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# CRYPTO MARKET THESIS | 2023



**SCALING WEB3  
ETH STAKING UNLOCK  
FED SOFT LANDING  
MARGIN OF SAFETY**



**REGULATORY THREAT  
SPREADING CONTAGION  
MARKET SENTIMENT  
MTGOX & ETH2 UNLOCK**

## Executive Summary

The cryptocurrency market faced numerous challenges in 2022, including global macro influences and black swan events like the collapse of the Terra ecosystem and the bankruptcy of the FTX exchange. Despite these setbacks, the blockchain sector remained resilient and continues to progress.

In 2023, crypto markets are expected to be highly correlated to the stock market and impacted by the same macroeconomic forces as traditional finance. Market sentiment is currently at a low point, with low engagement and enthusiasm. There is potential for a recovery in digital assets if the US Federal Reserve slows down monetary tightening and the markets front-run the anticipated *soft landing*.

As always narratives are key and emerging technologies will offer lucrative opportunities in the blockchain sector in 2023 and beyond.

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## 2022 Year In Review

2022 was a tough year for digital assets as the global cryptocurrency market saw a total loss of \$1.47T in 2022.

There has been an increased correlation between cryptocurrency and traditional markets. When the SP500 sells off crypto markets sell off more with Bitcoin acting very similar to a growth stock.

Long-term holders of Bitcoin continued to accumulate, with the total supply held by long-term holders reaching an all-time high. The number of BTC holders with at least one whole bitcoin also increased to nearly one million.

Ethereum completed the merge upgrade which went smoothly as they migrated to a proof of stake consensus mechanism.

There were some major events throughout the year with the collapse of LUNA and \$40B UST stablecoin. This caused a contagion effect which led to the bankruptcy of 3 Arrows Capital and contributed to the FTX debacle which may go down as the industry's biggest ever fraud case.



Overall, 2022 was a challenging year for the cryptocurrency market, but it remains a promising space with significant potential for growth. Many market participants expect a recovery as early as the next halving event occurring between April and June 2024.

As we move into 2023 the threats of aggressive regulation and further contagion are still looming and there are a lot of traders and investors sitting out of the markets or in a delta neutral position.

## Significance Of Macro Economics

The relationship between the blockchain sector and traditional finance markets is a complex one. On the one hand cryptocurrencies are designed as a haven for investors looking to escape traditional financial risks, such as inflation and currency devaluation.

The current reality is that the blockchain sector is highly correlated to the stock market and is affected by the same macroeconomic forces that impact traditional finance. In 2023 it would be unwise to ignore what is happening with inflation and interest rates.



Nasdaq vs BTC/USD

## Global Macro Outlook

Global economic growth in 2023 is predicted to be just 1.8% due to various factors including fiscal and monetary tightening, the Russia-Ukraine war, and China's ongoing Covid restrictions and property slump.

The World Bank has warned that the simultaneous interest rate hikes by central banks in response to inflation may lead to a global recession in 2023 and financial crises in emerging markets and developing economies.

Without interest rate increases there is risk of allowing inflation to remain elevated for a long period while growth is weak, which similar situations in the 70's & 80's resulted in debt crises and lost growth in many economies.

At some point in 2023 the US Federal Reserve is expected to slow down monetary tightening and the markets will try to frontrun the "soft landing" narrative which could see tech stocks and digital assets recover significantly.

Any further decline in the SP500 will almost certainly lead to extended losses in crypto markets. Hopefully we will one day see a decorrelation with traditional finance but that isn't likely in the short-term.

## Market Cycles & Sentiment

Historically the crypto markets have followed a four year cycle however this isn't based on many data points since Bitcoin wasn't really trading at significant volumes before 2013.

In 2022 Bitcoin lost 63% of its value against the US dollar, Ethereum lost 69%, many altcoins are down 90%+. In recent months the market has calmed and since the FTX drama there has been significant low volatility.

My engagement via the blog, newsletter and YouTube channel tends to follow the Bitcoin price and I haven't seen metrics this low for a number of years. If we refer to the *Wall Street Cheat Sheet* this feels like the depression stage after a crash.



Market declines in the blockchain sector tend to be short-lived and provide a margin of safety and increased upside for new investments. If the technology is important and adoption is growing then continued appreciation is somewhat inevitable against a devaluing dollar in the long-term.

The risk to reward has changed for many digital assets where a return to previous all time high alone would provide a 3x-5x return. I believe there are many assets which will make new highs in the coming years and go to become fundamentally important to modern financial infrastructure.

## Regulatory Threat

My biggest concern for 2023 is the threat of aggressive regulation.

It has long been believed that the SEC, led by Gary Gensler, is preparing to crack down on the cryptocurrency market. The shocking events of the past year have provided them with easy justifications for doing so.



While some may argue that the fraud that led to the collapse of FTX is actually an advertisement for the transparency of decentralized finance, I believe the SEC will use it as an excuse to target DeFi and possibly even layer one blockchains.

Any project that has a doxed team, corporate entity, or questionable security token may be at risk. Projects like Aave, Uniswap, and Lido, which have billions of dollars in total value locked, are particularly vulnerable. These projects operate ethically and do not deserve to be targeted with legal action, but the reality is that the SEC protects Wall Street, and DeFi threatens that institution, or it may one day if left to continue.

A litmus test for the coming year will be the resolution of the SEC vs XRP (Ripple) case, which has been ongoing for several years and is expected to be concluded in 2023.

In 2022, we saw two blockchain developers arrested: Alexey Pertsev, developer of Tornado Cash, was arrested in the Netherlands and is still being held without charge. Avi Eisenberg was arrested for price manipulation of DeFi protocols, leading to the draining of liquidity pools. Developers and founders should be aware of the regulatory and legal risks and take necessary precautions.

Truly decentralized projects are inherently more resilient to legal attacks and probes from regulators.



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## Emerging Web3 Technology

Web3 technology isn't as much about cryptocurrency as it is about an emerging new paradigm in the world of computing. In the next year we will see updates pushed out to the Ethereum network which will provide the potential to revolutionize the way we interact with the internet and with each other.

Ethereum is scaling, initially with the introduction of sharding (a form of data splitting) and layer 2 sub-chains. This will remove the bottleneck of slow, expensive data availability that is currently holding the industry back.

Ethereum will become a chain of chains and act as a base layer with layer 2's running seamlessly on top of it. From a user perspective it will make it possible to click a button on some new user interface and data will be instantly updated on a permissionless smart contract shared across a decentralized network of nodes.

### Who Controls The Data?

One of the key aspects of web3 is the concept of self-custody, which refers to the ability of individuals and organizations to have control over their own data, rather than relying on centralized entities to store and manage it.

Self-custody has the potential to disrupt the business models of many Silicon Valley tech giants, including social media, online advertising, and cloud storage. By enabling users to have complete control over their own data, web3 technologies could make it easier for people to manage their online presence and protect their privacy.

One of the key benefits of self-custody is that it allows users to retain ownership of their data and the value it generates. In the current system, companies like Facebook and Google collect and sell user data to advertisers, often without the knowledge or consent of the users themselves. With web3 technologies, users can retain ownership of their data and choose how it is used, potentially generating value for themselves rather than for these centralized entities.



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## Opportunity & Positioning

My digital asset investments have outperformed Bitcoin and Ethereum in 2022 but are still down against the US Dollar. I failed to react to the FTX drama and had significant exposure to the native FTT token. I was also too eager to start allocating stablecoin capital and should have been more patient in the bear market.

As we go into 2023 my portfolio is more conservative than I'd like and I have built a sizable staked Ethereum position, part of which is set aside to deploy to altcoins when the timing is right.

Staked Ethereum	55%
Bitcoin	25%
Binance BNB	8%
Uniswap UNI	5%
Lido Finance LDO	5%
Curve CRV	2%

My plan is to allocate part of the Ethereum position to altcoins in the later stages of the bear market. The reason I am hesitant is because I want to allocate it to emerging and newly released projects. Shiny new things tend to outperform previous cycles darlings during favorable conditions and alt seasons.

I believe a staked Ethereum position will outperform the majority of investments over a ten year period so most of my altcoin investments will be opportunistic swing trades to take advantage of market narratives and emerging technology.

I am optimistic we will see these assets make new all time highs over the next 2-3 years and my long term plan is to rebalance back to a 60/40 crypto/stablecoin position during any future potential bull market.





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## Potential Narratives

### Liquid Staking Derivatives (LSD)

The Ethereum Shanghai update (currently planned for March) will enable withdrawals and liquidity to liquid staking products. This should create a huge swell in capital flow to staking tokens and open up opportunities to build on top of them and use revenue generating staked Ethereum as collateral.

### Zero Knowledge Technology (ZK)

Very much the buzz word of DevCon last year, zero knowledge tech will influence two subsectors of the crypto industry. Popular layer 2 blockchains such as Arbitrum and Optimism use Optimistic rollup technology, zero knowledge rollups provide greater efficiencies and reduced withdrawal times. The second subsector is the application layer where we are just brushing the surface currently with what is possible with ZK apps. Circom has made it easier to integrate ZK tech into Solidity smart contracts and it is likely to become a part of many blockchain developers toolkits over the next year opening up new application possibilities.

### Real Yield & Real World Assets (RWA)

Real world assets are on-chain tokens that represent tangible assets in the real world. The assets are generally held by a centralized legal entity which then mints tokens to resell a fragmented representation of that asset. Underlying assets may be real estate, bonds, stocks and derivatives. The emergence of RWAs in DeFi has the potential to one day bridge the gap between the traditional financial and the blockchain sector.

### Decentralized Data (DD)

Discussed above the potential for decentralized self-custody of our data has far reaching implications. There may be a killer app or social network launched which capitalizes on this opportunity or we may see the emergence of a framework which engages developers similar to a decentralized AWS.





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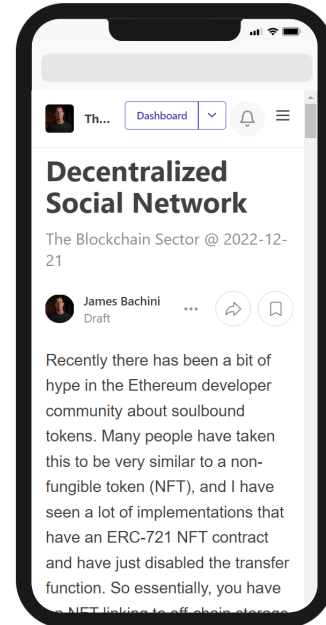
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