Digital Assets - Comments

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SEC PROPOSAL LOOKS CONSTRUCTIVE BUT CRYPTO FAILS TO REACT, DATA CENTER POLITICAL RISK BROADENS, BROADER POSITIONING REMAINS CROWDED

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Short Covering Still Appears to Be Driving Much of BTC’s Strength

Crypto held up relatively well today given the weakness across technology, and BTC briefly traded toward $65K in the futures market. However, similar to yesterday, a meaningful portion of the move appears to have been driven by additional short covering.

Open interest continued to decline alongside higher BTC prices, suggesting leveraged shorts were still being taken out. That is constructive from a positioning perspective, and if broader risk bounces from here, I would expect the majors to follow, but it also makes me hesitant to interpret the move as evidence that a durable new trend has begun. We have seen similar short-covering rallies several times over the past few months, with some follow-through before the market ultimately rolled over.

Source: velo.xyz

SEC Proposal Looks Quite Constructive, but the Market Reaction Was Underwhelming

The most important crypto-specific development today came from the SEC, which published a proposal outlining a tailored offering regime for certain investment contracts involving crypto assets.

I am still working through the details, but the initial read appears quite favorable for token-based projects. Among other provisions, the proposal creates pathways for smaller and larger token offerings, provides a mechanism for projects to exit security status once managerial obligations are complete, appears relatively permissive around secondary trading, and could ultimately allow token issuers to raise capital without many of the restrictions that have historically made U.S. token launches difficult.

On balance, I think this represents a meaningful improvement in the regulatory framework for crypto capital formation.

What I found more interesting, however, was the market reaction. Assets that should theoretically benefit most from a more permissive token issuance regime, including ETH, SOL, COIN, and HOOD, failed to respond particularly well. That does not invalidate the longer-term regulatory tailwind, but near term I view the muted reaction as a yellow flag. Good news that fails to generate good price action is worth paying attention to.

White House Meeting Provides Another Source of Headline Optionality

Tomorrow brings another potential regulatory catalyst, with the White House expected to host crypto executives alongside CFTC Chair Mike Selig.

One thing I will be watching is whether any commentary emerges around the future of perpetual futures in the U.S. More importantly, there remains some possibility that discussions touch on the ethics provisions that continue to impede Clarity. Expectations around the legislation remain quite low, so any indication that the White House is becoming more willing to compromise could still generate meaningful upside headline risk.

Political Risk Is Becoming a Bigger Variable for Data Centers

The more challenging development today came from Pennsylvania, where the governor introduced new requirements around future data center development.

Similar to what we have seen in Texas, the focus appears to be on greater transparency around project financing, power sourcing, and grid impact. Importantly, Pennsylvania is also emphasizing that new data centers should increasingly bring their own power, which could create another hurdle for projects dependent on existing grid capacity.

For the miners, I think the broader point is becoming more important than any individual state action. Data center development is increasingly becoming a political issue, particularly heading into the midterms. Local concerns around electricity prices, grid reliability, water usage, and infrastructure are creating a political risk premium that did not exist to the same degree several quarters ago.

That makes the setup increasingly tricky. Fundamentally, I still think many of these miners could rerate substantially higher if they execute on even a portion of their pledged AI/HPC capacity. But higher financing costs combined with growing political uncertainty around permitting and power make it increasingly difficult for investors to underwrite the timing of that earnings power.

I continue to like the medium/longer-term opportunity, but I think some additional consolidation may be necessary.

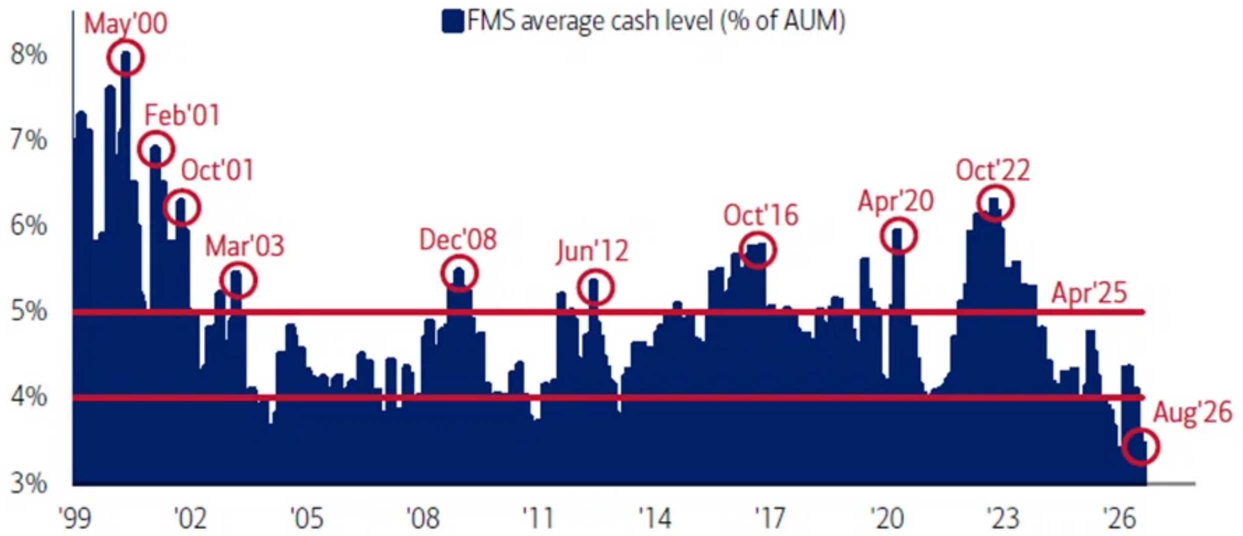
Broader Positioning Still Argues for Some Caution

Finally, Bank of America’s latest Fund Manager Survey reinforces one of the concerns we have discussed repeatedly this year.

Cash allocations declined to roughly 3.5%, among the lowest readings since the survey began, while broader investor sentiment remains close to its most bullish levels of the past several years. Historically, crypto’s best risk/reward tends to emerge when capital is less fully deployed across the broader risk complex.

That does not mean markets need to roll over immediately, but it does reinforce my reluctance to chase crypto risk aggressively when positioning across traditional assets already appears relatively extended.

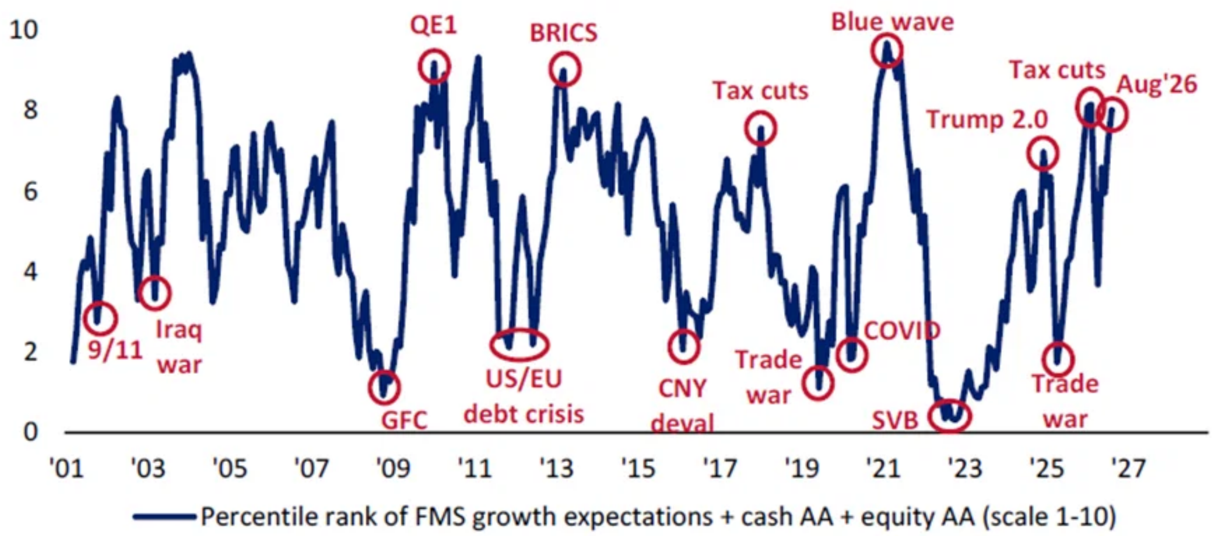
Chart 2: FMS cash level falls to 3.5%, the 6th lowest level since 1998
BofA FMS average cash level (% of AUM)



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Chart 1: BofA Global FMS investor sentiment very bullish in August
Percentile rank of FMS growth expectations, cash level, and equity allocation



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Tickers in this video: #BTC #ETH #SOL $COIN $HOOD

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