



Crypto Meltdown – Have we Seen the Bottom?

Description

Cryptocurrencies have partially recovered from their huge meltdown in the first half of the year. **Bitcoin** ([CRYPTO:BTC](#)) is up 23% from the bottom on July 2, and other cryptocurrencies are rising also.

The first half of this year was a tough time for cryptocurrency. The “stable coin” **Terra** collapsed when it lost its peg to the U.S. dollar, and the exchange **Celsius** went bankrupt. These developments may have shaken investor confidence in crypto, causing them to withdraw their funds. Also, interest rates have been rising this year, and high interest rates generally make risky investments less appealing than they’d otherwise be.

So, we are finally seeing [cryptocurrency](#) rise after a tough first half. The question is, have we seen the bottom? Sometimes assets temporarily rise during mostly-downward trends. This phenomenon is called a “bear market rally,” and we’ve seen it across several asset classes this year.

Read on, as I attempt to determine whether crypto has truly bottomed out, or is just in a bear market rally.

Why crypto prices are rising again

There appear to be two main reasons why crypto prices are rising right now:

1. A lack of bad news.
2. The observed correlation between crypto prices and tech stock prices.

The lack of bad news is easy enough to understand. Two events—the [Terra collapse](#) and the Celsius bankruptcy—shook investors’ faith in crypto this year. They made it look like stable coins and exchanges are untrustworthy. However, it’s been a few months since these events occurred, and nothing similar has happened since. So, perhaps people are re-gaining faith in the crypto market.

Second, we have the well-known correlation between crypto prices and tech stock prices. A correlation is the tendency for two things to move together. Correlations range from negative one (-1.0) to one

(1.0). Negative one means two things move in the opposite direction, zero means there's no relationship, and one means they move in the same direction.

The correlation between [tech stocks](#) and Bitcoin has been estimated at 0.71. That indicates a strong positive correlation. When tech stocks rise, we expect Bitcoin to rise, and U.S. tech stocks have risen about 12% over the last month. So, we are seeing Bitcoin behave the way statistics would predict.

Don't assume the worst is behind us

Over the last month, we've seen Bitcoin and other cryptocurrencies rise. It's been a good time for crypto investors. However, it doesn't mean that the worst is behind us. There are many reasons to remain cautious about cryptocurrency, such as:

- **Rising interest rates.** Cryptocurrency's slide in the first half of the year correlated with rising interest rates. Interest rates are still rising, so we could see more weakness in the second half.
- **Questionable use cases.** Some events this year called into question the "usefulness" of cryptocurrency. For example, the Terra collapse cast doubt on the idea that "stable" cryptos can be used as stores of value. The collapse of the NFT (non-fungible token) market likewise cast doubt on the idea that **Ethereum**-powered "apps" will go mass market. These issues haven't been flaring up much in the last month, but they still lurk in the background

On the whole, cryptocurrency has proven to be remarkably resilient in the 13 years since it was invented. However, it's a volatile asset class that is going through some tough times this year. It would pay to play it safe with crypto, if you choose to invest in it.

CATEGORY

1. Cryptocurrency
2. Cryptocurrency
3. 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. agraff
2. andrewbutton

Category

1. Cryptocurrency
2. Cryptocurrency
3. Investing

Date

2025/07/20

Date Created

2022/08/03

Author

andrewbutton

default watermark

default watermark