

Risk-On Risk-Off Risk-it-all



Prevailing economic theory is built upon three pillars: output, money and expectations.

The Fed has been given responsibility for monetary policy in the U.S. and aims to ensure "maximum employment, stable prices and moderate long-term interest rates."

The Fed has three levers it can pull to achieve its goal: 1) open market operations (i.e. "print money"), 2) the discount rate (i.e. "interest rates") and 3) reserve requirements (i.e. "vault deposit rules").

Printing money (by buying bonds and "stuff") and changing interest rates (by changing the rate it charges banks to lend money overnight) are the main mechanisms we've seen the Fed employ in recent memory.

For March 2022, US Consumer Price Index (CPI) rose to 8.5%, as evident in higher prices at the pump and shorter shopping lists at the grocer.

In practice, at such an alarming CPI rates of inflation, a 40-year high, economic sentiment flips. In a "flight to quality" investors go risk-risk off selling their risky tech stocks for and buy bonds or gold.

And what's better than gold? Bitcoin's sound money properties should predispose it toward being a useful hedge against such. We should be seeing investment piling into bitcoin moving its market price to the moon. No?

From observation, while bitcoin's hard money properties make it a risk-off asset for entrenched enthusiasts, the same signals to institutional investors as "risk-on" due to bitcoin's keen resemblance to tech stocks. Its volatility and technology-like asymmetric price upside.

Investors behavior of dumping tech stocks in a flight to quality, might be the cause, they sell stocks alongside blockchain technology.

Not to upset the bitcoin apple cart, but as such, when conversing with institutional players, it would be more temperate to term the narrative around bitcoin as more of an "aspirational store of value."

Yes, a borderless, permissionless, uncensorable, sound monetary system-of-value transfer with a predictable monetary policy make bitcoin theoretically a great store of value.

However, until that narrative penetrates past the 100 million or more people with access to liquidity in bitcoin and other blockchain assets, the idea of store of value will remain conceptual for the rest of the 7.8 billion people who are still far off from the bridge over to the metaverse.

Bitcoin, then isn't quite a risk-off or risk-on asset, not yet. Instead, this first quarter 2022, bitcoin is best classified as a "risk-it-all" asset.

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