



Crypto Revival: Is the Crypto Winter Over?

Description

Cryptocurrency investors have not enjoyed the last few months. After almost a year of worrisome weakness, there are signs of the possibility of an end to the crypto winter. July 3 saw **Bitcoin** ([CRYPTO:BTC](#)) hit a low of US\$19,224 per unit. As of this writing, Bitcoin trades for US\$23,958.30, reflecting a massive 24.62% increase in just over three weeks of trading.

After hitting multi-year lows to start the month, July was a good month for the broader cryptocurrency market. Cryptocurrency bulls might be wondering whether the uptick in Bitcoin prices could mark an end to the crypto winter. Despite the positive movement in the cryptocurrency market in recent weeks, it might be too soon to say that [investing in cryptocurrency](#) can be profitable from this point onward.

Cryptocurrency is a high-risk asset class full of volatility and uncertainty. Several of the factors that are attributed to causing a downturn in the cryptocurrency industry still remain. Investing in cryptocurrencies right now might not be the wisest way forward.

The broader economic weakness

Higher interest rates have been a major factor causing a decline in Bitcoin prices this year. The Bank of Canada (BoC) and the U.S. Federal Reserve have introduced several interest rate hikes this year to bring inflation under control.

Higher benchmark interest rates make low-risk asset classes more attractive due to the possibility of higher returns. Instead of investing money into a risky asset like crypto, risk-averse investors might prefer investing in higher-yielding bonds and Guaranteed Income Certificates (GICs).

Despite monumental interest rate hikes, the inflationary environment is out of control. The BoC and the U.S. Fed will likely enact several more interest rate hikes. Higher interest rates typically mean lower prices among high-risk assets. We have already seen it happen this year, and more downturns could follow for the cryptocurrency industry.

Bad news for the crypto industry

Cryptocurrency exchanges are intermediaries responsible for facilitating most cryptocurrency transactions. The substantial downturn in crypto prices across the board has put crypto exchanges under immense pressure. Earlier this year, a crypto exchange called **Celcius** filed for bankruptcy after it became incapable of paying a massive \$4.7 billion to crypto investors using the platform.

Binance, one of the largest cryptocurrency exchanges worldwide, is rumoured to be facing issues similar to Celcius before it reached the point of bankruptcy. News like this typically prompts crypto trades to sell off their holdings, translating to further declines in valuations.

Crypto and tech stocks

The cryptocurrency industry positively correlates with the tech sector, and tech stocks have been battered and bruised for a long time. While there is no way to establish a clear link for the correlation between cryptocurrencies and tech stocks, several researchers have noted similar trends in cryptocurrencies and tech sector stocks.

Arcane Research recently published a report showing that Bitcoin had a 0.7 correlation with tech stocks, suggesting a significant link. Continued weakness in the tech sector could result in further weakness for the cryptocurrency industry.

Foolish takeaway

All these factors might make investors interested in crypto wary about allocating any money to these assets. However, it does not necessarily mean investing in crypto is all bad. Provided that you understand the risks of crypto investing and have a well-balanced investment portfolio, it might be alright to allocate a small portion of your portfolio to high-quality crypto assets.

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