



## The 2022 Crypto Crash: What Will Happen Now?

### Description

The [cryptocurrency industry](#) has gained a reputation for unusually high levels of volatility. The lack of traditional fundamental factors or intrinsic value for the decentralized asset class has made the industry highly unpredictable. Yet most people will agree that cryptocurrencies are not a passing phase and are here to stay.

Several crypto crashes have rocked the decentralized finance industry in the few years it has been around. However, the latest crypto crash has been one of the worst it has seen. In terms of the amount of dollar value wiped out of the market, none of the previous downturns can compare to what is happening right now.

**Bitcoin** ([CRYPTO:BTC](#)), the world's largest cryptocurrency by price and market cap, trades for US\$19,429.70 per unit at writing. It is down by almost 60% year to date and almost 70% from its November 2021 all-time high.

Investors were obviously nervous and sold off their holdings during previous crypto crashes, but the faithful that held on or invested at lower valuations were rewarded by outsized gains. The sheer devastation of the ongoing crypto crash has even the most resilient crypto bulls worried about the industry's future, largely because of its unpredictability.

Today's post will speculate on the possibilities for the ongoing crypto crash considering the broader macroeconomic factors impacting its performance.

### The interest rate hikes have not ended

Tightening monetary policies are the only viable way to control inflationary environments. No matter how much cryptocurrency enthusiasts would like the crypto industry to be separate from the traditional economic system, the two are closely tied together. Rising interest rates are being purported as a major factor contributing to the fall of cryptocurrencies.

When interest rates are low, and the money supply is high, people are more eager to invest in high-risk

assets. However, the opposite happens when interest rates rise. It has become more expensive for people to borrow money, making it more challenging to take out loans to fund investments. Riskier investments tend to take a back seat during such environments, making them less attractive to investors.

Assuming that the simultaneous interest rate hikes and crash in crypto are a coincidence, Bitcoin and its peers will likely lose more value in the coming months.

The U.S. Federal Reserve and Bank of Canada (BoC) plan to introduce more interest rate hikes in the coming months as part of a tightening monetary policy to bring inflation under control. It could mean further selloffs in the crypto industry will follow as interest rates keep rising.

## Foolish takeaway

2022 has not been an easy year for cryptocurrency traders. The cascading effects of the **TerraUSD** and **Luna** crash have resulted in the entire industry going through a multi-trillion-dollar meltdown. As things stand, the selloff in the cryptocurrency industry looks likely to continue.

Many investors might feel tempted to buy crypto tokens amid the downturn, but it is important to remember that the interest rate hikes have not ended. A sustained inflationary environment could prompt several more interest rate hikes from the U.S. Fed and BoC in the coming months. It might be better to sit on the sidelines and wait for recovery, if you are not keen on tolerating near-term losses.

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### Date

2025/07/19

**Date Created**

2022/07/06

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