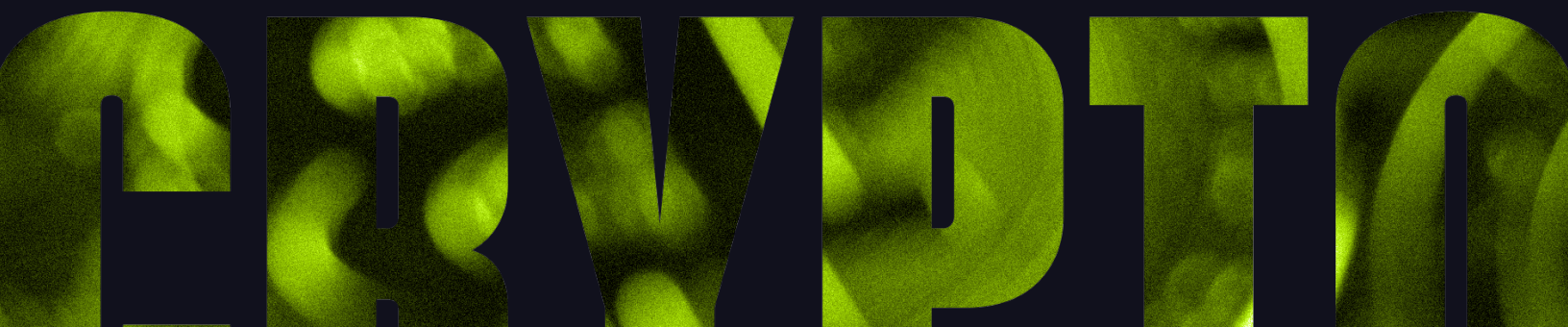
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KNOWLEDGE DROPS

Crypto Academy Sessions,

Episode 2 — Why Macro is Fundamental to Crypto



Episode 2

Why Macro is Fundamental to Crypto

We hope you enjoyed Crypto Academy Sessions, Ep. 2. As you move through your financial learning journey in the Crypto Academy, think of these reports and all the other Academy extras as Cliff's Notes. These reports are not meant to replace any of the episodes — they're here to help make things easier.

These reports were populated by the AI-powered RV bot on the new Real Vision platform.

Enjoy.

As a former high-yield credit derivatives trader, OSF has a hard-earned feel for the volatile ebbs and flows of illiquid markets. In fact, that's what first drew him to crypto back in 2020.

In this lesson, OSF drills down on the macro lessons he learned over the decade he traded at Barclays in London. He walks us through the key macro data that crypto investors need to watch, explains the correlations between the two markets, and looks at how certain TradFi indicators and events drive price more than others. Here are the knowledge drops:

1. **Crypto is a new, evolving asset class, but it does have strong correlations to traditional financial markets.** We're all still trying to figure out the factors and correlations that drive prices, and those correlations will become clearer — and likely stronger — as crypto adoption becomes more widespread.

2. **Bitcoin's fixed supply makes it an attractive inflation hedge, but its correlation with macroeconomics is more complex than that.** When currencies are devalued due to inflation, investors need to look to an asset that holds its value. Historically, that's been commodities like gold or oil. In 2021, BTC outperformed other asset classes, but it did so in what was still a low interest rate environment. Once rates rose sharply, the selloff ensued.

3. **When interest rates are rising, investors have to reassess their asset allocation.** Low interest rates can supercharge economic growth, as corporations and consumers have more borrowing power and disposable income to spend and invest. But the reverse is also true, with high rates. Tighter financial conditions have a "reverse wealth effect" that leads to lower asset prices — particularly in riskier asset classes like tech stocks and crypto.

4. **Crypto has historically displayed a close correlation with the Nasdaq.** Crypto, in part, is a bet on future technological efficiencies, so that correlation makes sense. Tech stocks are valued based on future cash flows, so interest rates (especially rates on the long end of the yield curve) have a big impact on tech valuations. If you see tech stocks sell off due to interest rates, you will see crypto drop as well.

5. **Developing a firm macro understanding will help you prepare for the moves in crypto, but you also have to filter out the noise.** New macro information and economic data is released almost daily, but OSF says that there are three key indicators that every crypto investor should watch: CPI (which measures consumer inflation), non-farm payrolls data (which measures the strength of the labor market), and the FOMC interest rate decisions.