BUILDING ON U.S. MOMENTUM

INTRODUCTION

Following the election and the regulatory shake-up, crypto is back in vogue in America as the government looks to foster innovation. The SEC has a crypto task force working on a regulatory framework, while the new head of the CFTC is a former crypto policy lead at Andreessen Horowitz. In response to this dynamic environment, we launched the Kaiko EAGLE Index (EGLX). Driven by our in-house research, we classified cryptocurrencies by region and launched a top 5 U.S.-related index. We'll outline our approach and the key numbers behind the product in this report.

KEY TAKEAWAYS

- U.S.-related assets surged in value following the election.
- EGLX outperformed benchmarks with limited drawdowns.
- EGLX has good to excellent risk-adjusted returns.

SECTOR-AGNOSTIC APPROACH TO SELECTION

The EGLX asset selection process took a regional approach. Since the product is a response to improved market sentiment in the U.S., we only included vetted assets tied to projects classified as being largely U.S.-based. The approach was sector-agnostic, and as such, memecoins were available for inclusion.

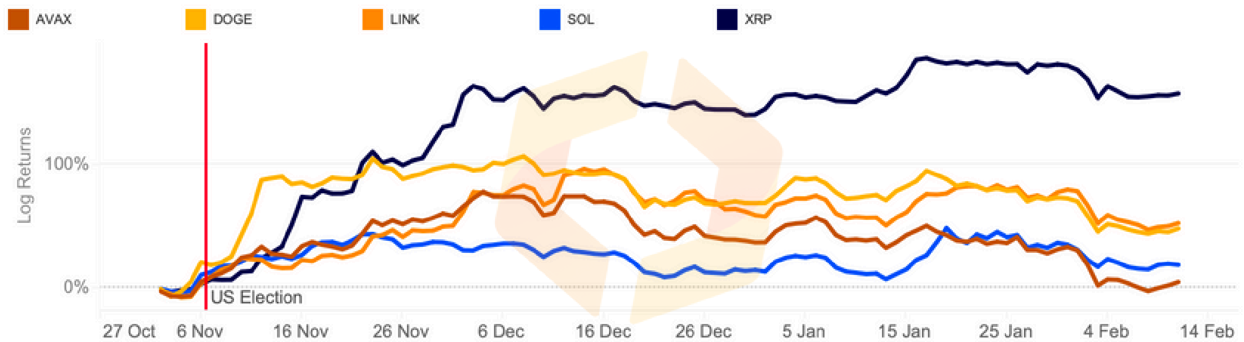
In our selection process, we ranked assets based on size and liquidity, with a 50% weighting for each. The final index weights allocated 75% to size and 25% to momentum. To mitigate concentration risk, we capped asset weighting at 30%. EGLX's composition will be reviewed quarterly, along with our classification of regional assets. We expect more crypto firms to view the U.S. as an attractive place to do business, and as a result, more tokens will likely be reclassified as U.S.-based in the future.

WHY NOW? WHY NOT!

Financial markets rallied in the immediate aftermath of the U.S. election last November, with crypto setting records across the board. BTC led the gains, but the rally extended to other assets such as XRP and SOL, with the former reaching a record high above $290 ahead of the inauguration.

While the rally has subsided for many assets—some suffering significant drawdowns in recent weeks—all five assets in the EGLX remain higher today than they were pre-election. XRP has seen the largest returns, up 156%, while AVAX has gained a more modest 5% since November. Further regulatory clarity in the coming months is expected to drive growth in these assets again.

U.S.-RELATED TOP 5 CRYPTO ASSETS PRICES SURGED AFTER THE ELECTION



Source: Kaiko Analytics Solutions, fair market value pricing.

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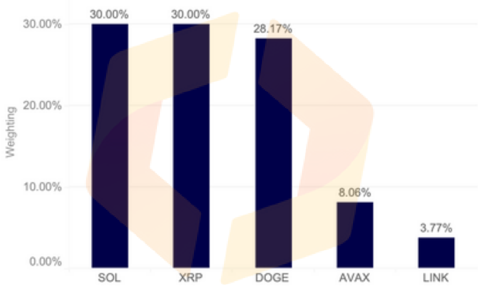
EGLX CONSTITUENTS AND WEIGHTS



Source: Kaiko.

FROM LAYER-1S TO MEMECOINS

The index includes Layer-1 assets, meme coins and utility tokens. DOGE, the only meme coin in this quarter's composition, ranks 5th in Kaiko's liquidity ranking, reflecting its growing legitimacy.

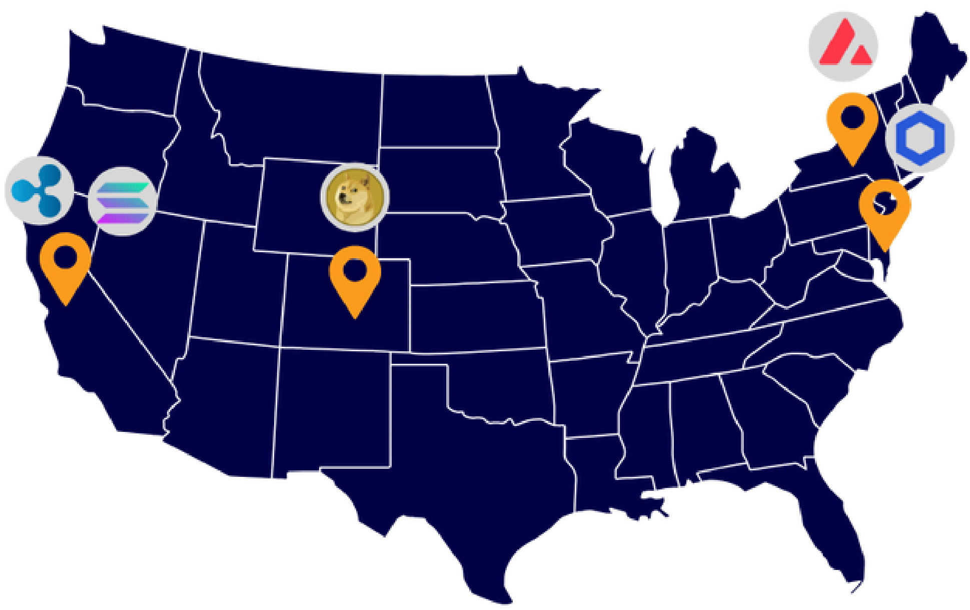
As mentioned earlier, the major U.S. financial regulators have new leadership and are taking a more progressive approach to digital assets. The SEC has formed a dedicated crypto task force, and under this evolving regulatory landscape, risks are easing. The SEC's case against Binance, inherited from the previous administration, is currently on hold at the request of both parties. This more favorable environment is particularly promising for assets like SOL and XRP—both previously flagged as securities by Gensler's SEC.

REGIONAL CLASSIFICATIONS

Our classification by region was driven by several factors. One of these was the location of the protocols and foundations which drive the growth of these assets. In each case an asset must have one of these located in the U.S. to be included. We also used trusted webpages and private market data providers as well as our own research on where employees where based and the origin story behind tokens.

Take Dogecoin, for instance: it was launched by American Billy Markus and Australian Jackson Palmer while both were software engineers in the U.S. The Dogecoin Foundation, based in Colorado, has attempted (unsuccessfully) to register the trademark with the U.S. Patent Office several times since 2014.

SOL, XRP and AVAX are some of the more obvious assets to tie to the United States. SOL and XRP have links to firms based in San Francisco, while Avalanche has offices in New York. Ripple Labs CEO has even argued for the inclusion of a broader base of assets in an potential U.S. strategic reserve. Chainlink (LINK) has a legal entity in Delaware and the majority of its staff are U.S.-based, according to LinkedIn. While the original whitepaper for the project was co-authored by a Cornell professor.



Source: Company websites, legal disclosures, and trusted websites.

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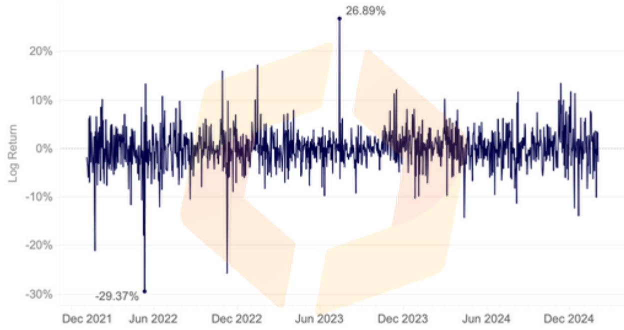
EGLX DAILY RETURNS



Source: Calculations based on EGLX data.

CONSISTENT RETURNS

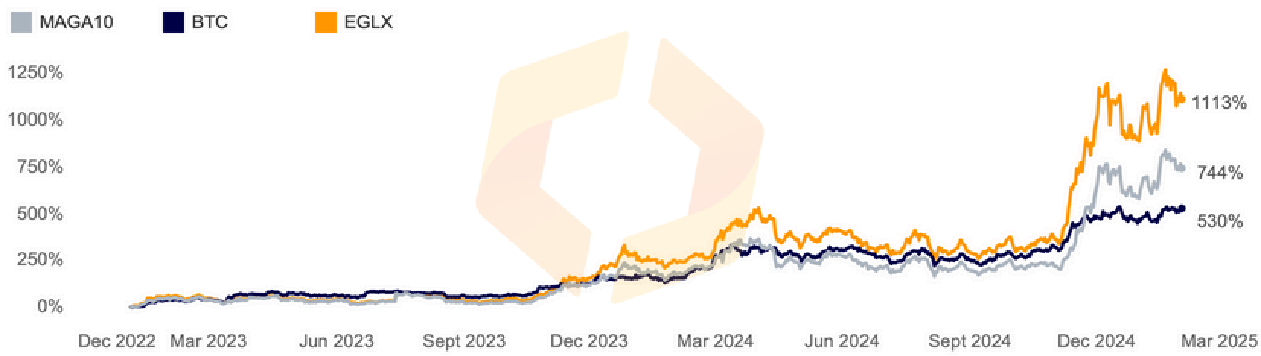
Based on simulated performance data, the EGLX index delivers strong returns, although it is occasionally subject to significant losses. On a daily basis its largest one day loss was 29% while its biggest return was over 28%. By enlarge daily returns tend to be consistent within the range of 10% up or down.

All of the constituent assets have broader ranges for daily returns compared to EGLX. This is a prime example of how indices reduce selection risk.

TOKENIZING THE AMERICAN DREAM

EGLX also posted outsized returns when compared to BTC and similar products. The simple return of the index since January 2023 was 1,113%, more than two times that of a similar index over the same period. It also outperformed BTC and almost every major asset since then—including stocks like Nvidia.

EGLX PERFORMANCE vs. BTC AND OTHER U.S.-FOCUSED INDICES



Source: Calculations based on Kaiko Indices data and Refinitiv data.

XRP's strong performance since November has driven returns, largely due to growing regulatory clarity. The SEC had previously labeled XRP a security and fought it in court for years. Now, there's a real chance multiple ETFs will invest in XRP by year-end. While recent gains have been impressive, there's still upside potential, as positive ETF news often triggers rallies, like ETH's in May 2024.

Another key driver was DOGE, which may seem controversial. What's considered acceptable for investment has shifted since the U.S. election in November 2024. More firms are embracing memecoins, particularly DOGE. In January, Bitwise filed for a DOGE ETF, and Grayscale launched a DOGE trust with over $2 million in assets. While modest, this demand marks a major shift. Just 18 months ago, Grayscale was suing the SEC over its rejected BTC ETF application. Now, it's testing demand for DOGE, possibly eyeing a future spot ETF conversion like it did for BTC and ETH trusts.

Digital assets also embody the ethos of the phrase "The American Dream". Memecoins are a supercharged version of this idea that anyone can make something of themselves. They historically offered massive returns for early investors and are essentially a way of tokenizing the aspiration—even if its just investing in an asset tied to a niche internet joke.

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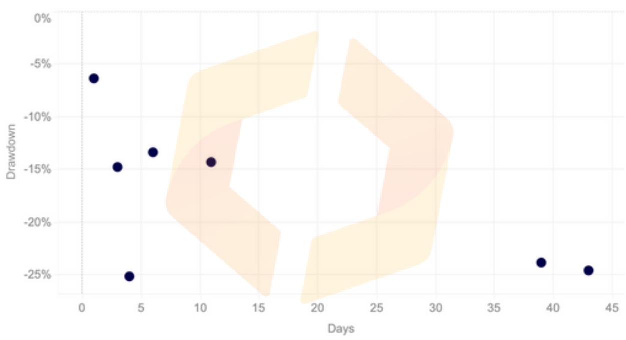
EGLX'S WORST DRAWDOWNS SINCE 2022



Source: Calculations based on EGLX data.

EGLX'S SHARPE RATIO

Source: Calculations based on EGLX data.

LIMITED DRAWDOWNS

While EGLX has experienced several large drawdown, the duration of these has been limited in the most part. The chart on the left shows the largest drawdown periods since 2021 for the index. As we can see the majority of these lasted between one to ten days.

The longer drawdowns on the right of the charts coincide with broader market downturns and aren't unique to the index.

RISK-REWARD

EGLX has a Sharpe ratio of 2.85 at present, and since 2022, this ratio has largely been positive. Essentially, this means it offers good risk-adjusted returns.

A Sharpe ratio between 0 and 1 indicates low risk and low reward, while anything over 2 is considered very good. At times, the EGLX Sharpe ratio has approached 5. This metric accounts for both upside and downside risk. Even when isolating for downside risk using the Sortino ratio, the results remain strong, with rolling scores above 4 (anything above 3 is highly desirable here).

VOLATILITY SHIFT

Crypto assets are often said to be highly volatile, and as such, investing in them is a risky endeavour. In recent years, we've observed that realized volatility has actually been trending lower in many major crypto assets. Bitcoin volatility, in particular, has fallen significantly since the introduction of spot exchange-traded funds. This suggests that the institutionalisation of the market has dampened volatility.

The EGLX exhibits similar trends, as we can see below. Rolling 6-month volatility has fallen from nearly 100% in 2022 to below 85% today. It set an all-time low of 60% in early 2024 and was as low as 63% in December. The recent uptick observed below can be attributed to the rally in prices since the election.

EGLX ROLLING 6-MONTH VOLATILITY

Source: Calculations based on EGLX data.

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CONCLUSION

EGLX’s outlook depends on regulatory clarity, but this isn’t a narrow factor or a major risk. Although frameworks like MiCA take years to implement, the shift in regulatory messaging has had an immediate impact.

Since Gary Genslers last day at the SEC there have been over 20 exchange-traded fund filings for instance. Regulatory clarity gives asset managers the opportunity to innovate more and be more creative with product offerings.

We expect to see more growth and innovation in the structured product space and especially for assets linked to the U.S. and as such the potential for growth is considerable. As with most innovation in the crypto it will inevitably track traditional finance, and already is. We have mono asset products on BTC and ETH and in time we should naturally see an evolution towards basket-based products benchmarked against indices like EGLX or the Kaiko Blue Chip range of KT5, KT10, and KT15.

Learn more about the Kaiko EAGLE Index

Website: www.kaiko.com/indices/kaiko-eagle-index

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