

One River Digital Pulse



23 NOVEMBER 2022

One River Digital
Research

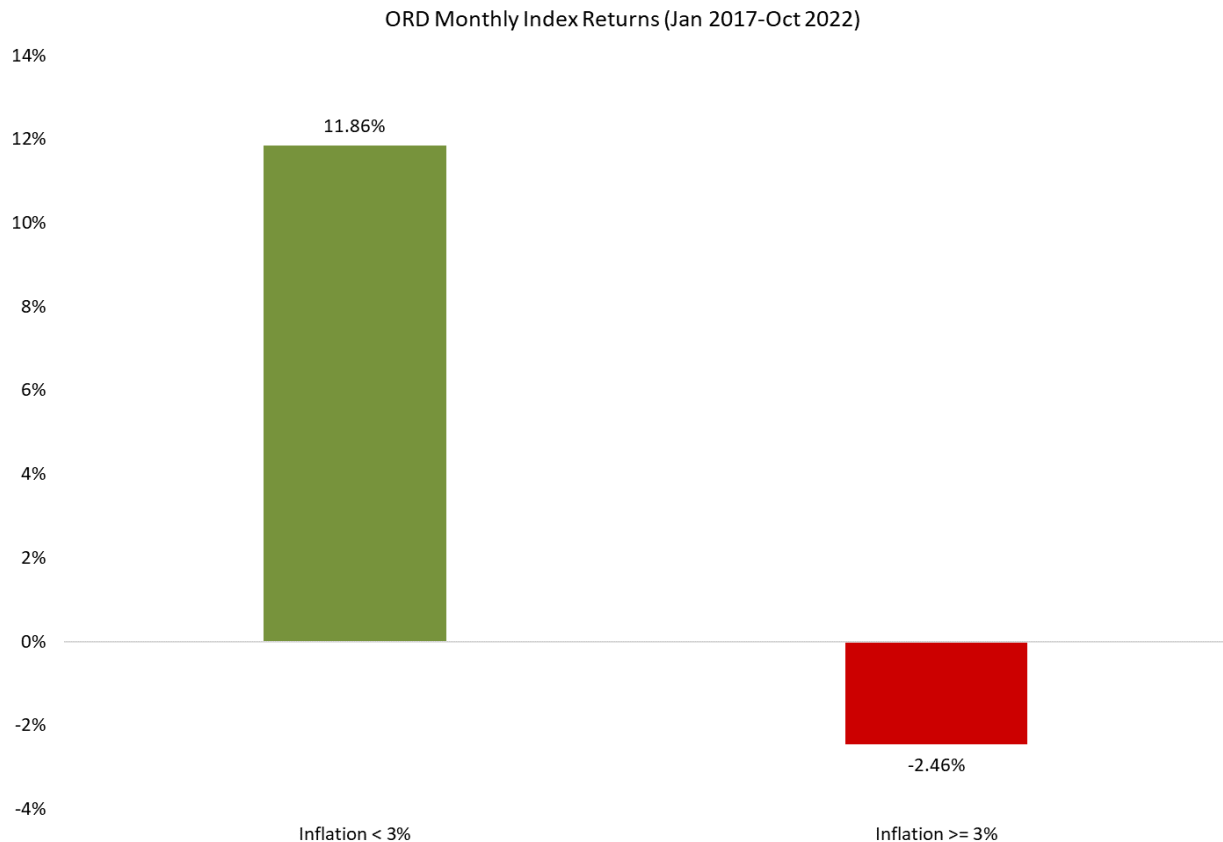
Weekly Pulse – Sentiment

Digital Pulse – Sentiment: The tails of market cycles are defined by extreme sentiment. We thankfully said goodbye to the “have-fun-being-poor” cohort that dominated airwaves in the bull market and unfortunately hear the noise of the “crypto-is-for-criminals” tribe in the bear market. This change in sentiment is all within 12 months. And the circumstances were unusual. Inflation was a core argument for digital asset exposure. Yet, digital asset returns have been far stronger when inflation has been low. With US CPI inflation less than 3%, the ORD Core Index has averaged a monthly return of nearly 12% compared to a loss of more than 2% when inflation is higher than 3%. Is there relief in sight with markets discounting for a collapse in inflation? Policy and long-term inflation expectations will decide. The decline in digital assets during high inflation does not negate the hypothesis. The rise in US real interest rates greatly increased the attraction of the US dollar, and investors flocked to cash. You don’t rush to cash when you are worried about inflation – you shed cash as quickly as possible in anticipation of its immediate devaluation. The judgment of investors was simple enough – the inflation tax was a small price to pay to avoid a decline in asset prices. Bonds, stocks, housing, commodities, and digital assets are all down. Cash was King even with higher inflation. How quickly real interest rates now decline will set the tone for digital asset markets, and a higher structural trend inflation would drive real rates down. A structural trend could temper the tails in digital asset markets – a welcome change from the boom-bust mentality and the sentiment that comes with it.

WEEKLY BEATS

1. Chart of the Week – Digital Returns Strong with Low Inflation
2. Fundamental Pulse – Back to “Usual”
3. Smart Contract Development Growth
4. 45% of Bitcoin Supply in Profit
5. Long-Term Holders are Still Resilient

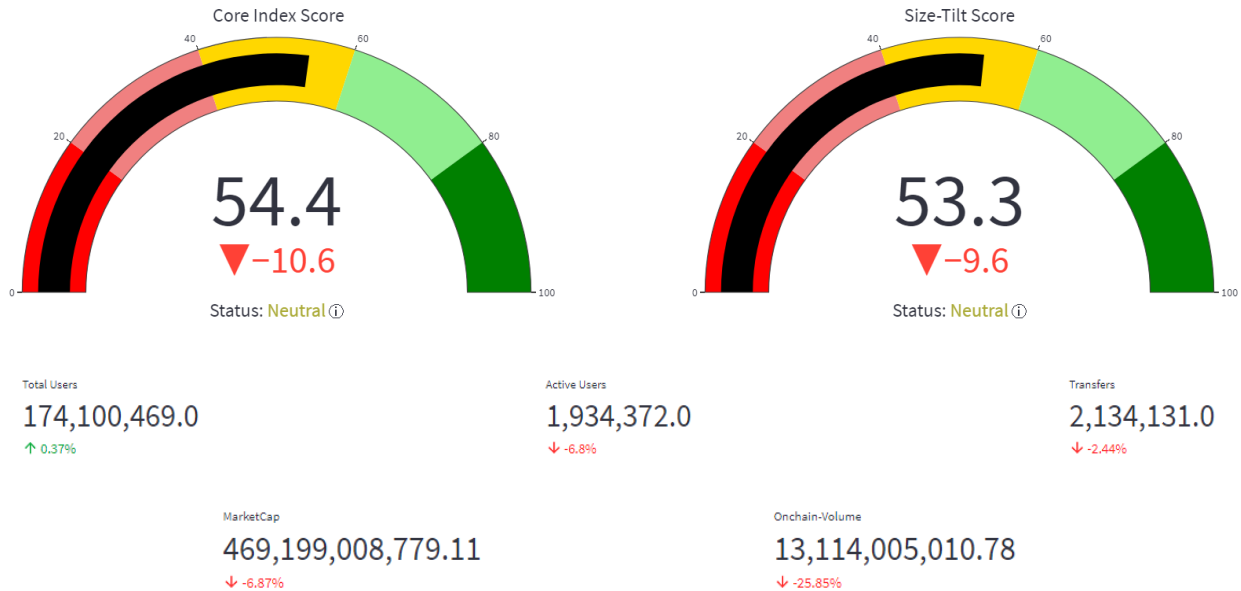
1. DIGITAL RETURNS STRONG WITH LOW INFLATION



Source: Bloomberg LP, MVIS, One River Digital Calculations.
Past results are not indicative of future results.

Digital asset returns have been strong during periods of low inflation, and poor when inflation rises. This is a reflection more of policy responses, the US dollar, and expected future inflation. When inflation expectations are anchored, policy tightening is a rise in real interest rates that elevates the US dollar and tightens digital credit conditions. When inflation is high and real rates are low, digital asset returns are far more likely to be positive and vice versa.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Network activity fell sharply in the past week, back to its neutral reading from the past few months. For now, the exodus from exchanges to self-custody wallets has simmered, explaining the score downgrade in Bitcoin, Ethereum & Litecoin. The bear market champion, Polygon, holds tightly to its gains over the past month.

| Assets | Asset Score | 7d Change | 30d Change | Volume | Transfers | Active Users | User Growth | Valuation | Velocity | Network Distribution |
|--------------|-------------|-----------|------------|--------|-----------|--------------|-------------|-----------|----------|----------------------|
| Core | 54 | -11 | 13 | 33 | 37 | 62 | 56 | 23 | 70 | 99 |
| Size Tilt | 53 | -10 | 14 | 40 | 35 | 54 | 57 | 30 | 60 | 96 |
| Bitcoin | 58 | -12 | 7 | 15 | 52 | 72 | 56 | 10 | 99 | 100 |
| Ethereum | 47 | -8 | 22 | 64 | 7 | 46 | 54 | 45 | 15 | 100 |
| Cardano | 63 | -3 | 9 | 50 | 33 | 36 | 90 | 35 | 100 | 100 |
| Polygon | 77 | -8 | 46 | 85 | 83 | 77 | 81 | 80 | 30 | 100 |
| Litecoin | 45 | -15 | -6 | 15 | 22 | 20 | 39 | 33 | 98 | 87 |
| Bitcoin Cash | 24 | -2 | 11 | 42 | 24 | 18 | 8 | 29 | 0 | 48 |
| Stellar | 38 | -14 | 6 | 41 | 22 | 33 | 50 | 21 | 1 | 100 |

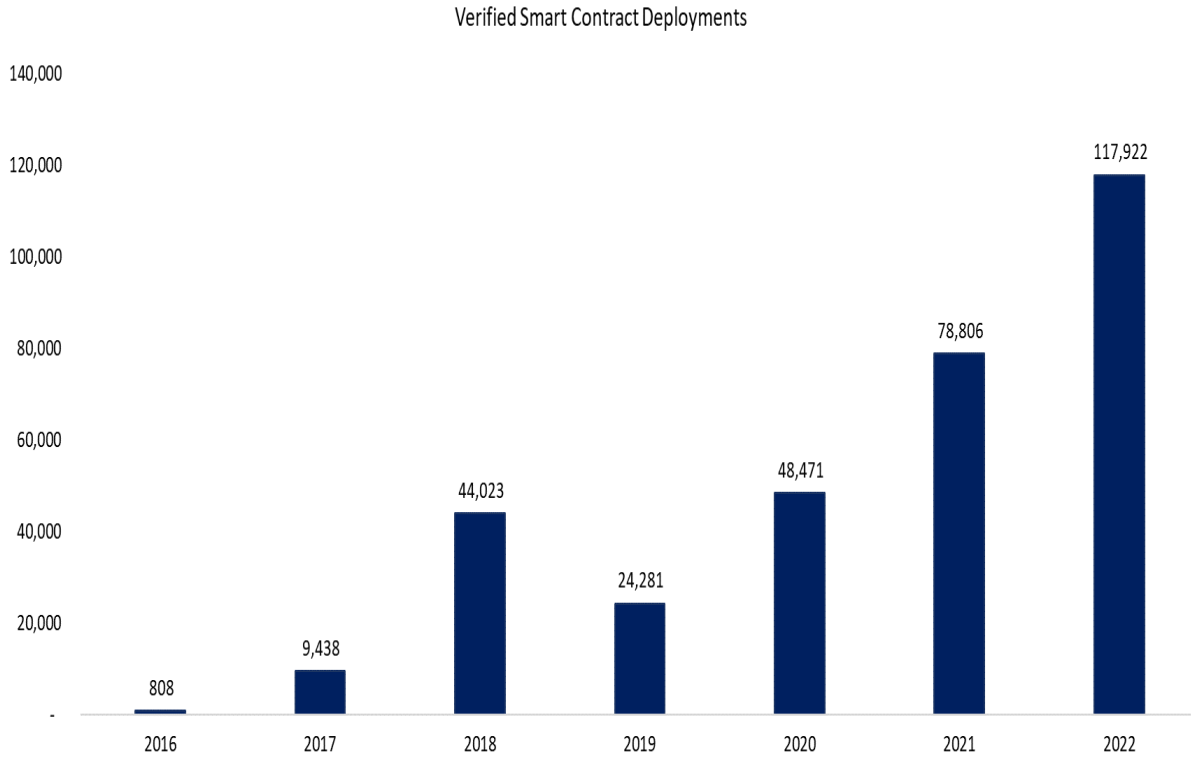
*Snapshot on 11/22/2022. Seven-day change in the Core and Size-Tilt Index Scores.

Notes: Status- High > 60, Neutral 40 to 60, Low < 40. A score of 54.5 means the Index value is better than 54.5% of its values in the past 365 days. Index scores exclude Solana, Cosmos, and Polkadot due to incomplete data coverage.

Past results are not indicative of future results.

3. SMART CONTRACT DEPLOYMENT GROWTH

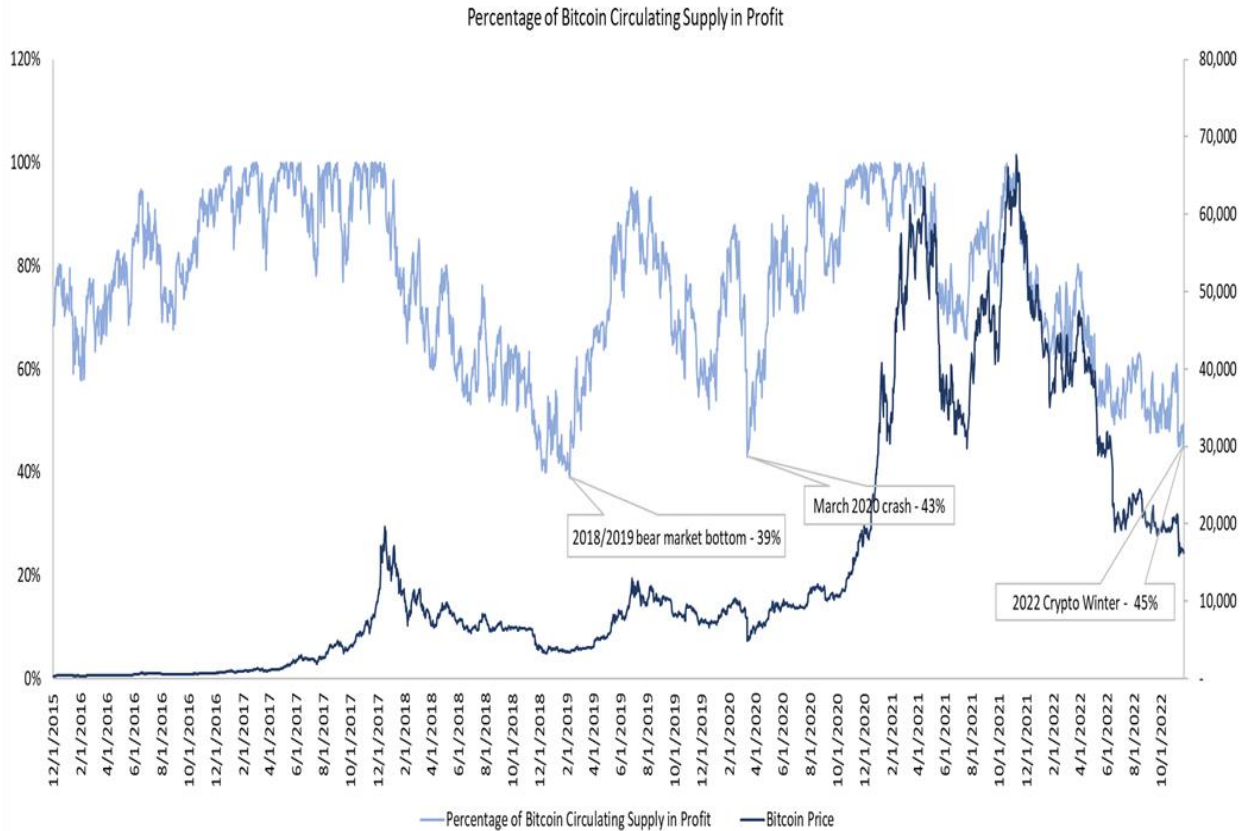
Development activity often serves as a leading indicator for project growth. Unlike the bear market of 2018-2019, smart contract deployment is up ~50% this year. The value of the Ethereum network continues to receive more recognition.



Source: Alchemy Web 3 Developer Report Q3 2022.

4. 45% OF BITCOIN SUPPLY IN PROFIT

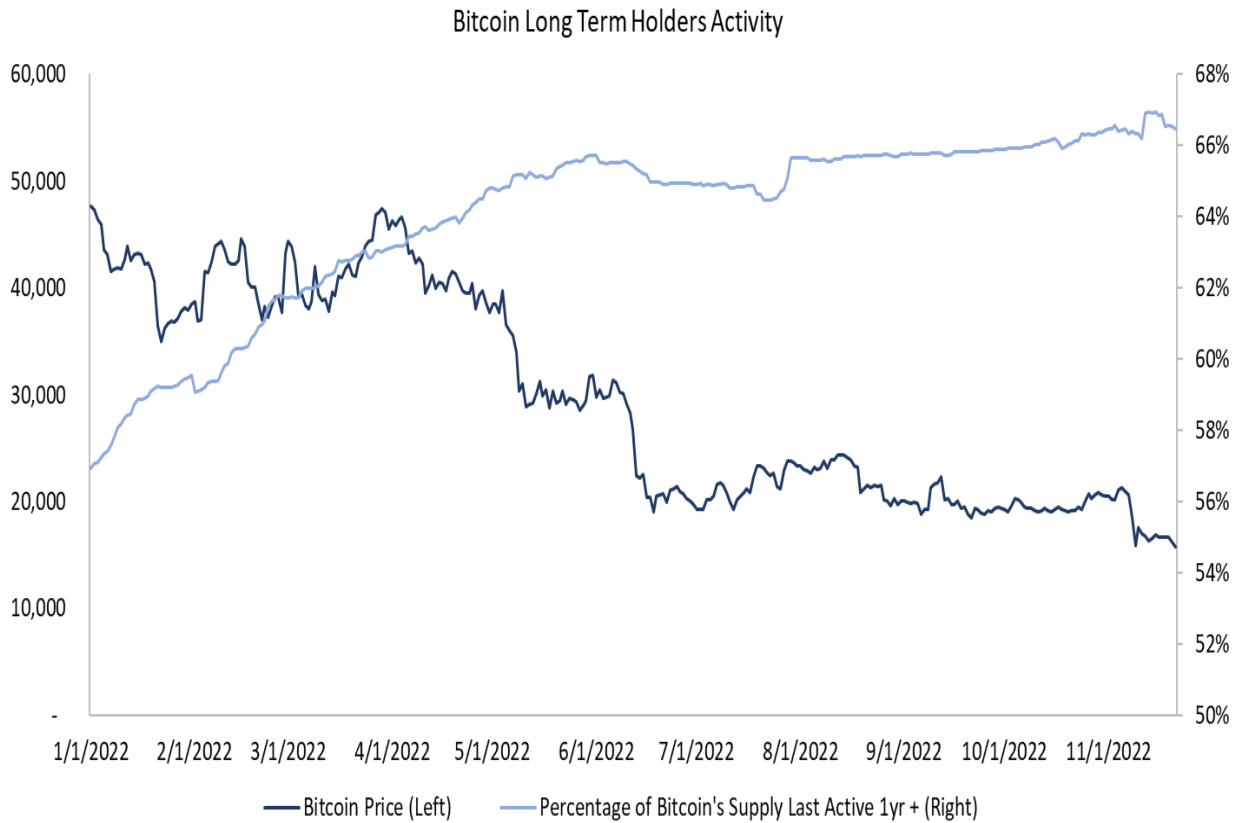
Broader uncertainty has led to a 14% drop in the percentage of Bitcoin supply in profit in the last two weeks. However, current levels are close to the historical lows signifying a move closer to the bottom of this cycle.



Source: Glassnode. One River Digital Calculations.
Past results are not indicative of future results.

5. LONG-TERM HOLDERS ARE STILL RESILIENT

65% of the Bitcoin supply has been dormant in the past year. With the decreasing supply of Bitcoin traded in markets, the economics work in favor of Bitcoin moving forward. Most times, value investors set price floors for assets.



Source: Glassnode.

Past results are not indicative of future results.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.

2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.

2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.

2.2 High Transfer Count & Lower Volume - Indicates higher retail activity or exchanges amongst small accounts.

2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.

2.4 High Transfer Count & Higher Volume- indicates high network usage. A persistent trend is substantial.

3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.

3.1 High Value: High network usage and high demand.

3.2 Low Value: Low network usage and low demand.

4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.

4.1 High Value: Indicates users being added to the network at an increasing rate.

4.2 Low Value: Indicates users being added to the network at a slower pace.

5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.

5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.

5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.

5.3 Medium value: Asset is reasonably valued – sustainable demand for transactions.

6. Velocity – This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help assess an asset's market-relevant supply.

6.1 High Value: There is greater circulation of coins in the network and use for payments.

6.2 Lower Value: There is lower circulation of coins in the network and use for payments.

7. Network distribution – The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).

7.1 High value: Signifies high distribution of supply and higher decentralization.

7.2 Low value: Low supply distribution and heavy concentration amongst a few wallets.

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