BITFINEX Alpha

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EXECUTIVE SUMMARY

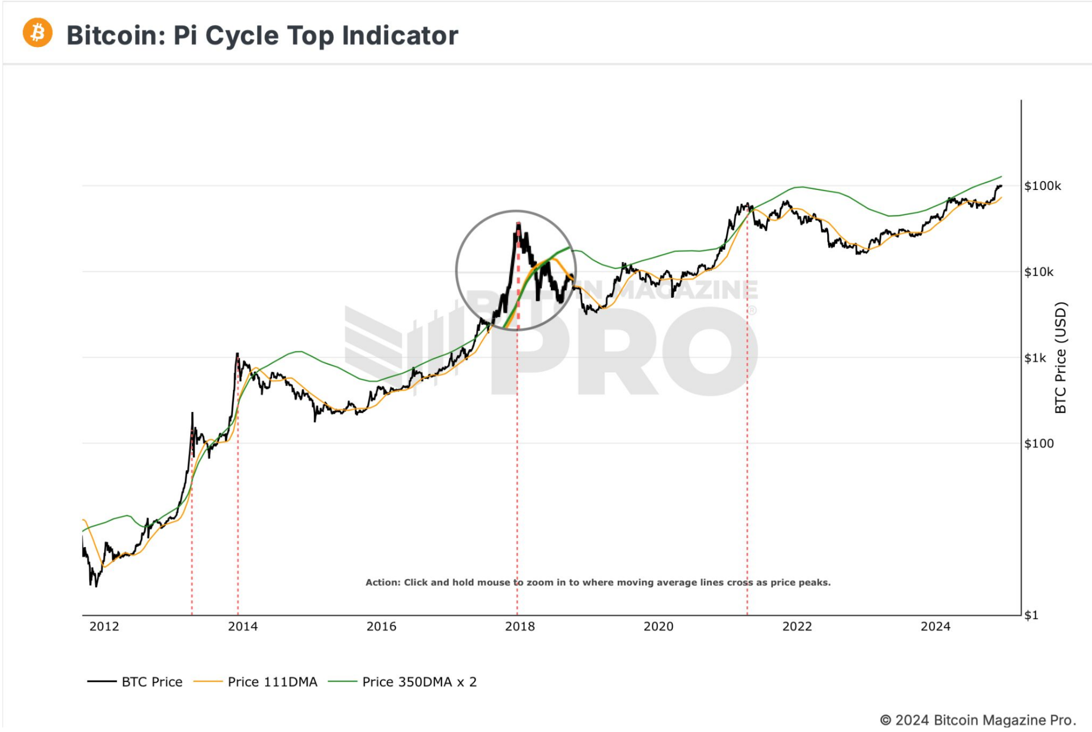
Outlook for 2025: Expect More New Highs, but Volatility Too

Bitcoin has achieved unprecedented milestones, surpassing a $2 trillion market capitalisation and $100,000 for the first time. Currently, 94.25 percent of the total 21 million BTC supply has been mined, with Bitcoin now the seventh-largest asset globally, overtaking silver and Saudi Aramco in terms of market capitalisation. Notably, ETFs have emerged as a dominant force in BTC markets in 2024, holding over 1.13 million BTC, with cumulative US spot ETF inflows reaching $35.5 billion. This week's *Bitfinex Alpha* is our final edition for 2024, and as we head into the Holiday Season we have an optimistic view of the new year ahead.

From the bear market lows of $15,487 in November 2022, Bitcoin has surged over 573 percent, with its price appreciating 130 percent year-to-date. The current bull market reflects strong institutional demand, led by ETFs and spot accumulation. Historical data suggests we are mid-cycle, following the April 2024 halving, with the market likely to peak around Q3–Q4 2025, approximately 450 days post-halving.

Cycle Indicators

Metrics like MVRV, NUPL, and the Bull-Bear Market Cycle Indicator indicate we remain in the bull phase but far from euphoric peaks. The Pi Cycle Top and 4-Year Moving Average models project potential cycle tops between $145,000 and $189,000. On a historical basis, diminishing returns are moderating the kind of explosive gains we saw for BTC in previous cycles.



Key Trends and Future Outlook

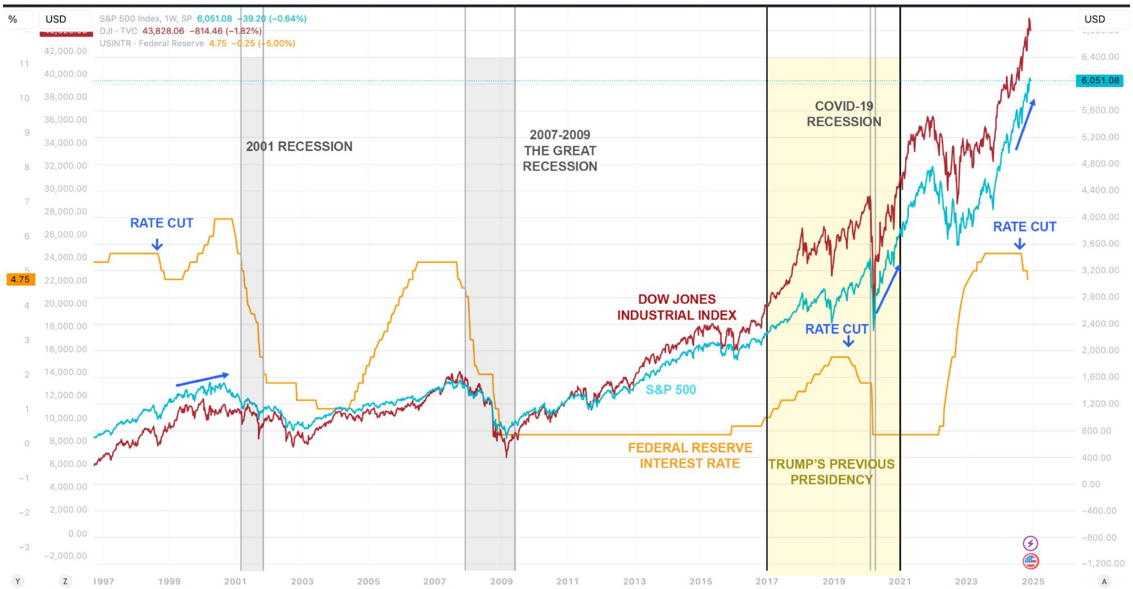
- Our view is that any corrections in 2025 will remain mild, thanks to institutional inflows.
- Halving Year Effect: Historically, post-halving years have seen the strongest rallies.
- Cycle Targets: Minimum price estimates stand at $145,000 by mid-2025, potentially stretching to $200,000 under favourable conditions.

While volatility is expected in Q1 2025, the broader trend points to further price appreciation, supported by ETFs, institutional adoption, and Bitcoin's increasing prominence as a global asset. Investors should however remain vigilant for signs of overbought conditions as Bitcoin approaches its cycle top.

BTC price performance in 2025 also takes place against the backdrop of a US economy that is seeing gradual normalisation across key sectors. The labour market continues its steady adjustment, with a modest rise in unemployment to 4.2 percent driven by increased supply of workers, rather than job losses. Wage growth remains robust at 4 percent annually, supporting consumer spending, while gains in sectors like healthcare and leisure highlight the economy's resilience. The Federal Reserve is expected to proceed cautiously with rate cuts, balancing the cooling job market and persistent inflationary pressures.

In the housing market, a projected 2.4 percent increase in home prices signals stable demand despite elevated mortgage rates, which, while declining slightly, remain restrictive for affordability. Improvements in housing supply and rental inventory aim to address structural shortages, but affordability challenges persist, particularly for first-time buyers. These dynamics create opportunities for construction-related industries while constraining high-end market segments.

Inflation remains a central focus, with core CPI steady at 3.3 percent YoY, reflecting persistent pressures in vehicle prices and durable goods. The Fed's restrictive stance, despite planned rate cuts, underscores the difficulty of achieving its 2 percent inflation target. Strong economic growth, including a projected 3.8 percent Q4 annualised rate, supports cautious monetary easing but leaves room for recalibration should inflation persist.

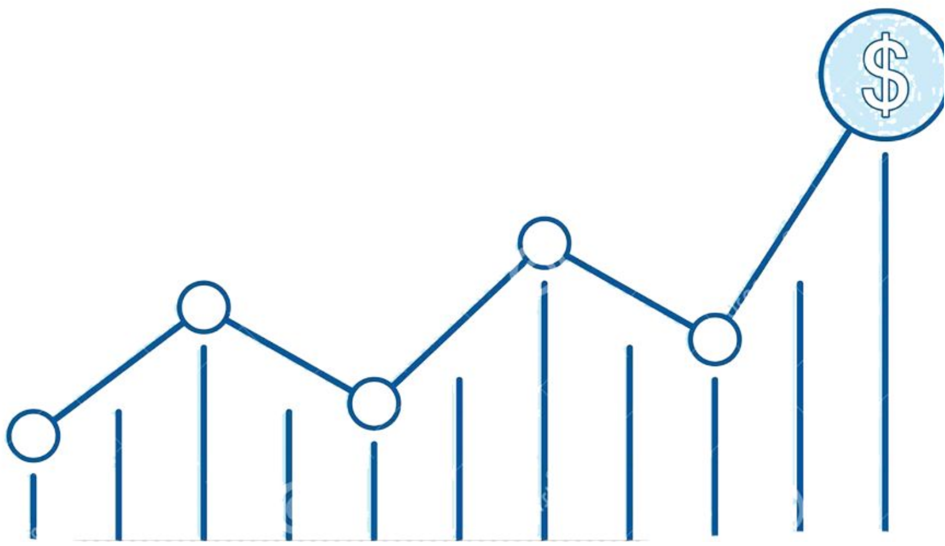


The stock market outlook under President-elect Donald Trump is buoyed by pro-growth policies, including tax cuts and deregulation, which benefit industrials, financials, and consumer discretionary sectors. The housing market's moderate growth and supply improvements could also support equities that are exposed to the sector, though high borrowing costs may limit gains in affordability-sensitive segments. Historical trends suggest potential market optimism following Fed rate cuts, with the S&P 500 and Dow Jones Industrial Average already posting strong post-cut gains. However, risks like inflationary pressures, geopolitical tensions, and fiscal constraints could temper long-term market performance.

In sum, 2025 presents a cautiously optimistic economic environment marked by steady growth, persistent structural challenges, and strategic policy adjustments. While normalisation across sectors offers stability, external risks and inflationary pressures will remain critical considerations for sustained momentum.

We would like to wish all our readers a highly enjoyable holiday season and we look forward to coming back in the New Year with continued analysis and insight. Happy Holidays!

INDEX



MARKET SIGNALS

The Journey We've Been On

As we approach 2025, and the 16th year since Bitcoin was first used to make a digital transaction, the cryptocurrency has grown to become the seventh-largest asset globally, with a $2 trillion market capitalisation. Since its inception, the Bitcoin network has processed 1.12 billion transactions, settling an impressive $131.25 trillion in transfer volume.

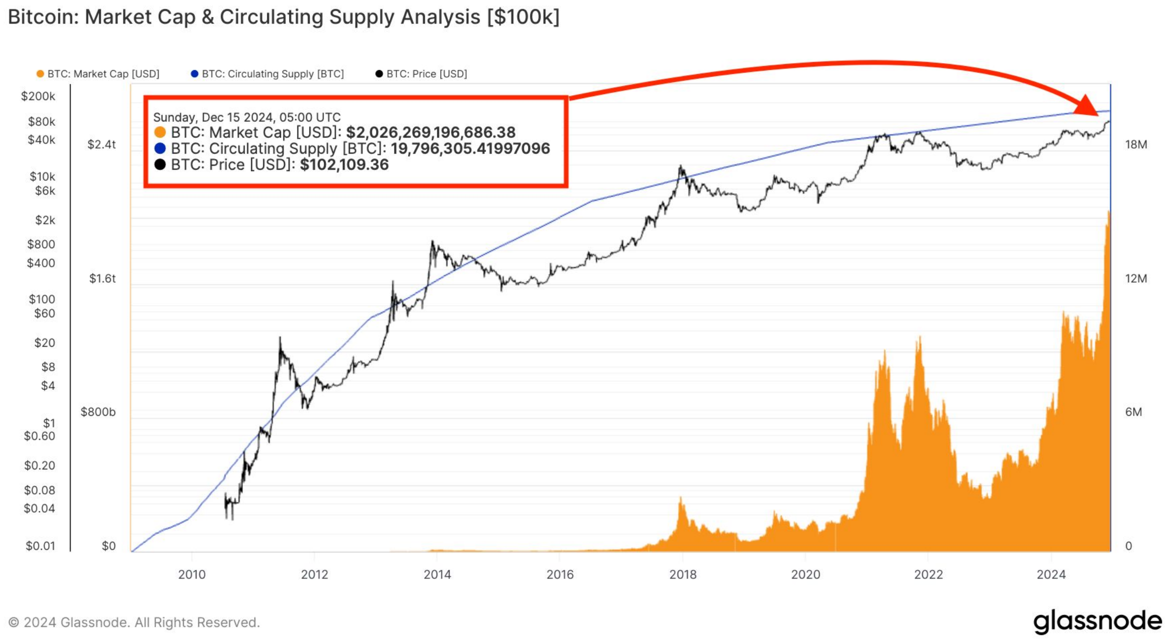


Figure 1. Bitcoin Market Capitalisation and Total Circulating Supply. (Source: Glassnode)

As of the time of writing, a total of 19,796,305 bitcoins have been mined, representing 94.25 percent of the ultimate 21 million supply cap. Bitcoin today has a market capitalisation that has convincingly overtaken both silver, valued at approximately $1.72 trillion, and Saudi Aramco, the oil giant, which has a market cap of around $1.84 trillion.

This achievement highlights Bitcoin's growing prominence as an asset class, challenging traditional store-of-value assets like precious metals and even major oil companies. With a finite supply and increasing institutional adoption, Bitcoin continues to gain ground as a key player in the global financial landscape.

A closer examination of Bitcoin's supply distribution reveals a diverse ownership base, ranging from retail investors to institutional-scale holders. This broad distribution underscores Bitcoin's growing acceptance as a store of value and a potential medium of exchange, with various market participants holding significant portions of the asset. The ongoing maturation of the network and its expanding user base highlight Bitcoin's evolving role within the global financial landscape, positioning it as a key player in the future of digital asset industry.

Figure 2. BTC/USD Daily Chart. (Source: Bitfinex)

The Bitcoin price has surged over 573 percent since the bear market lows of $15,487 in November 2022. According to on-chain and timeline-based models, we are currently in the middle of the bull market, a phase that typically follows a pullback after the Bitcoin halving.

In 2024 we saw the launch of several spot Bitcoin ETFs from prominent issuers and asset managers, including BlackRock, Fidelity, and Franklin Templeton. ETFs launched in other countries, such as Hong Kong, also attracted substantial inflows, but US Bitcoin ETFs led the charge in their first year of trading. These ETFs have significantly outperformed expectations, even surpassing the initial performance of Gold ETFs following their launch. The net inflows into US based spot Bitcoin ETFs aggregated across all providers amounts to $35.5 billion. Blackrock's IBIT Bitcoin ETF has more assets under management than its Gold ETF counterpart.

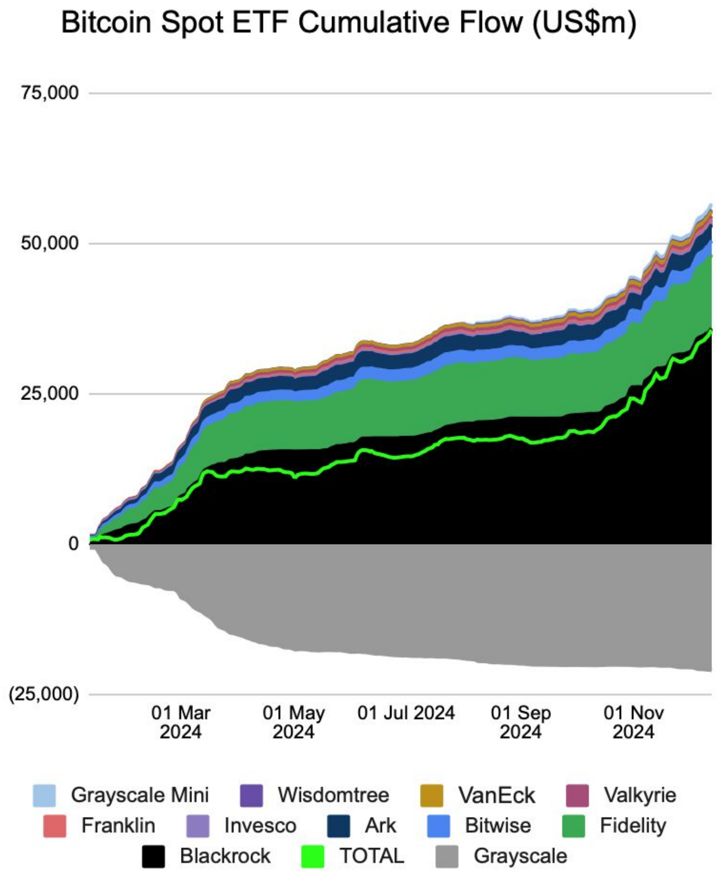


Figure 3. Bitcoin Spot ETF Cumulative Flows Across All Issuers. (Source: FarsideUK)

The BTC ETFs are one of the largest cohorts of Bitcoin holders at over 1.13 million BTC.

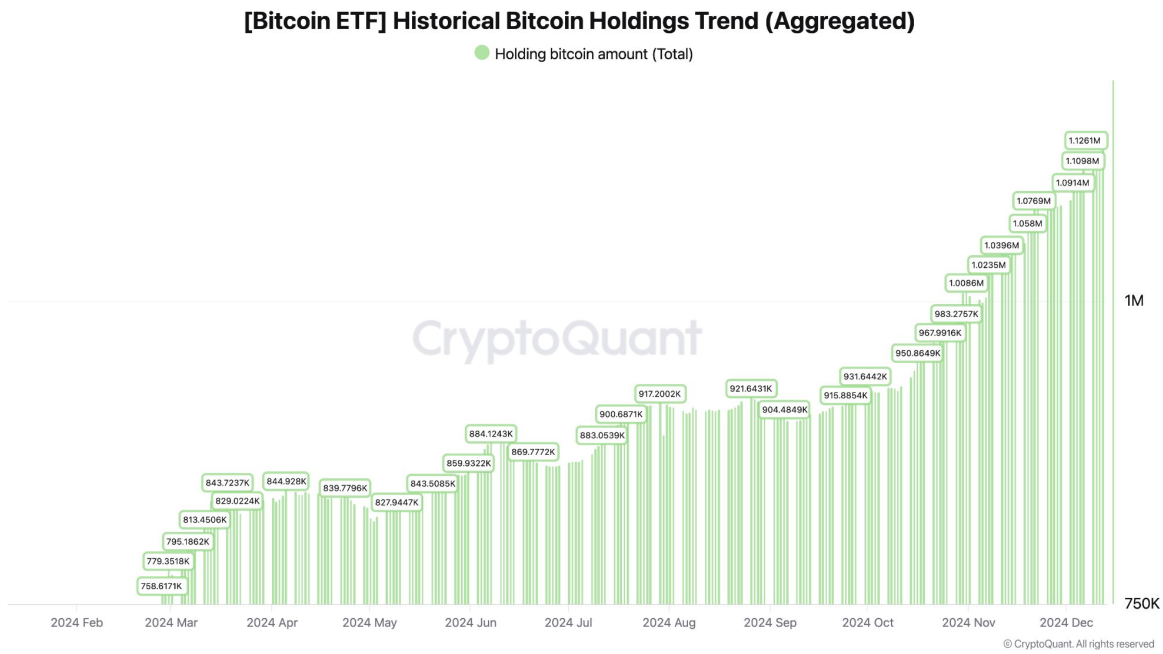


Figure 4. Net Bitcoin Holdings For US Based Bitcoin ETFs. (Source: CryptoQuant)

The Figure above highlights the accumulation trend of total Bitcoin holdings in Bitcoin ETFs over time. The bars represent the total holding amounts at different periods, emphasising the overall growth trend in Bitcoin ETF holdings.

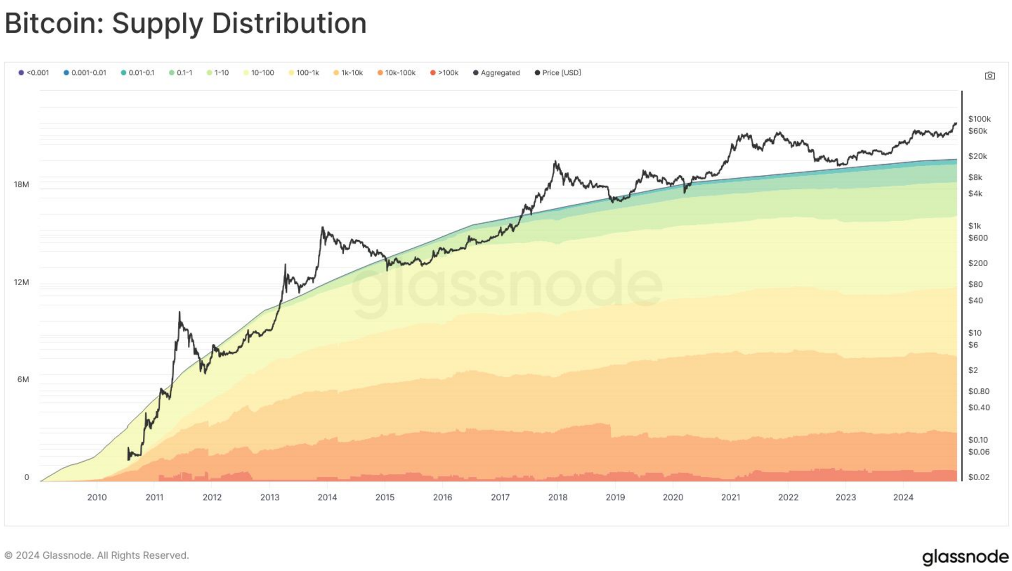


Figure 5. Bitcoin Supply Distribution Across Various Investor Cohorts Based On Wallet Size (Source: Glassnode)

As of the most recent data, Bitcoin's total mined supply is distributed across various wallet size cohorts (based on *Glassnode data)*. The breakdown is as follows:

- <0.001 BTC: 5,491 BTC (0.027 percent)
- 0.001–0.01 BTC: 42,683 BTC (0.216 percent)
- 0.01–0.1 BTC: 271,641 BTC (1.373 percent)
- 0.1–1 BTC: 1,077,839 BTC (5.446 percent)
- 1–10 BTC: 2,093,845 BTC (10.581 percent)
- 10–100 BTC: 4,306,780 BTC (21.761 percent)
- 100–1,000 BTC: 4,342,868 BTC (21.935 percent)
- 1,000–10,000 BTC: 4,693,216 BTC (23.716 percent)
- 10,000–100,000 BTC: 2,309,654 BTC (11.671 percent)
- >100,000 BTC: 647,934 BTC (3.274 percent)

It is noteworthy that a significant portion of the large-sized wallets, particularly those holding 1,000 BTC or more, are linked to exchanges, Bitcoin ETFs, and large institutional holders like MicroStrategy. These entities represent collective ownership, as they are often composed of thousands to millions of individual customers and shareholders, adding substantial institutional weight to Bitcoin's market dynamics.

Looking ahead, we believe the current run-up to over $100,000 has captured a significant portion of Bitcoin’s price appreciation for this cycle. Our minimum price target for Bitcoin remains at $140,000 - $200,000 around mid-2025, a projection based on several factors that we will discuss further in this edition of the *Bitfinex Alpha*.

Stage in the Cycle

Bitcoin has been actively traded for over 5,261 days and through four halvings, during which its price has surged from mere fractions of a cent to $100,000. Throughout this journey, Bitcoin has experienced 72 positive monthly candles (including December 2024), with an average gain of 37.4 percent, and 71 negative monthly candles, averaging a decline of -14.2 percent. Based on the halving cycle, we are currently in a bull market.

Figure 6. Bitcoin Log Graph and Halving Events Timeline

Bitcoin experienced its fourth halving in April 2024, marking a significant milestone in its ongoing price cycle. The figure above compares Bitcoin's price trajectory in the current cycle to that of previous cycles, with dark green vertical lines indicating the dates of past halving events. Based on the estimated date of the next Bitcoin halving in 2028, we are approximately 16.6 percent into the current cycle, with the highlighted green area showing where Bitcoin's price stood at the same point in previous cycles. Based on the halving cycle, we are currently at the middle of the bull market where we can expect a correction some time in Q1 2025 based on past cycles.

The red dots above indicate when Bitcoin reaches a new high, offering a visual representation of Bitcoin's growth pattern. While the definition of bull and bear markets can vary depending on the source, generally, the bear market bottom tends to occur about midway through the four-year cycle between halving events. Historically, a new high is typically formed 5-7 months after a halving, followed by a cycle top usually about 13-17 months after the halving, after which Bitcoin experiences a significant correction (often 60-80 percent) to establish the next bear market bottom. The cycle top is usually around 450 days post halving on average, which would put the timeline for our current cycle’s top around July 2025.

This cycle, however, has been unique. Bitcoin reached the March all-time high (ATH) before the halving had even taken place, which we attribute to the surge in demand from a new class of investors gaining access to Bitcoin through ETFs. Additionally, the first distribution range of the cycle, where long-term holders (LTHs) liquidate holdings while short-term holders (STHs) increase their positions, has been extended longer than usual, likely due to the influx of supply hitting the market. This extended distribution phase has contributed to a slower market adjustment compared to previous cycles.

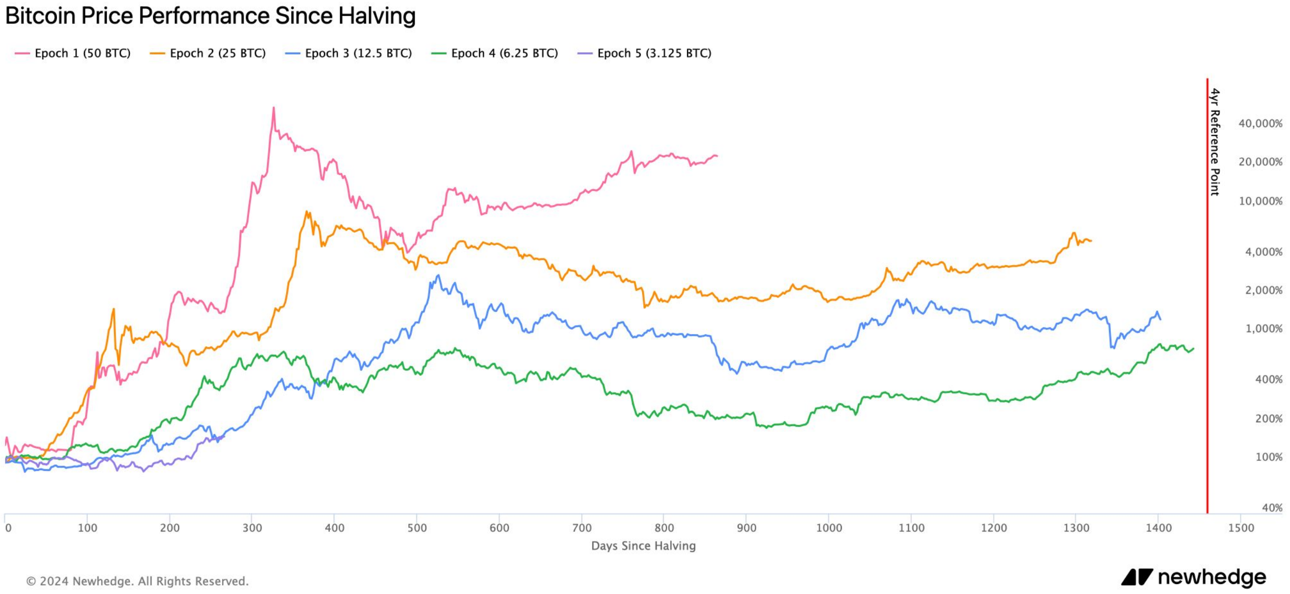


Figure 7. Bitcoin Price Performance Since Halving Events. (Source: Newshedge)

Bitcoin's history shows a recurring theme: notable price corrections often precede each halving event. These corrections are followed by varying price movements, depending on broader market conditions.

Pre-Halving Price Movements:

- 2020 Halving: Bitcoin experienced a 20 percent dip just days before the halving, followed by a swift recovery. This created a pattern where a pre-halving correction was followed by a strong post-halving increase.
- 2016 Halving: A smaller 14 percent dip occurred before the halving, but instead of an immediate recovery, Bitcoin experienced a 27 percent drawdown shortly after.
- 2012 Halving: The price movement before the halving was less dramatic, with a minor 5-6 percent dip. The broader uptrend remained largely unaffected.

These varying degrees of pre-halving dips highlight that while price corrections before a halving are not uncommon, the aftermath differs significantly depending on the market context.

A critical observation across Bitcoin's halving cycles is that the magnitude and duration of the post-halving rallies tend to exceed the gains seen in the pre-halving period.

Post-Halving Price Movements:

- 2012 Halving: The price followed a more stable trajectory, with minimal disruption to the ongoing bull trend, eventually resulting in an extended period of growth moving from under $12 at the time of halving to form a cycle high of $1220 in December 2013.

- 2016 Halving: Initially, Bitcoin corrected 21 percent from a pre-halving high of over $700. However, shortly after BTC embarked on a sustained uptrend, which led to the famous bull run that peaked in 2017 near $20,000 reflecting a 3000 percent gain from halving to the cycle high. The cycle followed a common Bitcoin trend: rapid growth, a cooling-off period with a 40 percent decline, a second peak, and then a significant retracement from the cycle high to $3200 which was an 84.4 percent decline to form the bear market bottom before the next cycle.

- 2020 Halving: While the pattern was less pronounced, Bitcoin's price still peaked twice post-halving — once during an initial surge of 1474 percent to May 2021 before a 55 percent correction. The second surge peaked in November 2021 to form the cycle high at $68,958.

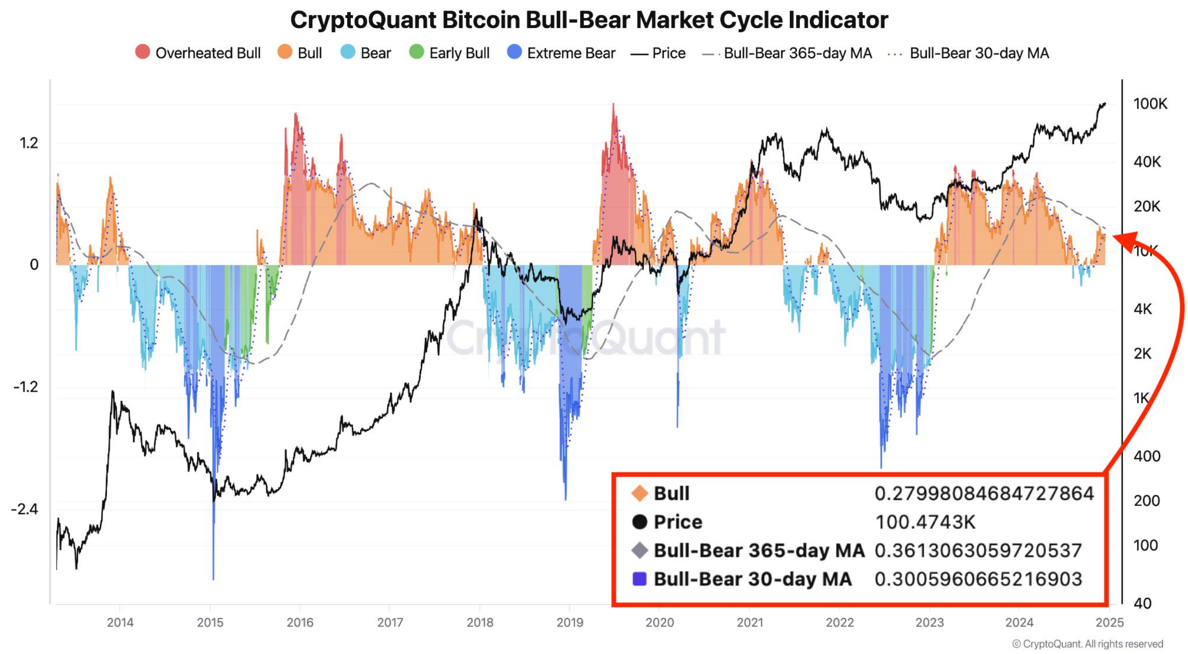


Figure 8. Custom Bitcoin Bull-Bear Market Momentum Based Cycle Indicator (Data Source: CryptoQuant)

The Bull-Bear Market Cycle Indicator is a momentum metric that gauges the market's direction by measuring the difference between the Profit & Loss (P&L) Index and its 365-day moving average. This difference reflects the market's short-term momentum and helps to determine whether the market is in a bullish or bearish phase. A crossover can signal shifts in market momentum.

When the P&L Index is above its 365-day moving average, it typically indicates that the market is in a bull phase, with strong upward momentum. Conversely, when the P&L Index is below the 365-day moving average, it suggests the market is in a bear phase, characterised by downward pressure.

The P&L Index is a composite metric that combines signals from three key on-chain indicators:

1. Market Value to Realised Value (MVRV) Ratio: This ratio compares Bitcoin's market capitalisation to its realised capitalisation, which is the aggregate value of all BTC at the price they were last moved. A high MVRV ratio suggests the market is overvalued, signaling a potential market top, while a low ratio could indicate undervaluation and a market bottom. The current Z score value for the MVRV metric is 3.5 while values above 7 indicate peak bull market regimes. This suggests we are about half way in the post-halving regime in comparison to previous cycles.

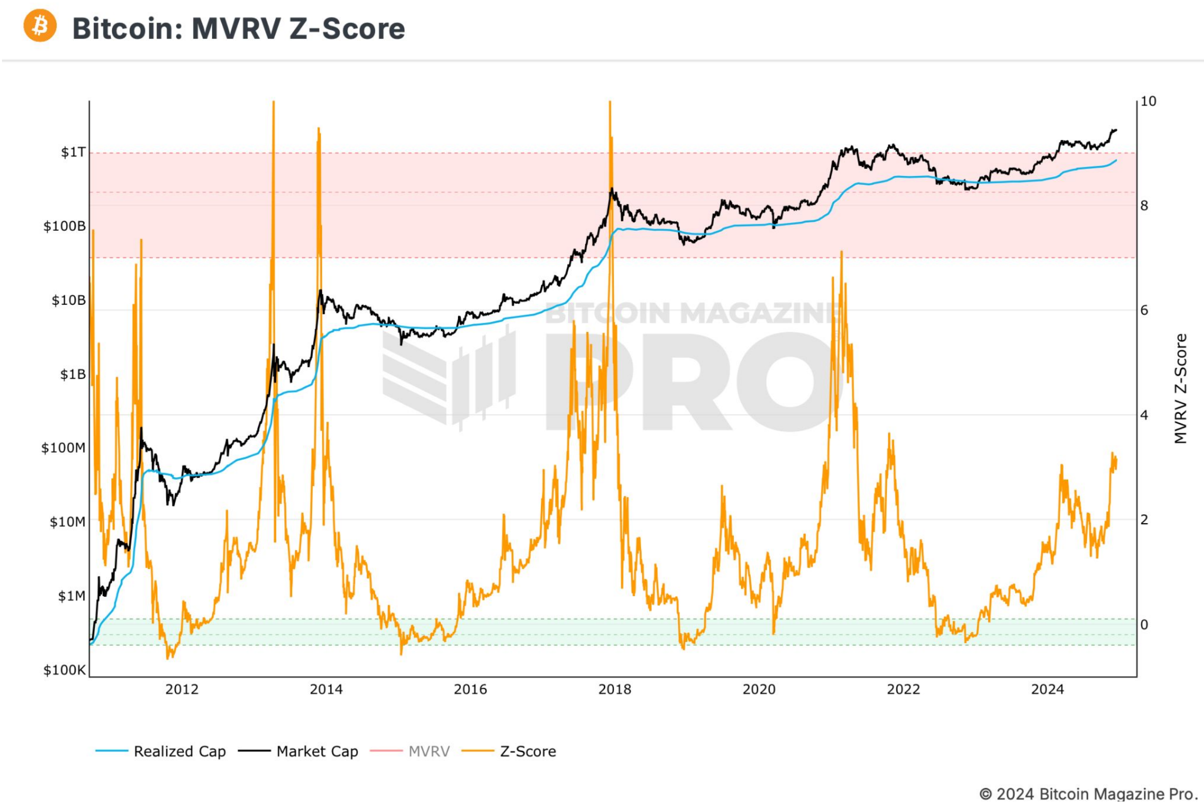


Figure 9. Bitcoin MVRV Ratio Z Score. (Source: Bitcoin Magazine Pro)

2. Net Unrealised Profit and Loss (NUPL): NUPL measures the difference between unrealised profits and unrealised losses relative to total market capitalisation. Positive NUPL values signal unrealised profits, often associated with market euphoria, while negative values point to unrealised losses, which may indicate buying opportunities. The current NUPL value lies at 61 percent which is the standard bull market band, while values above 75 indicate the "euphoria stage". This is a sign that we are close to a market top.

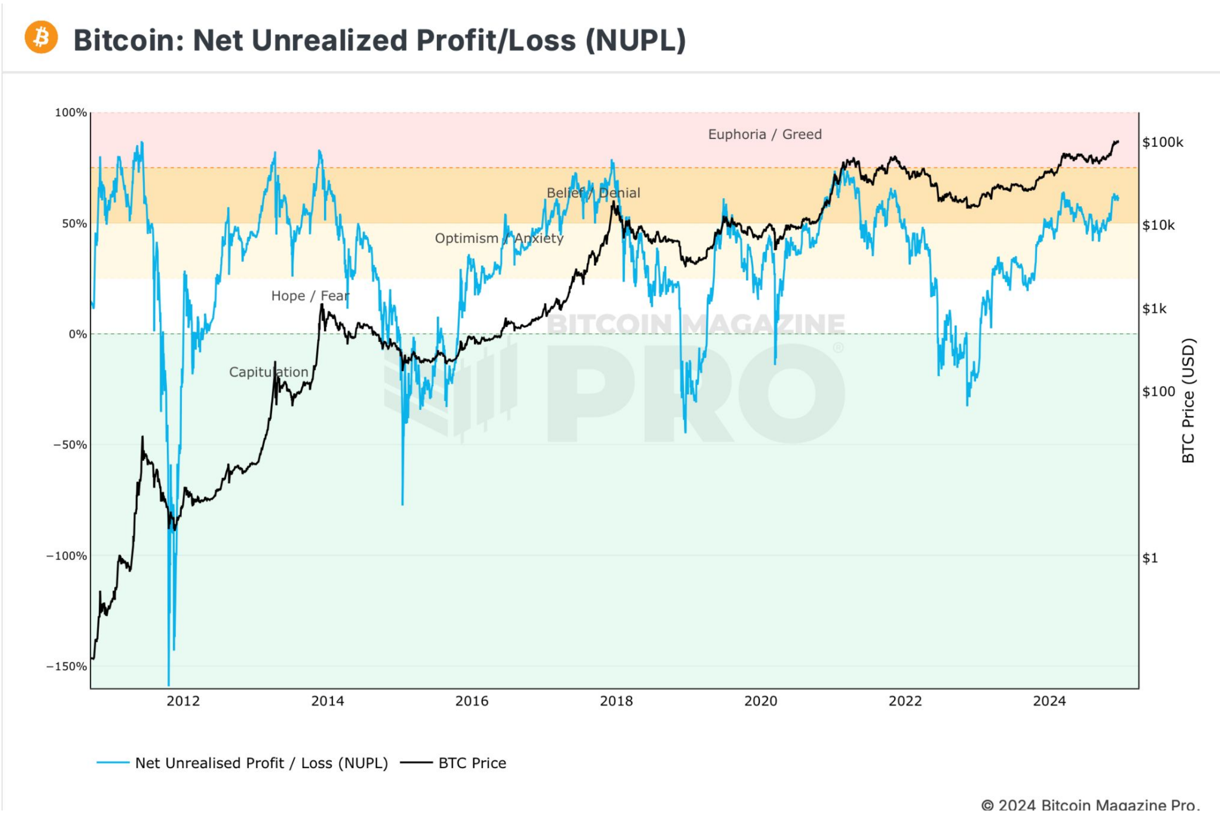


Figure 10. Bitcoin Net Unrealised Profit/Loss Indicator. (Source: Bitcoin Magazine)

3. Spent Output Profit Ratio (SOPR): SOPR evaluates whether bitcoins are being sold at a profit or loss. A value greater than 1 suggests coins are sold at a profit, while a value under 1 indicates a loss. SOPR provides valuable insight into market sentiment and the behavior of Bitcoin holders.

By combining these three metrics, the P&L Index provides a clearer picture of overall market profitability, helping traders identify critical turning points and gauge the market cycle.

The Bitcoin Bull-Bear Market Cycle Indicator has become an essential tool for analysing the market's current state and forecasting its future direction. According to the data from this metric, Bitcoin is currently situated within the bull market zone (Orange Zone in the Figure above), where the dominant trend is upward. This suggests that Bitcoin's price is trending higher, though it has yet to reach its peak.

For the market to transition into the peak phase, the 30-day moving average of the Bull-Bear Market Cycle Indicator needs to cross above the 365-day Bull-Bear Market Cycle Indicator moving average (See Figure below). This crossover would signal a stronger bullish trend, increasing the probability of Bitcoin prices reaching higher levels in the near future. Right now, the price is at an important juncture where we are close to a crossover but not quite there yet with the 30-day MA at 0.32 and the 365-day MA at 0.355. (refer Figure below)

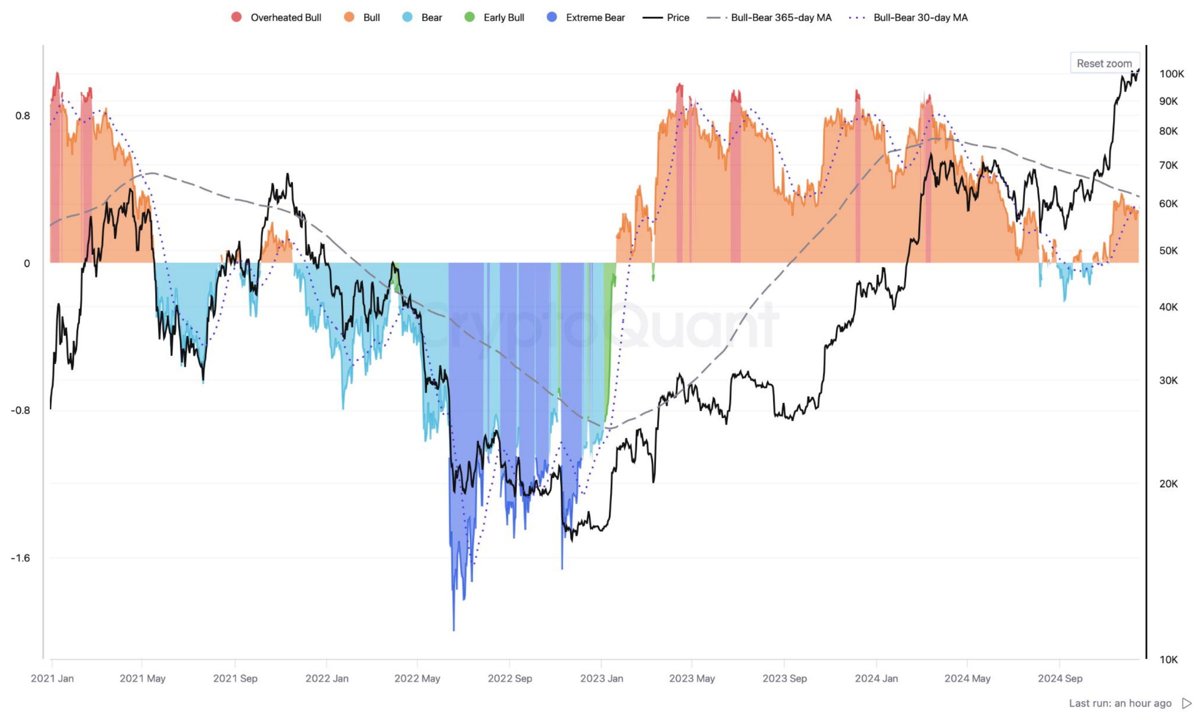


Figure 11. Custom Bull-Bear Indicator Script with Important Moving Averages and Market Cycle Highlighted. (Source: CryptoQuant)

As long as the 30-day moving average remains above the equilibrium point of 0, the long-term outlook for Bitcoin remains positive. However, as prices approach the red zone, which signals overbought conditions, the likelihood of a correction may rise. This highlights the importance of caution in the market, especially as Bitcoin approaches its higher levels.

Despite the current momentum within the bull market, it is essential for investors to remain vigilant as, based on the current stage of the bull market, we are due a small correction in the next 2-3 months which could align with a crossover of the moving averages in the Bull-Bear metric, followed by a small correction before continuation of the uptrend.

Where Does Bitcoin Go Next?

Post the bear market lows in November 2022, BTC had a strong performance in 2023 with a 155.5 percent gain, and despite a wide trading range between $55,000 and $70,000 during most of 2024, the strong momentum has carried forward, with Bitcoin up 143 percent year-to-date (YTD). Given the fact that 2024 was a halving year, it is important to note that historically the following year post halving has been bullish. (refer Figure below)

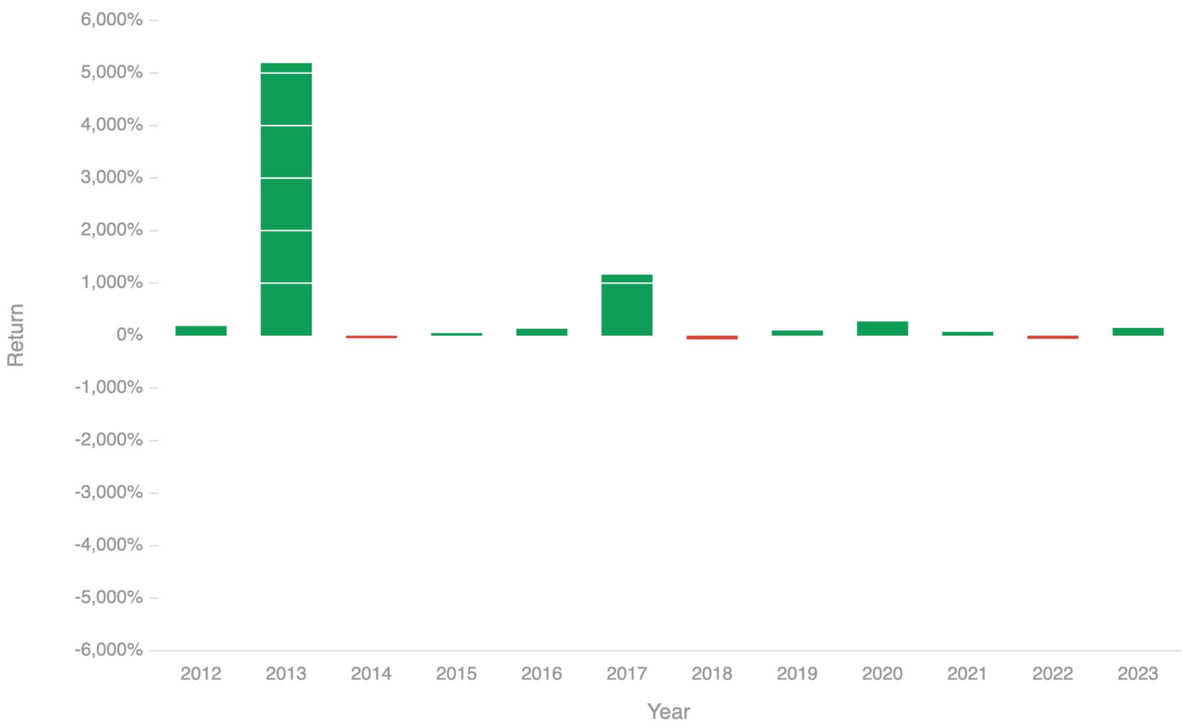


Figure 12. Bitcoin Yearly Performance Since 2012. (Source: curvo)

We believe corrections during the current Bitcoin bull cycle are expected to remain relatively small, thanks to steady buying support from ETFs and institutional investors.

In previous cycles, once Bitcoin entered price discovery following a halving, corrections before mean reversion to new ATHs were relatively contained. In the 2017 cycle, the maximum correction was 33.2 percent, while the 2020 cycle saw a slightly smaller correction of 27.1 percent.

In the current bull cycle, which began in mid to late 2023, Bitcoin's corrections have been smaller, particularly since the launch of Bitcoin ETFs in early 2024. With institutional and ETF demand providing consistent buying pressure, we expect this trend to continue, keeping future corrections limited and potentially shorter in duration.

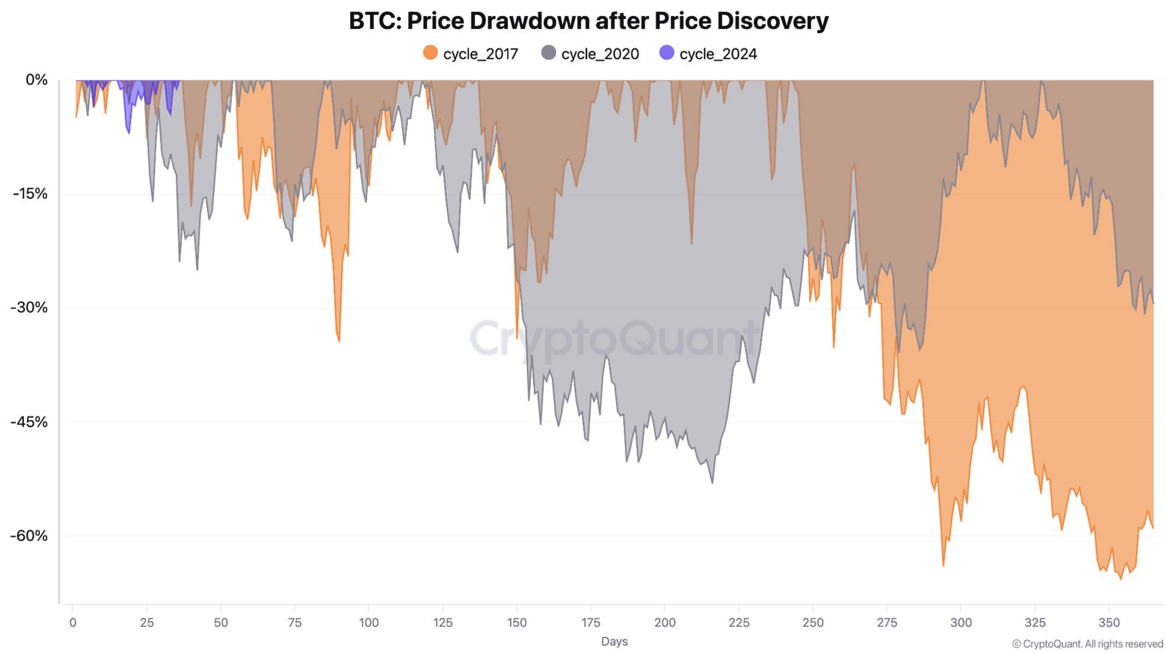


Figure 13. Bitcoin Price Drawdown After The First ATH break In A Cycle. (Source: CryptoQuant)

The Pi Cycle Top Indicator has proven effective in timing market cycle highs, often within a 3-day window. It uses the 111-day moving average (111DMA) and a newly established multiple of the 350-day moving average x 2 (350DMA x 2).

The 350DMA x 2 is not based on the number of days but on the price values of the 350DMA. Over the past three market cycles, when the 111DMA crosses above the 350DMA x 2, it has typically marked Bitcoin's price peak (see Figure below). The Pi Cycle Top Indicator got its name because the ratio of 350 to 111 is 3.153, and this closely approximates Pi (3.142).

The Pi Cycle Top Indicator serves as a signal that the market is overheating whenever the shorter-term 111DMA reaches twice the value of the longer-term 350DMA. Historically, this has been a good time to sell, as Bitcoin's price cycle nears its peak.

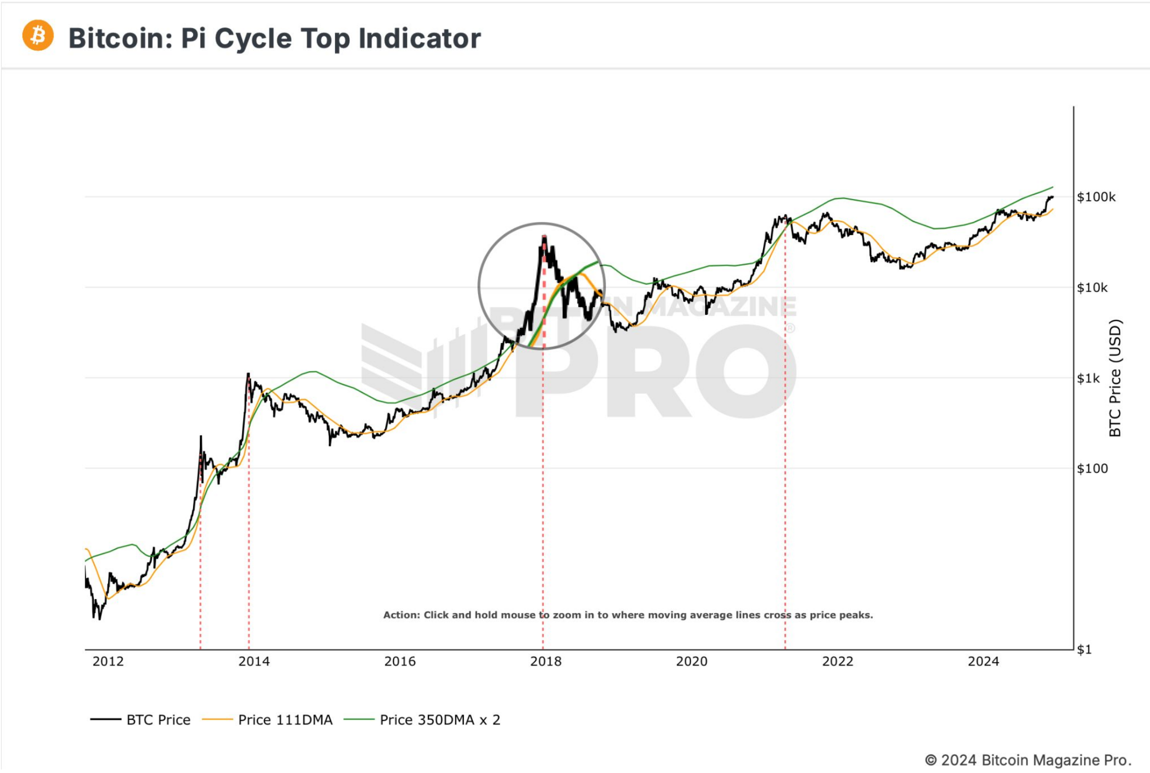


Figure 14. Bitcoin Pi Cycle Top Indicator. (Source: Bitcoin Magazine)

Our red vertical dotted markings above indicate how a crossover of the 111DMA and a 2x multiple of the 350DMA has correctly predicted the cycle top or at least a significant top before a large correction for BTC over the years. However, it is important to note that this indicator has been effective during Bitcoin's early adoption phase and the first 15 years of its life. With the introduction of Bitcoin ETFs and its deeper integration into the global financial system, the relevance of this indicator may diminish in the future, given the changing market dynamics.

If the 2021 cycle pattern repeats, we could see the 111-day and 350-day moving averages cross around June 29, 2025, potentially signalling a Bitcoin peak. This aligns with our earlier analysis based on halving cycles and the PnL index, which also suggested a potential cycle peak around July 2025. If however we see a mirror of the 2017 cycle, the crossover might not happen until January 28, 2026.

Using these projected dates, we can also estimate potential price levels. Historically, Bitcoin's price has significantly exceeded its moving averages at the cycle peak. For example, during the 2017 bull run, Bitcoin's price was roughly three times the value of these moving averages at the peak. However, as the market matures, the returns in each cycle have become more subdued. As a result, we may not see as dramatic a rise in Bitcoin's price relative to its moving averages as seen in previous cycles.

If Bitcoin follows the pattern of the 2021 cycle, with an approximate 40 percent increase above its moving averages, the peak price could reach around $339,000. Given the trend of diminishing returns observed in recent cycles however, Bitcoin's price might rise only 15-20 percent above the moving averages, placing the peak in the range of $160,000 to $200,000 by mid-2025. In the less likely scenario that the extended 2017 cycle repeats with similar diminishing returns, Bitcoin could peak around $290,000 by early 2026.

Moving averages and standard deviations based around momentum metrics have proved useful in predicting previous cycle tops and bottoms. In addition to the Pi Cycle indicator, based on the 4-year halving and market cycle for Bitcoin, it is important to use metrics based on the same time period to assess market bottoms/tops.

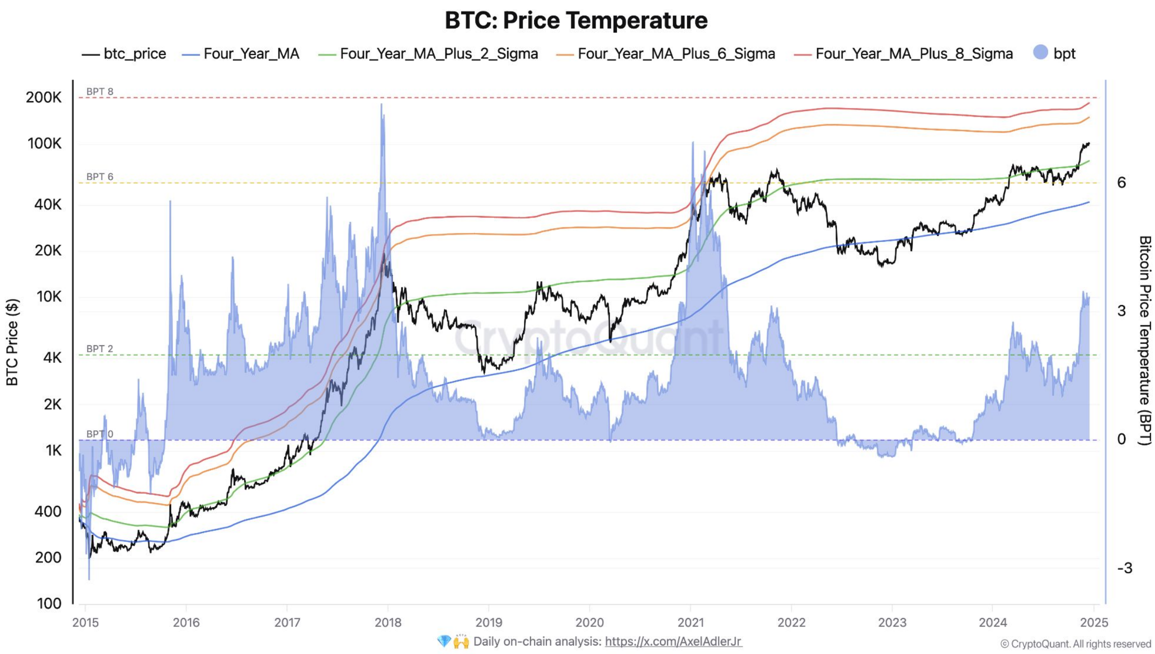


Figure 15. Bitcoin price Temperature Across Various Standard Deviations (Source: CryptoQuant)

This figure above illustrates Bitcoin's price temperature (BPT) and the 4-Year Moving Average (MA), two key indicators used to analyse Bitcoin's long-term market dynamics and price movements. By assessing the "temperature" of Bitcoin's price and its position relative to historical averages, these metrics offer valuable insights into different market phases, helping to predict potential peaks or bottoms.

Chart Details:

The BPT metric indicates how "heated" or "cooled" Bitcoin’s price is compared to historical averages.
- BPT 2: Reflects normal market levels.
- BPT 6: Suggests an overheated bull market, indicating heightened market activity.
- BPT 8: Signals peak levels, often marking market bubbles or price extremes.

Moving Averages (MA):
- 4-Year MA (Blue Line): A fundamental moving average used to identify Bitcoin's long-term price cycles.
- 4-Year MA +2 Sigma (Green Line): Approaching overbought territory, often signalling high demand and potentially overvalued prices.
- 4-Year MA +6 Sigma (Orange Line): Near peak levels, where the price typically shows signs of extreme market conditions.
- 4-Year MA +8 Sigma (Red Line): Historically indicates Bitcoin's highest price points, marking potential market bubbles.

General Trends:
- Bull Markets: These charts highlight significant rallies in Bitcoin's price. Notably, during the 2017 and 2021 bull runs, prices reached BPT 6 and 8, indicating overheated conditions and nearing market tops.
- Bear Markets: In contrast, bear markets typically see Bitcoin prices trading below the 4-Year MA, reflecting reduced market activity and downtrends.

Current Status:

Recent data suggests that Bitcoin's price is currently recovering strongly above the 4-Year MA and has surpassed the BPT 2 level at $74,000, indicating growing market momentum and that we are in the middle of the bull market cycle. This movement signals a potential transition into a strong bullish phase, as the market strengthens and moves away from prior corrective phases. Since we’ve moved firmly into price discovery post the halving, our cycle top estimates can now be derived by prevailing BPT 6 and 8 values currently at $145,000 and $189,000 respectively. This adds confluence to our minimum cycle targets of $145,000 to be achieved sometime after Q2 2025 and before Q1 2026 based on our various price and time based cycle assessment models.

GENERAL MACRO UPDATE

Labour Market Outlook

The US labour market continues to transition toward normalisation, with recent data reflecting a gentle cooling rather than any significant weakness. This trend supports expectations of a gradual easing of the Federal Reserve's monetary policy.

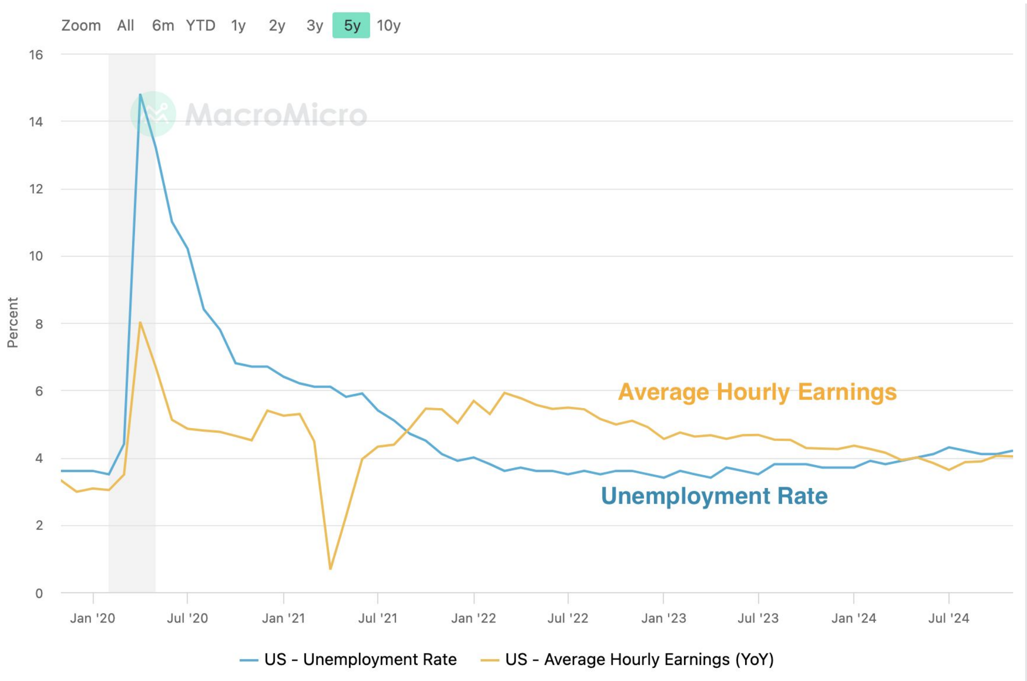


Figure 16. Unemployment Rate and Average Hourly Earnings, YOY (Source: MacroMicro, Department of Labor)

- **Unemployment Rate:**

  The unemployment rate rose slightly to 4.2 percent in November, consistent with forecasts. This increase primarily reflects a rise in labour supply, with 130,000 new workers or re-entrants joining the workforce. While this influx contributed to a rise in unemployment, the number of people losing their jobs remained stable. Permanent layoffs rose modestly (+58k) month-on-month, but this was offset by a significant drop in temporary layoffs (-66k).

- **Employment Gains:**

  The labour market added 227,000 jobs in November, surpassing the consensus expectation of 190,000. This growth was concentrated in healthcare (+54k jobs) and leisure and hospitality (+53k jobs), sectors that continue to drive non-farm payroll gains. Notably, healthcare has contributed approximately one-third of year-to-date job growth in 2024.

- **Wage Growth:**

  Average hourly earnings rose by 0.4 percent in November, marking an annualised growth rate of 4 percent, consistent with the prior month. This increase indicates steady demand for labour in key sectors and suggests that wage growth could continue to fuel consumer spending despite broader economic normalisation.

- **Hours Worked:**

  Total hours worked among private industry employees increased slightly by 0.1 percent in November. Durable goods manufacturing and leisure and hospitality led the gains, with both sectors posting a 0.6 percent increase. This signals incremental productivity improvements, particularly in industries that are essential for economic stability.

The labour market's ongoing normalisation provides a solid foundation for the broader economy. The rise in labour supply signals greater participation, and steady wage growth supports consumer spending, which is crucial for sustaining economic momentum. However, the persistence of layoffs in sectors like retail highlight structural challenges that could weigh on certain industries. Rising labour costs may also pressure profit margins, particularly in labour-intensive businesses like hospitality and retail, potentially influencing the performance of listed companies in this sector.

The Federal Reserve, acknowledging the cooling job market and stable wage increases, will likely proceed cautiously with further rate cuts in the medium-term, although we expect rates to be cut when the Fed meets this week.

Housing Market Outlook

The housing market in 2025 presents a mix of opportunities and challenges, with the outlook influenced by increasing economic normalisation, steady demand, and new monetary policy developments.

Home Prices

- **Expected Growth:** CoreLogic, a leading provider of real estate data and analytics, projects a 2.4 percent year-on-year increase in US single-family home prices from October 2024 to October 2025. This growth, equivalent to an estimated $9,240 rise in the median sales price, highlights steady demand in the housing market. This modest increase reflects economic stability and a low likelihood of a recession—historically a key factor behind significant home price declines.

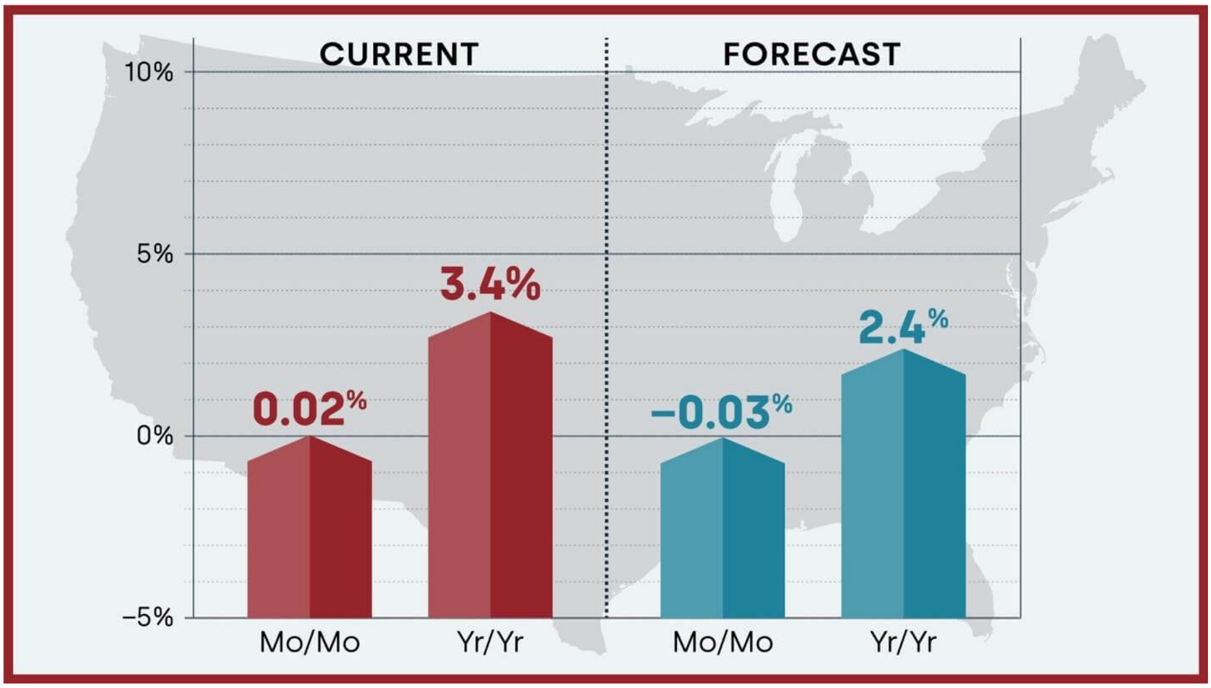


Figure 17. Corelogic Forecast on Single-Family Home Prices (Source: Corelogic)

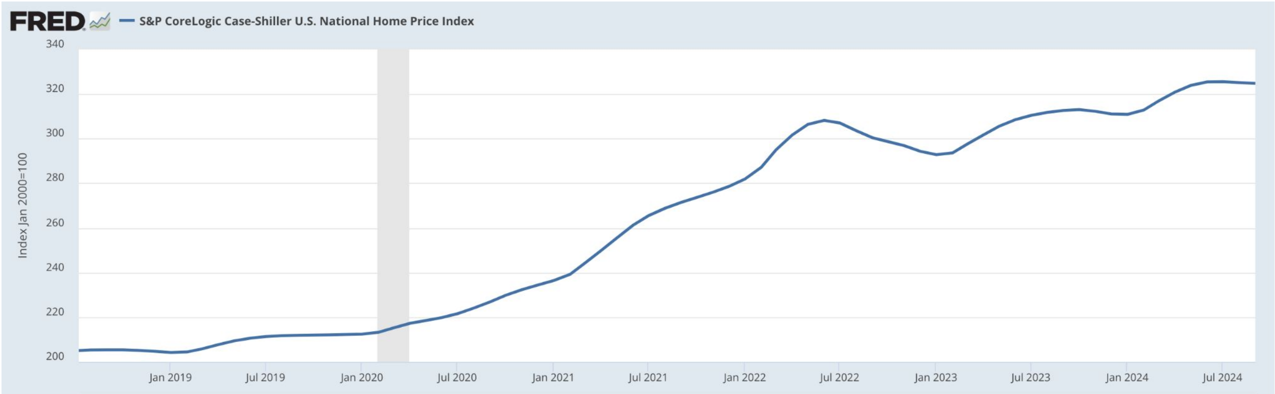


Figure 18. S&P CoreLogic Case-Shiller US National Home Price Index

The S&P CoreLogic Case-Shiller US National Home Price Index has increased by 53 percent since 2019 but experienced a slight dip in 2024. This suggests a temporary stabilisation, with buyers waiting for further relief in borrowing costs, although this may not materialise.

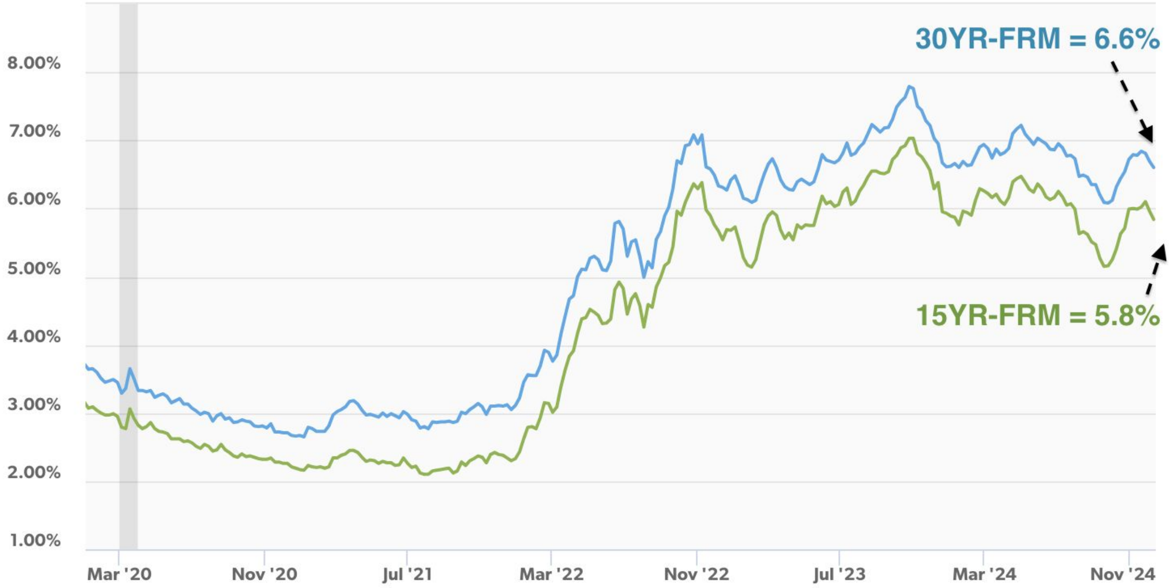


Figure 19. Mortgage Rates (Freddie Mac)

Current and Future Levels: The 30-year mortgage rate has dipped slightly to 6.6 percent from its peak of 7.8 percent in 2023. However, rates are expected to stabilise around 6.2 percent by the end of 2025. This remains significantly higher than the historically low rates of 2.7 percent seen in 2021. Mortgage rates are influenced by the long-term rates, which have already priced in the Fed rate cut. With economic growth surprising on the upside, bond market participants are starting to consider a slower pace of future rate cuts and factor in the potential for higher-than-expected inflation in the near-term.

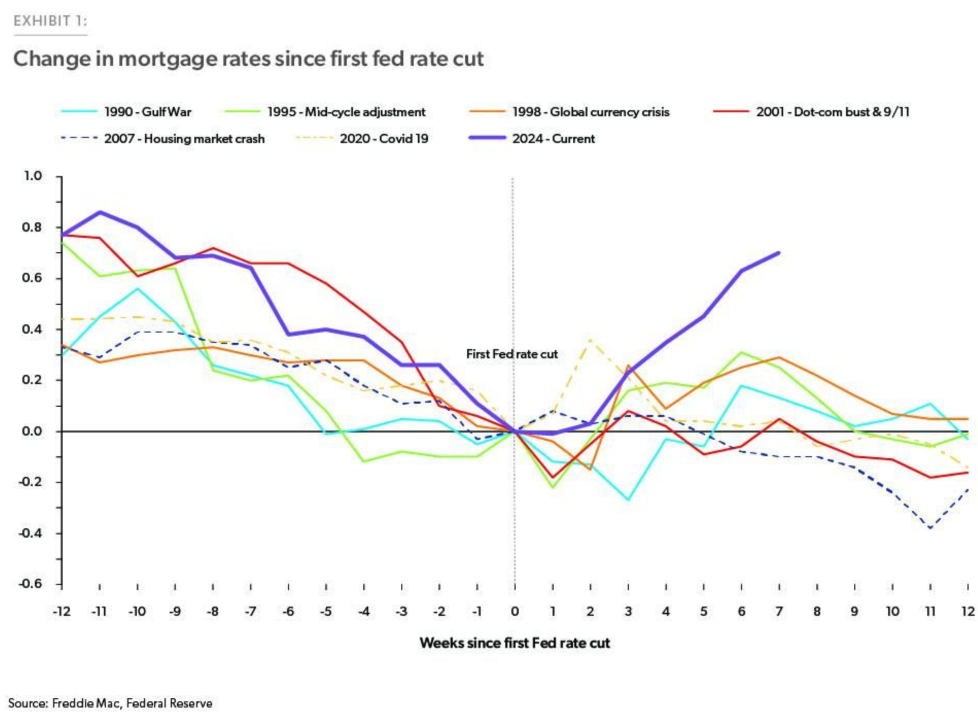


Figure 20. Change in Mortgage Rates Since First Fed Rate Cut (Source: Freddie Mac)

Elevated mortgage rates continue to restrict affordability, particularly for first-time buyers. This has led many prospective homeowners to delay purchases or expand their search to more affordable markets.

Rents

Rent growth, which is part of the housing inflation component of the Consumer Price index is expected to be on track within the pre-pandemic average, thanks to a surge in rental unit inventory. This outlook however remains uncertain and dependent on increasing the stock of affordable housing.

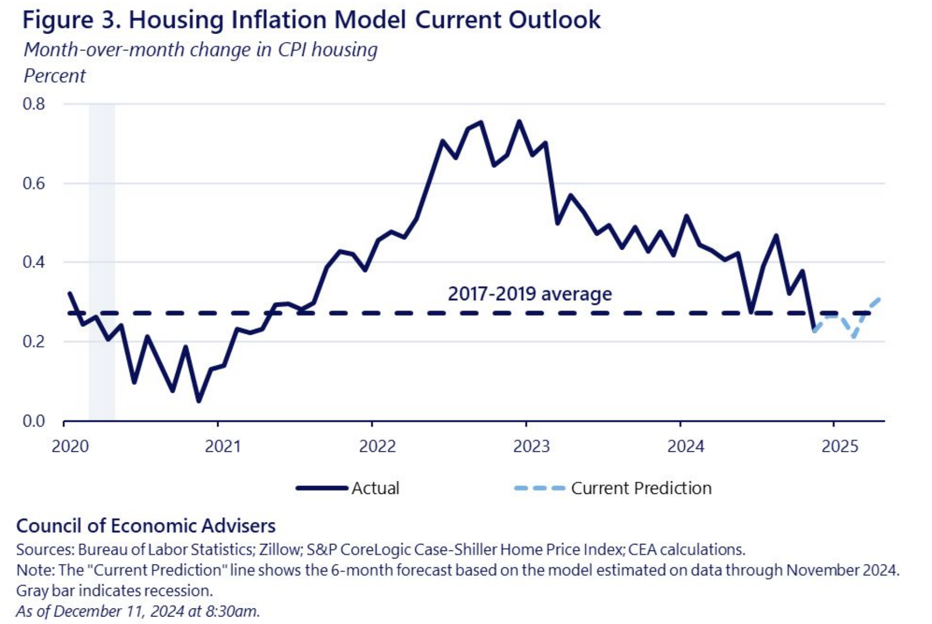


Figure 21. Housing Inflation model Current Outlook (Source: Whitehouse.gov)

As incomes grow, many renters may transition to homeownership, particularly if lower mortgage rates become more accessible.

Housing Supply

- **Supply Improvements:** Realtor.com, a brokerage platform, forecasts a 13.8 percent increase in single-family home starts and an 11.7 percent rise in existing home inventory which are expected to bring the market closer to balance.
- **Current Shortages:** Freddie Mac estimates the US housing market still needs 3.7 million additional units to fully offset long-standing supply shortages. By 2025, the months' supply of homes is expected to increase to 4.1 months from the current 3.7 months. Anything under 4 months is typically considered a seller's market, while a supply of 4 to 6 months is generally considered a balanced market.

EXHIBIT 2

Estimates of the housing shortage over time

	Q2 2018			Q4 2020			Q3 2024		
HVS, millions	Actual	Target	Gap	Actual	Target	Gap	Actual	Target	Gap
1 Households	121.2	122.5	**1.3**	125.8	126.2	**0.4**	132.1	133.1	**1.0**
2 Vacant units	17.0	18.3	**1.3**	15.4	18.9	**3.5**	14.9	17.6	**2.7**
3 Housing stock	138.3	140.8	**2.5**	141.2	145.0	**3.8**	147.0	150.8	**3.7**

Source: Freddie Mac Economic and Housing Research calculations based on the U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey

Figure 22. Estimates of Housing Shortage Over Time (Source: Freddie Mac)

Sales Activity

- Rising home prices, increased inventory, and steady demand create opportunities for homebuilders, real estate investment trusts, and construction materials companies. Elevated mortgage rates and stagnant wages in some sectors could cap growth in housing transactions and weigh on luxury and high-priced segments. While supply is improving, long-standing shortages will keep upward pressure on prices over the medium term. This dynamic will favour companies in residential construction and home improvement while posing challenges for sectors dependent on affordability-sensitive buyers.
- Overall, while 2025 holds promise for moderate growth and stabilisation, challenges surrounding affordability and high borrowing costs will remain critical constraints. Investors in housing-related equities should focus on sectors and regions poised to benefit from improving supply and steady demand trends.

Inflation and Fed Policy Outlook

Inflation remains a critical focus for US policymakers in 2025, as progress toward the Federal Reserve's two percent target remains slow and uneven. Persistent price pressures, particularly in core inflation components, continue to shape monetary policy decisions and market expectations.

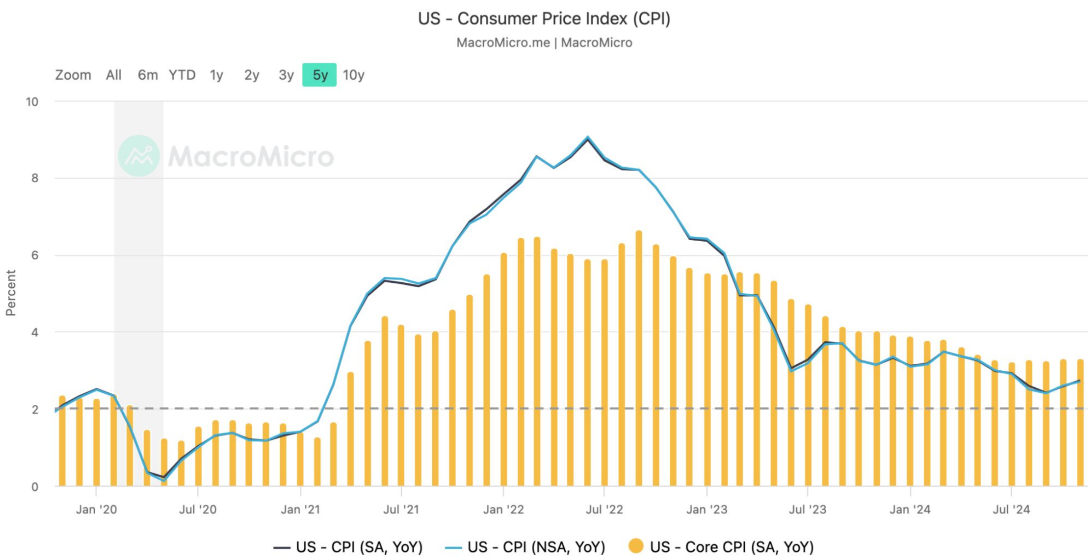


Figure 23. Consumer Price Index (Source: Macromicro)

Core CPI and Inflation Trends

- **Current Levels:**

  Core CPI rose by 0.3 percent month-on-month (MoM) for the fourth consecutive month in November, keeping the year-on-year (YoY) rate at 3.3 percent. This consistent MoM growth underscores the difficulty of achieving further reductions in inflation.

- **Key Drivers:**
  - **Moderating Sectors:** Shelter costs showed signs of stabilisation, with owners' equivalent rent and primary rents rising by just 0.2 percent MoM, while apparel and education/communication prices also posted modest increases or declines.
  - **Persistent Pressures:** Vehicle prices remain a significant contributor, with new vehicle prices up 0.6 percent MoM and used vehicles jumping 2 percent, following a 2.7 percent increase in October.

Fed Policy Outlook

Cautious Easing with Strategic Adjustments:

The Federal Reserve is poised to implement a 25bps rate cut this week, aligning with market expectations. However, future rate reductions may be on hold until March 2025, as policymakers assess economic growth and inflation dynamics. Although latest projections suggest three additional cuts in 2025, the trajectory reflects fewer reductions than earlier expectations.

Restrictive Yet Flexible Policy Stance:

Even with rate cuts, monetary policy will remain restrictive, with the neutral rate estimated near 3 percent. We expect a potential adjustment to the Fed's terminal rate forecast, possibly increasing it from 2.9 percent to 3 percent, underscoring the sustained resilience of the US economy. This recalibration reflects strong economic growth, as recent data shows a growth estimate of 3.8 percent for the fourth quarter, higher than the September's two percent median projection.

Percent

Variable	Median[1]				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

Figure 24. Summary of Economic Projections, September 2024 (Source: US Federal Reserve)

Sticky inflation categories, such as vehicles and durable goods, may hinder progress toward the 2 percent target. Meanwhile, fiscal and trade policy adjustments under the new administration could introduce further complexities to the inflation outlook. Nonetheless, economic outperformance and steady wage growth may provide resilience, even in a higher rate environment. The gradual easing of inflation pressures could eventually grant the Fed flexibility for slow, data-dependent rate cuts, but we expect the Fed to remain quite prudent on future rate decisions.

US Stock Market Outlook

Stock Market Outlook Under Trump Presidency

The US stock market in 2025 will reflect the interplay between President-Elect Donald Trump's policies, macroeconomic trends, and sector-specific dynamics.

- **Pro-Growth Policies:** Trump's focus on tax cuts, deregulation, and infrastructure spending will likely support business investment and corporate profitability. This is particularly beneficial for industrials, financials, and capital-intensive sectors.
- **Impact of Labour Market:** Rising wages and steady job growth in sectors like healthcare and leisure could boost consumer spending, benefiting retail and discretionary stocks. However, wage pressures may narrow margins in labour-intensive industries.
- **Housing Market Effects:** Modest home price appreciation and increased housing supply may support homebuilders and real estate stocks. Conversely, affordability challenges could limit the upside for high-priced markets and luxury-focused builders.
- **Inflation and Fed Policy:** Persistent inflation limits aggressive rate cuts, favouring defensive stocks like healthcare and consumer staples. Technology and growth sectors may benefit from rate reductions but face potential headwinds if inflationary pressures re-emerge.

The US stock market is positioned for moderate growth under Trump's presidency, driven by fiscal support and sectoral resilience. Risks include inflationary pressures, political uncertainty around tax policies, and market volatility from fiscal constraints like the debt ceiling.

Other Factors to be taken into Consideration

Debt Ceiling and Fiscal Liquidity: Impact on Stock Markets The reinstatement of the debt ceiling in January 2025 introduces short-term liquidity into the financial system as the Treasury draws down its General Account to meet its financial obligations without exceeding the debt limit. The Treasury often draws down its cash reserves held in the Treasury General Account (TGA) at the Federal Reserve, which essentially is a liquidity injection that acts like quantitative easing, supporting equities, particularly in liquidity-sensitive sectors.

Short-Term Boost: TGA drawdowns may drive market optimism in the first half of 2025.

Volatility Risks: Delayed debt ceiling negotiations could disrupt markets, leading to sharp sell-offs, particularly in government-reliant sectors like defense and healthcare.

Tax Policy Adjustments: Boost or Drag on Market Sentiment? The expiration of household tax cuts in 2025 introduces fiscal uncertainty. Trump's commitment to extending these cuts could sustain consumer spending, benefiting discretionary and retail sectors.

Tax Extension Benefits: Stable disposable incomes for higher earners support equity demand and corporate profitability.

Expiration Risks: If cuts are not extended, reduced household spending could pressure consumer-driven sectors.

Lending and Credit Conditions: Support for Growth-Driven Sectors

In recent years, credit markets tightened significantly, with banks restricting loans to businesses and consumers. However, as lending conditions stabilise in 2025, borrowing is likely to pick up, aided by potential pro-business policies under Trump.

Business Expansion: Easier access to credit allows companies to borrow for growth initiatives, boosting sectors like construction, manufacturing, and real estate.

Consumer Spending: Increased credit availability helps households finance major purchases, supporting retail and housing markets.

Trump's Policies That Could Support Lending:

Deregulation: The previous Trump administration reduced financial regulations, particularly on small and regional banks, making it easier for them to issue loans.

Infrastructure Spending: Large-scale infrastructure initiatives, if pursued, could stimulate demand for loans, benefiting financial stocks and construction-related industries.

Real estate, industrials, and financials stand to gain from improved lending. Banks, in particular, may benefit from increased loan origination and higher net interest margins.

The stock market's performance during Donald Trump's first presidency (January 2017 – January 2021) was notable, with the Dow Jones Industrial Average (DJIA) achieving an annualised gain of 11.8 percent and the S&P 500 rising by an average of 14.5 percent annually. This growth was supported by a mix of tax cuts, deregulation, and a broadly pro-business policy framework, particularly after the passage of the Tax Cuts and Jobs Act in December 2017, which boosted corporate profits and investor confidence. However, it also faced significant challenges, including escalating trade tensions with China beginning in 2018 and the economic fallout from the COVID-19 pandemic in early 2020. Despite these disruptions, particularly the market crash in March 2020, the market rebounded sharply by the end of 2020, underscoring its resilience during his tenure.

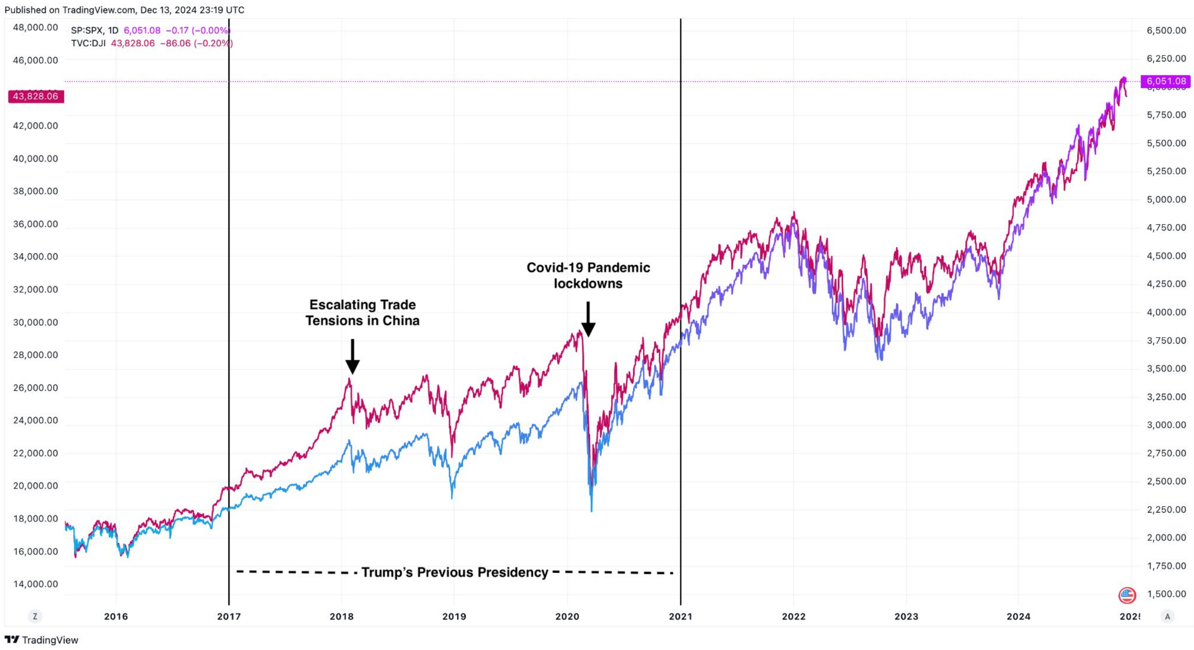


Figure 25. S&P 500 and Dow Jones Industrial Average from 2016 to Present

In Trump's presidency in 2025, his potential policies and the prevailing economic environment will play crucial roles in shaping market performance. Historically, markets have reacted positively to measures that reduce corporate taxes, streamline regulations, and promote domestic industries—hallmarks of Trump's policy agenda. Investors could expect sectors like energy, manufacturing, and financial services to benefit, particularly if his administration pursues similar strategies as before.

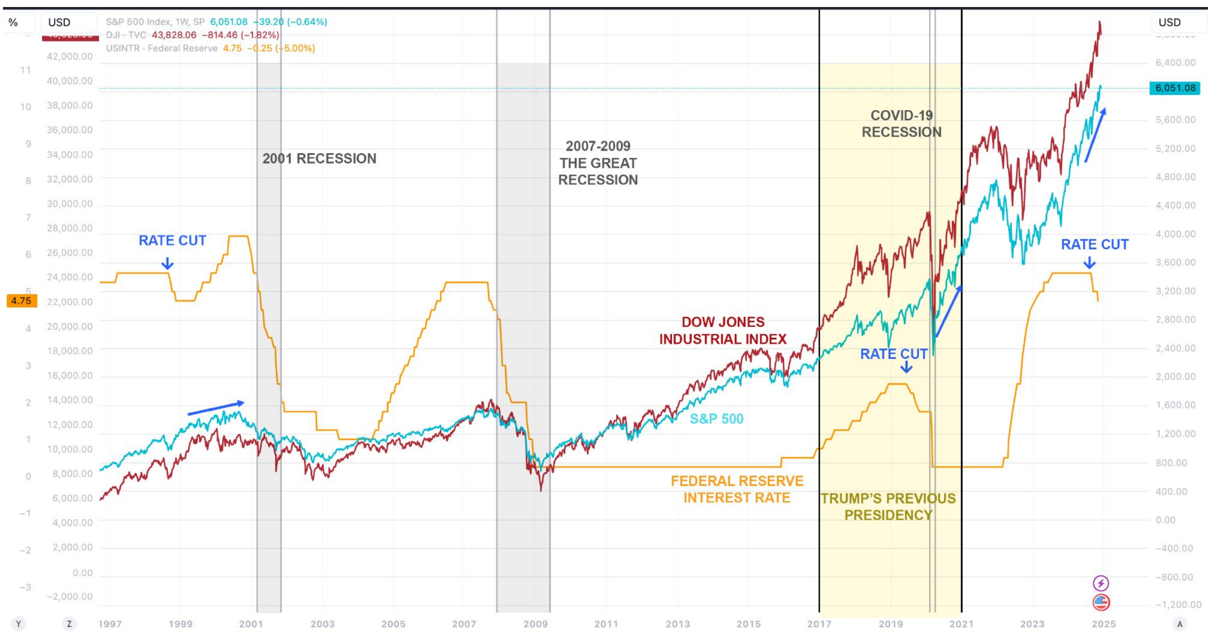


Figure 26. S&P 500 and Dow Jones Industrial Average Performance Relative to Federal Reserve Interest Rate Decisions

Historically, US stocks rallied following an initial rate cut. The S&P 500 has averaged a 9.1 percent gain in the six months following an initial rate cut, with notable exceptions during periods leading into recessions, such as in 2001 and 2007. Since the September 2024 rate cut, the S&P 500 has grown by approximately 12.2 percent, while the Dow Jones Industrial Average has grown by approximately 8.2 percent. If, in the short term, current growth trends continue, we will see S&P 500 and Dow Jones Industrial Average at 6799 points and 47665 points within the first quarter of 2025.

However, several factors could temper this optimism. Trade policies that revive tensions with key partners, such as China, might introduce volatility. Geopolitical risks and uncertainties could further weigh on investor sentiment. Moreover, the broader economic context—such as the Federal Reserve's stance on interest rates, inflation levels, and the risk of recession—will be critical. High inflation or restrictive monetary policies could dampen market enthusiasm, even in the face of pro-business initiatives.

Looking back at historical trends, the growth rates during Trump's first term, while strong, were not unprecedented. For example, Democratic presidents like Bill Clinton and Barack Obama oversaw even higher average annualised market returns, suggesting that broader economic cycles and global conditions often play a larger role than presidential policies alone. Therefore, while Trump's return might create an initial wave of market optimism, the sustainability of such growth would depend on how well his administration navigates these external challenges.

NEWS FROM THE CRYPTO-SPHERE

Riot Platforms Expands Bitcoin Holdings, Aligning with MicroStrategy's Crypto Strategy

Figure 27. Riot Platforms Expands Bitcoin Holdings, Aligning with MicroStrategy's Crypto Strategy

Riot Platforms, a leading cryptocurrency mining company, announced last Friday, December 13th, a significant expansion of its Bitcoin holdings, mirroring the strategy of software giant MicroStrategy, which has long championed Bitcoin as a key asset on its balance sheet.

Between December 10th and 12th, Riot acquired 5,117 Bitcoin at an average price of $99,669 per unit, spending approximately $510 million. This purchase brings Riot's total Bitcoin reserves to 16,728, as disclosed in its latest filing with the US Securities and Exchange Commission. The acquisition underscores Riot's position as one of the major players in the Bitcoin mining and investment ecosystem.

The announcement followed closely on the heels of MicroStrategy's disclosure that it had purchased 21,550 Bitcoin between December 2nd and 8th, investing about $2.1 billion in cash at an average price of $98,783 per Bitcoin. With this latest acquisition, MicroStrategy's total Bitcoin holdings now stand at 423,650 BTC. The company, led by Executive Chairman Michael Saylor, has been a vocal advocate of Bitcoin since 2020, viewing it as a hedge against inflation and a superior store of value compared to cash.

MicroStrategy’s investment strategy has positioned the company as a stock market proxy for Bitcoin. The enterprise software company will now join the Nasdaq 100 index on December 23, a milestone that reflects its growing influence in both technology and cryptocurrency markets.

Placing the company alongside other Nasdaq 100 constituents including Palantir and Axon Enterprise, will trigger large-scale purchases by several prominent exchange-traded funds (ETFs), including the highly-traded QQQ ETF.

Both Riot Platforms and MicroStrategy are capitalising on the recent surge in Bitcoin prices, and highlight the increasing role of Bitcoin in corporate finance. As these companies integrate Bitcoin into their balance sheets and investment strategies, they are setting the stage for broader adoption of cryptocurrencies in traditional financial ecosystems.

Grayscale Expands Ethereum Ecosystem Offerings with Two New Trusts

Figure 28. Grayscale Expands Ethereum Ecosystem Offerings with Two New Trusts

Last Thursday, Grayscale Investments announced the Grayscale Lido DAO Trust and Grayscale Optimism Trust, providing institutional and accredited investors with opportunities to invest in key tokens driving the Ethereum ecosystem. These latest offerings further broaden Grayscale's portfolio of single-asset investment products, catering to high-net-worth individuals and institutional clients seeking secure access to digital assets.

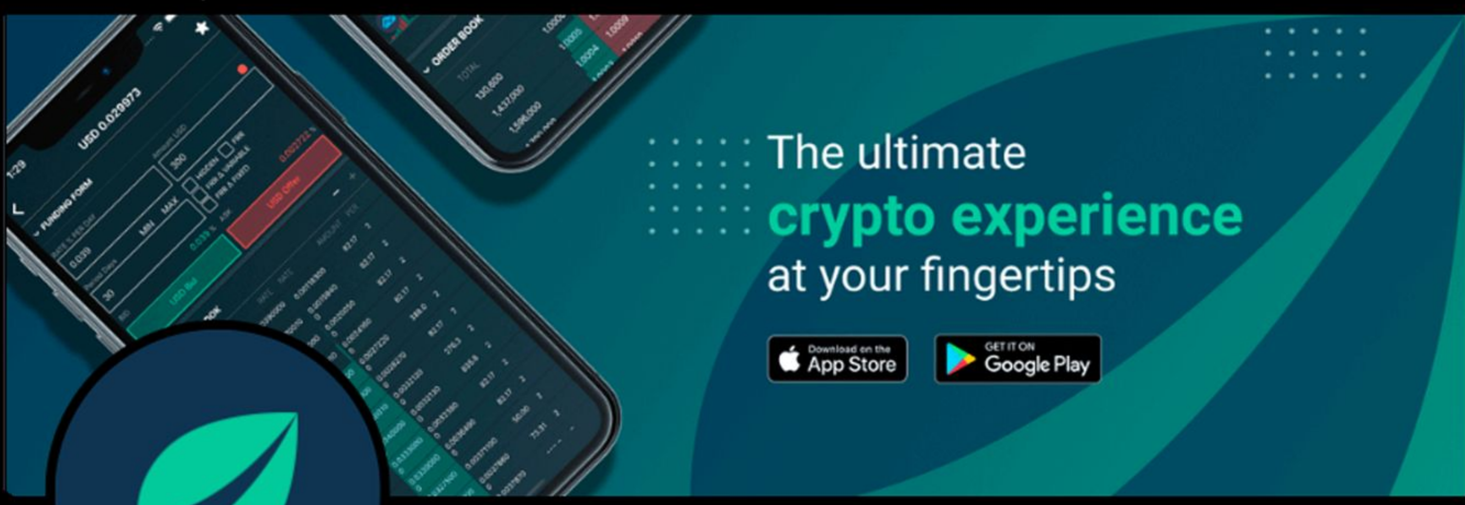
The two trusts grant exposure to Lido DAO's LDO token and Optimism's OP token without requiring investors to hold the assets directly. Both tokens play a vital role in Ethereum's growth, focusing on staking accessibility and blockchain scalability.

Both the Lido DAO Trust and Grayscale Optimism Trust provide investors with exposure to protocols helping to increase Ethereum's efficiency, security, scalability, and adoption within the broader DeFi ecosystem, the company said.

The Lido DAO Trust falls under Grayscale's "Financials Crypto Sector," which includes assets centred on financial transactions and services. On the other hand, the Optimism Trust is categorised within the "Smart Contract Platforms Crypto Sector," supporting decentralised applications and transactions.

These trusts directly invest in LDO and OP tokens on behalf of eligible, accredited investors, defined as individuals with a net worth of at least $1 million or a household income exceeding $300,000 annually.

Grayscale’s latest trusts mark another step in its effort to bring secure, regulated investment vehicles to the evolving crypto space, further strengthening Ethereum’s position within the broader decentralised finance (DeFi) landscape.



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