

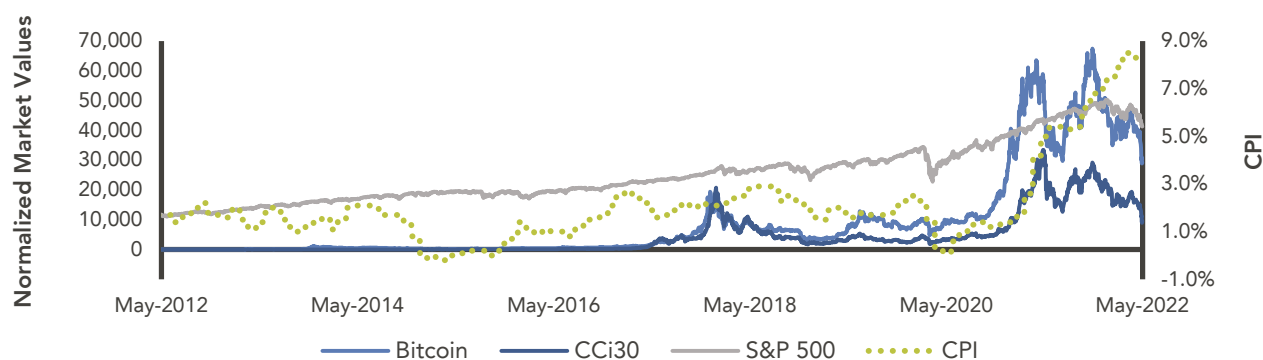
# Chart of the Week

May 19, 2022

## Digital Assets as an Inflation Hedge?

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Little historical correlation exists between CPI and an index of blockchain-based assets



| CCi30 Correlations - Daily Returns |        |        |        |         |
|------------------------------------|--------|--------|--------|---------|
|                                    | 1-Year | 3-Year | 5-Year | 10-Year |
| Bitcoin                            | 0.90   | 0.88   | 0.86   | 0.56    |
| S&P 500                            | 0.10   | 0.01   | 0.01   | -0.08   |
| CPI                                | 0.03   | 0.02   | 0.01   | -0.02   |

Source: Bloomberg, FRED, and Messari

With inflation a top concern for investors, digital assets and cryptocurrencies have reemerged in several narratives as a potential inflation hedge. Crypto proponents have long purported bitcoin as deflationary, citing the crypto's finite supply and diminishing mining rewards. This week's chart looks at daily market values of the S&P 500, CPI, bitcoin, and the Cryptocurrencies Index 30 (CCi30), supplemented with correlations. The CCI30 is an index of the top 30 free-floating digital assets by market capitalization, designed to objectively measure the performance of blockchain-based assets, excluding pegged assets known as stablecoins.

Typically, an inflation hedge should correlate and increase in value as inflation increases. The data suggest digital asset performance relative to inflation is intermittent with negligible correlations ranging between -0.02 and 0.03 over the trailing 1-, 3-, 5- and 10-year periods. Although there have been several periods – April 2020 and May 2021 – where digital assets moved in step with inflation, there are just as many divergent periods – May 2017 or January 2022. With U.S. adoption of crypto prior to 2020 largely driven by retail investors and opportunistic hedge funds, it is possible that the observed crypto-inflation correlations were the result of short-term momentum and investor sentiment. Looking ahead, advances in institutional adoption could change the crypto-inflation dynamic, with implications for market behavior, volatility, and portfolio application. At this point, however, there is little evidence that cryptocurrencies offer a hedge against inflation, but given the limited data available, this is worth monitoring over the coming years. ▀

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