

UBS House View Briefcase

Is the bitcoin bubble set to pop? **18 January 2021**

Chief Investment Office GWM

Key message

Record deficit-financed fiscal spending, rising institutional participation, and resurgent North American volumes have reignited cryptocurrency prices, sending bitcoin up fourfold since the start of 2020. We doubt "this time is different" and warn investors another speculative bubble is forming.

House view

01 **Bitcoin's wild price gains in recent months have reawakened animal spirits.**

- Bitcoin prices have rallied some 430% since the start of 2020, testing an all-time high near 41,000 USD per BTC.
- High-profile cryptocurrencies have now survived several boom/bust cycles, creating fast fortunes along the way and signaling a measure of durability.
- Media reports suggest institutional money has entered in the margins with futures contracts, dedicated funds, and more mature KYC processes.

02 **But the same factors driving crypto appreciation also intensify its volatility and risk.**

- Bitcoin's limited and highly inelastic supply exacerbates its volatility, and our analysis suggests institutional speculation could worsen this.
- Limited real-world use and extraordinary price volatility also suggest many buyers are seeking speculative gains.
- Swings in investor sentiment or fresh rounds of regulatory crackdowns and curbs pose risks, especially when bubble-like trading conditions take hold.

03 **So we suggest investors seek out assets with traditional valuation models.**

- With no yield generated, cryptocurrency valuations models invariably rely on theoretical future use cases, which cannot be assured.
- We think investors looking to protect and grow their wealth over the long term should maintain discipline and exercise extreme caution on cryptocurrency speculation.
- Select semiconductor shares may offer upside exposure to crypto-mining; traditional safe havens and hedges like gold may offer downside protection.

New this week

After climbing to an all-time high near USD 40,000 per BTC on 9 January, bitcoin prices plunged as much as 21% intra-day on 11 January. They've been volatile since, trading near USD 35,000 per BTC at print.

One liner

While the pandemic may ensure financial repression continues, we think cryptocurrency speculation poses its own risks to your wealth.

Did you know?

- Bitcoin's anonymous creator, who goes by Satoshi Nakamoto, is also the largest single holder of the cryptocurrency, with an estimated 980,000 coins attributed to the founding account.
- Bitcoin's total supply is currently around 18.6 million, with a hard-coded cap at 21 million. A global network of computers together "mine" 6.25 new coins every 10 minutes, adding 900 BTC per day.
- Empirical evidence from established asset classes suggests that higher participation by institutional investors could increase volatility due to their more opportunistic investment approach.

Investment view

Eye-watering gains and tales of fast fortunes may tempt serious investors, but speculation in cryptocurrency is a gamble, not an investment.

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