UNCERTAINTY ROILS MARKETS

INTRODUCTION

The beginning of 2025 was marked by rising uncertainty in crypto markets, leading to increased market volatility and a subsequent downturn. The U.S. presidential inauguration on January 20 further amplified volatility amid deteriorating macroeconomic conditions, despite the improved regulatory outlook for digital assets. This report reviews the performance of essential indices, covering major sectors, themes, and blue-chip families, within this context.

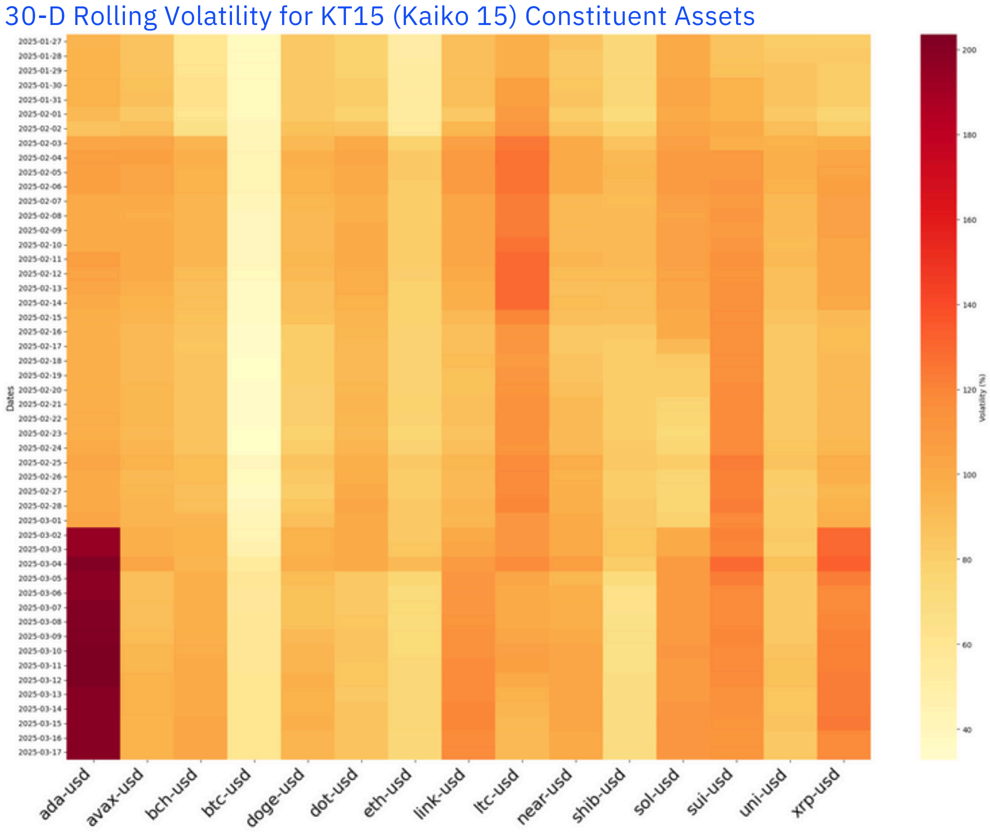
TARIFFS DROVE THE SPIKE IN CRYPTO ASSETS VOLATILITY

Earlier this year, the U.S. announced new tariffs on imports, causing digital asset prices and other risky assets to fluctuate wildly. Although President Trump had signaled his tariff plans during his campaign, the markets seemed unprepared for these measures as traders potentially mispriced the political risk.

The tariff announcements on Mexico and Canada (as well as China) from President Trump sparked a massive sell-off across financial markets at the beginning of February, and fears of an escalating trade war have lingered ever since. While Trump had targeted China during his first campaign, the measures taken against North American trade partners were seen by many as extreme and potentially damaging to each national economy.

While President Trump often used market performance as a scorecard during his first term in office, he appears less concerned with the whims of Wall Street this time around. The measures against trade partners have continued to weigh on a broad range of assets. Volatility spiked in crypto markets as a result, as prices plunged.

30-D Rolling Volatility for KT15 (Kaiko 15) Constituent Assets



Source: Kaiko Calculations on Benchmark Reference Rate data.

Adam Morgan McCarthy, Research Analyst
adam.mccarthy@kaiko.com

KAIKO INDICES PERFORMANCE

MARKETS PLUNGE POST-INAUGARATION

Last year's U.S. election was a turning point for digital assets. The performance of the Kaiko Indices Blue Chips since July (when Trump first began courting crypto voters) exemplifies this. Both the Kaiko 10 and 5 (KT10 and KT5) are up over 50% from July 2024 to the beginning of March 2025, despite the recent pullback. However, macroeconomic uncertainty has significantly affected the performance of crypto assets, and it seems to have weighed most on smaller, less established assets, with the KT10 falling at a faster pace than the KT5 since January 20.

Blue Chips Dip

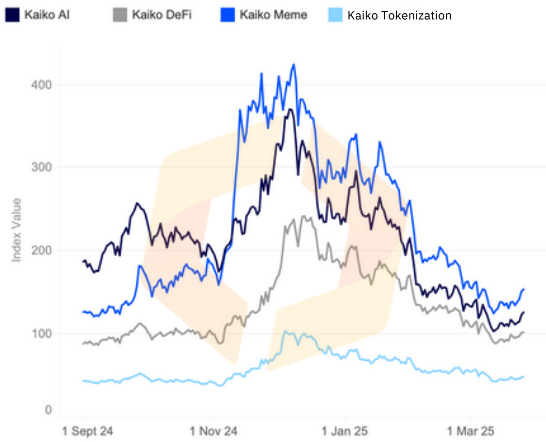
MEMES MAIMED BY SCANDAL AND UNCERTAINTY

While smaller tokens were hit hardest, assets tied to different sectors and investment themes also fared differently.

Memecoins were the big losers in Q1 2025, despite the U.S. President launching his own just days before assuming office. The TRUMP token has faltered since its launch, and similar projects have damaged sentiment around this theme. The launch of Libra—a memecoin endorsed by Argentinian President Javier Milei—was particularly damaging for the memecoins sector.

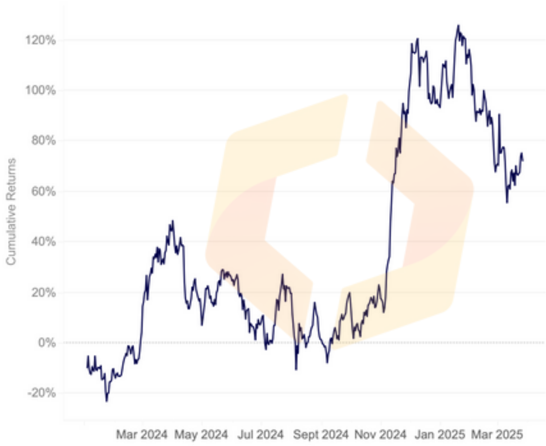
Most of these memecoins were on Solana, and none of them are in the Kaiko Meme Index, but for such a highly correlated thematic, it's hard to untangle the performance of these assets. The damage done by Libra will weigh on memes going forward for some time.

Sector and Thematics Hit Hard



Source: Kaiko Bechmarks.

Kaiko EAGLE Index Constituent Assets



Source: Kaiko Custom Indices.

SPOTLIGHT: THE KAIKO EAGLE INDEX

Following the new administration's regime shift on digital assets, we launched the Kaiko EAGLE Index. The Index includes five tokens, which are the top five U.S.-related assets in our token universe.

While performance has stuttered since its introduction, the defining theme of the Kaiko EAGLE Index has been reinforced. At the end of March, the U.S. President's media firm signed a binding agreement with offshore exchange Crypto.com to offer digital asset exchange-traded funds investing in "Made in America" assets—one of which is CRO. The addition of CRO and the potential for an ETF holding this product fit with the narrative that firms will re-domicile in the U.S. to capture potential growth there."

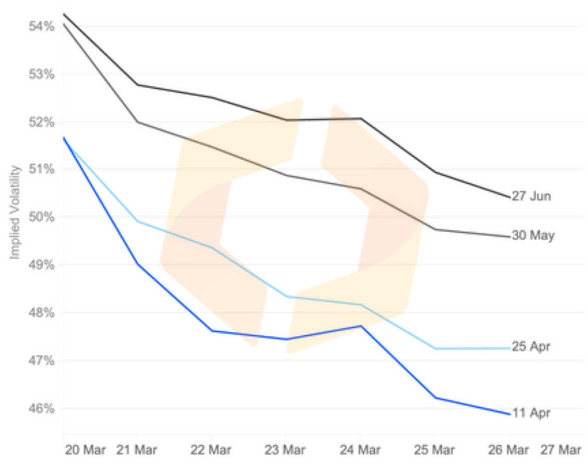
Adam Morgan McCarthy, Research Analyst
adam.mccarthy@kaiko.com

RISK OUTLOOK

As we head into the second quarter, the outlook remains largely uncertain from a macro standpoint. However, when it comes to crypto markets specifically, there is some cause for optimism. For the first time in several quarters, options markets aren't pricing in any major risk events in the coming quarter.

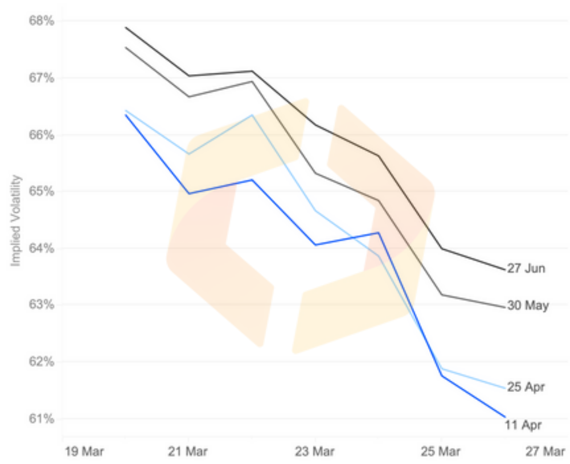
In 2024, there were multiple implied volatility term structure inversions. The launch of spot ETFs, the fourth Bitcoin Halving, and the U.S. election caused major kinks in BTC and ETH term structures, signaling an increased likelihood of a short-term risk event. As we enter the second quarter, the structure for both leading assets is normal, with no glaring risk events being priced in currently.

BTC Implied Volatility Term Structure



Source: Kaiko Analytics Data, Implied Volatility.

ETH Implied Volatility Term Structure



Source: Kaiko Analytics Data, Implied Volatility.

CONCLUSION

Macro uncertainty will likely continue to weigh on markets in the coming months as the new administration's policies will have a staggered effect. The impact is often severe in short bursts as the President follows a well-documented path when it comes to policy changes—impose, negotiate, pause, re-impose.

Beyond the macro uncertainty, the demand for BTC and ETH structured products will play a role in driving sentiment in the coming months. As prices fell in February and BTC ETFs experienced their largest outflows, fears grew over the potential exodus of hedge funds playing the Bitcoin basis trade. While this appears to have been overblown for now, based on CFTC COTs data, the potential for futures markets to slip into backwardation could cause markets to move another step lower. This would be tied to funds and larger traders repositioning their plays on the CME basis in the wake of the market shifting from contango.

Any major structural shift in BTC markets, in particular, would likely have a cascading effect across the board in crypto markets, with less liquid assets always hit hard by broad sentiment shifts.

Adam Morgan McCarthy, Research Analyst
adam.mccarthy@kaiko.com