RiskFi

BITCOIN RISK REPORT

FEBRUARY 2023 OUTLOOK

For more information visit https://riskfi.network or email us at report@riskfi.network

KEY DRIVERS

US INFLATION DECREASES

The January 2023 Consumer Price Index (CPI) inflation index, reported for the month of December 2022, came in at 6.5%. The previous month's inflation print was at 7.1%, hence decreasing by 9.2%. The current level of 6.5% is high to the Federal Reserve (Fed) target level of 2%, which means we can expect Fed to continue to the rate hikes.

We will watch the inflation closely, as it can have a significant impact on asset prices including bonds, equities and Bitcoin.

THE 10 YEAR TREASURY YIELDS DECREASES

The US 10Y Treasury yields have recently decreased to 3.5%, which is largely attributed to a decrease in inflation. Even though the inflation came in at 6.5% the decrease in US 10Y Treasury rates suggests the market had a higher risk-on appetite: i.e. moving towards a more risk-taking mindset.

It is important to be aware of these shifts in market movement and adjust the investment strategies accordingly.

US EQUITY INDICES INCREASES

In January, the US equity indices experienced gains. This is correlated with a decrease in inflation and declining US 10 Y Treasury yields. The US 10Y Treasury rate is inversely related to Bitcoin with a low beta value and S&P 500 has a high beta value with BTC. During January, treasury rates decreased and the S&P 500 increased, leading to an increase in Bitcoin's value (Chart 1 and Table 1).

SYSTEMATIC RISK OF BITCOIN WITH US EQUITIES AND 10Y TREASURY BONDS

DATA SOURCE: RISKFI DATASTREAM
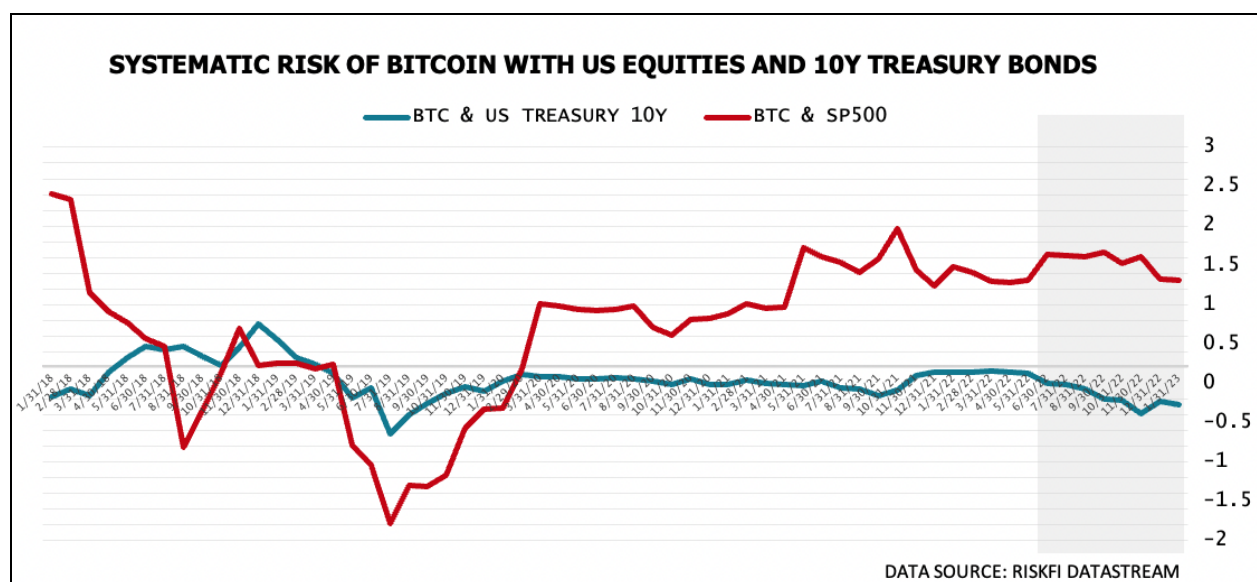
STRESS TESTING

CURRENT SCENARIO

For February 2023, investors can calibrate their Bitcoin based portfolios to a stressed shock estimate of **-17%**. "Equity effect" based on current macro condition is the primary contributor to this stressed loss estimate.

SCENARIO	SENSITIVITY	DIRECTION	MINIMUM LOSS	STRESSED LOSS	EXTREME LOSS
CURRENT MACRO (1 JUL 2022 - 31 JAN 2023)	**Commodity effect**	**INVERSE MOVE**	-1%	-7%	-10%
	Rates effect	**INVERSE MOVE**	-1%	-8%	-11%
	Equity effect	**DIRECT**	-2%	-17%	-23%

HISTORIC SCENARIO

The Historic Scenario is a simulation of stressed macroeconomic events from the past applied to the price of BTC. This simulation analysis helps us understand the extent of potential BTC losses if exposed to a similar event next month.

Investors can choose to use the table of scenario shocks in their asset allocation strategies. The computed values are a guide for risk management.

SCENARIO	SENSITIVITY	DIRECTION	MINIMUM LOSS	STRESSED LOSS	EXTREME LOSS
2022 - Russia Ukraine war (1 FEB 2022 - 6 JUN 2022)	**Rates effect**	**INVERSE MOVE**	-2%	-9%	-11%
	Commodity effect	**INVERSE MOVE**	-2%	-11%	-12%
	Equity effect	**DIRECT**	-5%	-25%	-27%
2020 - Covid Crisis (1 FEB 2020 - 1 SEP 2020)	**Rates effect**	**INVERSE MOVE**	-5%	-25%	-35%
	Commodity effect	**INVERSE MOVE**	-1%	-28%	-33%
	Equity effect	**DIRECT**	-3%	-39%	-62%
2008 - Mortgage Crisis (1 AUG 2008 - 31 DEC 2010)	**Equity effect**	**DIRECT**	-4%	-34%	-43%

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