TAKING STOCK:
Is There Room for Crypto in Global Macro Investing?

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The surge in interest in crypto currencies from institutional investors underscores the rising influence of this newish asset class in portfolios.

Concerns around higher inflation, a belief from certain segments of the 'macro world' in the secular devaluation of the U.S. dollar and other major fiat currencies have led to increased interest in potential alternatives to traditional currencies. With their focus on diversification, global macro investors are constantly looking to expand their investment opportunity set. These investors are looking to Bitcoin—introduced in 2009, it is the leading cryptocurrency, representing around 45% of the overall crypto market—to play a similar role as (or be an addition to) diversifiers such as gold, global macro, and trend-following strategies within a total portfolio.

At NEPC, we believe the rapid development of the crypto ecosystem presents both risks and opportunities. Cryptocurrencies are a nascent asset class within the institutional landscape with no clear consensus regarding its fundamental macroeconomic foundation. Bitcoin remains highly volatile with limited (but rising) global acceptance, underscoring headwinds for trading activities related to risk budget allocation, liquidity and volume. In addition, crypto's evolving regulatory environment could have an unforeseen impact on Bitcoin trading.

The launch of Bitcoin futures through reputable exchanges, such as the Chicago Board of Exchange and the Chicago Mercantile Exchange, should expand both institutional adoption and improve overall perception of risk for this emerging asset class

To be sure, as Bitcoin's liquidity/volume and regulatory environment improves and develops, it could become a diversifier within portfolios thanks to its low-to-negative correlation levels with both gold and 'traditional' asset classes. The launch of Bitcoin futures through reputable exchanges, such as the Chicago Board of Exchange and the Chicago Mercantile Exchange, should expand both institutional adoption and improve overall perception of risk for this emerging asset class. Furthermore, the launch of Bitcoin exchange-traded funds in Canada (in early 2021) and the United States (in October 2021) should further adoption.

As such, strategies based on non-fundamental trend-following—where capturing price-based trend/momentum signal dynamics is the main goal—could be a sensible way to initiate exposure to the space. For the time being we think this would be a reasonable approach as we get additional clarity and understanding around this rapidly evolving and volatile space. To learn more, please contact your NEPC consultant.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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