



# DeFi Risk Report

## June 2023 Outlook

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# What to expect from this report?

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## FOREWORD

RiskFi offers institutional grade resources on crypto from a risk perspective. Our risk assessment begins by analyzing macroeconomic conditions in United States. These conditions have a significant impact on the value of crypto. We track macro events impacting equity and bond markets, and their correlations with Bitcoin. We also scrutinize the broader cryptocurrency ecosystem's influence on Bitcoin fluctuations.

## FACTOR LOADINGS

In the appendix of this report, we provide an extensive set of calculations referred to as "Factor Loadings", colloquially known as "Beta". These critical values have been computed for 160 distinct cryptocurrencies, taking into account five historical scenarios. By analyzing such a broad spectrum of cryptocurrencies across varied historical contexts, we seek to offer a nuanced understanding of market dynamics, underscoring the complexity and the depth of our rigorous risk assessment methodology.

# Looking back at May 2023

## AI driving the May markets

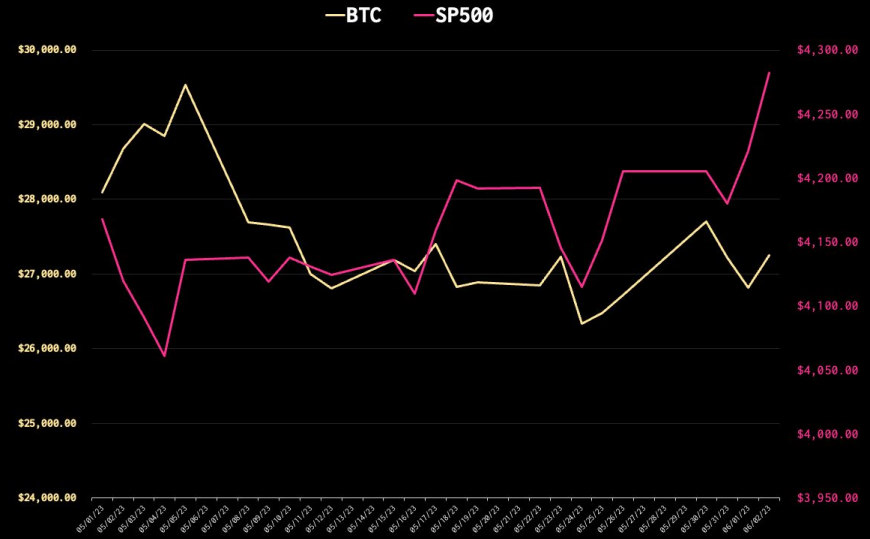
- The surge of interest in artificial intelligence (AI) has contributed to a remarkable \$4 trillion boost in technology stocks this year, particularly on the US Nasdaq exchange which recently reached its highest level since August last year.
- The AI-driven surge has resulted in a 23% increase in the NASDAQ index performance so far this year.
- Investors have gained confidence in the market value of technology companies due to the AI rally. These companies are expected to revolutionize various sectors with their rapid advancements and widespread adoption of AI technologies.
- The potential for AI to drive innovation, improve efficiency, and create new business opportunities has attracted significant interest and investment.

## Bitcoin takes a pause in May

- Despite the Federal Reserve's potential decision to forgo the next interest rate hike, apprehensions of an impending recession overshadowed the markets in May amidst the delayed response to increasing the debt ceiling.
- Interestingly, apart from the AI fueled tech sectors, all other sectors displayed a cautious and feeble outlook, indicating a peculiar scenario similar to an idiosyncratic tech bubble.
- While Bitcoin took a pause in its rally during May, this can be attributed to the idiosyncrasies of the tech investment cycle.
- The tech sector's distinctive characteristics, marked by cycles of enthusiasm and caution, contribute to temporary pauses as investors reevaluate their positions over Bitcoin.

As such, it is important to remain cautious in price declines of cryptocurrencies for June 2023.

BTC and S&P 500 showing similar patterns from second week of May 2023



# BITCOIN JUNE OUTLOOK

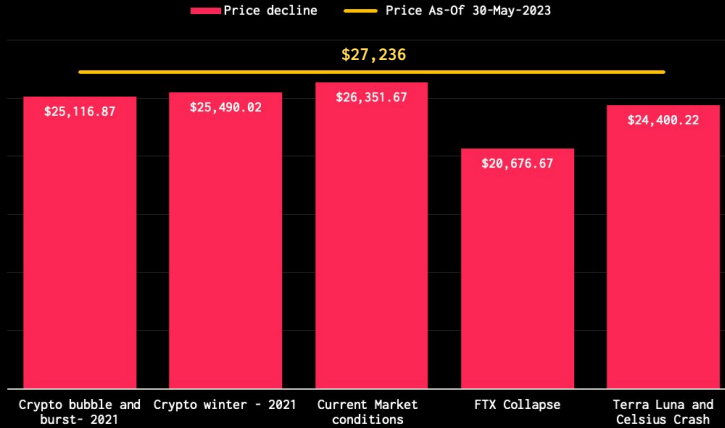


Price As-of  
31-May-2023

**\$27,236**

Adverse price  
decline

**\$20,676**



Although the current landscape of the cryptocurrency market presents a reduced risk profile, we must still keep in mind the high volatility of cryptocurrencies.

In considering the scenario of an "FTX collapse," it's plausible to anticipate an adverse price contraction for Bitcoin. This could lead to a potential depreciation of Bitcoin from its current valuation of \$27,236 as of May 2023, dropping to \$20,676. The Market Premium, which quantifies market risk, plays a critical role as a key risk factor, accounting for a significant 15.3% of the total risk evaluation.

## Percentage change

## Risk decomposition

SCENARIO	Percentage change					Risk decomposition					TOTAL RISK	PRICE DECLINE
	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK		
Crypto bubble and burst- 2021	-17.42%	0.13%	0.17%	0.50%	6.37%	-\$4,744.16	\$34.74	\$47.22	\$136.05	\$1,735.41	-\$2,119.71	\$25,116.9
Crypto winter - 2021	-9.81%	0.33%	-0.30%	-0.10%	-0.19%	-\$2,672.60	\$90.06	-\$82.96	-\$26.21	-\$51.37	-\$1,746.56	\$25,490.0
Current Market conditions	-8.20%	0.12%	0.13%	0.02%	0.02%	-\$2,233.94	\$31.75	\$35.96	\$6.59	\$4.14	-\$884.91	\$26,351.7
FTX Collapse	-15.33%	0.07%	-0.55%	-0.06%	-1.71%	-\$4,176.40	\$18.25	-\$149.06	-\$17.45	-\$466.03	-\$6,559.91	\$20,676.7
Terra Luna and Celsius Crash	-13.47%	-0.04%	0.19%	0.12%	-3.48%	-\$3,668.97	-\$10.92	\$50.42	\$33.91	-\$948.53	-\$2,836.36	\$24,400.2

# ETHEREUM JUNE OUTLOOK

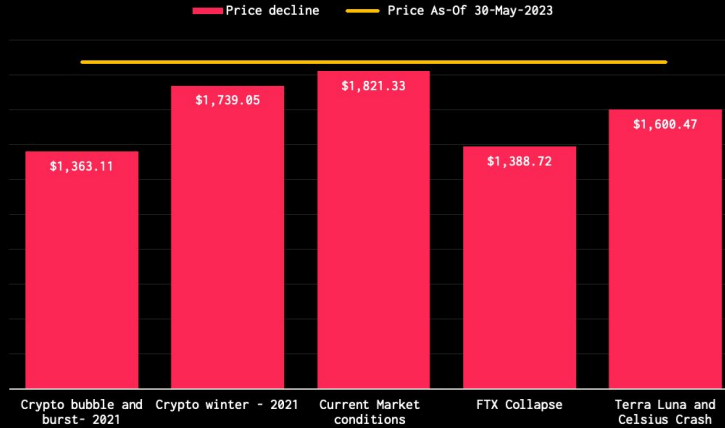


Price As-of  
31-May-2023

**\$1,875**

Adverse price  
decline

**\$1,389**



Ethereum's market trajectory is closely correlated with Bitcoin's price fluctuations, creating a symbiotic relationship between the two cryptocurrencies.

As of the end of May, Ethereum was valued at \$1,875, but it remains vulnerable to the same risks inherent in the Bitcoin market.

For risk averse investors, it may be wise to anticipate a price contraction to around \$1,389. However, for investors who are comfortable with taking on more risk, a less dramatic price depreciation to around \$1,821 could be considered based on current market conditions.

## Percentage change

## Risk decomposition

SCENARIO	Percentage change					Risk decomposition					TOTAL RISK	PRICE DECLINE
	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK		
Crypto bubble and burst- 2021	-25%	1%	-1%	0%	-11%	-\$467.18	\$26.81	-\$17.54	-\$4.02	-\$213.02	-\$512.67	\$1,363
Crypto winter - 2021	-13%	1%	1%	0%	1%	-\$245.84	\$9.70	\$14.21	-\$4.22	\$11.40	-\$136.73	\$1,739
Current Market conditions	-8%	0%	1%	0%	0%	-\$158.88	\$8.74	\$14.95	-\$0.13	\$2.69	-\$54.45	\$1,821
FTX Collapse	-21%	0%	2%	0%	0%	-\$390.36	\$4.35	\$38.95	-\$4.35	-\$4.28	-\$487.06	\$1,389
Terra Luna and Celsius Crash	-16%	0%	0%	0%	-8%	-\$293.41	\$0.13	\$3.62	-\$1.10	-\$150.31	-\$275.31	\$1,600

# COMPOUND JUNE OUTLOOK

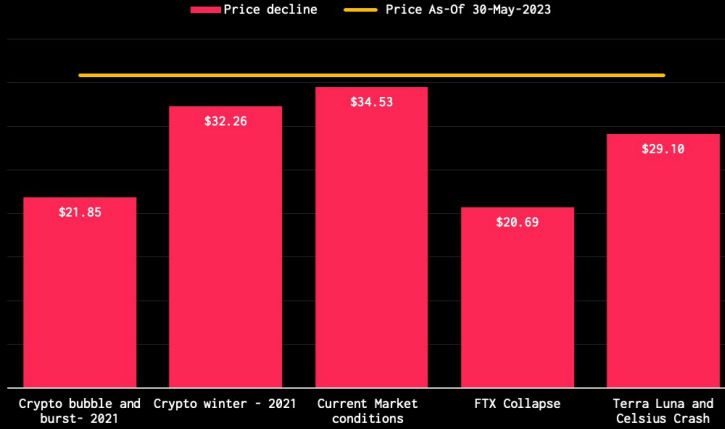


Price As-of  
31-May-2023

**\$35.4**

Adverse price  
decline

**\$20.7**



RiskFi recommends a conservative outlook towards Compound, considering the possibility of a potential adverse price decrease. Due to its sensitivity to macroeconomic shifts, particularly those related to credit, Compound is susceptible to significant impact.

The continued implementation of QT in the United States exerts additional pressure on Compound. Therefore, prudence and caution are crucial under these circumstances. As a risk-oriented projection for the month of June, a downward adjustment in price to \$20 can be envisaged.

## Percentage change

## Risk decomposition

SCENARIO	Percentage change					Risk decomposition					TOTAL RISK	PRICE DECLINE
	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK		
Crypto bubble and burst- 2021	-27%	1%	0%	-1%	-25%	-\$9.78	\$0.40	-\$0.06	-\$0.19	-\$8.80	-\$13.99	\$21.8
Crypto winter - 2021	-12%	-4%	1%	0%	-1%	-\$4.22	-\$1.41	\$0.36	\$0.00	-\$0.35	-\$3.58	\$32.3
Current Market conditions	-11%	1%	0%	0%	1%	-\$3.86	\$0.43	-\$0.06	\$0.01	\$0.28	-\$1.31	\$34.5
FTX Collapse	-21%	-1%	1%	0%	-10%	-\$7.55	-\$0.19	\$0.49	-\$0.06	-\$3.75	-\$15.15	\$20.7
Terra Luna and Celsius Crash	-23%	-2%	-2%	-1%	-2%	-\$8.34	-\$0.74	-\$0.66	-\$0.40	-\$0.66	-\$6.74	\$29.1

# MATIC JUNE OUTLOOK

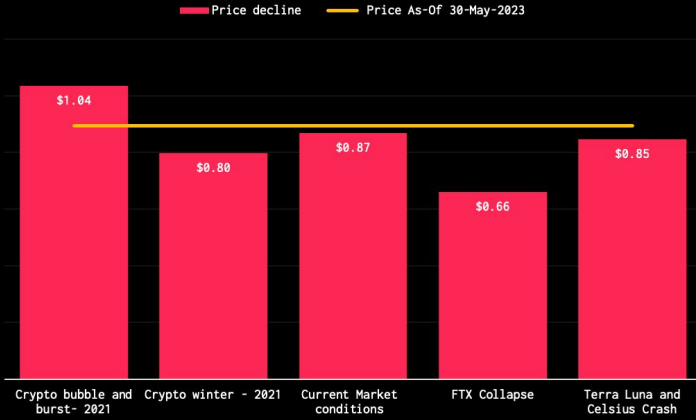


Price As-of  
31-May-2023

**\$0.893**

Adverse price  
decline

**\$0.68**



RiskFi predicts a negative price trend for the upcoming month of June for Matic, with an anticipated drop to \$0.68. This digital asset is known for significant price fluctuations and is inherently susceptible to changes in the broader cryptocurrency market.

Notably, movements in the valuation of prominent cryptocurrencies like Ethereum and Bitcoin tend to have a profound impact on its value.

This suggests that any major shift in the value of Ethereum or Bitcoin could significantly affect Matic, highlighting the inherent volatility and interconnected nature of the cryptocurrency market.

## Percentage change

SCENARIO	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK
Crypto bubble and burst- 2021	-32%	4%	-8%	-5%	62%
Crypto winter - 2021	-17%	0%	1%	-1%	0%
Current Market conditions	-9%	1%	1%	0%	1%
FTX Collapse	-34%	4%	11%	1%	-1%
Terra Luna and Celsius Crash	-22%	0%	-1%	0%	15%

## Risk decomposition

MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	TOTAL RISK	PRICE DECLINE
-\$0.29	\$0.04	-\$0.07	-\$0.04	\$0.55	\$0.14	\$1.0
-\$0.15	\$0.00	\$0.01	-\$0.01	\$0.00	-\$0.10	\$0.8
-\$0.08	\$0.01	\$0.01	\$0.00	\$0.01	-\$0.02	\$0.9
-\$0.30	\$0.04	\$0.10	\$0.01	-\$0.01	-\$0.23	\$0.7
-\$0.20	\$0.00	-\$0.01	\$0.00	\$0.13	-\$0.05	\$0.8

# SOLANA JUNE OUTLOOK

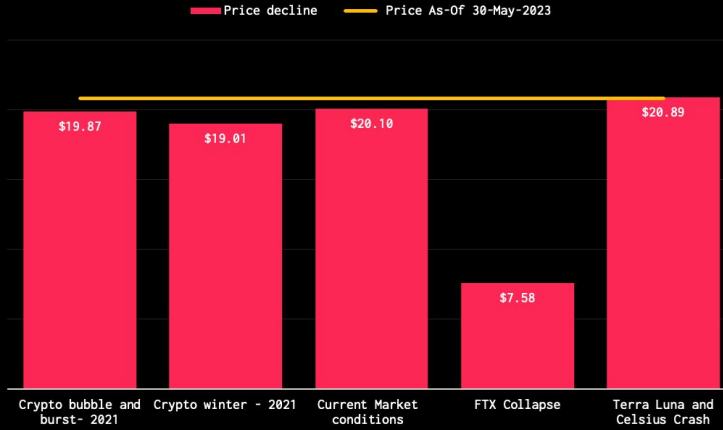


Price As-of  
31-May-2023

**\$20.83**

Adverse price  
decline

**\$7.6**



There is potential for adverse price movements for Solana in June. The worst case scenario if another FTX collapse like scenario could result in price going to \$7.6.

However, a more plausible examination of the 'Current Market Conditions' scenario indicates a marginal depreciation to \$20.10. Despite this, it's important to consider an adverse price decline as part of the risk assessment process.

We recommended that an adverse scenario be considered as part of an overall risk management strategy for Solana in June.

## Percentage change

## Risk decomposition

SCENARIO	Percentage change					Risk decomposition					TOTAL RISK	PRICE DECLINE
	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK		
Crypto bubble and burst- 2021	-27%	1%	1%	-5%	24%	-\$5.60	\$0.11	\$0.24	-\$1.08	\$5.07	-\$0.96	\$19.9
Crypto winter - 2021	-14%	0%	1%	-1%	0%	-\$3.00	-\$0.01	\$0.20	-\$0.15	\$0.10	-\$1.82	\$19.0
Current Market conditions	-12%	1%	2%	0%	0%	-\$2.49	\$0.28	\$0.43	\$0.01	-\$0.02	-\$0.73	\$20.1
FTX Collapse	-37%	0%	0%	1%	-10%	-\$7.79	-\$0.04	\$0.07	\$0.26	-\$2.17	-\$13.25	\$7.6
Terra Luna and Celsius Crash	-23%	0%	0%	0%	24%	-\$4.80	\$0.04	-\$0.08	\$0.01	\$4.94	\$0.06	\$20.9



# MAKER-DAO JUNE OUTLOOK

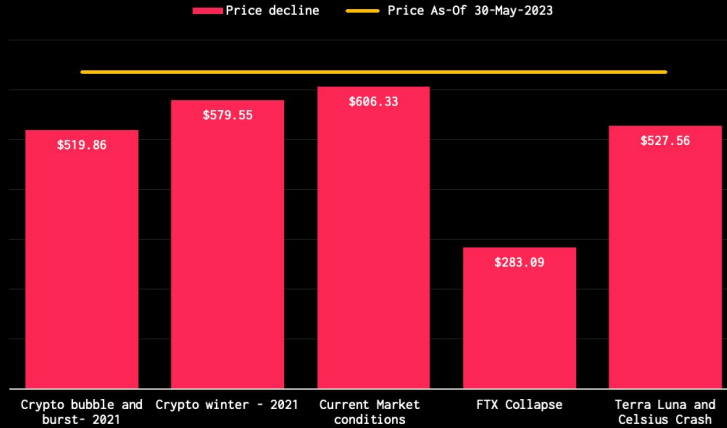


Price As-of  
31-May-2023

**\$635.8**

Adverse price  
decline

**\$519.9**



Maker DAO, the primary supplier of the stablecoin DAI, brings a sense of stability to the otherwise volatile cryptocurrency market. As a result, it currently presents a diminished risk profile.

RiskFi has taken a conservative approach and estimates a potential price contraction to \$519.9. This represents a decline from its current price of \$635.8 at the close of May.

## Percentage change

## Risk decomposition

SCENARIO	Percentage change					Risk decomposition					TOTAL RISK	PRICE DECLINE
	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK	MARKET PREMIUM RISK	SIZE RISK	MOMENTUM RISK	LIQUIDITY RISK	VOLATILITY RISK		
Crypto bubble and burst- 2021	-34%	4%	-4%	4%	6%	-\$212.89	\$25.38	-\$27.11	\$24.27	\$38.23	-\$115.54	\$519.9
Crypto winter - 2021	-12%	-2%	-1%	0%	1%	-\$73.86	-\$11.97	-\$4.63	-\$1.29	\$4.04	-\$55.85	\$579.5
Current Market conditions	-8%	-1%	-2%	0%	0%	-\$52.50	-\$8.20	-\$11.86	\$1.28	\$0.47	-\$29.07	\$606.3
FTX Collapse	-18%	-4%	1%	0%	-20%	-\$113.40	-\$26.12	\$5.49	\$1.44	-\$124.72	-\$352.31	\$283.1
Terra Luna and Celsius Crash	-13%	-1%	3%	-1%	-16%	-\$84.04	-\$5.01	\$21.70	-\$6.38	-\$99.05	-\$107.84	\$527.6

## What are they?

Factor loading is a statistical term used in factor analysis to measure the strength of the relationship between observed variables and underlying latent factors. Factor loadings can carry multiple interpretations:

- **Strength of association:** Factor loadings indicate the strength and direction of the relationship between an observed variable and a factor. Positive factor loadings signify a positive association, while negative loadings indicate a negative association.
- **Variable importance:** Larger factor loadings suggest that a variable contributes more to the underlying factor.
- **Interpretation:** Factor loadings assist in interpreting the meaning of factors.
- **Variable selection:** Factor loadings guide investors in selecting variables that represent a specific factor, like Liquidity, Volatility etc. to explicitly address the sources of risks.

## How are they used?

The RiskFi computational platform calculates factor loadings daily, which is a crucial aspect of its design process. In this report, we present the meticulously computed factor loadings for 160 cryptocurrencies across five historical stress scenarios.

To illustrate our findings, we will showcase the factor loadings of five selected cryptocurrencies. Our goal is to demonstrate the depth of our analysis and shed light on the intricate relationship between these cryptocurrencies and the identified stress scenarios.

Please note that the remaining section will dive into the advanced usage of factor loadings, using traditional finance language to signify our research.

# RISKFI FACTOR LOADINGS



Crypto	STRESS TEST AND PERIOD			FACTOR LOADING (BETA)				
	Scenario	Start	End	Market Premium	Size	Momentum	Liquidity	Volatility
Bitcoin	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	0.826	-0.001	-0.001	0.009	0.236
	Crypto winter - 2021	09-Nov-21	22-Jan-22	0.887	-0.002	0.002	-0.004	-0.010
	Current Market conditions	01-Dec-22	28-May-23	1.119	-0.001	0.000	0.002	0.001
	FTX Collapse	05-Nov-22	21-Nov-22	1.052	-0.001	0.001	-0.002	-0.125
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.018	0.000	-0.001	0.003	-0.101
Compound	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.293	-0.007	0.001	-0.009	-0.910
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.063	0.025	-0.005	-0.001	-0.053
	Current Market conditions	01-Dec-22	28-May-23	1.469	-0.007	0.000	0.002	0.037
	FTX Collapse	05-Nov-22	21-Nov-22	1.446	0.004	-0.002	-0.005	-0.763
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.757	0.016	0.005	-0.027	-0.053
Ethereum	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.180	-0.009	0.004	-0.004	-0.421
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.184	-0.003	-0.004	-0.009	0.033
	Current Market conditions	01-Dec-22	28-May-23	1.155	-0.003	-0.002	0.000	0.007
	FTX Collapse	05-Nov-22	21-Nov-22	1.428	-0.002	-0.003	-0.006	-0.017
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.182	0.000	-0.001	-0.001	-0.232

# RISKFI FACTOR LOADINGS



Crypto	STRESS TEST AND PERIOD			FACTOR LOADING (BETA)				
	Scenario	Start	End	Market Premium	Size	Momentum	Liquidity	Volatility
Bitcoin	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	0.826	-0.001	-0.001	0.009	0.236
	Crypto winter - 2021	09-Nov-21	22-Jan-22	0.887	-0.002	0.002	-0.004	-0.010
	Current Market conditions	01-Dec-22	28-May-23	1.119	-0.001	0.000	0.002	0.001
	FTX Collapse	05-Nov-22	21-Nov-22	1.052	-0.001	0.001	-0.002	-0.125
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.018	0.000	-0.001	0.003	-0.101
Compound	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.293	-0.007	0.001	-0.009	-0.910
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.063	0.025	-0.005	-0.001	-0.053
	Current Market conditions	01-Dec-22	28-May-23	1.469	-0.007	0.000	0.002	0.037
	FTX Collapse	05-Nov-22	21-Nov-22	1.446	0.004	-0.002	-0.005	-0.763
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.757	0.016	0.005	-0.027	-0.053
Ethereum	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.180	-0.009	0.004	-0.004	-0.421
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.184	-0.003	-0.004	-0.009	0.033
	Current Market conditions	01-Dec-22	28-May-23	1.155	-0.003	-0.002	0.000	0.007
	FTX Collapse	05-Nov-22	21-Nov-22	1.428	-0.002	-0.003	-0.006	-0.017
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.182	0.000	-0.001	-0.001	-0.232

# RISKFI FACTOR LOADINGS



Crypto	STRESS TEST AND PERIOD			FACTOR LOADING (BETA)				
	Scenario	Start	End	Market Premium	Size	Momentum	Liquidity	Volatility
Maker	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.588	-0.024	0.017	0.065	0.223
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.050	0.012	0.004	-0.009	0.034
	Current Market conditions	01-Dec-22	28-May-23	1.127	0.008	0.004	0.013	0.004
	FTX Collapse	05-Nov-22	21-Nov-22	1.225	0.034	-0.001	0.006	-1.431
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	0.999	0.006	-0.010	-0.025	-0.450
Polygon	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.535	-0.026	0.031	-0.082	2.289
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.499	0.001	-0.006	-0.035	-0.014
	Current Market conditions	01-Dec-22	28-May-23	1.292	-0.006	-0.003	-0.011	0.048
	FTX Collapse	05-Nov-22	21-Nov-22	2.334	-0.034	-0.016	0.031	-0.085
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.672	0.000	0.003	-0.002	0.430
Solana	Crypto bubble and burst- 2021	11-May-21	02-Jul-21	1.275	-0.003	-0.004	-0.089	0.901
	Crypto winter - 2021	09-Nov-21	22-Jan-22	1.300	0.000	-0.005	-0.030	0.027
	Current Market conditions	01-Dec-22	28-May-23	1.633	-0.008	-0.004	0.005	-0.005
	FTX Collapse	05-Nov-22	21-Nov-22	2.567	0.002	0.000	0.034	-0.759
	Terra Luna and Celsius Crash	02-Apr-22	18-Jun-22	1.741	-0.001	0.001	0.001	0.685

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