



Is Crypto Really a Safe-Haven Asset?

Description

Safe-haven assets are ones which investors can expect to see low-correlation or negative-correlation moves relative to the overall market. In the case of crypto, whether or not this has actually been the case in recent years has come up for debate.

The world's top [cryptocurrency](#), **Bitcoin (CRYPTO:BTC)**, had shown signs of this low-correlation status in the past. Over its historical lifetime, Bitcoin's beta has hovered around zero, suggesting the movements of the market have essentially nothing to do with which direction this token goes.

However, of late, that correlation relationship has changed. Since the onset of the pandemic, Bitcoin and its cryptocurrency peers have moved in higher correlation to risk assets. Let's dive into some factors investors are pricing in, as it relates to this correlation relationship.

Crypto winter deepens

In January, the cryptocurrency market saw a total valuation loss of more than \$1 trillion. This has led to speculation that a crypto winter is, once again, underway.

Continued volatility this month has been driven by similar factors to those driving the equity markets. Macro factors such as the Russia-Ukraine situation caused a high-correlation plunge, then surge, in recent days. Similarly, as high-growth tech stocks sunk following recent inflation reads, expectations of higher interest rates and other factors many investors would not typically correlate with the crypto market are getting attention.

Does this mean cryptocurrencies are in for a prolonged crypto winter, alongside tech stocks? Time will tell. However, for now, the temperature in the crypto market is cold.

One of the potential catalysts for the crypto market could be increased use of cryptocurrencies by the Russian government. Absent SWIFT and other means of transferring money internationally, perhaps Bitcoin could turn out to be the safe-haven asset investors expected all along. We'll have to keep our eye on this potential catalyst moving forward.

Bottom line

There are two lines of thought right now with respect to the recent volatility in the crypto world. On the one hand, crypto investors still have reason to remain hopeful about Bitcoin and other top tokens' ability to provide a safe haven for investors. There's a tremendous amount of uncertainty in the market — something that could push investors to diversify their portfolios.

However, given the direction the stock market is going, should cryptocurrencies like Bitcoin continue to trade closer to equities in the medium term, perhaps there's more downside risk on the table. Investors looking at the crypto sector right now have a lot to digest. And I think the story hasn't been fully written yet.

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