MORGAN CREEK
DIGITAL
ALTERNATIVE THINKING ABOUT INVESTMENTS

Welcome to Morgan Creek Digital's weekly digital asset update. It is comprised of a thought piece from our team followed by a summary of what we consider the most compelling digital asset news during the last week. We hope you find this content interesting. Please let us know if you have any comments or questions or if you would like to speak to a member of the [Morgan Creek Digital team](#).

MCD Notes: What do rate hikes and quantitative tightening mean for digital assets?

On January 12th, the BLS released an update of its CPI data for the month of December, showing a 7.1% increase year-over-year, the highest in almost four decades. On January 26th, the Fed announced its plans to begin rate hikes soon, as well as end asset purchases and shrink its balance sheet to combat high inflation. Although this announcement was largely anticipated, markets responded poorly to Chairman Powell's subsequent press conference, due to perceived hawkish language in his speech. Over the past two months, crypto markets have been battered in response to earlier-than-anticipated rate hikes by the Fed and an accelerated shrinking of its balance sheet.

The last time the Fed simultaneously shrunk its balance sheet while raising interest rates was during early 2018 through August 2019. This was not a favorable period for owners of liquid crypto assets like BTC and ETH, but it did end up being an attractive opportunity for investors with available liquidity to deploy capital in these markets. Throughout this period, purchasing high-quality digital assets with strong development teams and track records of technological progress delivered stellar returns over the following few years.

Questions remain about how long the current period of elevated inflation will last, how aggressively the Fed will ultimately combat it, and how these measures will impact real economic activity. However, for long-term-oriented investors, the answer to whether inflation lasts another 6, 12, or 18 months is not the primary driver of investment returns. This is ultimately determined by generating value for users and capturing part of this value.

Morgan Creek Digital has focused primarily on purchasing equity in blockchain infrastructure companies with real revenues and growth potential during the past year. In our view, these investments presented better valuation profiles and more mature product offerings than most liquid tokens. Now that concerns of rate hikes and quantitative tightening have begun to set into liquid token markets, Morgan Creek has begun exploring opportunities in this asset class to attempt to identify high-quality projects which will not only survive but thrive over the next 5-10 years. Our approach has granted us the flexibility to pursue these opportunities at a time when liquid token valuations have become more attractive, and we will continue to monitor the macroeconomic climate to take advantage of any further volatility in these assets.

In our just-released podcast, we asked Mike Cagney, Co-Founder and CEO of Figure Technologies, the long-term implications of inflation, and more specifically, asset inflation, which he views as the most significant risk to investors in the marketplace today. As a follow-on, Cagney suggests that owning hard assets, like real estate, as well as Bitcoin, is an excellent opportunity over a ten-year horizon. To listen to Cagney's perspectives on inflation, the financial services industry, blockchain technology, and a whole lot more, Click Here.

Digital Currents. Episode 3: Learn how Mike Cagney CEO of Figure, is rebuilding our banking rails by institutionalizing crypto

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THE RUNDOWN

Kraken to Develop NFT Marketplace Offering Token-Backed Loans: Crypto exchange Kraken is developing a marketplace for non-fungible tokens where users can arrange loans using the tokens as collateral, the exchange's founder and CEO Jesse Powell said in a Bloomberg News interview published Friday. The marketplace will provide custody, and the exchange is figuring out how to determine the liquidation value of NFTs deposited so that users can use them as collateral for loans, Powell said. *Read more.*

Iran Banning Crypto Mining Until March 6 to Save Power: Iran is banning authorized crypto mining in the country until March 6 in an attempt to save power and avoid blackouts this winter, according to a Bloomberg report. The move will free up 209 megawatts of power for use by the country's households, according to Mostafa Rajabi Mashhadi, the director of state-run Iran Grid Management Co., who was interviewed by state TV. *Read more.*

India's Central Bank Recommends Basic Version of CBDC: As India grapples with uncertainty around cryptocurrency regulation, the Reserve Bank of India (RBI), the country's central bank, said it is inclined to offer a basic central bank digital currency (CBDC) initially before implementing a more sophisticated version. A report titled "Trend and Progress of Banking in India 2020-21″ released on Tuesday elaborates on the thinking of the RBI on a CBDC. *Read more.*

Crypto Futures See $300M in Losses After Spot Market Drops: A drop in crypto markets from Monday evening (UTC) prompted almost $300 million in liquidations across several crypto futures contracts, data from analytics tool Coinglass showed. More than 109,000 traders' positions were liquidated in the past 24 hours. *Read more.*
