C100 DIGITAL

# HALF–YEAR REPORT

## SEPTEMBER 2022

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## Introduction

Some post-Covid growth in the global economy was stifled by conflicts across Eastern Europe and Asia and inflation worries. Prolonged military activity and international sanctions caused natural gas and oil prices to soar worldwide. Meanwhile, the world supply chains are still in recovery mode that is likely to take longer than initially expected.

Western economies are feeling the effects of high levels of inflation. This, in turn, affects investor confidence as uncertainty remains the prevalent market sentiment throughout the current year.

All the global macro factors impacted crypto markets in a similar fashion.  2022 started off with a steep fall in crypto (similar to traditional stock markets).  Both Bitcoin and Ethereum prices reached record lows since the last bull run. As of July, we have witnessed over a 20% decline across S&P, Nasdaq, and much more in crypto, starting an official bear market. (for most indices, a bear market is called when asset prices fall more than 20% below their all-time highs).

## Crypto Winter

Enthusiasts and experts have frequently used the phrase crypto winter to describe the performance of the global cryptocurrency market in 2022 so far. As the term suggests, crypto winter refers to a long, sustained downturn in cryptocurrency prices across the market.

This period directly coincides with an overall bear market (as explained above), and a global recession caused by volatile geopolitical conditions and accelerated inflation. Halfway through the year (July 2022), the two biggest cryptocurrency tokens on the market - Bitcoin and Ethereum, were both down more than 50% off their all-time highs seen in 2021.

Bitcoin fell more than 70% from it's all-time high of $69,000 in 2022. Following a steep drop in June, the prices have remained well below $25,000 as of this writing in September. Poor market performance directly affected trade volume on leading platforms. Largest American exchange - Coinbase decided to lay off 18% of its U.S workforce to combat losses and prepare for what could be a grimmer phase of the crypto winter.

Sustained volatility and looming liquidity concerns, both in part a direct result of global inflation, are likely to cause the crypto winter to extend well into the second half of 2022.

## Terra Luna Crash

Apart from broad macroeconomic trends, even more crypto market pressure came from the sudden crash of TerraUSD, the Korean stablecoin more commonly known as the UST and its sister token LUNA.

Being a stablecoin, the UST's value is pegged to the US dollar, which means that the price of 1 UST should be equal to 1 USD at all times (ideally, of course). The UST has not been directly secured against a federal currency or commercial papers, as is the case with most stablecoins such as Tether.

Instead, it used a complex algorithm, involving other tokens (LUNA), to maintain its value against the US dollar. If the UST's value does plunge below a dollar, holders can burn their coins and exchange them for a dollar's worth of LUNA. While the algorithm worked perfectly in stable markets, it could not sustain against the financial turbulence of 2022 and pressure exerted by market traders on the UST algorithm.

As the value of the UST plunged below 30 cents in May, large LUNA investors cashed out, causing a sudden spike in supply. This caused the value of the LUNA to drop by a historical 99.9999%, bringing it down to $0.00001655 from around $81 earlier in May.

LUNA's historic crash led to authorities placing more attention on stablecoins and other crypto derivates, with the Fed flagging them as potential market risks in their first biannual report for the year. According to the Fed, the sector could potentially run into risks that can severely affect crypto and even spill over to traditional markets.

Naturally, the Fed's warning led several large investors (including hedge funds and other institutional players) to cut down on their stablecoin investments. Stablecoins account for close to 15% of the crypto market, which means that any financial trouble that the sector faces is likely to affect the crypto market as a whole.

## Liquidity concerns

High liquidity, in general, is an indicator of a stable market. This is because highly liquid assets can be easily bought or sold in sizable quantities without affecting their prices too much. Low liquidity, on the other hand, suggests a more turbulent and volatile market.

Both the global inflation and the Terra Luna crash have led to dangerously low liquidity levels in crypto markets, which is likely to keep them volatile throughout 2022. This volatility directly affects investor confidence which leads to low retail and institutional investments, causing more negative pressure on prices.

Another reason for crypto's reduced liquidity can be the general risk-off mood seen in traditional markets around the world. Over the last couple of years correlations between equity and crypto markets became high. So the current risk-off sentiment of traditional markets is suppressing investor demand in crypto space.

A good, quantifiable measure of crypto's performance in 2022 so far is the ROI generated by leading crypto indices.

## Performance and benchmarks.

January 2022 was the last time we wrote about the index and C100 coin's performance. During last year's bull cycle, our strategy was the best of the existing indexes but was never tested by the significant drawdown that we are currently in.

| Name | Number of Coins | July 1, 2022 Return | Tradable |
|---|---|---|---|
| **C100 Digital Coin** | 100 | 14% | Y |
| **BTC** | 1 | -34% | Y |
| **S&P MegaCap (BTC+ETH)** | 2 | -23% | Y |
| **Invictus – Crypto 20** | 20 | not available | Y |
| **Nasdaq Crypto** | 8 | -68% | N |
| **DeFi Pulse** | 17 | -39% | Y |
| **S&P Broad Digital Market** | 240 | 20% | N |
| **S&P Large Cap** | 30 | -23% | N |
| **Bitwise Crypto C10** | 10 | not available | Y |

Is C100 simply an excellent bull market strategy and would suffer more during the down cycles? Let's explore what happened to C100 and the competition in 2022.

We deliberately have chosen the end point of the interval for the calculation of performance as July 2022 - the local bottom in crypto markets. The beginning of the interval - January 2021 (the appearance of the index).

Unfortunately, data on Bitwise 10 and Invictus is not publicly available, so we can only approximate their performance, given that the number of coins there is similar to the S&P Large Cap index composed of approximately 30 coins. The latter (SPLC) has been down by 23 percent for this period of a year and a half.

Tradeable index Nasdaq Crypto and non-tradeable index DeFi Pulse were the worst performers during the observed period, being down by 68% and 39%, respectively. This was followed by BTC itself being down by 34% and the S&P MegaCap (which only tracks Bitcoin and Ethereum) being down by 23%. The only index that gives a similar return to C100 is the widest but non-tradable S&P index, which tracks 240 coins.

Thus, we find C100 on top again, and now tested by both bull and bear markets.

## Conclusion

The global inflation and the slowdown of the economic activity have led to uncertain retail investment in both traditional and crypto markets. This has caused the already volatile market to see more violent than normal changes in price, with leading cryptocurrencies like Bitcoin and Ethereum dropping over 50% off their peak values in early 2022.

The current crypto winter seems to have been caused by several factors, both macroeconomic and geopolitical, which are likely to remain fickle for the rest of the year. As global inflation persists, crypto markets are likely to remain bearish and volatile for the foreseeable future.

While the short and medium term of the crypto market is uncertain, C100 continues to provide a better investment vs competition - both more promising and safer.

## References


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