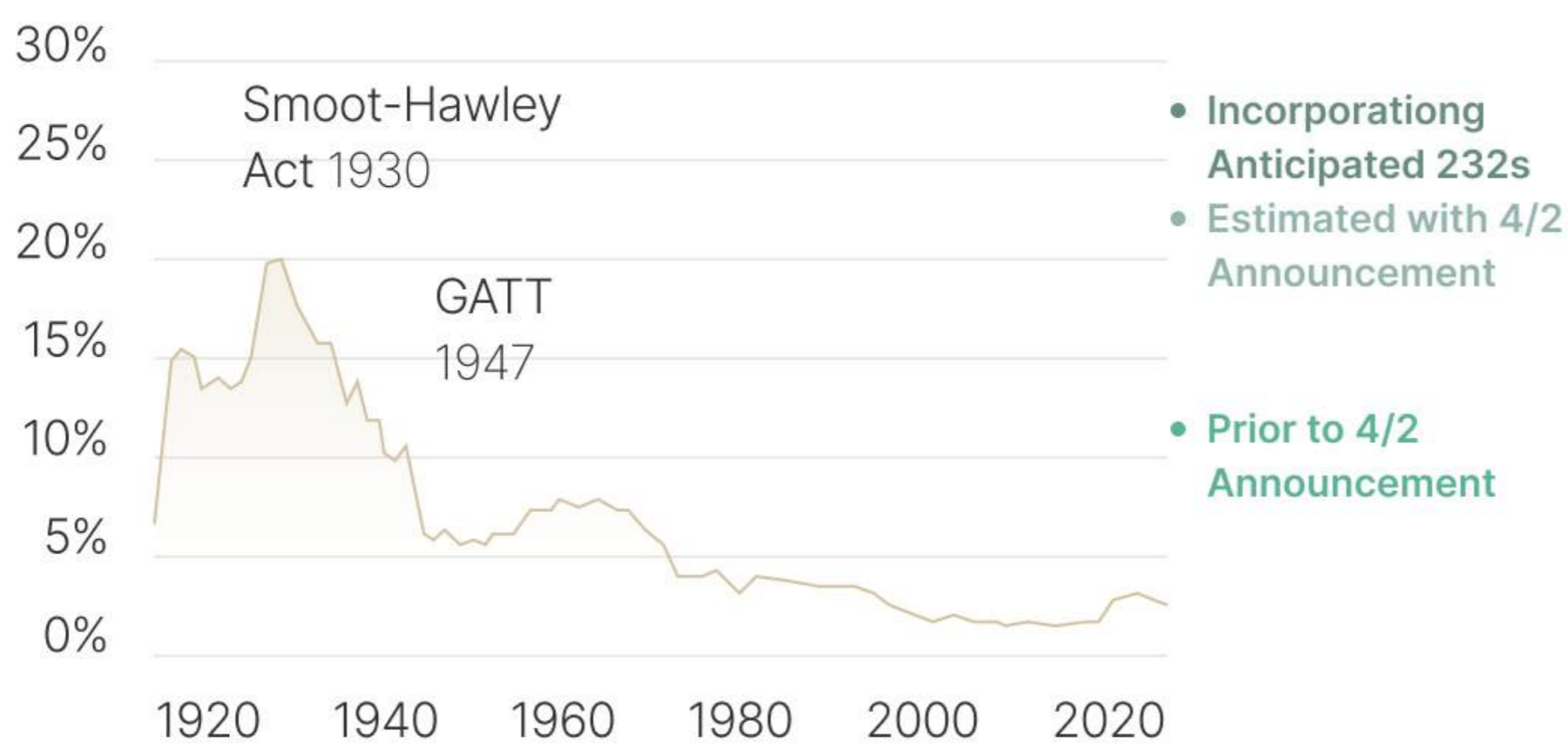
Dear Investors,

The first quarter of 2025 presented a complex landscape for digital assets - one where deteriorating price action belied improving fundamentals. Bitcoin declined nearly 29% from December highs, while altcoins saw more pronounced drawdowns, driven less by industry specifics and more by macro headwinds. Despite the volatility, a decisive shift towards a positive regulatory tone continues - a pivot that we believe lays the groundwork for a more mature and integrated asset class in the quarters ahead.

## Macro & Market Backdrop: Tariff Tremors

Risk sentiment reversed abruptly in January as inflationary pressure returned and the Trump administration escalated its protectionist stance. New tariffs on Chinese goods were quickly followed by warnings of broader levies on European industrial exports, prompting fears of a global trade slowdown. The market responded in kind: rate volatility surged, equities corrected, and risk-off behavior cascaded into crypto markets. The shock wasn't just the mere reintroduction of tariffs, but their scale and unilateral nature. The 25-27% weighted average tariffs announced on "Liberation Day" far exceeded investor expectations of 10-15%.

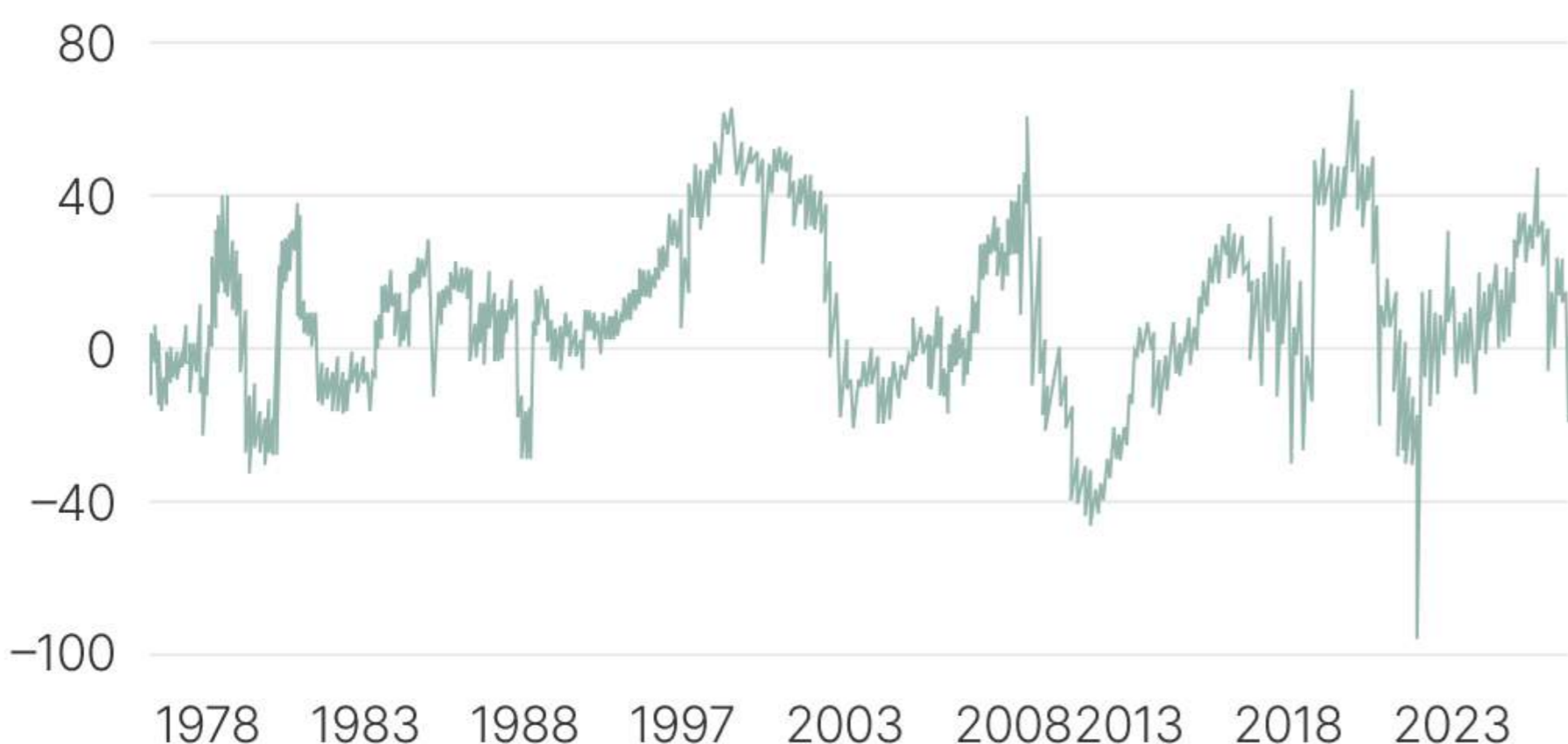
### U.S. Weighted Average Tariff Rate



Source: Census Bureau, U.S. International Trade Commission, Evercore ISI calculations

The S&P 500 dropped over 10% in the two days following the announcement, the VIX surged above 45, and sentiment hit extremes rarely seen.

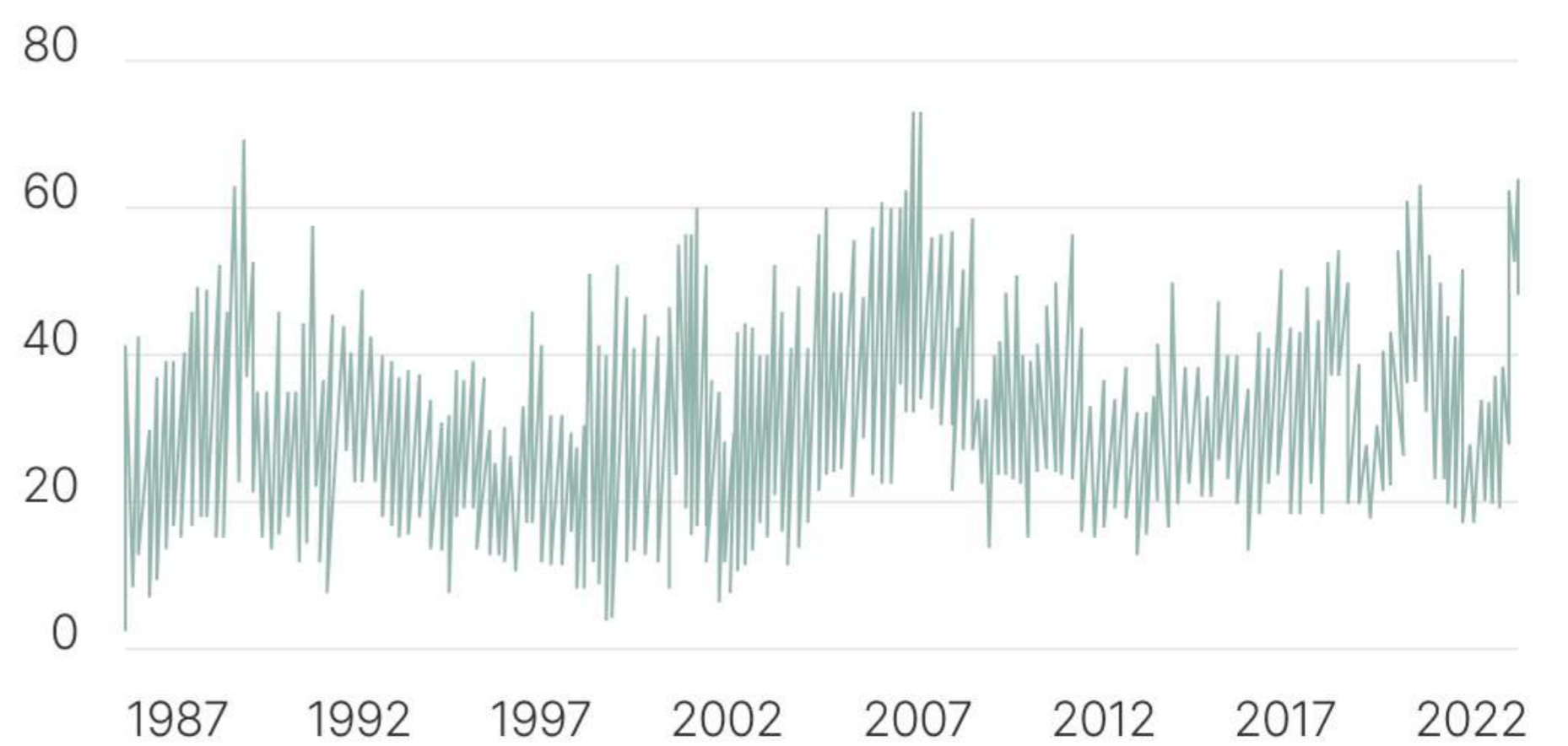
### US Investors' Risk Exposure



Source: Cross Border Capital

Investor positioning is extremely defensive. Investors are decidedly risk-off at the moment.

### Too Many Bears Sets the Stage for a Rebound



■ A All Bears

Source: Bloomberg, Evercore ISI Research

Despite severe market stress, fundamentals haven't cracked. U.S. labor markets remain resilient, and inflation has cooled.

### Ten-year Treasury yields have fallen below 4%

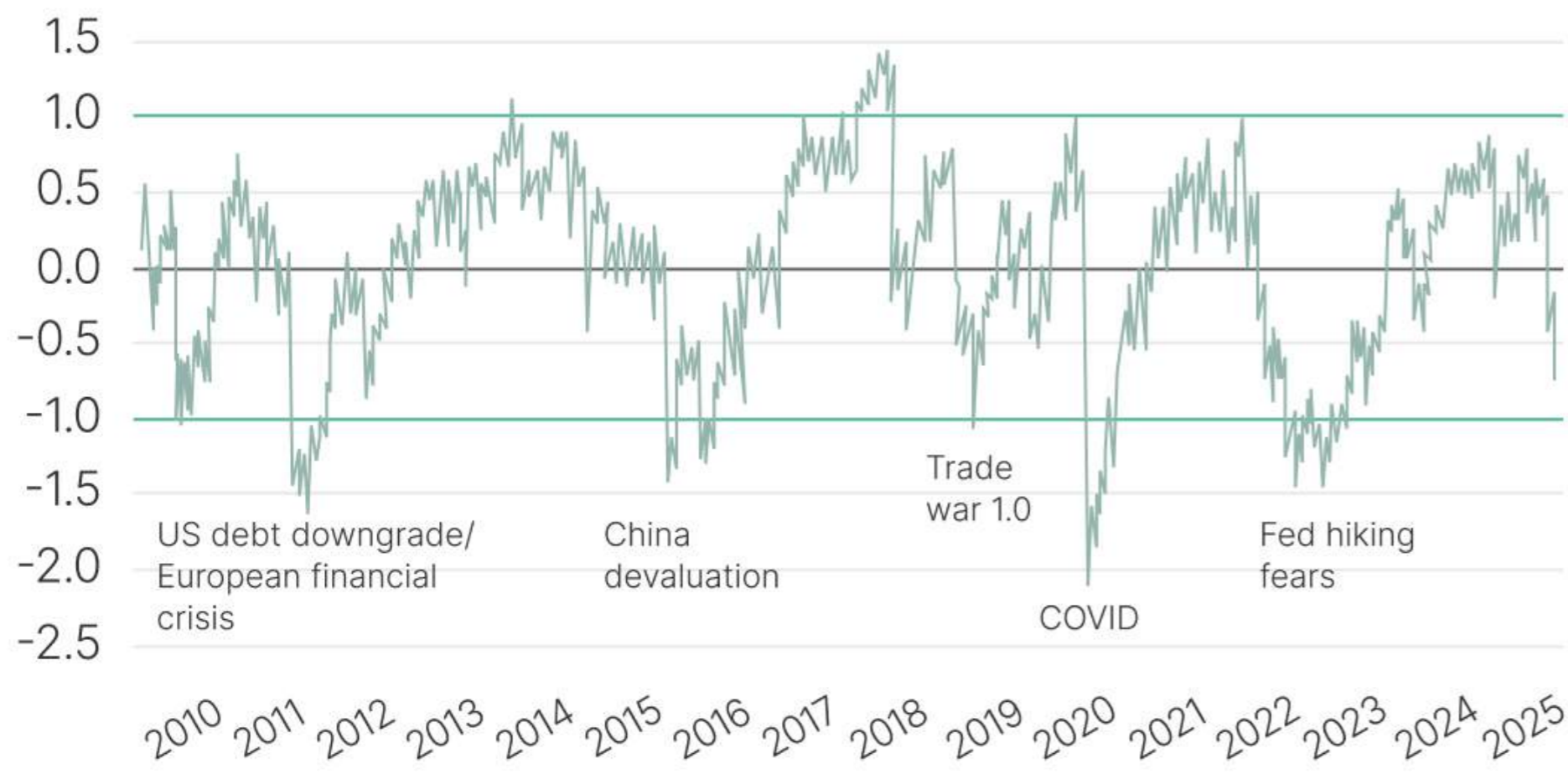


Source: Investing.com

Ten-year Treasury yields have fallen below 4% to their lowest levels in six months, reflecting the broader flight to safety.

### Consolidated Equity Positioning

Wtd average of Z-scores for positioning indicators



Source: Deutsche Bank Asset Allocation

While risk exposure has been taken down significantly, in times of severe stress, it can fall further. Still, much de-risking has already taken place. Should Trump ease his tariff stance, strike meaningful deals with trading partners or the Fed inject liquidity, we can see investor sentiment improve.

\* Weights based on explanatory power in regression of equity performance on indicators

Historically, investing at these times turned out to be rather attractive. Will it be the case again?

### S&P 500 after 2 consecutive days of -4.5\$ declines

	1 Day Later	2 Days Later	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	1 Year Later
October 29, 1929	12.3%	18.21%	4.60%	-5.82%	5.97%	1.13%	6.90%	26.63%	5.24%
November 6, 1929	3.69%	2.77%	-14.31%	3.20%	10.29%	3.01%	7.23%	24.84%	3.30%
November 12, 1929	-5.71%	2.72%	10.52%	10.30%	13.03%	13.67%	22.42%	35.02%	7.69%
July 20, 1933	-8.70%	-8.14%	0.19%	-0.76%	1.80%	2.37%	-3.22%	-8.14%	-7.00%
October 19, 1933	2.90%	-0.46%	11.85%	4.07%	12.54%	19.40%	13.94%	23.58%	4.18%
May 14, 1940	0.97%	1.95%	-4.77%	-10.02%	-9.24%	-3.89%	-1.95%	2.92%	-2.43%
October 19, 1987	5.33%	14.92%	1.26%	13.75%	8.09%	8.07%	10.89%	14.71%	22.94%
November 6, 2008	2.89%	1.58%	0.71%	-16.85%	0.53%	0.54%	-3.87%	0.48%	18.17%
November 20, 2008	6.32%	13.21%	19.11%	16.43%	15.84%	10.57%	2.75%	20.98%	45.05%
March 12, 2020	9.29%	-3.81%	-2.87%	6.02%	11.33%	15.70%	21.02%	34.61%	58.96%
April 4, 2025?									
<b>Average:</b>	<b>2.95%</b>	<b>4.29%</b>	<b>2.63%</b>	<b>2.03%</b>	<b>7.02%</b>	<b>7.05%</b>	<b>7.61%</b>	<b>17.56%</b>	<b>15.61%</b>
<b>% Positive:</b>	<b>80%</b>	<b>70%</b>	<b>70%</b>	<b>60%</b>	<b>90%</b>	<b>90%</b>	<b>70%</b>	<b>90%</b>	<b>80%</b>
<b>Average Max Loss</b>	-1.44%	-1.87%	-4.40%	-8.05%	-8.10%	-8.24%	-8.39%	-11.11%	-11.35%
<b>Average Max Gain</b>	4.39%	6.98%	9.26%	9.83%	12.03%	13.88%	15.33%	23.38%	30.26%

Source: Subu Trade

# Regulatory Developments: Policy Momentum Takes Shape

While price action was discouraging, the policy backdrop for the crypto-space improved markedly:

- President Trump signed an executive order establishing a Strategic Bitcoin Reserve.
- Paul Atkins, a crypto-supporter, has been approved as the next SEC Chairman.
- Lawsuits from the SEC against several crypto focused firms have been dropped.
- The BITCOIN Act was introduced.
- Stablecoin legislation is advancing.
- Several U.S. states passed Bitcoin-friendly laws.

However, the headlines failed to move crypto higher. BTC peaked in mid December and has been on a steady decline since then, dropping 29% peak to trough. The crypto market ended the year at the height of euphoria following the Trump election win and while bullish news continued to come out of the Trump administration, it failed to move the market higher.

## Bitcoin Price Chart



## Daily Exchange Volume (7DMA)



Source: The Block

Trading volumes petered out as prices began to stall. Notice trading volumes peaking along with prices.

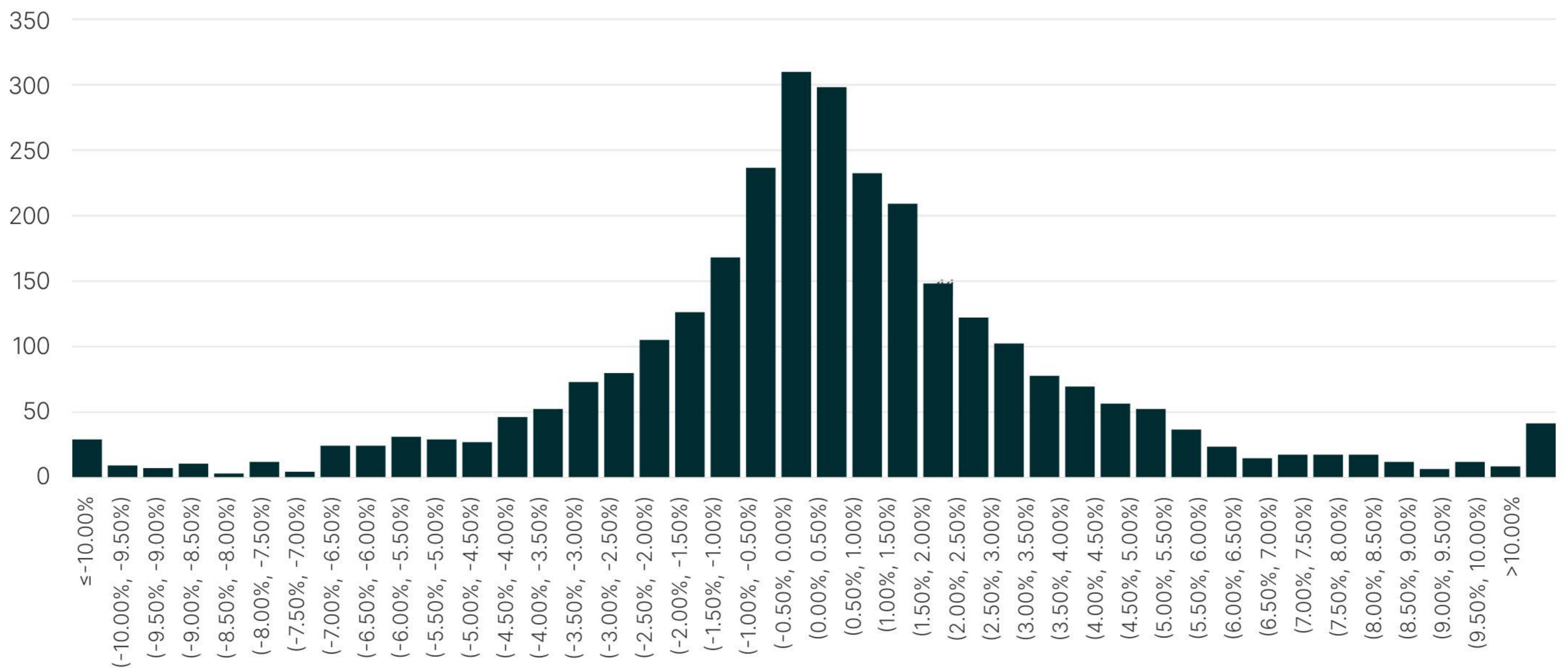
## Aggregated Open Interest of Bitcoin Futures



Source: The Block

Open interest peaked at the end of December and has been falling throughout the year.

### BTC Daily Returns Since 2017



This points to a lack of energy and participation in the market. Digital assets are extremely reflexive and tend to overshoot on positive catalysts and then retrace for long periods of time afterwards until the next catalyst emerges. In addition, Bitcoin returns historically have been positively skewed with fatter right tails and missing the best return days in the market significantly reduces an investor's return.

## Forward Outlook: From Turbulence to Transition

The tariff overhang will not last forever. We have decent conviction in this as if these tariff levels were to stand, the global and domestic growth would be significantly impaired. It takes time to reshore, to build up manufacturing competencies and bring new supply-chains online. It would take a clear and stable environment for companies to commit long-term capital to bring these things about. In the meantime, small, medium and large businesses dependent on global trade would come to a standstill as the tariffs come into effect.

Impacted nations have threatened retaliatory tariff measures but trade wars are mutually destructive. All of this points to the likelihood that nations will come to the negotiating table to reach bilateral trade agreements with the US. Trump has held steadfast in his stance while markets meltdown, but eventually he will want to do deals. The European Union has already signalled its readiness to negotiate rather than risk escalating a potentially damaging tit-for-tat tariff war. While a zero-for-zero tariff policy would represent the best possible outcome for markets, we do not consider it a realistic prospect in the short term.

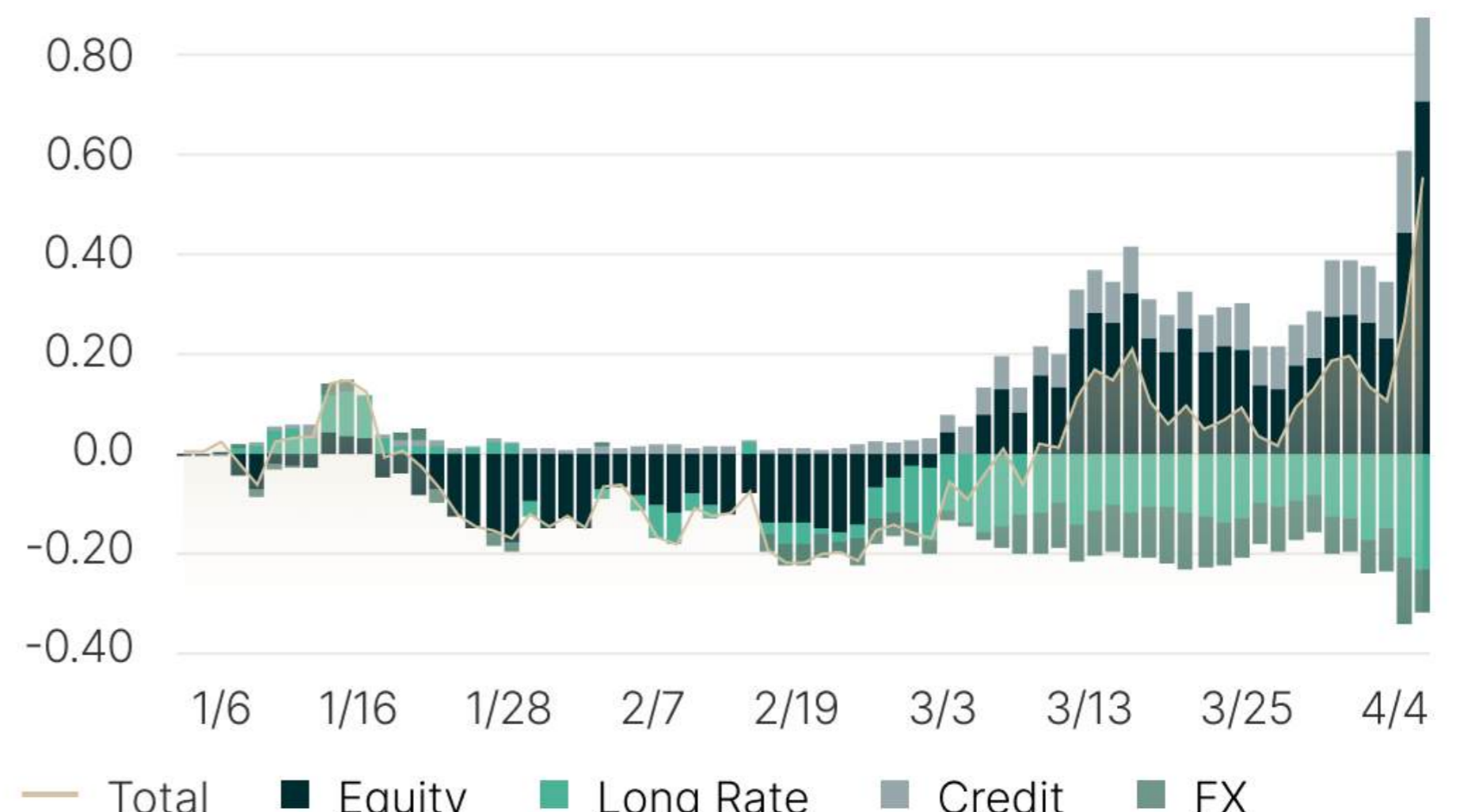
On the global liquidity front, China and other global players are already shifting to Keynesian-style stimulus. While the Fed remains hesitant to relaunch QE, pressure is building. Financial conditions have begun to tighten.

### Augur US Financial Conditions



Source: Augur Infinity

### Year-to-Date Change



Source: Augur Infinity

The introduction of tariffs has placed the Federal Reserve in a difficult position. By nature, tariffs are inflationary and can dampen growth, potentially reigniting inflationary pressures and paving the way for a stagflationary environment. At the same time, the Fed's dual mandate requires it to consider mounting recession risks and increasingly tighter financial conditions. Stress in the repo market is already emerging, which could compel the Fed to act.

For now, Chair Powell is keeping his cards close to his chest, showing little inclination to come to the market's rescue. Nevertheless, markets are increasingly pricing in a more accommodative stance. Expectations have shifted from just two rate cuts to as many as five by the time of writing. However, consistent with Powell's recent comments that the Fed's policy path is "not clear at this time," we believe market optimism may be premature and subject to revision. A rate cut before June appears unlikely at this stage.