



The 2022 Crypto Crash: Here's What's Next

Description

In 2022, the cryptocurrency market is in the midst of its biggest crash ever. In terms of dollar value wiped out, none of the previous crashes even come close. While the 2018 crash saw a steeper decline in **Bitcoin's** ([CRYPTO:BTC](#)) price in percentage terms, the current year's crash is erasing far more wealth.

Further, some other cryptocurrencies are going through historically unprecedented percentage declines. **Ethereum** only declined 50% in 2018 but is down 62% this year.

Investors are understandably getting nervous. People buy cryptocurrency expecting enormous returns that make them rich, but instead, they're losing money. It's a tough time for these investors. In this article, I'll share what's next for the crypto crash of 2022.

More interest rate hikes coming

One popular theory says that crypto is crashing this year because interest rates are rising. Bitcoin and Ethereum have been described as "release valves for excess liquidity." Basically, when central banks lower interest rates and increase the money supply, people become more willing to buy extremely risky assets like crypto, because money is cheap. When central banks raise interest rates, the opposite phenomenon takes place. It gets more costly to borrow money to finance investments, and risky investments become less valuable compared to low-risk ones. The result? There's less money to buy crypto with and less reason to want to do so — the key ingredients of a [bear market](#).

If interest rate hikes are the reason why crypto is going down, then the crash may not be over. The Federal Reserve plans to raise interest rates at every single meeting this year, with 50 to 75 basis points expected at the next meeting. The Bank of Canada has similar plans. It would be silly, then, to expect crypto to deliver big gains this year. The macroeconomy just doesn't favour such an outcome.

El Salvador: A huge question mark

One big question mark hanging over the cryptocurrency market this year is El Salvador.

El Salvador famously made Bitcoin legal tender and invested some of its funds in the cryptocurrency last year. It was hugely bullish at the time. However, the investment isn't paying off. Bitcoin is down since El Salvador started buying it, and [CNBC reports](#) that people in the country aren't really using BTC as a currency. The experiment seems to be failing. If something really catastrophic happens, like a financial crisis in El Salvador brought on by crypto losses, that could cause a loss of faith that triggers heavy selling in crypto.

Foolish takeaway

2022 has been a wild year for cryptocurrency, and not in a good way. All major cryptocurrencies are down for the year, and the selling continues. It might be tempting to buy the dip in such a situation, but remember that the central bank rate-hiking binge isn't over. As long as inflation remains high, the Fed is just going to keep hiking rates, and that's not a positive for cryptocurrency prices. Personally, I'm sitting the crypto trade out. Other investors with different needs may choose different paths, but no matter what, it pays to play it safe.

CATEGORY

1. Cryptocurrency
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Cryptocurrency
2. Investing

Date

2025/08/22

Date Created

2022/06/29

Author

andrewbutton

default watermark

default watermark