
Navigating crypto investing in 2023:

A maturing market underscores the benefits of broad exposure.

by Bruno Ramos de Sousa, Head of Europe, Apr 5, 2023

Crypto assets outperformed every other global asset class in the first quarter of this year, with Bitcoin up more than 70% and the Nasdaq Crypto Index Europe™ (NCIE™) rising over 63%. At Hashdex, we are firm believers in long-term investing in this emerging asset class, so are always cautious to read too much into short-term performance. However, we do believe that the first three months of 2023 are an important signal that the investment case for crypto assets is strengthening.

Looking back on 2022, it might seem on its face that last year was terrible for crypto assets. However, the reality is much different. The blow up of FTX and other centralized industry players dominated headlines and helped to suppress prices, but the stories about fraud and self-enrichment masked many important developments. Notably, institutional adoption made significant progress, with firms like BlackRock, Google, and Apple making large long-term investments in the space, while network developments—including Ethereum’s transition to a more sustainable network—strengthened underlying fundamentals for many of the most mature crypto assets.

In other words, the market environment for crypto in 2022—driven by macro stresses and idiosyncratic industry events—did not stop the steady progression of the underlying investment case for Bitcoin, Ethereum, and many other promising crypto assets. And 2023 has started off with additional affirmation that this emerging asset class has an incredibly strong future.

In Hashdex’s [2023 Crypto Investment Outlook](#), released in December, we identified several themes we see emerging in 2023. Some of these are already taking shape as crypto assets have outperformed every other global asset class year to date. While there have been some surprises this year, including around Fed policy shifts and global banking stability, we have seen several of our identified themes play out in the first quarter. Currently, we believe there are three primary themes that are developing this year that should be monitored by investors.

1. **Bitcoin’s investment thesis will continue to shine.** The world’s first cryptocurrency had a sort of re-birth in March as the US and European banking crisis unfolded and a new appreciation for an immutable digital currency with a fixed supply emerged.

Concerns over a banking system with unprecedented debt burdens and where depositors, both individuals and businesses, are at the mercy of the financial health of their bank and its leaders' decision making has reminded many people of the reasons Bitcoin was created in the first place. This year's recovery in crypto prices is in part a recognition of Bitcoin's core mission—providing the world a borderless currency with a fixed supply that cannot be manipulated. In many ways, what we are seeing this year is a flight-to-quality that's correlated with Bitcoin's strongest attributes, including its store of value characteristics and fixed supply.

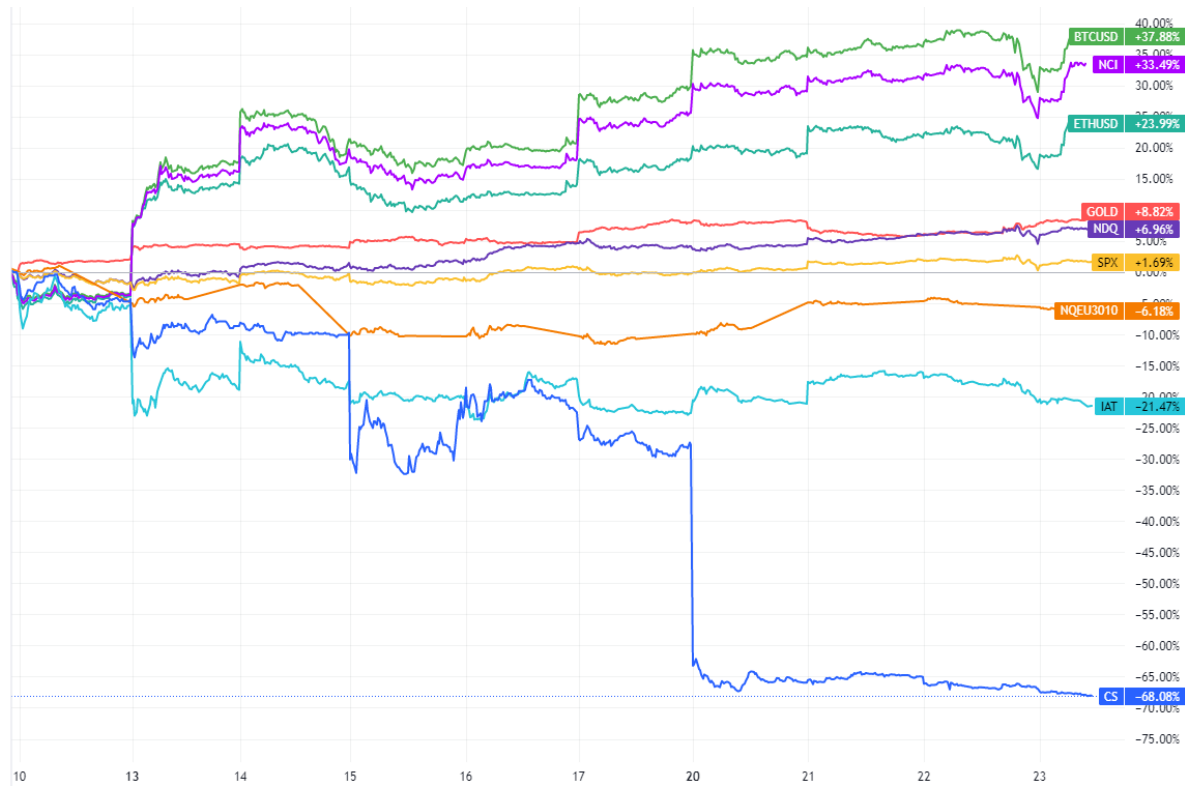


Figure 1: US Regional Banks are represented by the iShares US Regional Banks ETF (IAT), whereas European banks are represented by the NASDAQ Europe Banks Index (NQEU3010). Source: TradingView (03/23/2023).

While we believe over time the dominance of Bitcoin in diverse indices will decrease as Ethereum and other crypto assets mature, Bitcoin remains the most significant portion of any diversified basket of crypto assets. As a result, with Bitcoin, a rising tide lifts all boats and its strengthening investment case only helps improve the investment case for many other crypto assets.

- 2. Regulatory clarity is dividing regions.** This year's coordinated effort by US regulators and policymakers to put pressure on the crypto industry stands in stark contrast to the constructive environment created in many other countries and regions, including Switzerland and the EU. As the US seemingly moves backwards in creating a regulatory framework for this industry, we anticipate more forward-thinking governments will benefit from having rules in place that market participants can understand and follow without

unnecessary ambiguity. Every country or region will follow a somewhat different regulatory path, partly due to investor appetite for crypto assets, but Switzerland in particular has been at the forefront of giving investors access to the crypto market.

Our two listed ETPs on SIX, the Hashdex Nasdaq Crypto Index™ Europe ETP (HASH) and the Hashdex Crypto Momentum Factor ETP (HAMO), are the direct result of Switzerland's environment of a clear regulatory framework for crypto asset investing. This clarity has allowed us to have a constructive dialogue with numerous hedge funds, family offices, and other professional investors eager for a well-built, broad-market index product (HASH) and a systematic and factor-based crypto investment strategy they were familiar with (HAMO). We hope more governments take this constructive approach.

- 3. Crypto asset diversification matters.** Our investment approach and product offerings stand out from our ETP competitors in that we focus on basket investing, while others remain focused on single asset products which are really just wrappers for Bitcoin, Ethereum, etc. Hashdex created the world's first crypto index ETF in early 2021, and we continue to believe that a basket of the most well-developed and promising crypto assets is an excellent long-term approach to gain broad exposure to the emerging asset class. Over time, investors in Hashdex ETPs that track the NCIE™ have benefited from the outperformance of a basket of crypto assets compared to just being invested in Bitcoin.



Figure 2: Hashdex performance analysis from March 1, 2021 to February 28, 2023. Nasdaq Crypto Index Europe (NCIE) performance data between March 1, 2021 and April 24, 2022 is simulated; data of April 24, 2022 is real data. Simulated data is based on Hashdex's own calculation models, data and assumptions and a party using other models, data or assumptions may obtain other results.

Diversification can help improve long-term investment outcomes by reducing idiosyncratic, geographic, and interest rate-related risks. These benefits have been tested over time and apply to crypto assets as they have applied to traditional assets. Crypto is sometimes mistaken for a monolithic industry. However, there are a huge

variety of blockchains with different benefits and tens of thousands of crypto assets. These assets are competing in segments like DeFi (decentralized finance), gaming, and payments, and are competing for users in each of these areas. Time will determine the winners and losers, but by diversifying into multiple assets, investors can benefit from the growth of assets outside of just Bitcoin.

One thing we have learned is that our global presence in Latin America, the US, and Europe is a great asset in terms of understanding investor demand. Being in different markets allows us to collect a diverse set of views on the market and test products in certain regions before deploying them in others. The growing crypto ETP space has matured alongside an improving regulatory environment, particularly in Europe with the MiCA legislation soon to be signed into law. But not all investment products are suitable for every investor. We have been true believers in the index approach to crypto investing since day one and have had enormous success with several thematic investment products in Brazil. With these products, we give investors the ability to invest in a diverse set of crypto assets that are focused on DeFi, Web3, or other segments within the broader crypto ecosystem. There's been an incredibly welcoming reception from both institutional and retail investors and we plan to expand these offerings outside of Brazil.

We believe these three themes will continue to shape the crypto landscape in 2023 and beyond, but it's also important to remember that the path to more adoption and acceptance of crypto will include volatility. This is something that is inherently built into an emerging asset class like crypto and is necessary for the industry to progress to each subsequent level of adoption, so we do not think short-term price volatility should scare away investors. Instead, what is more important to us as investors with an extended time horizon is the long-term trajectory of this asset class. And, despite the large drawdown in 2022, the fundamental case for crypto remains as strong as ever.

As a pioneer in crypto investing, we have learned over time that the industry's improving fundamentals, institutional interest, and disruption potential will win over its short-term negatives. After every major market drawdown, crypto investors have benefited from an industry that becomes more developed and better understood. The promise of crypto remains strong, and we remain excited about continuing to provide our investors with simple, secure, and regulated access to the crypto markets.



Bruno Ramos de Sousa, Head of Europe

Leading lawyer in Fintech by Who's Who Legal 2018, in Corporate/M&A in Chambers LatAm, Chambers Global and Legal 500 Latin America.

Senior attorney with almost 20 years of experience in fintech, cross-border M&A, capital markets, and banking in Brazil and Latin America.



About Hashdex

Hashdex is a global pioneer in crypto asset management. We are building pathways to prosperity by opening the crypto ecosystem to the world.

Trusted by over 250,000 clients, our simple and secure funds invite innovative investors to join the emerging crypto economy. Dedicated to bringing crypto opportunities to the mainstream, we co-created the Nasdaq Crypto Index (NCI) to provide global investors a reliable benchmark for this dynamic asset class. We introduced the world's first crypto index ETFs, enabling many investors to allocate to crypto for the first time.

We believe open blockchains are unlocking global growth and making economic opportunity more abundant and accessible. We are committed to accelerating the development of the crypto ecosystem by empowering everyone to participate in this transformational opportunity for the world.

Website

<https://www.hashdex.com>