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April 29, 2021

Crypto Strategy: Bitcoin \$100k target intact; corporate buyers offer surprise catalyst; Ethereum growing into our \$10k target; crypto market on pace to hit \$5T

In this week's crypto strategy note we discuss:

- Bitcoin rebounding from a healthy cooling off period last week as the macro backdrop remains accommodative & bull market remains intact
- Even if Facebook didn't buy Bitcoin, corporates are coming, and it may not be reflected in earnings announcements yet
- Remaining overweight Ethereum and maintaining a price target of \$10.5k as ETH reaches new highs and continues to outperform BTC
- Continue to see more upside in higher beta altcoins vs. Bitcoin as crypto markets are on pace to hit \$5T

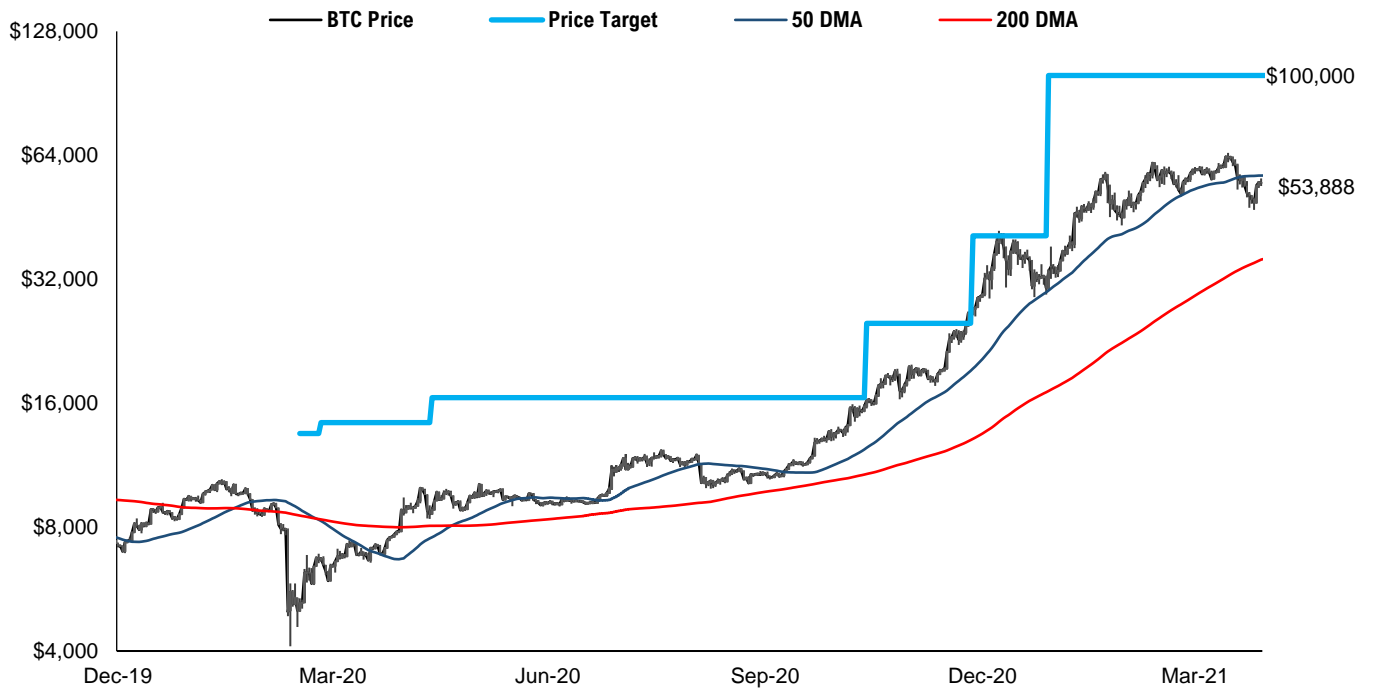
Bitcoin rebounding from a healthy cooling off period last week as the macro backdrop remains accommodative & bull market remains intact

Bitcoin and crypto markets have been rebounding this week after the prior week's sell off. A combination of de-leveraging, Bitcoin falling below its 50-day, notable Wall Street firms forecasted a major correction to \$20-30k sparking retail fear and the Biden tax plan were all events that took us lower last week.

But market have stabilized and bounced since then.

As we mentioned in [our note two weeks ago](#), we thought a "crypto market cooling off would be healthy". We've seen the price of Bitcoin retrace a little over ~25%, which would qualify as a major correction for traditional markets but is par for the course in crypto during bull market cycles. While we're not technical traders, Bitcoin falling below its 50 day gives us less concern given this has happened several times during the prior bull market cycle, and it's the 200 day that Bitcoin has historically maintained during prior bull runs.

As we discussed in our [prior week's note](#), we believe the bull market remains intact, and we are maintaining our \$100k Bitcoin price target.



Source: Fundstrat, Coinmarketcap

We think the macro backdrop remains bullish for crypto assets. The Fed's recent guidance that it plans to remain accommodative should be supportive for risk assets like crypto.

The image shows a CNBC news broadcast. On the left, a man in a suit and glasses is speaking. On the right, a graphic displays the top S&P % Gainers. Below the graphic, a red banner reads "POWELL: ECONOMY LONG WAY FROM EMPLOYMENT, INFLATION GOALS". The CNBC logo is in the bottom right corner.

S&P % GAINERS		
NOV INC	15.01	[+10.53%]
DEVON ENERGY	24.09	[+8.81%]
HESS	76.28	[+8.28%]
APA CORP (US)	20.51	[+7.78%]
MARATHON OIL	11.72	[+6.16%]

BREAKING NEWS POWELL: ECONOMY LONG WAY FROM EMPLOYMENT, INFLATION GOALS

Source: Fundstrat, CNBC

Even if Facebook didn't buy Bitcoin, corporates are coming, and it may not be reflected in earnings announcements yet

In our January [2021 Crypto Outlook](#), we predicted corporates would be entering crypto in a bigger way this year. We think this is starting to happen more and will be one new source for capital flows into the crypto economy.

2021 Outlook: 20 Reasons We're Remaining Bullish

We see several reasons to remain bullish on crypto during 2021

#	Category	Factor	Explanation
1	Bitcoin Cycle	Price	Fourth bull market cycle uptrend
2		Technical	Bitcoin above 200 DMA = bullish
3		Valuation	Valuations higher but not a bubble
4		Fundamentals	Increasing economic model estimates
5	Macro Trends	Monetary	Money supply growth & dry powder
6		USD trend	Expect dollar weakening & EM strength
7		Credit trend	Low rates & negative yielding debt
8		Equities trend	Strong S&P 500 & EM equity trend
9		Fiscal policy	Government stimulus expected
10	Geopolitical		Tension domestic & abroad
11		T.I.N.A.	There Is No Alternative
12	Capital Flows	Asset Class Size	Now large enough for institutions
13		Institutional interest	Crypto fund starts & AUM growing
14		Exchange traded fund flows	GBTC generated \$3B Q4 demand
15		Retail crypto on-ramp demand	PayPal & Coinbase demand surging
16		Corporate crypto buyers	Treasury & fundamental usage reasons
17		Consensus to bearish	Market pricing 10% chance BTC>\$100k
18		Coinbase equity IPO	Equity investors will be looking at crypto
19	Institutional FOMO		Underperformance risk (Tesla)
20		Regulatory	More clarity=lower discount rate

Source: Fundstrat

Tesla grabbed news headlines by announcing it had purchased \$1.5B of Bitcoin earlier this year and again drew the spotlight the other day by announcing that they had sold a relatively small amount for a \$100M profit to, in Elon's words, "prove the market liquidity".

Rumors were even flying around that Facebook may be reporting Bitcoin on its balance sheet with its earnings release – this proved to be untrue but even if Facebook didn't buy Bitcoin, the corporates are coming, and it may not be reflected in earnings announcements yet.



CNN

Tesla bought \$1.5 billion in bitcoin early this year. By the end of March, it was worth \$2.5 billion

TheStreet.

No, Facebook Didn't Report Any Bitcoin In Its Q1 Earnings

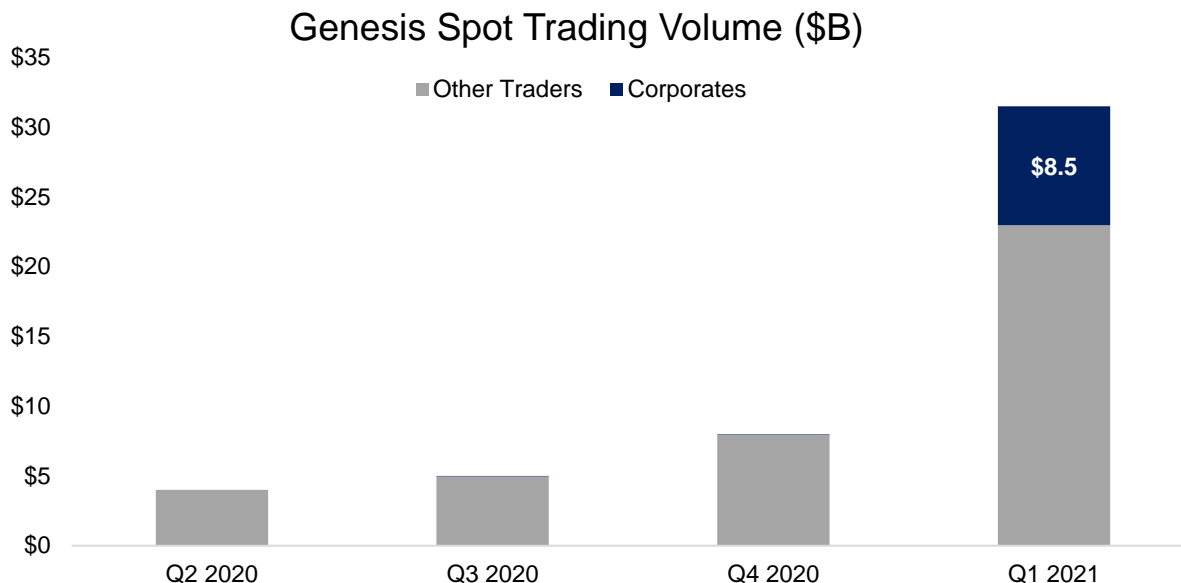
Source: Fundstrat, CNN, The Street

Why do we think this? Based on the [Q1 2021 Market Observations Report](#) that was published yesterday, the OTC trading firm reported a notable jump in Corporates as a share of volume to ~27% from ~0% in the quarters prior.

Genesis Trading Volume by Client Type				
	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Corporates	0.00%	0.60%	0.49%	27.06%
HNW	4.90%	2.40%	4.21%	13.00%
Dealers/MMs	17.26%	13.53%	9.84%	9.55%
HF/FO	16.25%	23.20%	11.31%	20.57%
Payments	59.43%	51.67%	14.06%	8.92%
Retirement	0.18%	7.28%	0.09%	0.12%
Miners	0.38%	0.26%	0.18%	0.05%
<u>Passive Funds</u>	<u>1.60%</u>	<u>1.06%</u>	<u>59.82%</u>	<u>20.73%</u>
Total	100.00%	100.00%	100.00%	100.00%

Source: Fundstrat, Genesis

As one of the largest U.S. OTC desks, we think this is telling of what could be to come. Genesis reported a little over \$30B in trading volume during the quarter, implying that roughly \$8.5B came from corporates. Even if we back out buys and sell from Tesla, MicroStrategy and other corporate, we think this says that more corporates bought crypto this quarter than has been announced, unless Tesla is day trading its position, which we think is unlikely given corporates tend to be longer term holders. We think announcements from other corporations in the weeks to come could offer catalysts for the market.



Source: Fundstrat, Genesis

Remaining overweight Ethereum and maintaining a price target of \$10.5k as ETH reaches new highs and continues to outperform BTC

Ethereum reached a new all-time high of \$2,800 this week. We’re maintaining our [overweight Ethereum vs. Bitcoin recommendation from April 2020](#) and reiterating our [~\\$10.5k price target from January this year](#).

Ethereum’s market cap has risen to ~30% of Bitcoins over recent weeks. During the last market cycle, Ethereum broke this level and head as high as 80% of Bitcoins value – we’re not predicting exactly this but its a useful frame of reference.

Ratio of Ether to Bitcoin Market Capitaliation (%)



Source: Fundstrat, Coinmetrics

When new investors come to crypto the first asset they generally hear about and buy is Bitcoin before learning about other assets and allocating across the space. We think the same learning curve is playing out with institutional investors right now where the crypto narrative is shifting from Bitcoin to Ethereum and other segments like DeFi and Web 3 apps.

J.P.Morgan

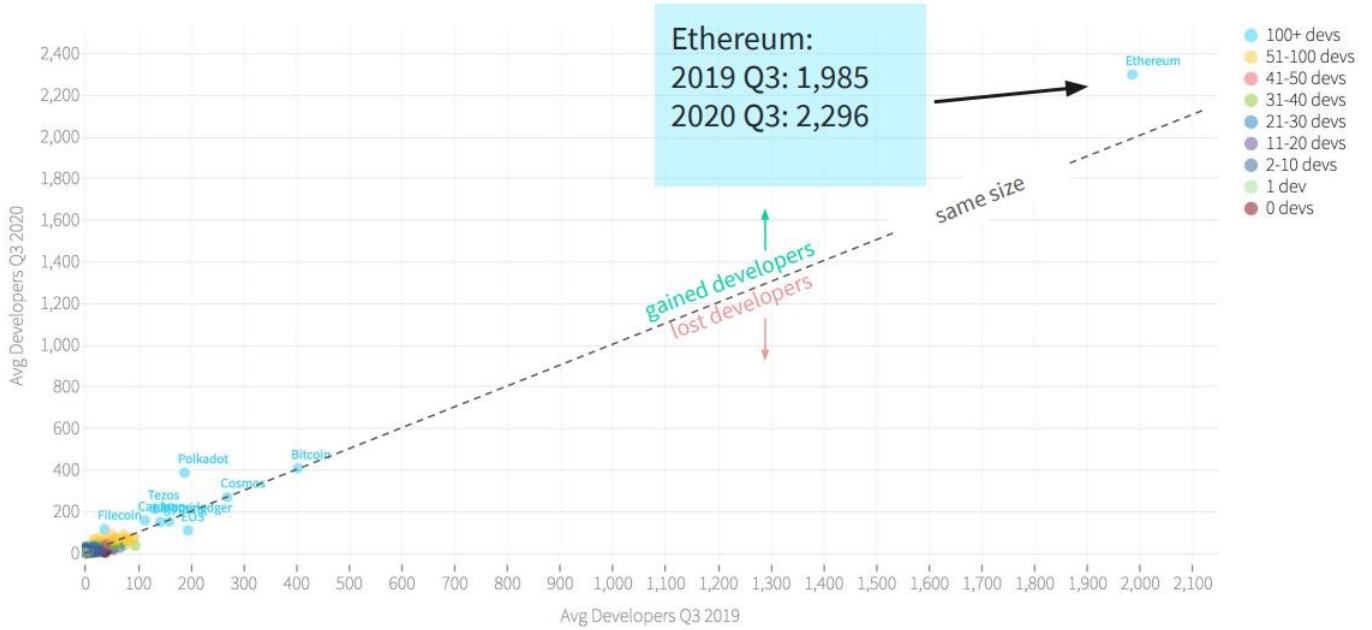
Why is ETH outperforming?

The role of futures and microstructure

- Both BTC and ETH markets experienced a comparable liquidity shock earlier this month which triggered a comparable de-levering of their respective derivatives markets in subsequent days ...
- ... but ETH spot market depth has recovered quicker and if anything liquidity conditions on some exchanges is better than prior to that event
- High-frequency cash/futures basis pricing reveals a much smaller impact in ETH markets despite optically comparable net liquidations; open interest data also suggests that the other side of these trades was easier to source
- Higher turnover on the public ETH blockchain means a noticeably higher fraction of those tokens can be considered highly liquid, further blunting the impact of futures liquidations
- This suggests that ETH valuations may be less dependent on levered demand than BTC, a technical but occasionally important tailwind going forward

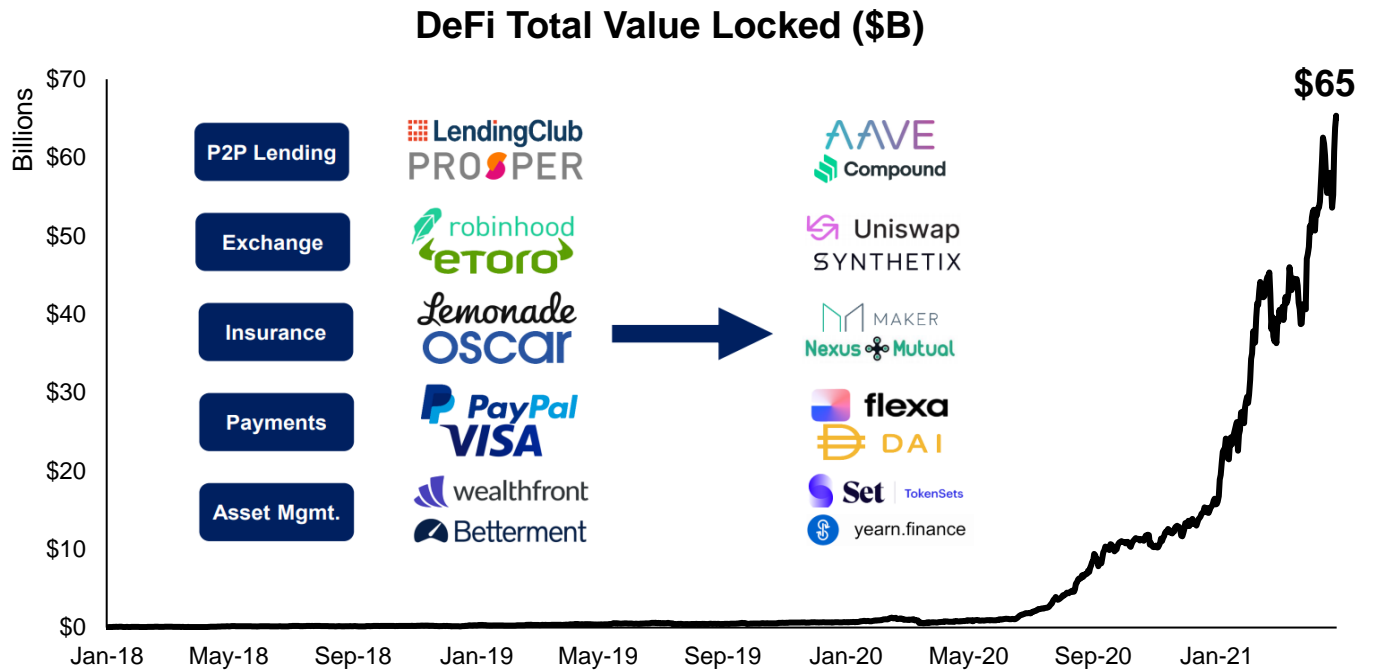
Source: JP Morgan

One reason we remain bullish on Ethereum is the large amounts of development happening there and the resulting economic activity in its digital economy.



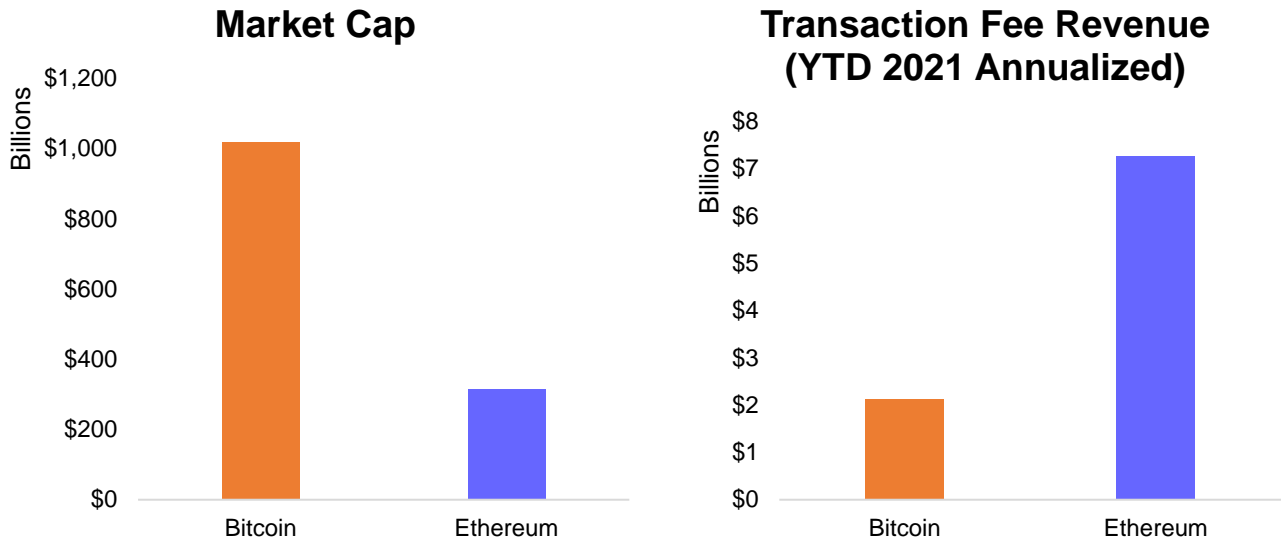
Source: Fundstrat, Electric Capital

As we discussed in our [Bitwise Decentralized Finance \(DeFi\) report](#), Ethereum and others are enabling new financial applications which have grown significantly in scale over the last year.



Source: Fundstrat, Defi Pulse

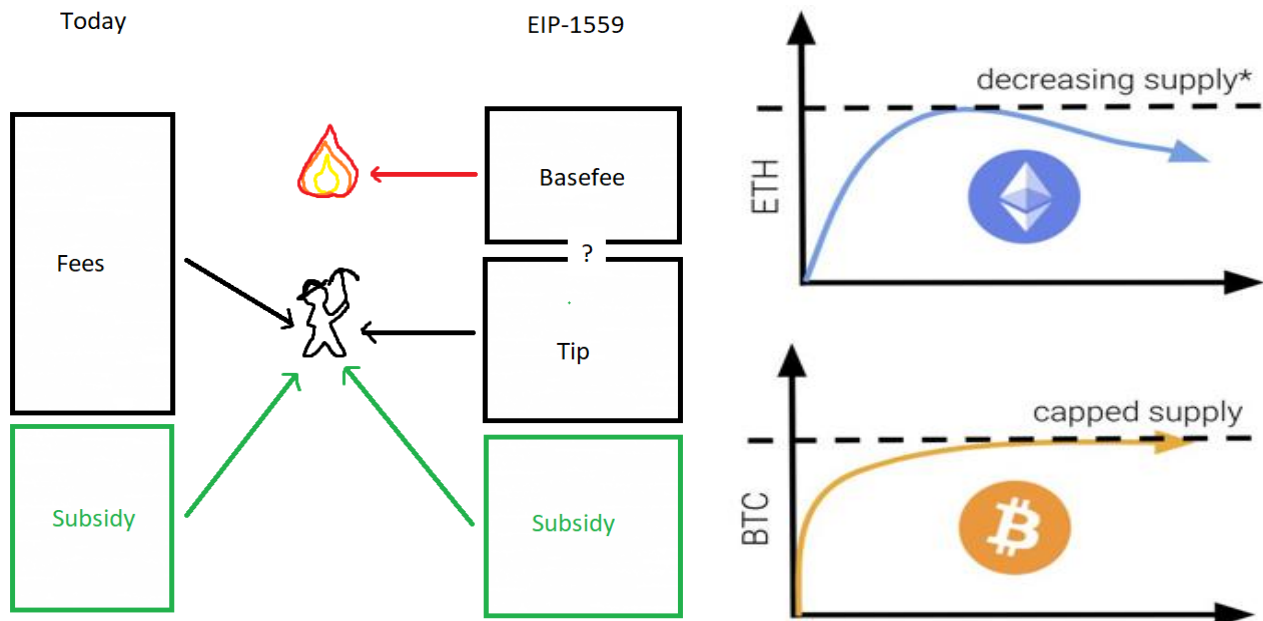
These applications are generating ~3x the fees for the Ethereum network vs. Bitcoin which trades at ~3x the market cap.



Source: Fundstrat, Coinmetrics, Coinmarketcap

We think fees are an important way to look at Ethereum given the upcoming changes to its network economics with EIP-1559. Ethereum is transitioning from a currency like Bitcoin to a crypto capital asset where a portion of the network transaction fees are used to buyback (burn) and retire (treasury stock) ETH supply.

In crypto accounting terms, this is the same as a company using revenue (fees), less operating costs (stock comp supply issuance), and earning profit (net supply burn) that is used to buyback stock (share repurchase). This means the network would become “profitable” like a company once ETH supply reduction from burned fees outpaces inflation.



Source: Bankless

Our price target of \$10.5k from January 2021 looks a Ethereum this way and values it on a revenue multiple basis. Although the price has doubled since our target was issued, Ethereum annualized fee revenue growth has nearly doubled as well, while the price to revenue multiple has remained roughly the same.

Given the correspondingly strong improvement in fundamentals, we think Ethereum still looks as cheap as it did 3 months ago at half the price.

	Ethereum (1/19/21)	Ethereum (4/27/21)	Change%
Price	\$1,341	\$2,757	106%
Supply	114,000,000	115,660,000	1%
Market Cap	\$152,874,000,000	\$318,874,620,000	109%
Forward Sales	\$3,673,903,520	\$7,270,515,235	98%
Sales Per Share	\$32.23	\$62.86	95%
Price to Sales	41.6x	43.9x	5%
Sales Growth	516%	1219%	136%
PSG Ratio	0.08x	0.04x	-55%

Source: Fundstrat, Coinmetrics, Coinmarketcap

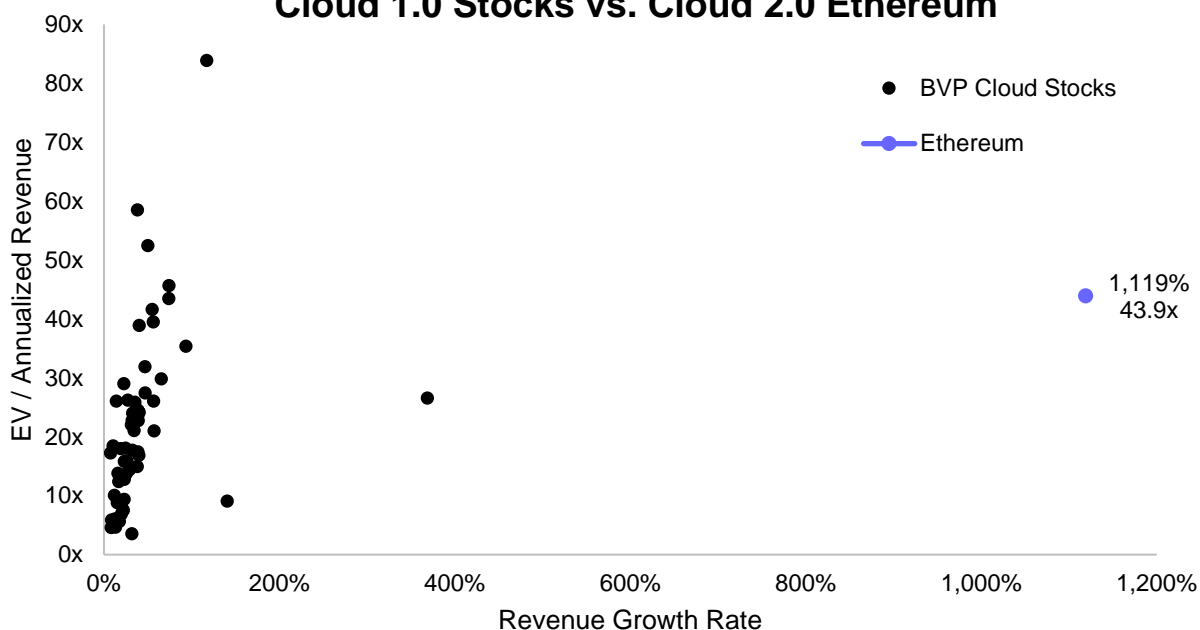
We continue to view Ethereum as a Cloud 2.0 crypto stock as we discussed in our prior ETH report. Given this dynamic, we think it's reasonable to compare Ethereum against the Bessemer Venture Partners (BVP) Emerging Cloud Index. On a revenue multiple basis, Ethereum is about twice as expensive as the cloud index, but on a growth adjusted basis, its ~13x cheaper.

	BVP Cloud Index	Ethereum
Market Cap (\$B)	\$2,100	\$319
Revenue Multiple	21.4x	43.9x
Revenue Growth Rate	42%	1119%
Price-to-Sales Growth	0.51x	0.04x

Source: Fundstrat, Coinmetrics, BVP Emerging Cloud Index

Comparing the individual cloud stocks in the index vs. Ethereum, we can see that on a growth adjusted basis ETH is ***“off the chart cheap”*** relative to cloud 1.0 comps.

Revenue Multiples & Growth Rates of Cloud 1.0 Stocks vs. Cloud 2.0 Ethereum



Source: Fundstrat, BVP Emerging Cloud Index

Our \$10.5k target from January applied a growth adjusted price to sales multiple based on the cloud index. Although we’re maintaining our current target on Ethereum, updating that same analysis based on the fundamental improvements since would imply an ETH price of ~\$35k. Given the high implied multiple due to Ethereum’s rapid growth rate, we’re applying a 70% discount to the comp implied price to let the network continue to grow into its valuation – as it has been. Although the price has risen and we’re being a bit more conservative compared to our prior analysis, we think meaningful upside remains.

	Ethereum Implied Value
Cloud PSG	0.51x
ETH Revenue Growth	1119%
Implied PS Multiple	576x
ETH Annualized Revenue (\$B)	\$7.27
ETH Implied Market Cap (\$B)	\$4,187
ETH Supply Outstanding (M)	115.66
Ethereum Implied Price	\$36,201
Fundstrat Ethereum Price Target	\$10,500
Target Discount to Comp Pricing	-71%

Current ETH Price	\$2,757
Implied Return	1213%

Source: Fundstrat, Coinmetrics, BVP Emerging Cloud Index

Continue to see more upside in higher beta altcoins vs. Bitcoin as crypto markets are on pace to hit \$5T

We remain bullish not just on Bitcoin and Ethereum but on the entire crypto space. From our January [2021 Crypto Outlook](#), we forecasted the total crypto economy reaching \$5T in market cap.

2021 Outlook: Three Big Crypto Forecasts

Bitcoin = \$100k

Ethereum = \$10.5K

Crypto Market = \$5T

Source: Fundstrat

We recognize crypto reaching \$5T may sound crazy. And we are aware of where this would put the market in relative terms compared to other assets. We haven't forgotten that the dot.com bubble topped out at \$4.5T. But, as we have written about extensively, we think crypto is the next wave of the internet economy and given how much larger that market and every market has become since then (including M2 growth), we humbly think our forecast remains reachable.

Thus far, we're 3 months into that forecast and we're on pace to hit \$5T with the total crypto market cap having already risen by \$1T or 1/4th of the way there. We compare the actual market prices from our forecast issue date against current prices and our forecast below:

Current vs. 2021 Outlook Market Cap (\$B) & Implied Return%

Asset	Actual Forecast Issue Date	Total Market Share%	Actual Current Date	Total Market Share%	Change% Issue vs. Current	Forecast FY 2021	Total Market Share%	Change% Current vs. Forecast	Change% Issue vs. Forecast
Bitcoin	600	54%	990	48%	65%	1,900	38%	92%	217%
Ethereum	155	14%	315	15%	103%	1,200	24%	281%	674%
Alt Coins	355	32%	750	36%	111%	1,900	38%	153%	435%
Crypto Total	1,110	100%	2,055	100%	85%	5,000	100%	143%	350%

Bitcoin dominance has continued to fall in line with our forecast as Ethereum and other alts have had strong performance during 2021. During the prior cycle, bitcoin dominance fell ~55% from 85 to 38 before having a mid-cycle bounce. Thus far this cycle, Bitcoin dominance has fallen ~33% from 70 to 47, implying alts have room to continue outperforming if we see a similar trend as we did during the prior cycle. We think if Bitcoin can have a healthy consolidation around these levels, capital will continue flowing to smaller assets within the crypto economy and other assets will benefit.



Source: Domination Finance

Thus far, our research has focused on the macro, sectors, themes, and the largest assets. But we know many clients are looking for smaller individual crypto asset names to buy and we plan to offer some lists over the weeks to come.

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