

SEMI-ANNUAL 2022 COMMENTARY

Evolve Cryptocurrencies ETF

The Evolve Cryptocurrencies ETF provides investors with exposure to the daily price movements of the U.S. dollar price of bitcoin and ether while experiencing minimal tracking error by utilizing the benefits of the creation and redemption processes offered by the exchange traded fund structure.

TSX

ETC

ETF TICKERS: ETC (UNHEDGED); ETC.U (USD)

Cryptocurrencies fell sharply in the first half of the year amidst uncertain market conditions. At the beginning of 2022, Bitcoin was at \$47,311.75. As of June 30, 2022 it closed at \$17,784.73, for a loss of 58% in the first half of the year. While Ethereum ended the first half of the year at \$1067.30, down sharply from \$3769.70 at the beginning of 2022.(i)

In May, the investment banking giant JPMorgan issued a report to its largest clients recommending Bitcoin as its preferred alternative asset for investors, instead of real estate, physical gold, fine art, or any other alt-asset type. The investment bank, which is especially bullish on Bitcoin, said the crypto is currently undervalued and should be trading at \$38,000 to be fairly priced.(ii)

At the end of June, US Securities and Exchange Commission Chair Gary Gensler told CNBC's Squawk Box that while many crypto-financial assets have the key attribute of a security, Bitcoin is the "only one" that he was comfortable publicly labeling as a commodity. The regulator made no mention about Ether, which was previously regarded as a commodity by the SEC.(iii)

Also in June, two US senators introduced a cryptocurrency bill that outlined a comprehensive set of regulations across digital assets in the US. The bill would make small-scale purchases of goods and services tax-free for transactions less than \$200 – potentially clearing a path for a cryptocurrency that acts more like traditional currency. The legislation would grant new oversight powers and a commanding presence to the Commodity Futures Trading Commission.(iv)

The legislation attempts to tackle the biggest questions hanging over digital assets. It would set new federal law for crypto, taxes on small-scale payments and the jurisdictions of regulators – answering the uncertainties that have kept the fledgling financial sector from maturing.(v)

In the meantime, professional services giant Deloitte announced that it has partnered with the Bitcoin-focused financial services firm, New York Digital Investment Group to help companies of all sizes implement digital assets. The companies will work together to enable blockchain and digital asset-based services across multiple areas involving Bitcoin-related products, including banking, loyalty and rewards programs, employee benefits and others.(vi)

At the end of the first half of the year, Deloitte published a

survey that found that 75% of retailers in the United States planned to accept crypto or stablecoin payments within the next two years. Earlier in the year, Deloitte published another study highlighting the potential of Bitcoin as a base to create a cheaper and faster ecosystem for electronic fiat or central bank digital currencies.(vii)

One of the most relevant criticisms of the Ethereum network is the lack of supply restrictions. Unlike Bitcoin, Ether's supply isn't limited to 21 million tokens. Instead, there are 120 million units in circulation and a steady stream of new tokens added every day. Some argue that this has made the tokens less valuable.(viii)

Although, this weakness is expected to be resolved in 2022, with the implementation of the Ethereum Improvement Proposal (EIP) 1559 which will allow for the burning of ETH on every transaction; and the transition to ETH 2.0 or Proof-of-Stake lock up of a significant amount of circulating supply in a staking pool.(ix)

In early June, Ethereum, the world's most used cryptocurrency blockchain network, passed a milestone test ahead of a highly anticipated technical upgrade without any major glitches. Developers ran the latest software for the upgrade known as the Merge the Ropsten testnet in an effort to find potential bugs and glitches before moving the application to the blockchain. Tim Beiko, a computer scientist who coordinates Ethereum developers, described the completion of the test saying, "The network is stable, but there are some minor (known + expected) issues we are looking into." He added that, "Overall, though, things are looking good."(x)

Sources

- (i) https://finance.yahoo.com/quote/ETH-USD/history/?fr=yhssrp_catchall
- (ii) https://www.theglobeandmail.com/investing/markets/stocks/JPM-N/pressreleases/8516288/jpmorgan-says-bitcoin-btc-is-now-undervalued-by-28utm_campaign=Crypto%20newsletter&utm_medium=email&_hsmi=215645390&_hsenc=p2ANqtz-8R3Hi6J1TbCl2OWS8XUaVa-2kN7cWtIN36Fif2yDD4bLxtD1nGQyl8CGah99d_6UifN3ZcspyLzdrBaEwgJ4VZSTH4Nw
- (iii) <https://cointelegraph.com/news/community-reacts-after-sec-s-gensler-affirms-btc-s-commodity-status>
- (iv) <https://www.coindesk.com/policy/2022/06/07/key-us-senators-introduce-bill-outlining-sweeping-plan-for-future-crypto-rules/>
- (v) <https://www.coindesk.com/policy/2022/06/07/key-us-senators-introduce-bill-outlining-sweeping-plan-for-future-crypto-rules/>
- (vi) <https://cointelegraph.com/news/deloitte-and-nydig-set-up-alliance-to-help-businesses-adopt-bitcoin>
- (vii) <https://cointelegraph.com/news/deloitte-and-nydig-set-up-alliance-to-help-businesses-adopt-bitcoin>
- (viii) <https://www.fool.ca/2022/03/22/could-ethereum-double-in-2022/>
- (ix) <https://www.fool.ca/2022/03/22/could-ethereum-double-in-2022/>
- (x) <https://www.bnnbloomberg.ca/ethereum-moves-closer-to-blockchain-revamp-after-milestone-test-1.1776245>

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