



Is a Massive 2018-Style Crypto Crash Coming?

Description

Last week, a small crypto crash occurred when **Bitcoin** ([CRYPTO:BTC](#)) fell 4.4% between Tuesday afternoon and Friday evening. Around the same time that Bitcoin was falling, U.S. tech companies were busy releasing first-quarter earnings, which mostly disappointed investors. On Friday, the NASDAQ-100 fell 4.17% — its worst single day since June 2020.

The point about U.S. tech stocks is worth mentioning, because Bitcoin has been highly correlated with tech stocks for the past year. Many of the same people who invest in tech stocks also invest in crypto, so the tech sector and the crypto economy tend to move in tandem.

So, if crypto is falling along with tech stocks, where can we expect things to go in the future?

It's hard to say, but we can make some educated guesses. If Bitcoin's correlation with tech stocks holds up, then it's not unreasonable to think that more turbulence could be coming. The million-dollar question, then, is, where is the "tech" universe (including crypto) headed?

Why are tech stocks so weak right now?

Because crypto is a new asset class, there are few established frameworks for analyzing it. Many investors use technical analysis to try to predict where crypto prices go, and news analysis can help. But, for the most part, you can't do "fundamental analysis" on crypto.

It's different for the tech stocks [with which crypto is correlated](#). These stocks typically feature high growth rates in revenue, and higher-than-average risk. Today's economics aren't ideal for these types of stocks. Central banks, including the Federal Reserve and Bank of Canada, are in the process of raising interest rates.

Higher interest rates reduce the theoretical value of all stocks, hitting high-growth stocks the hardest. Particularly if they were overvalued to begin with, growth stocks can really tank when interest rates rise. Before they started showing weakness last November, tech stocks (as measured by the NASDAQ) had earnings multiples above 30. That's historically expensive, so naturally, these high rates

are taking a bite out of tech stocks' prices.

This brings us back to crypto. The same factors that are dragging tech stocks down (higher interest rates) are likely bringing crypto prices down as well. Although Bitcoin isn't technically a "high-growth cash flow" asset, it is a risky asset that, like all other risky assets, becomes less appealing when the risk-free rate increases. Why take on all that risk if you can [get a risk-free return from treasuries](#)? Normally, stocks outperform bonds, but when rates get high enough, investing in anything "risky" becomes questionable. The same phenomenon could be taking a bite out of cryptocurrency.

Foolish takeaway

Why did cryptocurrency tank last week?

Perhaps it happened because it is a risky asset class in a world where risk-free returns are rising. As of right now, treasury yields are still below the inflation rate, but if they climb enough, then we might see a situation where investors feel they're better off investing in bonds than stuff like stocks or crypto. If that happens, then, yes, a 2018-style crypto crash could easily occur.

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