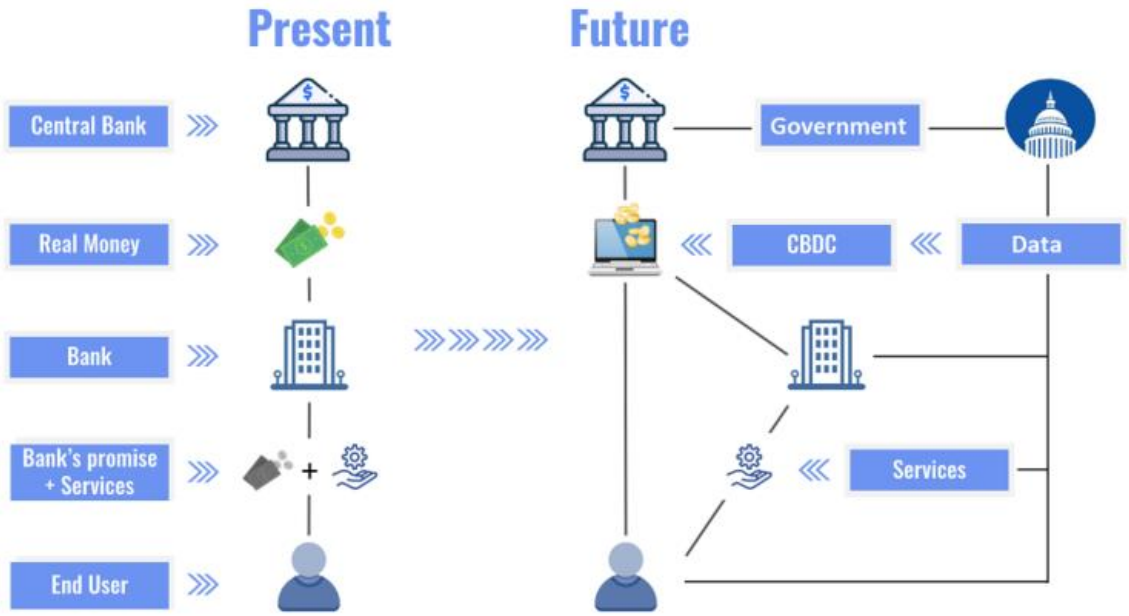
If it isn't already apparent, we are heading towards a digital future. Digital identities, digital wallets, digital social scores, and digital control. It is no longer up for debate. Global governments are seizing the opportunity to link every fundamental human right to a centralized digital system.

These rights include access to healthcare, a bank account, your identity, the right to vote, to run a company, or to drive on taxpayer roads. How can we expect to exercise free speech when an "off" switch can be flicked if one has an opposing view?

This month, Australia's senate voted to adopt a digital identity with no opportunity for debate, the SWIFT network announced it is developing infrastructure for cross border central bank digital currencies, and the European Council formerly adopted European digital identity wallets.

This centralized system, which will be linked across all western governments, has an extremely high likelihood of being corrupted due to the degree in which it will concentrate power and control in the hands of a few. Governments want to own, operate, sensor, and regulate your access to their society.

Figure 1 – This is the infrastructure we are currently being forced into



Source: blog.digitalasset.com, Vikara Capital

While digital ID's are being pushed under the guise of convenience, the ultimate goal is to connect everything you say on-and-offline to a central bank digital currency, which will transfer your basic human rights to movement, speech, and assembly, to an unelected committee you will never see.

The infrastructure being installed today has the potential to oppress every human being. The leaders promising that it is in our "best interest", will inevitably be replaced by different faces and agendas.

We will no longer be talking about mis-or-dis-information. There will be one source of information: the government. Everything else will be irrational waffle that does not fit into the world view we are allowed to align with. It sounds draconian but this is the system your leaders are installing.

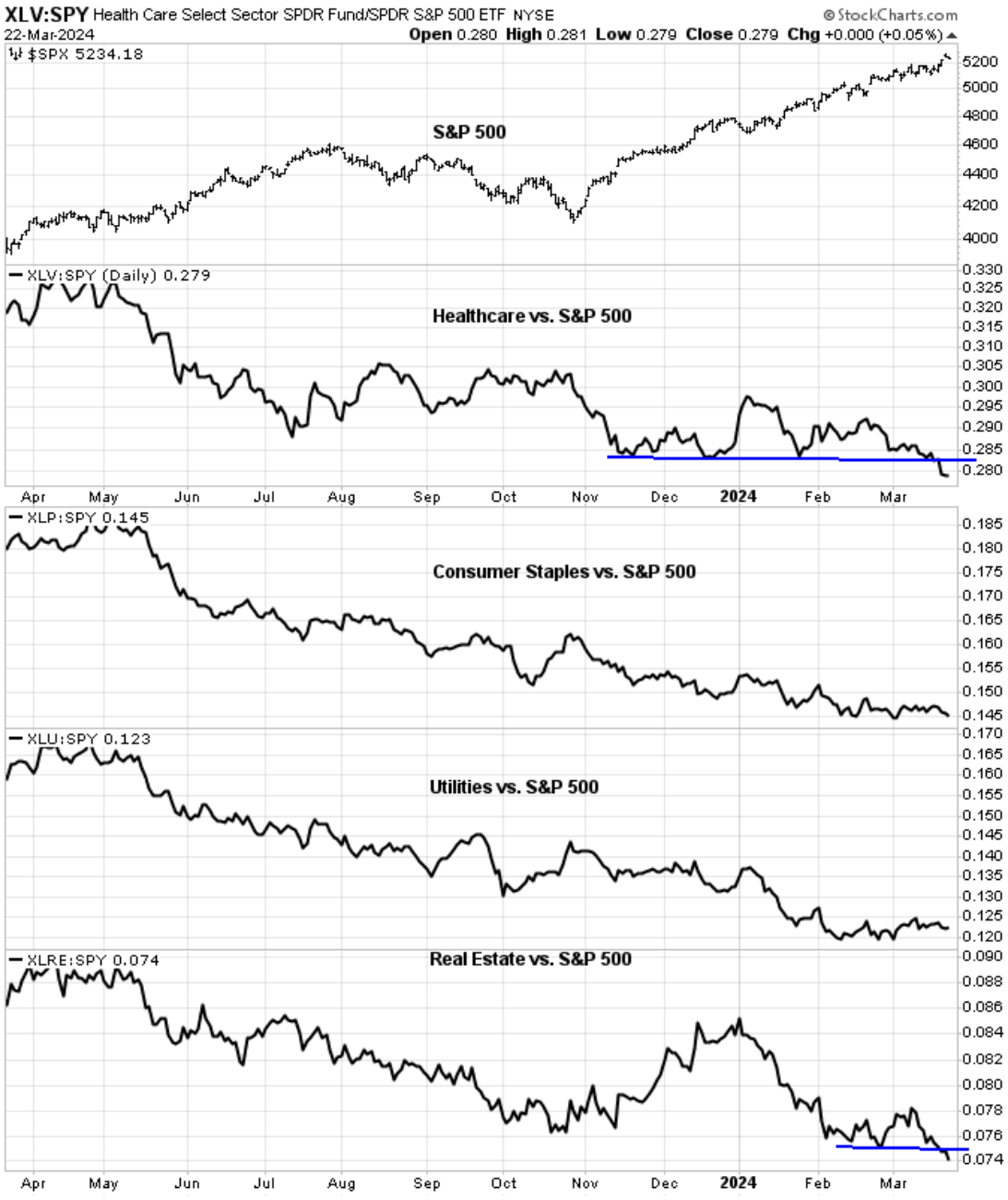
If you are reading this, you are uniquely positioned to at least start pricing in the tail risk of government imposed contraints. Study decentralized systems. Ask questions about the value of self custody. Understand what the alternatives are and why having them is key.

We talk about it with our LPs constantly. The critical infrastructure being built in digital assets right now is the alternative to centralized and autocratic control. Vikara is investing in the platforms of the future that will allows many around the world to evade corruptible centralized systems.

Macro

There are millions of financial analysts watching markets at all times, and the outworkings of their analysis do a good job of identifying areas of concern. Chart 1 shows defensive sectors relative to the S&P500, which shows very little desire to be on the defensive, suggesting fear is low right now.

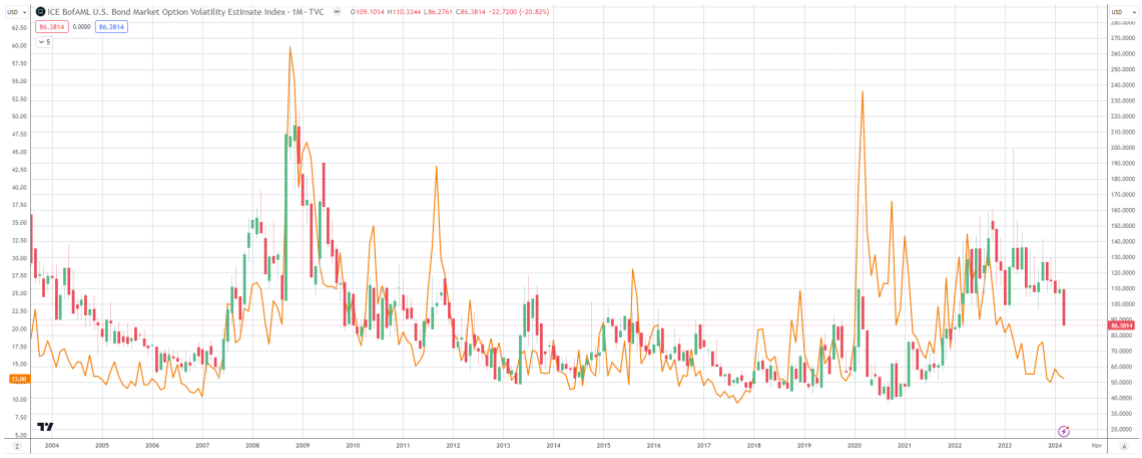
Chart 1 – S&P500 versus defensive sectors (2023-2024)



Source: @HumbleStudent

For those screaming bubble and that this market is irrational, we hear you. But for every sign we see that implies the market is frothy, there are plenty that suggest we have moved on from the 2022 downturn. The volatility collapse in equity and bond markets is a good example (Chart 2).

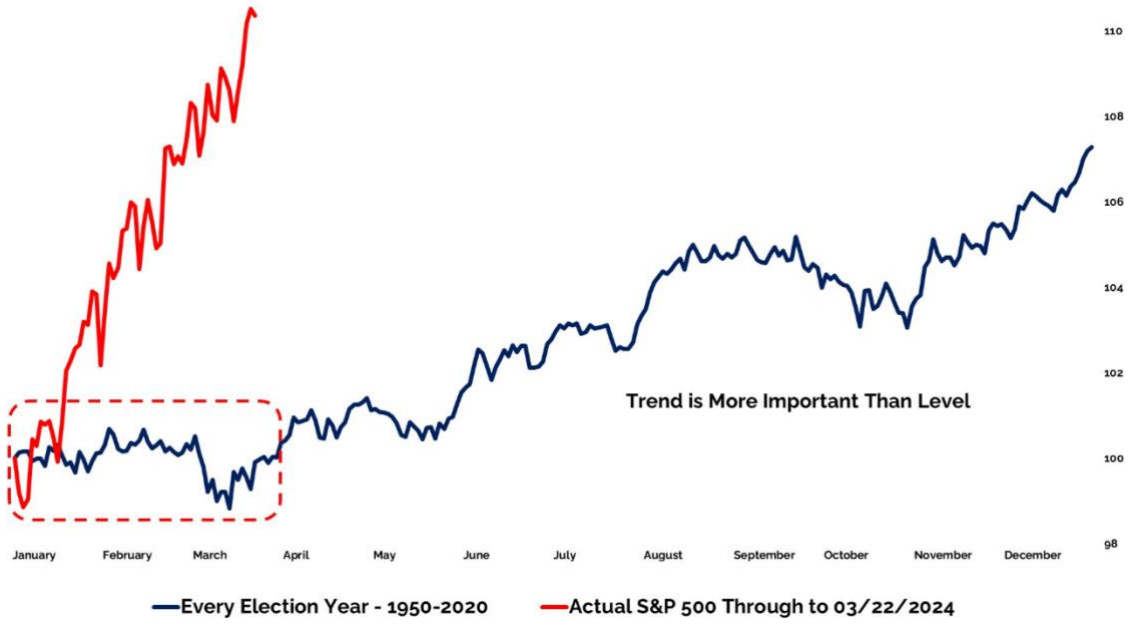
Chart 2 – S&P500 election cycle versus 2024 (1950-2024)



Source: AllStarCharts

Reduced volatility is an excellent backdrop for taking risk. Chart 3 shows this exuberance perfectly. While many still believe it is reckless speculation, the monetary and fiscal backdrop are incredibly supportive of continued upside.

Chart 3 – S&P500 election cycle versus 2024 (1950-2024)

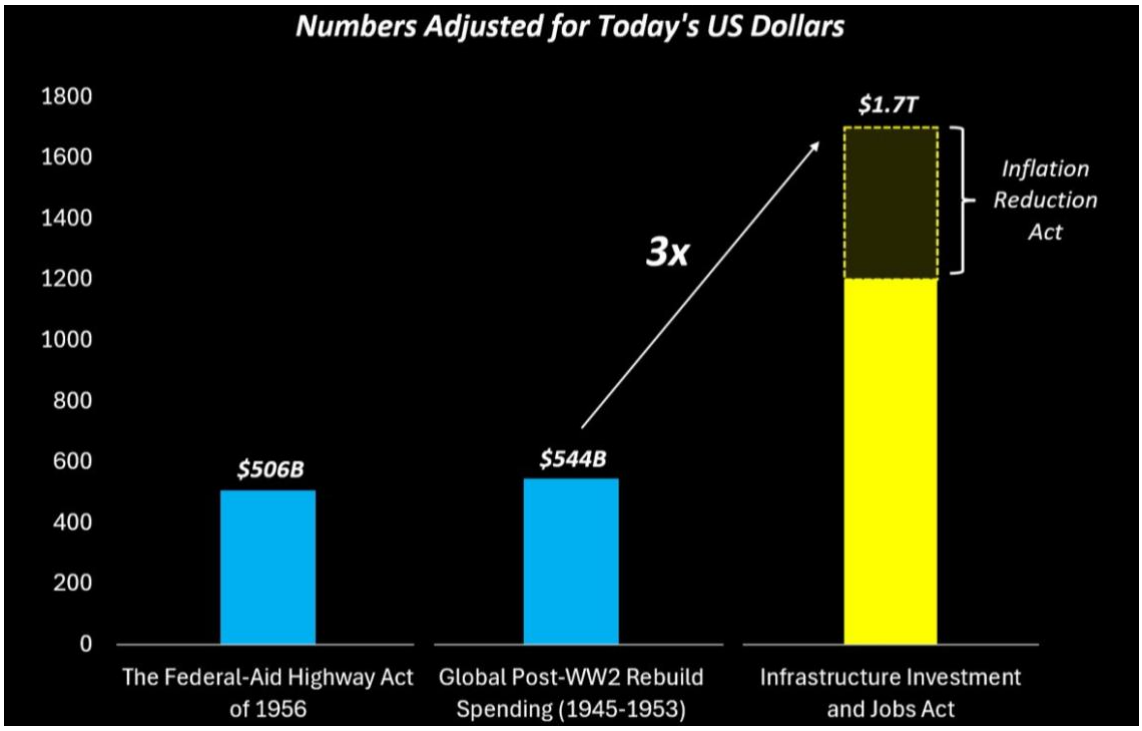


Source: AllStarCharts

Global governments are accelerating modern monetary theory (MMT). MMT is when a government decides to fund its own deficits by printing cash. The US is hoping it can recapitalize its industrial economy so its trade deficit with China can be rebalanced.

US infrastructure spending highlights how impactful MMT is, with the $1.7 trillion allocated dwarfing the capital spent post-WWII by the US and the rest of the world.

Chart 4 – Infrastructure spending today versus history



Source: IMF (WW2 Data), Congres.gov, Taci Costa, Crescat Capital

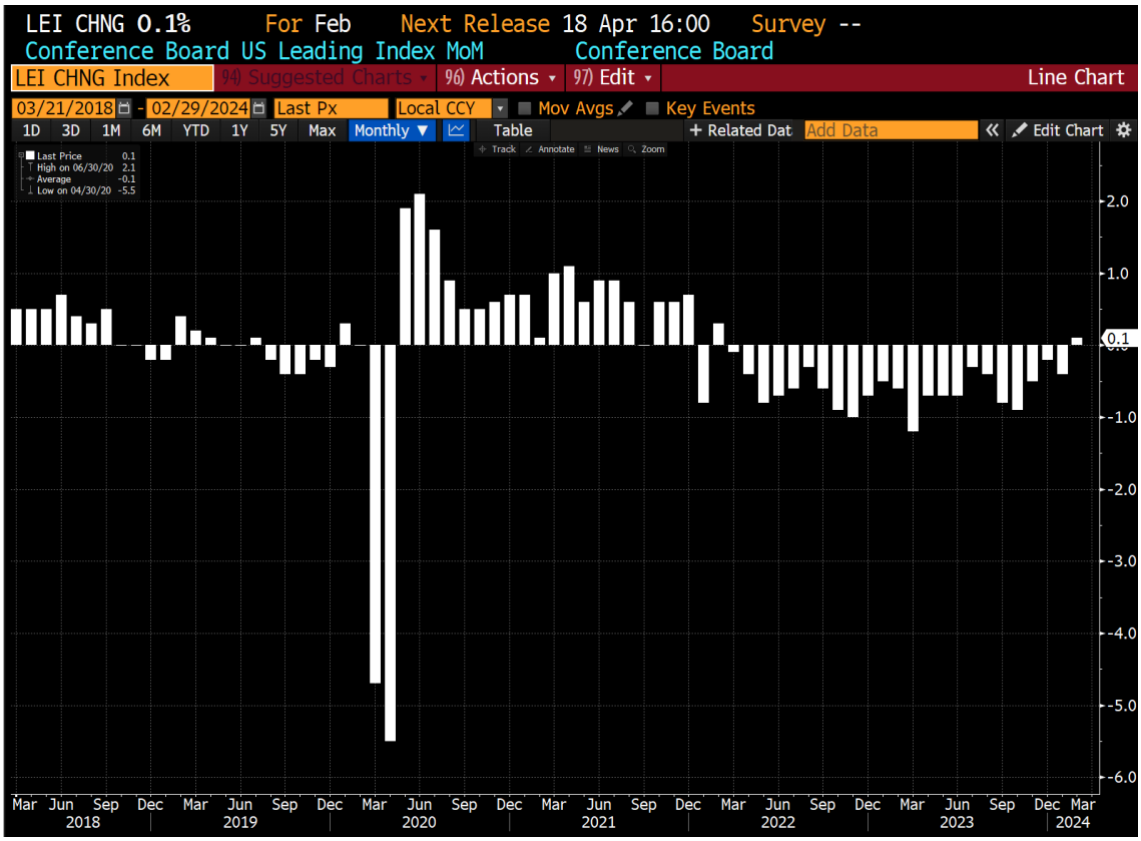
Is it any wonder that the Philadelphia Federal Reserve's 6-month New Orders expectation is accelerating at the current pace? Given the historical correlation with US ISM, we believe the bottom in the manufacturing cycle will continue to support US growth (Chart 5).

Chart 5 – Philly Fed 6-month new order expectation versus ISM (2000-2024)

Source: OllariConsulting

It is also no surprise that the US Leading Indicator rose for the first time in two years in February (Chart 6), being one of many coincidental indicators that suggest the US economy is improving.

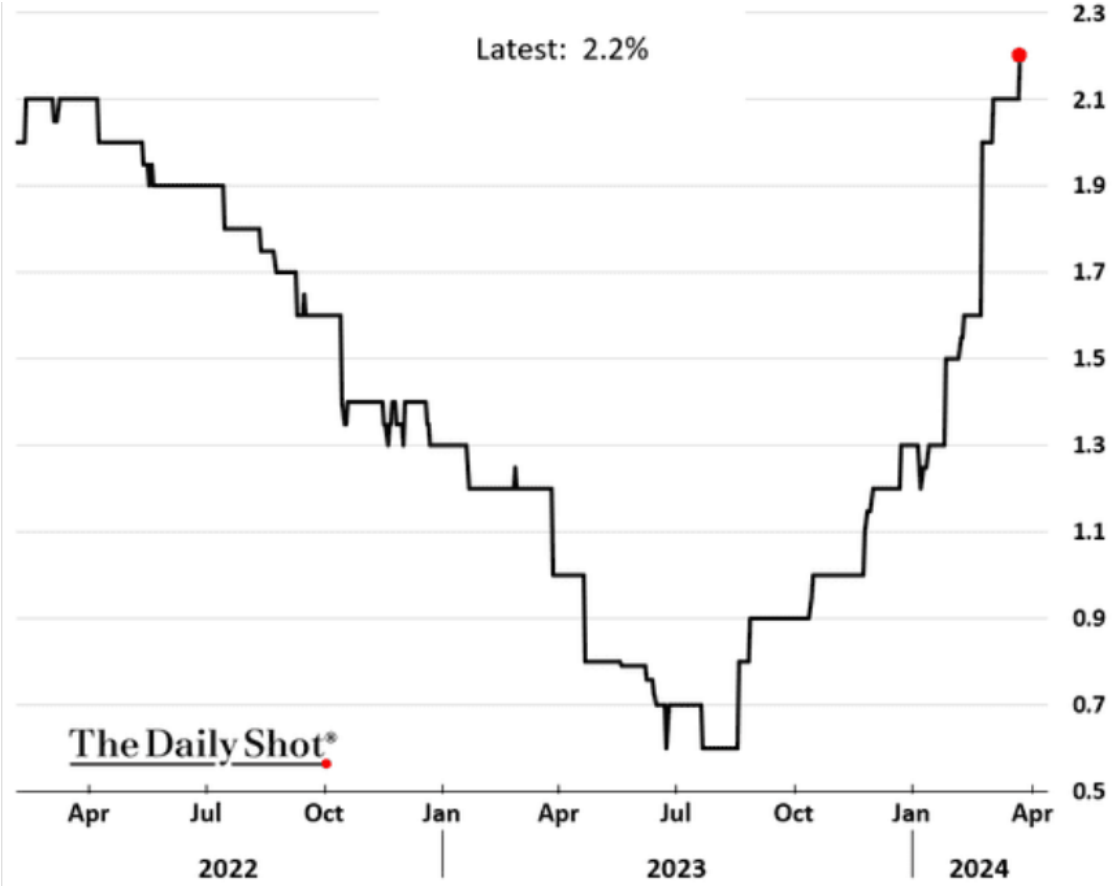
Chart 6 – US leading indicator (2018-2024)



Source: Bloomberg, @jsblokland

While we have been calling for this since August of 2023, our view is largely consensus now, and this is being reflecting in growth expectations which have risen to 2.2% for 2024 (Chart 7).

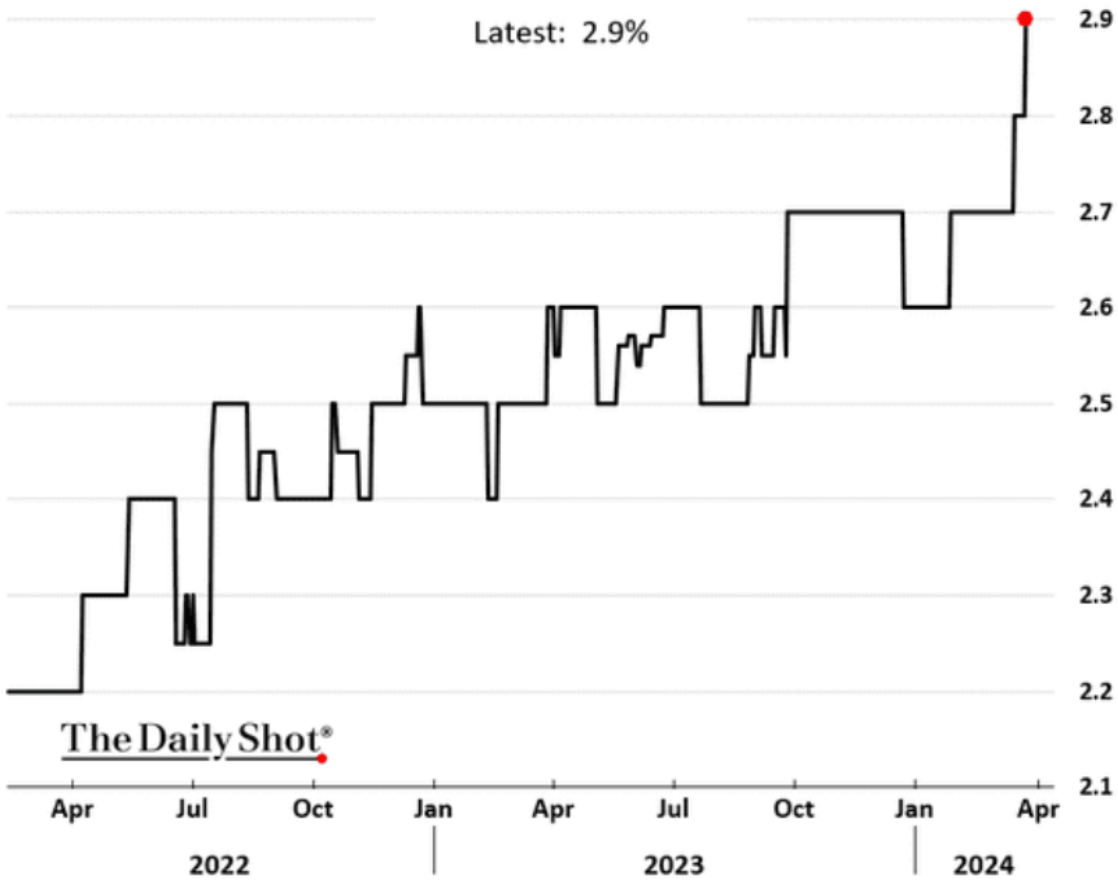
Chart 7 – US 2024 GDP Growth Forecasts (2022-2024)



Source: Bloomberg, TheDailyShot

The rise in inflation expectations is concerning some (Chart 8), and we love seeing the charts about the potential next higher peak in inflation akin to what happened in the 1970s, but we still don't see this as a likely scenario despite US economic growth improving.

Chart 8 – US 2024 CPY YoY Consensus Forecast (2022-2024)



Source: Bloomberg, TheDailyShot

While rising inflation is a concern, it is important to remember where we come from and where we are now. In May of 2020, there were 21 countries had negative interest rates. Today, there are none (Figure 1).

Figure 1 – Bond yield matrix

The Negative Bond Yield Matrix (May 31, 2020)															
Country	6-Mo	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	20-Year	30-Year	50-Year
Switzerland	-0.50	-0.40	-0.71	-0.70	-0.66	-0.65	-0.65	-0.60	-0.57	-0.70	-0.49	-0.33	-0.32	-0.35	-0.38
Germany	-0.55	-0.59	-0.65	-0.66	-0.66	-0.64	-0.63	-0.55	-0.51	-0.51	-0.45	-0.23	-0.16	0.01	
Netherlands	-0.55		-0.62	-0.60	-0.58	-0.53	-0.47	-0.42	-0.37	-0.31	-0.25	-0.17	-0.01	0.05	
Denmark			-0.42								-0.25				
Austria		-0.53	-0.59	-0.53	-0.50	-0.41	-0.35	-0.32	-0.25	-0.18	-0.13	0.03	0.11	0.28	0.41
Finland			-0.57								-0.17				
Sweden			-0.29								-0.04				
France	-0.51	-0.53	-0.53	-0.54	-0.51	-0.44	-0.36	-0.25	-0.19	-0.12	-0.07	0.19	0.44	0.69	0.75
Belgium	-0.51	-0.51	-0.56	-0.52	-0.47	-0.38	-0.32	-0.18	-0.18	-0.08	-0.02	0.20	0.53		
Japan	-0.19	-0.17	-0.16	-0.17	-0.15	-0.13	-0.13	-0.11	-0.08	-0.03	0.00	0.23	0.35	0.49	
Ireland	-0.35	-0.37		-0.42	-0.35	-0.24	-0.16	-0.06			0.08	0.44	0.51	0.78	
Slovakia						-0.15	-0.12		0.12	0.11	0.29			0.93	1.03
Slovenia		-0.40	-0.30	-0.16		-0.03		0.07	0.21		0.40	0.79	1.07		
United Kingdom	0.00		-0.05	-0.04	-0.05	-0.01	-0.03	0.02	0.05	0.18	0.18	0.37	0.51	0.58	0.40
Spain	-0.49	-0.39	-0.44	-0.36	-0.29	-0.17	0.05	0.24	0.30	0.41	0.56	0.87	1.06	1.33	
Portugal	-0.40	-0.34	-0.44	-0.31	-0.27	-0.01	0.08	0.26	0.33	0.41	0.50	0.75	0.94	1.30	
Bulgaria		-0.13				-0.10		0.38			0.85				
Czech Republic		-0.06	0.01	0.10	0.29	0.28	0.55	0.57	0.63	0.69	0.70	0.87	0.95		1.98
Cyprus		-0.21		0.35		0.57		1.01			1.22				
Malta	-0.03	0.03		0.04		0.20					0.62		1.28		
Italy	-0.03	0.01	0.40	0.56	0.81	1.02	1.15	1.20	1.40	1.46	1.48	1.92	2.10	2.41	2.57
United States	0.17	0.18	0.16	0.20		0.30		0.50			0.65			1.41	
CREATIVE PLANNING														@CharlieBilello	

The Positive Bond Yield Matrix (Mar 25, 2024)															
Country	6-Mo	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	20-Year	30-Year	50-Year
Japan	0.04	0.08	0.20	0.23	0.32	0.38	0.43	0.50	0.59	0.67	0.73	1.19	1.48	1.79	
Switzerland	1.37	1.27	0.94	0.85	0.78	0.71	0.66	0.62	0.66	0.63	0.63	0.65	0.64	0.65	
Sweden	3.83		2.64			2.33		2.34			2.38		2.55		
Portugal	3.75	3.48	2.72	2.55	2.53	2.63	2.61	2.65	2.73	2.82	3.03	3.26	3.36	3.45	
Ireland		3.36	2.78	2.67	2.58	2.59	2.60	2.59	2.52	2.67	2.79	2.89	2.96	3.03	
Germany	3.72	3.45	2.85	2.57	2.43	2.39	2.31	2.30	2.31	2.33	2.37	2.52	2.56	2.52	
Denmark	2.36		2.88	2.45		2.27			2.27		2.37		2.55	2.47	
Finland			2.91	2.79	2.75	2.70	2.69		2.75		2.85	3.05		2.93	
Cyprus			2.91	2.96	2.97			2.96			3.15		3.64	3.64	
Belgium	3.60		2.92	2.73	2.67	2.67	2.69	2.74	2.77	2.79	2.94	3.14	3.29	3.39	2.89
Austria	3.77	3.30	2.93	2.76	2.63	2.72	2.71	2.76	2.80	2.84	2.87	3.05	3.08	3.03	2.77
Netherlands	3.65		2.93	2.67	2.63	2.57	2.57	2.56	2.60	2.60	2.63	2.76	2.77	2.73	
France	3.79	3.49	2.96	2.76	2.69	2.70	2.67	2.69	2.72	2.78	2.85	3.06	3.22	3.32	2.83
Spain	3.73	3.47	3.03	2.92	2.85	2.87	2.89	2.94	3.02	3.11	3.20	3.54	3.66	3.85	
Slovenia		3.83		3.30	2.98	2.84		2.75	2.83		2.96	3.13	3.26		
Malta	2.84	4.68		3.05		3.10					3.38		3.76		
Bulgaria		3.19	3.33	3.59	3.33	3.58		4.15			4.30				
Slovakia			3.38			3.06	3.22		3.34	3.43	3.46			3.75	3.70
Italy	3.68	3.57	3.40	3.16	3.18	3.23	3.29	3.41	3.48	3.61	3.70	4.06	4.16	4.27	3.94
Czech Republic		4.35	3.71	3.68	3.66	3.74	3.73	3.77	3.76	3.89	3.86	4.01	3.99		4.15
United Kingdom	5.21	4.55	4.20	4.00	4.01	3.91	3.85	3.89	3.90	3.97	4.03	4.35	4.52	4.54	4.12
United States	5.31	5.00	4.63	4.40		4.23		4.25			4.25		4.50	4.41	

Source: @charliebilello, Creative Planning

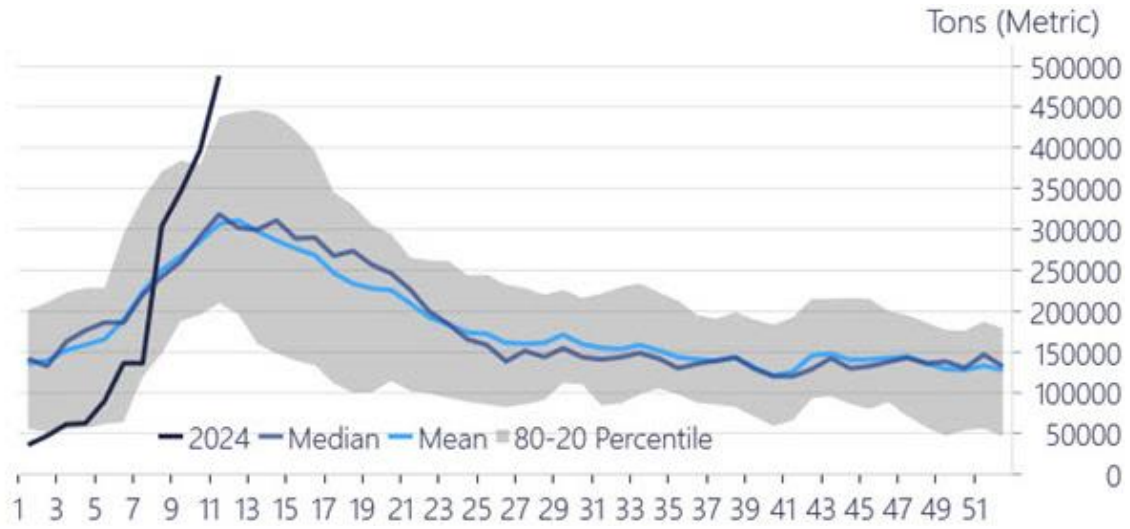
Positive rates are one thing, but in many parts of the world, there are also positive *real rates*, something that has been missing from markets for most of the post-GFC era (Chart 9). Real rates enable the Federal Reserve to have more flexibility amid rising inflation expectations.

Chart 9 – US 10-year real rates (2003-2024)

Source: Tradingview.com, Vikara Capital

With all of the positive data points above, how can the Federal Reserve remain committed to its rate cut cycle in 2024? The reason is simple: China is imploding. Copper inventory paints a bleak picture of domestic demand, with high stocks suggesting a complete lack of demand (Chart 10).

Chart 10 – Copper inventory levels in China (2000-2024)



Source: Steno Research, Bloomberg, Macrobond

President Xi has finally blinked, announcing this week that he will order the PBOC to start buying government bonds (Figure 2). While it sounds good in theory, it will be far less effective in practice.

Figure 2 – Xi is finally realizing the problem he has created

Xi Jinping to China's central bank: restart treasury-bond trade, after 2-decade hiatus

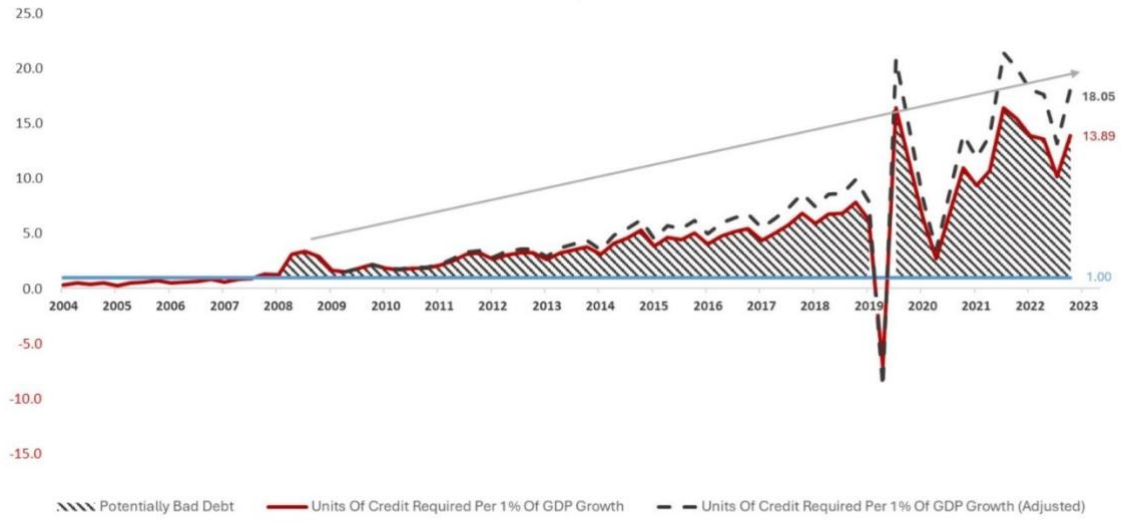
- President Xi has told China's financial cadres that active monetary policy toolkit must include a controversial means of injecting liquidity into the economy
- Economist says PBOC has not bought treasury bonds for years because monetary authorities did not want to fuel market speculation of a major stimulus

Source: https://www.scmp.com/economy/china-economy/article/3256967/xi-jinping-chinas-central-bank-restart-treasury-bond-trade-after-2-decade-hiatus

While it sounds positive, if estimates are true and it now takes 18 units of credit to fuel just a single unit of GDP growth in China, it won't help much. China's money supply is at $41 trillion, or twice the size of the US economy, and 12.7x higher than its foreign exchange reserves.

The difficulty of reinflating the $9 trillion in shadow debt (over 50% of China's GDP) is nearly impossible from here. Xi can talk as tough as he wants, but adding liquidity while maintain control over capital leaving the country is unlikely to be maintainable.

Chart 11 – Units of credit required for 1 unit of GDP in China (2004-2024)



Source: Bloomberg, DeFi Advisors

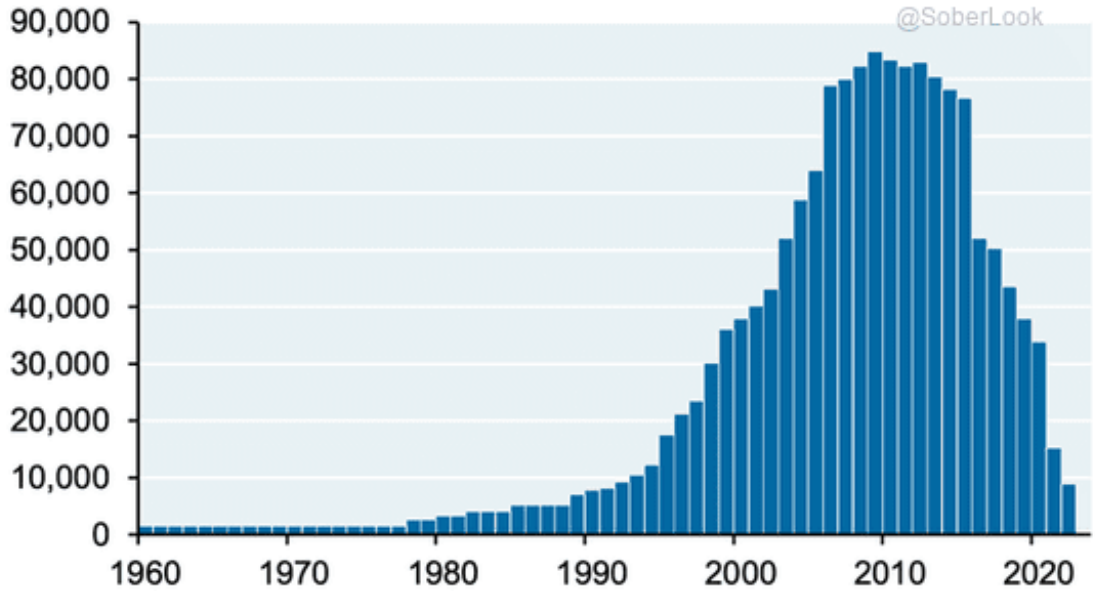
China's monetary and fiscal easing will do what it can do, but as we saw post the burst of Japan's and the US's real estate bubbles, any stimulus is unlikely to create material inflation. It will merely offset the deflationary spiral that is already in full swing (Chart 12).

Chart 12 – US import prices from China YoY (2005-2024)

Source: BofA Predictive Analytics, Refinitiv

China's problem is not new, Japan endured it in the 1990s and the US endured it in the 2000's. Neither communism nor capitalism have a solution for a deflationary real estate spiral. China's current strategy is to just hide the data (Chart 13).

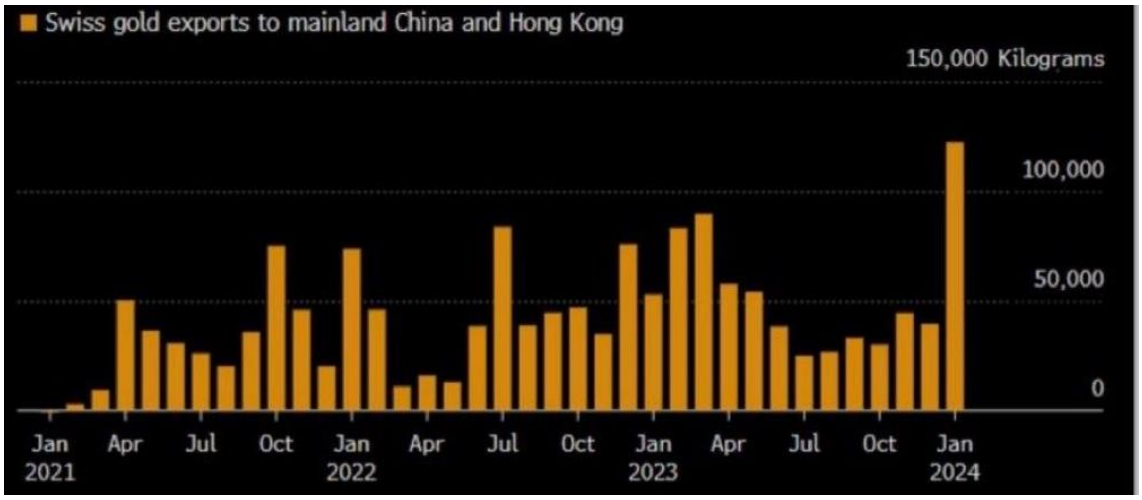
Chart 13 – China's economic disclosures (1960-2024)



Source: J.P. Morgan Asset Management, FT, CEIC/CNBS data, TheDailyShot

What China doesn't hide, however, is its insatiable thirst for gold (Chart 14), which it continues to buy with fiat while its fiscal issues remain hidden at the local government level. We expect this to change as the CCP assumes ownership of the debt its real estate markets are defaulting on.

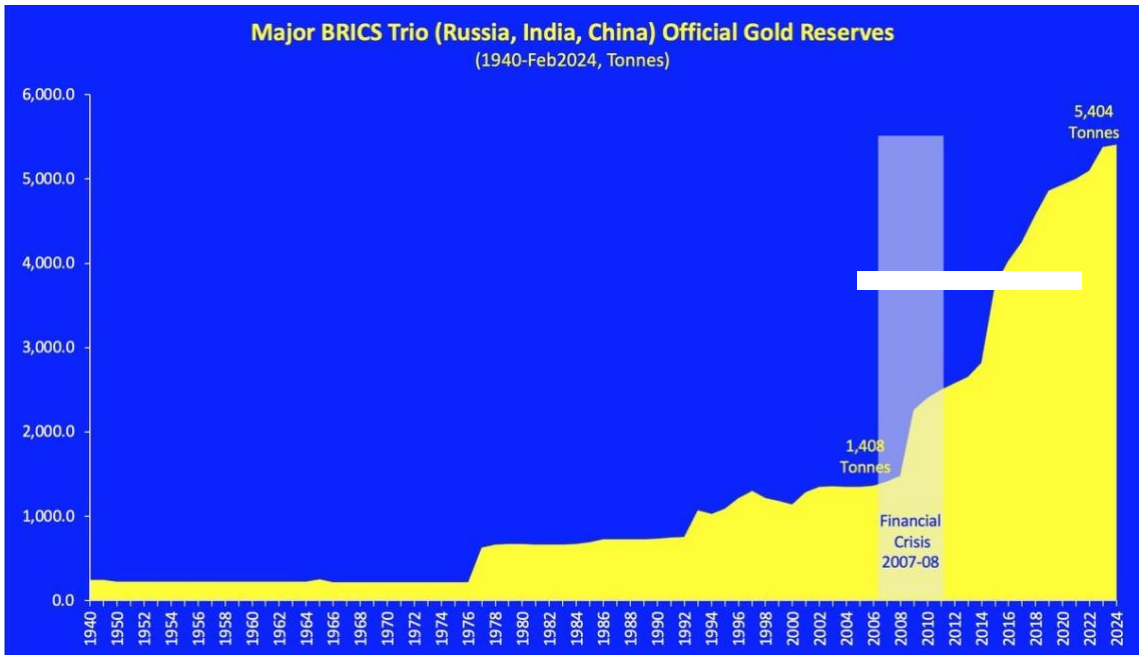
Chart 14 – Chinese gold import (2021-2024)



Source: Bloomberg

A yuan devaluation may be the black swan that derails markets, but getting the timing right is difficult. All we know is that the accelerating demand by the top BRIC nations for gold is most likely a strategy to mitigate the risk of any foreign exchange reset that might be needed (Chart 15).

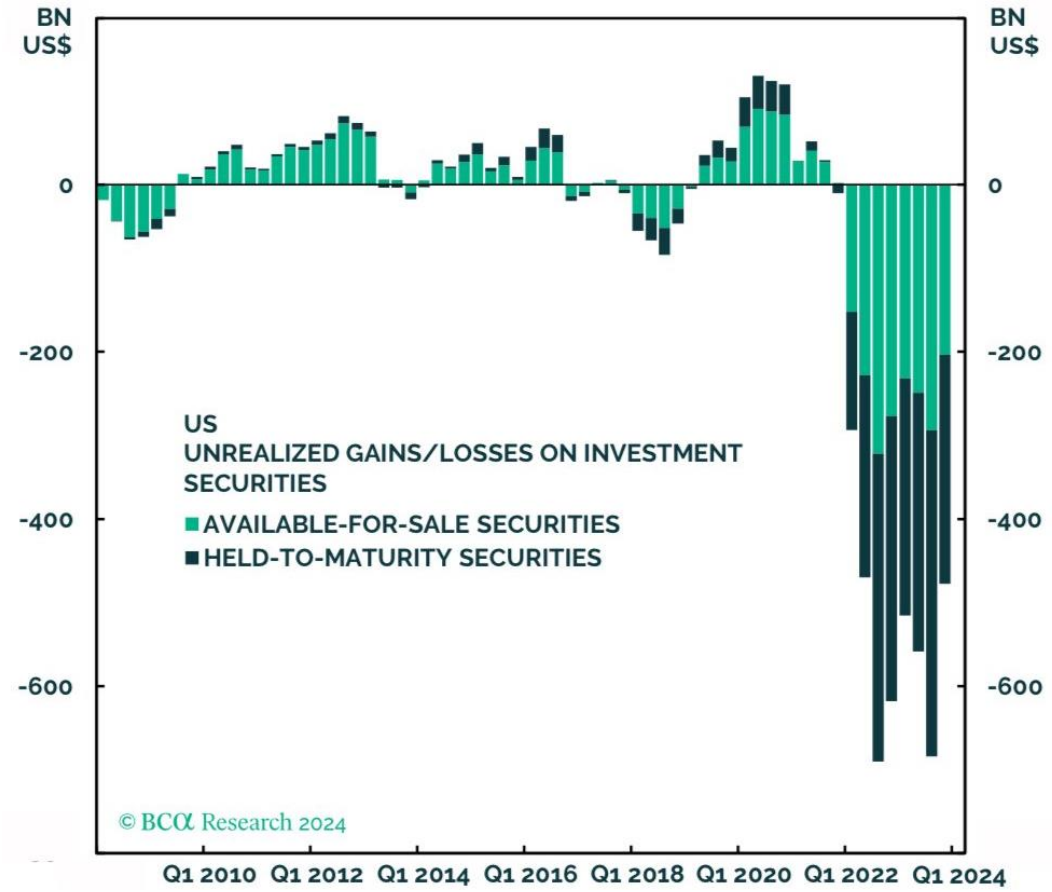
Chart 15 – BRICs trio (Russia, India, China) official gold reserves (1940-2024)



Source: IMF, @PopescuCo

While it is easy to get worried about the Federal Reserve's mounting losses backstopping the US's ability to manage through a higher rate environment (Chart 16), it is worth considering that the Fed knows that China's debt to GDP ratio is about to reset permanently as it prints to stave off collapse.

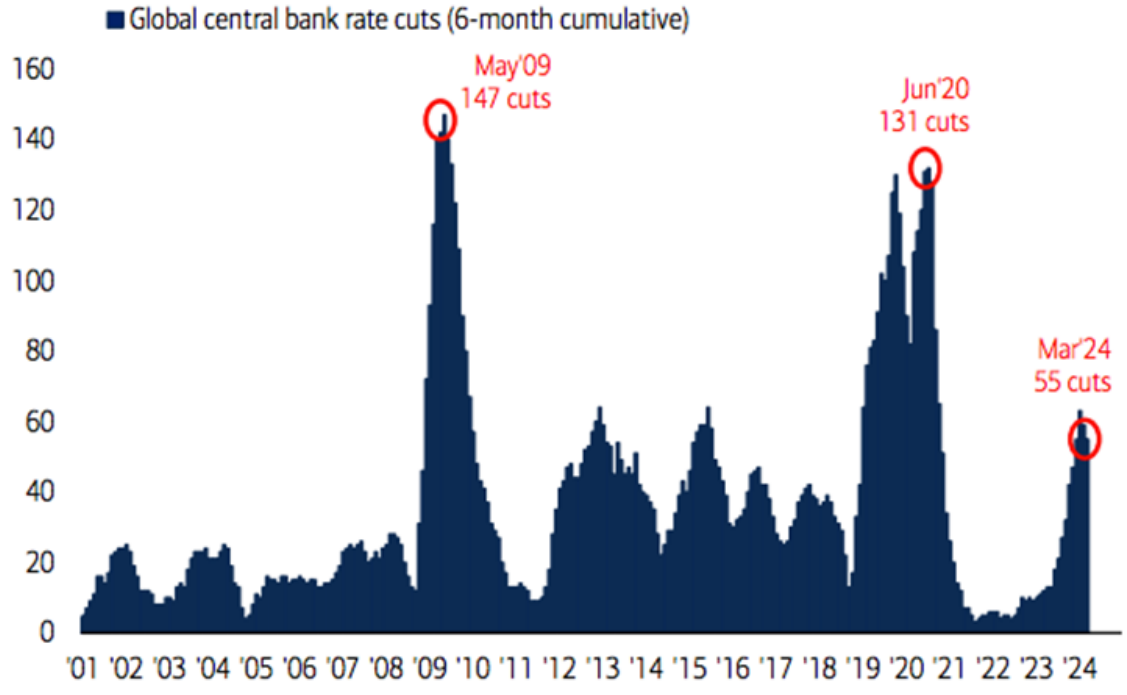
Chart 16 – Unrealized gains / losses on investment securities (2010-2024)



Source: Federal Deposit Insurance Corporation (FDIC) data, Reserve, BCA research, @PeterBerezinBCA

We believe that this is already being seen by central bankers globally, with the number of cuts in regional markets equating to a stimulus not seen since at the end of other financial tightening cycles (Chart 17).

Chart 17 – Global central bank rate cuts (3-month cumulative) (2001-2024)



Source: BofA Global Investment Strategy, Bloomberg

We want to keep reminding readers that decentralized digital assets solve most of the problems that high fiscal and monetary deficits have left us with. It may shock many to know that digital assets have been the best performing asset class for eleven of the past fourteen years (Figure 3).

Figure 3 – Macro asset annual returns (2011-2024)

Digital Assets Have Been The Best Performing Assets In 11 Of The Last 14 Years.

Returns in %	ETF/Coin	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*	Cumulative	Annualized
Bitcoin	BTC	1474	186	5310	-56	33	126	1339	-73	93	304	60	-64	155	45	20,399,361	139
Ethereum	ETH						771	9082	-82	-3	473	399	-67	91	48	364,116	149
Solana	SOL											473	-94	922	16	7,713	197
US Nasdaq 100	QQQ	3	18	37	19	9	7	33	0	39	48	27	-33	54	7	798	17
US Large Caps	SPY	2	16	32	13	1	12	22	-5	31	18	29	-19	24	7	402	12
US Small Caps	IWM	-4	17	39	5	-4	22	15	-11	25	20	15	-21	15	2	204	8
US REITs	VNQ	9	18	2	30	2	9	5	-6	29	-5	41	-28	7	-3	141	6
LD Treasuries	TLT	34	2	-13	27	-2	1	9	-2	14	18	-5	-32	-1	-4	33	2
Preferred Stocks	PFF	-2	18	-1	14	4	1	8	-5	16	7	7	-21	1	4	57	3
High Yield Bonds	HYG	7	11	6	2	-5	13	6	-2	14	4	4	-13	4	0	60	3
IG Bonds	LQD	10	10	-2	8	-1	6	7	-4	17	11	-2	-19	4	-2	45	3
EM Bonds	EMB	8	17	-8	6	1	9	10	-5	15	5	-2	-21	4	0	39	2
EM Stocks	EEM	-19	19	-4	-4	-16	11	37	-15	18	17	-4	-22	6	-1	6	0
Gold	GLD	10	7	-28	-2	-11	8	13	-2	18	25	-4	-1	13	-1	36	2
US Cash	BIL	0	0	0	0	0	0	1	2	2	0	0	0	-1	1	5	0
Commodities	DBC	-3	4	-8	-28	-28	19	5	-12	12	-8	41	19	-11	0	-18	-1
Highest Return		**BTC**	**BTC**	**BTC**	VNQ	**BTC**	**ETH**	**ETH**	BIL	**BTC**	**ETH**	**SOL**	DBC	**SOL**	**ETH**	**BTC**	**SOL**
Lowest Return		EEM	BIL	GLD	BTC	DBC	BIL	BIL	ETH	BIL	DBC	TLT	SOL	TLT	DBC	DBC	DBC

Source: EXPAAM, CoinMarketCap, Yahoo Finance data, @RaoulGMI

Digital Assets

Want to start this month's Digital Assets section with a short personal story. I (Mark) was recently on the east side of Brisbane tracking down an Australian native plant. As I drove through the never before travelled neighbourhood, I ran straight into Degen Road (yes, it's a real road located in the suburb of Capalaba, QLD). The 18-year-old in me wanted to pinch the sign and bring it home (middle age sensibility prevailed). The name seemed all too familiar and especially apt for what is transpiring in the crypto markets at the moment.

While being called a degen would likely offend the average person, degen is a commonly used and endearing descriptor in the crypto world. We borrowed the definition from crypto.com below:

> *'Degen' is a slang term derived from the word 'degenerate'. In the cryptocurrency space, it is often used to refer to individuals who engage in high-risk and speculative trading or investment strategies.*

From the outside, one could believe crypto is moving 150km/hr on Degen Road. BTC is at an all-time high, many tokens have recovered from the trouncing of last cycle and money is flowing back into the sector (sometimes with nothing more than a tweet and an address).

All occurring during what is arguably the most hated rally of all time. Why? Because tons of money is sitting on the sidelines, not believing things can continue higher, missing the rally.

But who can blame them? Crypto was dead. There was the strange rise and fall of FTX. There was Luna, Celsius, 3AC, and BlockFi. Yet, how many taxpayer funded bailouts where there. Exactly zero. The degens stayed the course. True believers. And good on them. They are benefitting from whatever it took to look into the abyss and keep going.

And while on one side you have the aforementioned degens, printing money from memes of discount superstore hot dogs ($COST), unflattering takes on US presidents ($TREMP vs $BODEN) and of course more cats and dogs, some wif hats, some with none, professional investors are beginning to return while traditional finance incumbents continue to progress their own digital asset strategies.

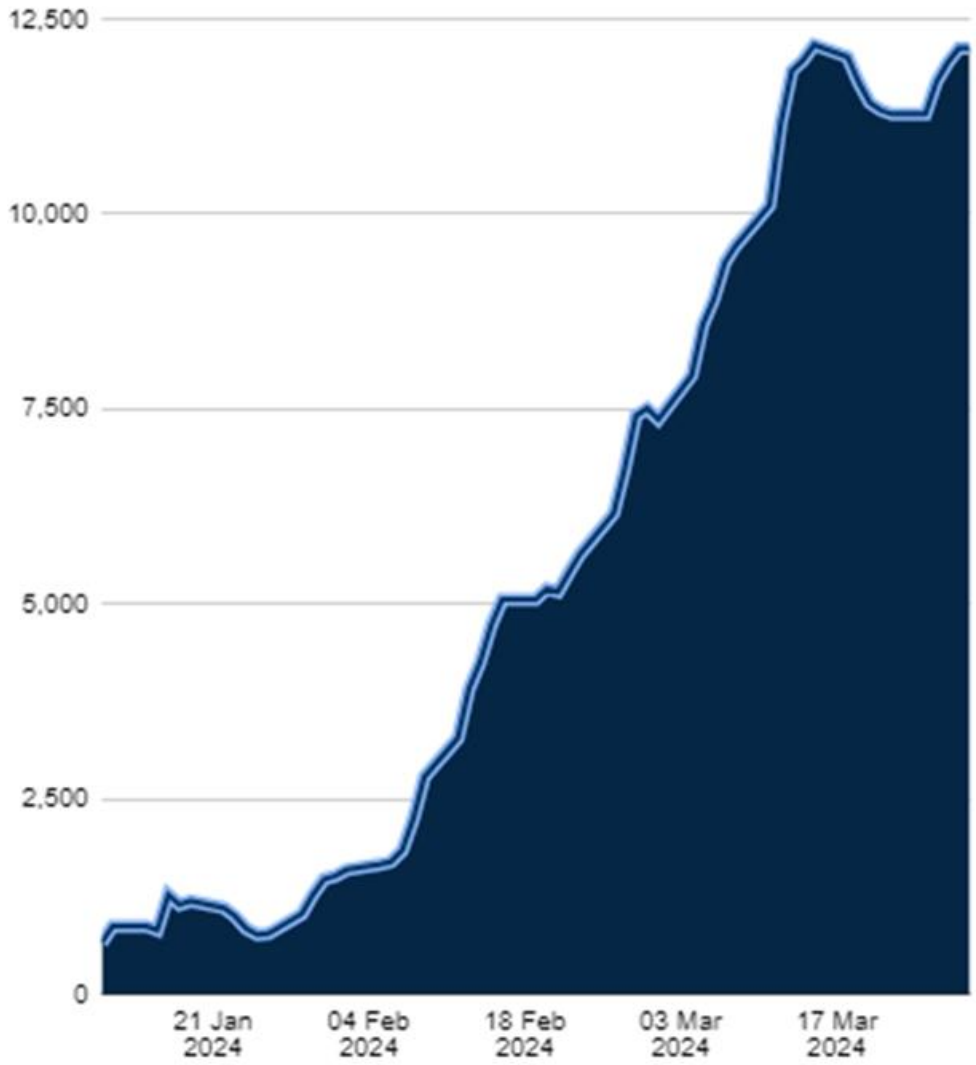
Starting with VCs. Total funding for blockchain/crypto companies in March 2024 totalled over $1.4bn, the highest level since September 2022, with many of the deals investing in earlier stage companies. One sign that professional investors are comfortable that the bottom is in (of course they run closed end funds and are on the clock to deploy capital so never a perfect metric).

On the traditional finance front, BlackRock announced this month the release of their first tokenized fund issued on a public blockchain – Ethereum. The BlackRock USD Institutional Digital Liquidity Fund or "BUIDL" invests in cash, US Treasury bills and repurchase agreements. Holders receive a cryptocurrency called BUIDL that is valued at $1 per token and receive daily accrued dividends directly to their wallets as new tokens each month.

What appeared as a test case for BlackRock seems to have been well received, initially launching with $100m, it had attracted more than $240m a week after launch. This news put a rocket under the Real World Asset (RWA) tokens (more on the below).

Bitcoin spot ETFs continued to attract capital. Leaders BlackRock and Fidelity have accumulated $14bn and $7.6bn respectively since launch in January.

Chart 18 – Bitcoin Spot ETF Total Cumulative Flows (USDm)

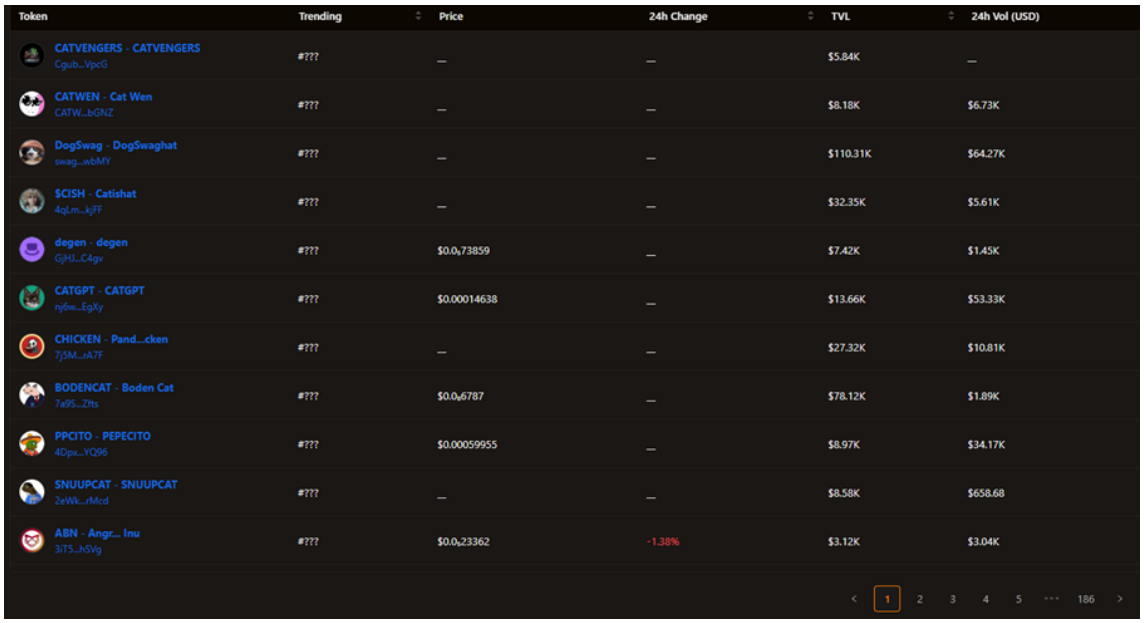


Source: Farside Investors; as at March 28, 2024

Further, the global total value locked (TVL) in DeFi protocols reached >$100bn in March, a number not seen since mid-2022, clearly a sign money is flowing back into crypto after nearly two years.

Back to degens. March saw the Solana ecosystem explode, driven almost entirely by meme coins. Take for example the number of tokens listed on Solana the past 7 days (Figure 4). Over 18,600.

Figure 4 – Over 18,600 tokens listed on Solana in the past 7 days (as at March 31, 2024)



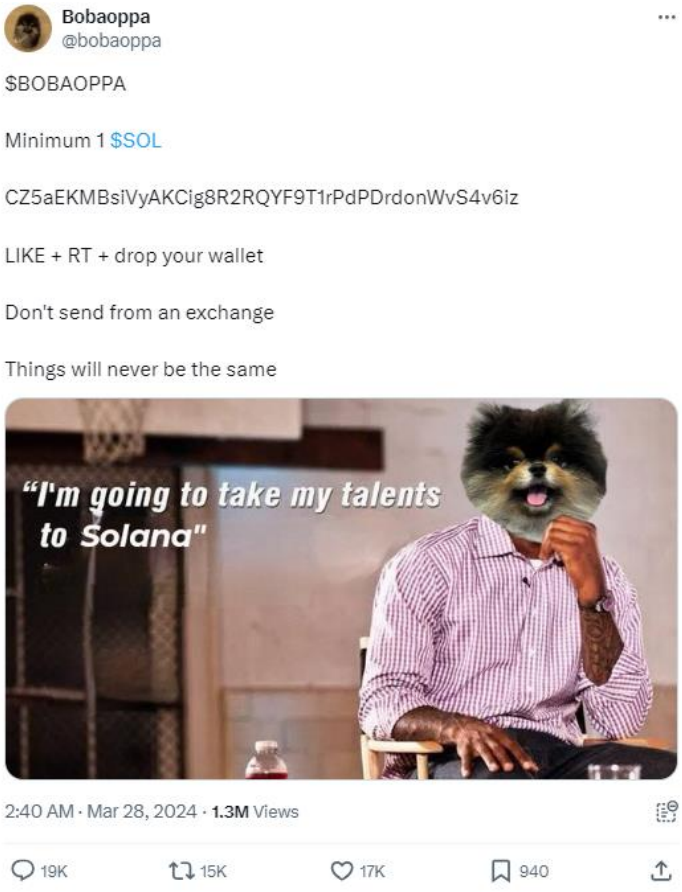
Token	Trending	Price	24h Change	TVL	24h Vol (USD)
CATVENGERS - CATVENGERS Cgub...VpcG	#???	–	–	$5.84K	–
CATWEN - Cat Wen CATW...bGNZ	#???	–	–	$8.18K	$6.73K
DogSwag - DogSwaghat swag...wbMY	#???	–	–	$110.31K	$64.27K
$CISH - Catishat 4qLm...kjFF	#???	–	–	$32.35K	$5.61K
degen - degen GjHJ...C4gv	#???	$0.0₅73859	–	$7.42K	$1.45K
CATGPT - CATGPT nj6w...EgXy	#???	$0.00014638	–	$13.66K	$53.33K
CHICKEN - Pand...cken 7j5M...rA7F	#???	–	–	$27.32K	$10.81K
BODENCAT - Boden Cat 7a9S...ZFts	#???	$0.0₅6787	–	$78.12K	$1.89K
PPCITO - PEPECITO 4Dpx...YQ96	#???	$0.00059955	–	$8.97K	$34.17K
SNUUPCAT - SNUUPCAT 2eWk...rMcd	#???	–	–	$8.58K	$658.68
ABN - Angr... Inu 3iT5...hSVg	#???	$0.0₅23362	-1.38%	$3.12K	$3.04K

< 1 2 3 4 5 ··· 186 >

Source: birdeye.so

Presales were going wild. Crypto frenemy Jeff Huang, aka 'Machi Big Brother', raised over $40m in less than 24 hours with a single tweet (Figure 5).

Figure 5 –Single X post raises >$40m in less than 24 hours

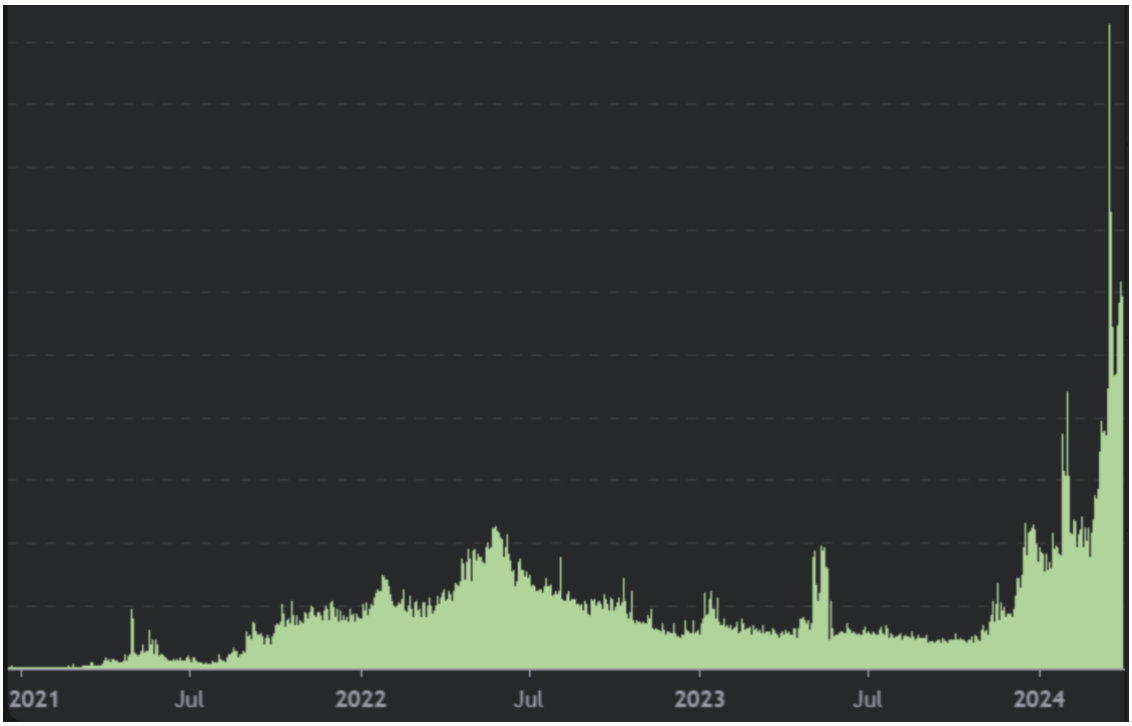


Source: x.com; @bobaoppa

This is clearly not sustainable nor necessarily a positive medium or long-term. But we doubt it lasts.

As meme coins exploded, so did the number of new users in the Solana ecosystem. Daily first signers totalled over 2m on March 17, a record (Chart 19). That is a massive one-day number!

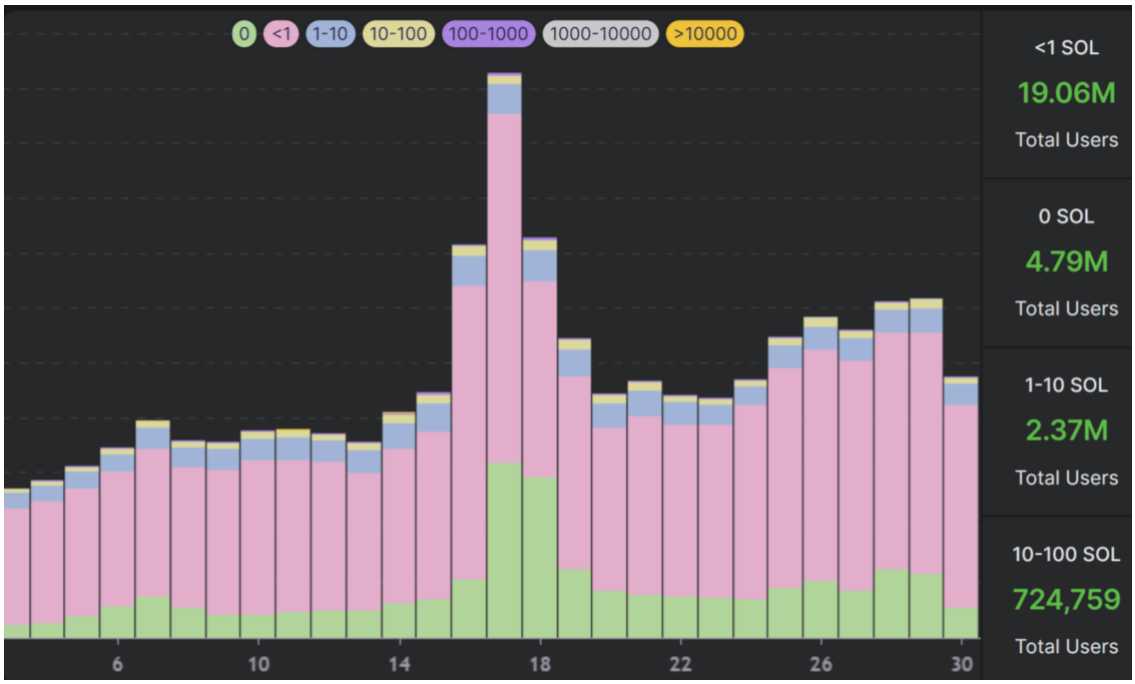
Chart 19 – Solana Daily First Signers (December 2020 – March 2024)



Source: hellomoon.io; note: Daily First Signers is the total number of unique first signers to transact which can be used as a proxy for human users

We have a love-hate relationship with Solana. We appreciate the Layer 1 and the ecosystems ability to help onboard the masses as exemplified by wallet numbers and size (Chart 20). We note that out of the ~30 million Solana users, 89% have less than 1 SOL, or less than ~$200 in their wallet, thus it points to increasing mass adoption.

Chart 20 – Solana Daily Active Users



Source: hellomoon.io

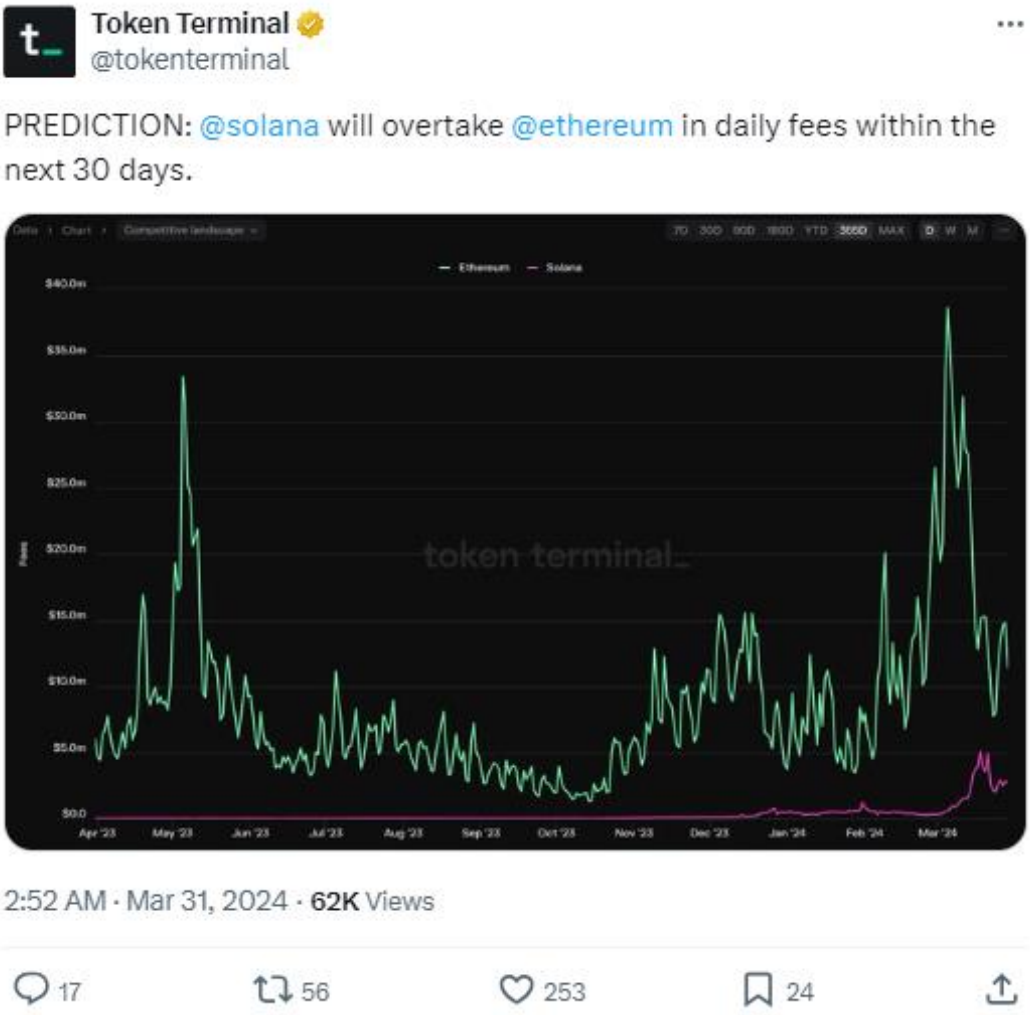
While Solana is clearly growing its user base, it continues to experience issues. These range from swaps on dexes regularly failing (this is well known and has been an issue for years), dexes not recognizing tokens in wallets, delays in deposits or no/slow ability to send tokens due to network congestion, staking platforms noting that oracle pricing data is not reliable as it's stale or of course, the occasional network outage, albeit they went nearly 12 months without any outages (Figure 6).

Figure 6 – Solana Network outage for 5 hours in February 2024

Source: x.com; @SolanaStatus

We understand Solana has many fans boys and girls, with some even claiming Solana will flip Ethereum in fees (note Solana has a long way to go).

Figure 7 – Ethereum vs Solana Fees



Source: x.com; @tokenterminal

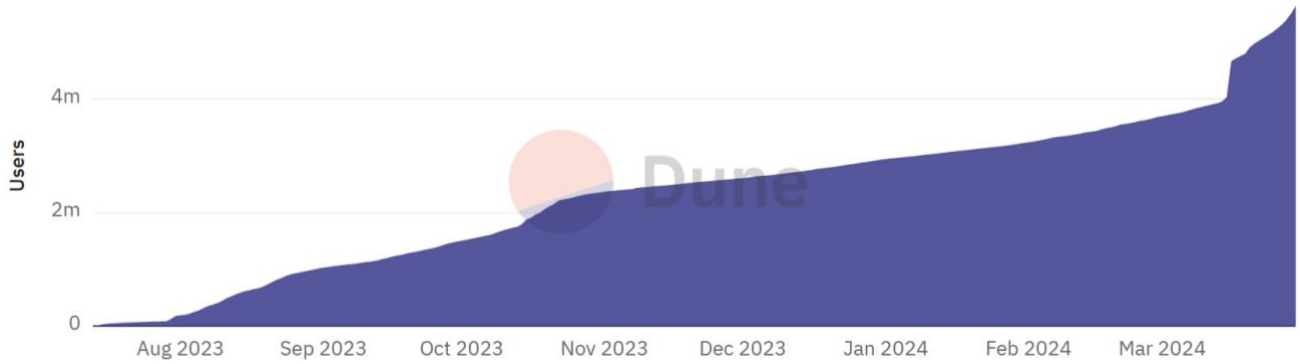
Memes have made many thousands, and some millions of dollars. The craze is bringing both liquidity and people into crypto. But we question if its transitory, meaning liquidity just moves from one meme to the next, or to a new chain when degens get tired of Solana (see Base below). We note this is something we recently had a chance to discuss with our friends at Independent Reserve, a leading Australian digital asset exchange, on their podcast. Hope you all tune in!

Now it's not all memes on Solana. There are some great projects being built. Colony by Parallel Studios ($PRIME) or Drip Haus are two that come to mind. Both have huge communities and active users. There are many more. We own some in the fund. But hopefully all this liquidity being created from thin air moves into more long-term, productive projects.

But just like with Libertarians and Bitcoin, the early adopter, risk taking, degen set is required to create the network effect that is needed to bring in more liquidity, which hopefully build on the network effect the degens helped start.

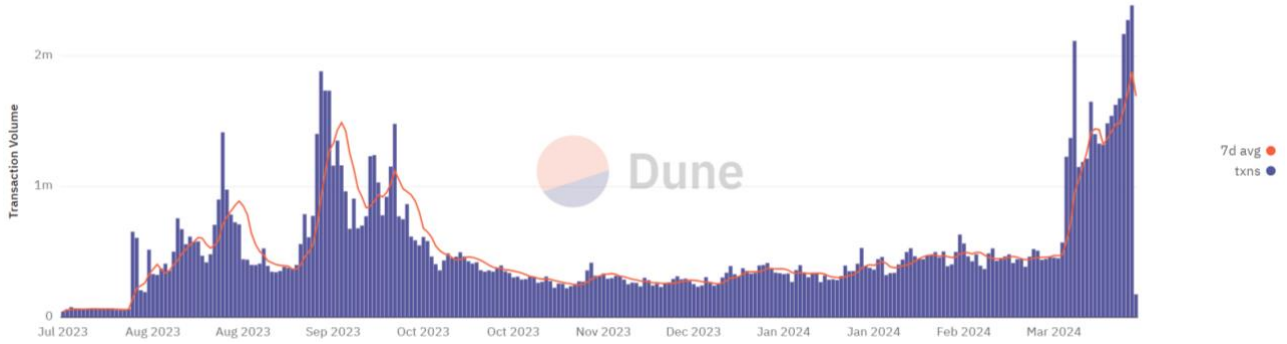
To the newer kid on the block. Base is a Layer 2 blockchain launched in August 2023 by Coinbase. We plan to go into more detail on Base in the future, but three metrics below show the number of users, volume and TVL/fees hitting records highs in March (Charts 21, 22 and 23).

Chart 21 – Base Total Users



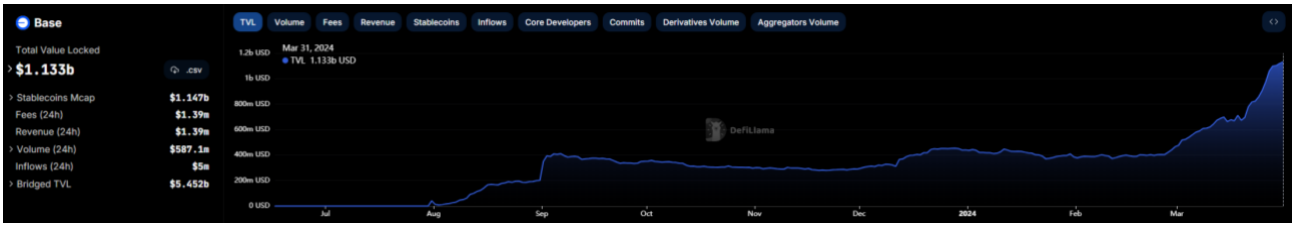
Source: Dune; @watermeloncrypto

Chart 22 – Base Daily Transaction Volume



Source: Dune; @watermeloncrypto

Chart 23 – Base Total Value Locked and Fees earned



Source: DefiLlama

Further, Coinbase announced that it will start moving more of its customer and corporate USD Coin stablecoin accounts to Base (Figure 8).

Figure 8 – Coinbase to move customer and corporate USDC to Base

Source: x.com; @maxbranzburg

We readily admit much of this volume has been driven by memes coins. But Base has an ambitious plan to become a leading L2. With Coinbase behind it, it seems like a good spot to place some bets. Further, they are releasing a 'smart wallet' soon with the goal of onboarding new users on-chain "without knowing they're on-chain".

Additionally, they are testing a smart contract called 'Magic Spend' that will allow Coinbase Exchange users to use their cryptocurrencies on-chain. Both have the ambition to bring the masses into crypto, something Coinbase seems very well placed to continue to accomplish.

On to interesting news for the month.

- Franklin Templeton debuted a new crypto separately managed account (SMA) that will hold BTC and ETH and be available for wealth managers on Eaglebrook Advisors' platform (a perfect complement to a Vikara non BTC/ETH fund).
- German exchange giant Deutsche Börse Group released a crypto spot platform to allow the trading, settlement and custody of crypto assets while utilizing "the existing connectivity to market participants".
- The London Stock Exchange announced the launch of a market for Bitcoin (BTC) and Ethereum (ETH) exchange-traded notes (ETN).
- The Dubai International Financial Centre (DIFC) announced the passage of a new digital assets law and security law and amendments to existing law, which they claim has created the world's first comprehensive set of legal characteristics of digital assets as property.
- Arizona Senate advanced a resolution to add crypto to state retirement funds including Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) (all Democrats voted against it…).
- Big Time Studios ($BIGTIME) announced that its free-to-play multiplayer action/MMO RPG Big Time generated an >$100 million in revenue since it's 2022 release.
- Coffee retailer Starbucks announced that its rewards program that lets customers collect NFT stamps will be shutdown.

One huge piece of news is the merger of three leading artificial intelligence (AI) protocols - SingularityNet ($AGIX), Fetch.ai ($FET) and Ocean Protocol ($OCEAN), to create AltSignals (new token $ASI) with a fully diluted valuation of $7.5bn. We'll detail this in coming months.

We are surprised it took this long for M&A to hit tokens, but we view it as a sign of the sector maturing, granted it's still very early. We expect more of these types of transactions to become more common, especially with projects that issued tokens in previous cycles and may have dwindling treasuries, yet solid business prospects.

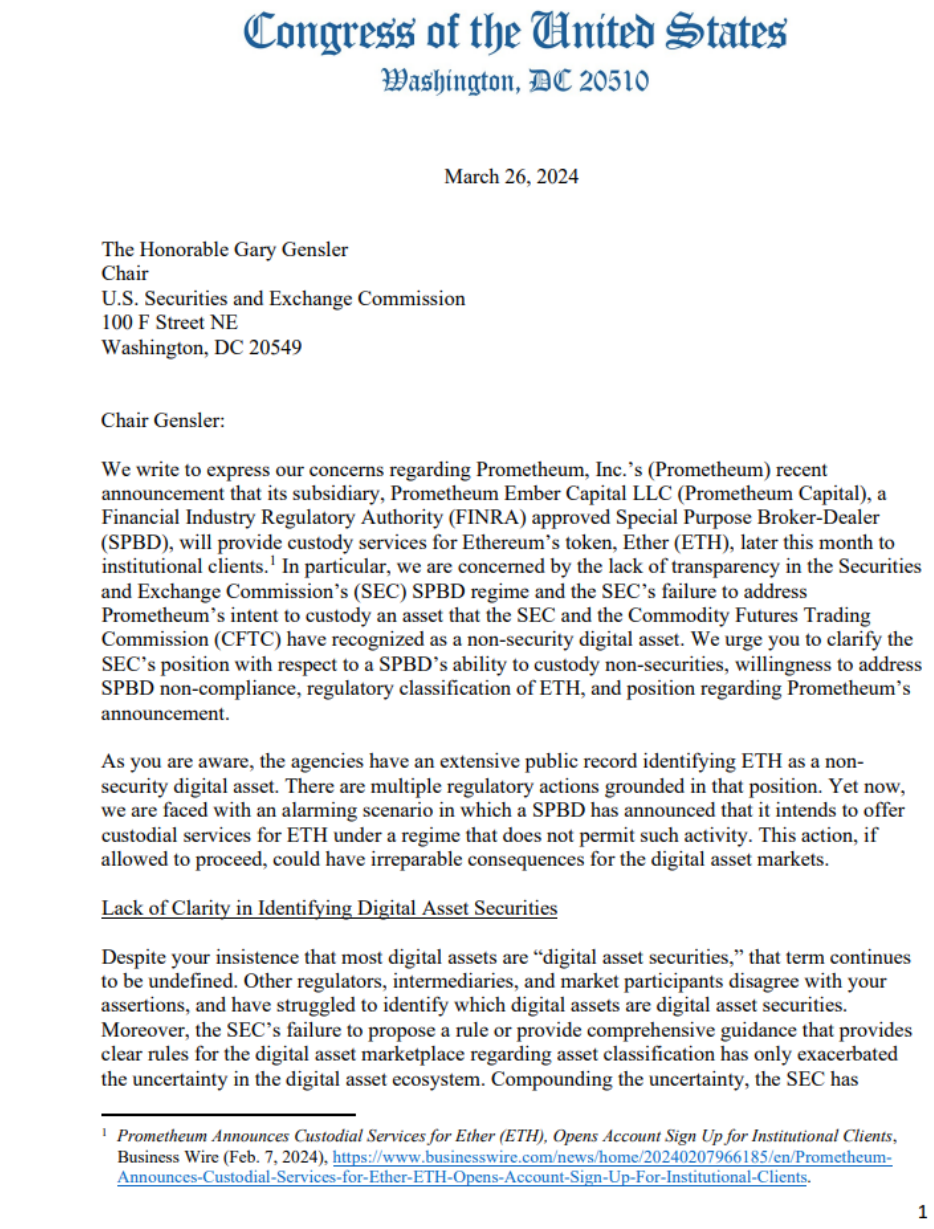
Regulation was front and centre again this month. Starting with ETFs, ETH spot ETF approvals continue to seem like a low likelihood in the near future, which now seems to be the majority view.

Figure 9 – May 2024 spot ETH ETF approvals down to 35% chance

Source: x.com; @JSeyff

There was more drama and more "letters written" by the House Committee on Financial Services, led by Rep McHenry, with the bizarro world broker-dealer Prometheum brought to the surface again.

Figure 10 – House Committee on Financial Services March 26, 2024 letter to SEC



Congress of the United States
Washington, DC 20510

March 26, 2024

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Chair Gensler:

We write to express our concerns regarding Prometheum, Inc.'s (Prometheum) recent announcement that its subsidiary, Prometheum Ember Capital LLC (Prometheum Capital), a Financial Industry Regulatory Authority (FINRA) approved Special Purpose Broker-Dealer (SPBD), will provide custody services for Ethereum's token, Ether (ETH), later this month to institutional clients.[1] In particular, we are concerned by the lack of transparency in the Securities and Exchange Commission's (SEC) SPBD regime and the SEC's failure to address Prometheum's intent to custody an asset that the SEC and the Commodity Futures Trading Commission (CFTC) have recognized as a non-security digital asset. We urge you to clarify the SEC's position with respect to a SPBD's ability to custody non-securities, willingness to address SPBD non-compliance, regulatory classification of ETH, and position regarding Prometheum's announcement.

As you are aware, the agencies have an extensive public record identifying ETH as a non-security digital asset. There are multiple regulatory actions grounded in that position. Yet now, we are faced with an alarming scenario in which a SPBD has announced that it intends to offer custodial services for ETH under a regime that does not permit such activity. This action, if allowed to proceed, could have irreparable consequences for the digital asset markets.

Lack of Clarity in Identifying Digital Asset Securities

Despite your insistence that most digital assets are "digital asset securities," that term continues to be undefined. Other regulators, intermediaries, and market participants disagree with your assertions, and have struggled to identify which digital assets are digital asset securities. Moreover, the SEC's failure to propose a rule or provide comprehensive guidance that provides clear rules for the digital asset marketplace regarding asset classification has only exacerbated the uncertainty in the digital asset ecosystem. Compounding the uncertainty, the SEC has

[1] *Prometheum Announces Custodial Services for Ether (ETH), Opens Account Sign Up for Institutional Clients*, Business Wire (Feb. 7, 2024), https://www.businesswire.com/news/home/20240207966185/en/Prometheum-Announces-Custodial-Services-for-Ether-ETH-Opens-Account-Sign-Up-For-Institutional-Clients.

1

Source: agriculture.house.gov

We detail Prometheum, their history and their dog and pony show (on behalf of ally Gary Gensler) in front of Congress in our June 2023 investor letter. In short, Prometheum, founded in 2017 and run by three lawyers (co-CEOs Aaron and Benjamin Kaplan and Chairman Martin Kaplan) from firm Gusrae Kaplan, received approval for a first of its kind Special Purpose Broker-Dealer license for digital asset securities in May 2023. You read that right. The three Prometheum executives, who are also full-time attorneys, are related. Martin is the father to co-CEOs Aaron and Benjamin. Hmmmm.....

Yet they received the first special purpose broker-dealer license for digital assets. Thankfully the House Committee on Financial Services are not having it and have called out Gary Gensler and the Securities and Exchange Commission (SEC) for approving Prometheum's intent to custody an asset that the SEC and the Commodity Futures Trading Commission (CFTC) have recognized as a non-security digital asset. Hopefully this leads to another L for Gensler and shines light on with what appears to be a poorly orchestrated attempt to hand the custody reigns to a friendly pair of hands. Then again, nothing in the US government ceases to amaze us these days, so not going to hold our breathe.

On the legal side, the bad actors of last cycle were back in the spotlight, while digital asset banks continue to be treated as second class citizens.

- FTX founder SBF received a 25-year prison sentence
- U.S. Attorney's Office for the Southern District of New York exchange KuCoin and two of its founders have been indicted on criminal charges for operating without a license for transmitting money and failing to establish an anti-money laundering (AML) program in accordance with the Bank Secrecy Act (BSA)
- The SEC's Civil suit against Terraform Labs (Luna) founder Do Kwon kicked off in New York
- The United States District Court ruled against granting digital asset bank Custodia a US Federal Reserve master account that facilitates a financial institutions' access to the Federal Reserve's payment systems

While meme mania seems to be in full swing, real-world applications for blockchain continue to prove themselves. We like to point to decentralized infrastructure as one of the better examples to help understand real world use cases for people not involved in blockchain day to day.

Storage is dominated by Amazon Web Services, Microsoft Azure and Google Cloud. All centralized. Your data is their data. But decentralized options exist with privacy, control and cost advantages. Established businesses like Filecoin ($FIL), Arweave ($AR), and Storj ($STORJ) or lesser-known businesses like Shadow ($SHDW) (and many more). All have tokens. All can be owned by digital asset investors including Vikara.

And while it can be hard to watch memes moon, we stay disciplined and let the degens that paved the crypto road do their thing as we continue to pave our own path to help build institutional adoption of an underexposed asset class.

Tokens

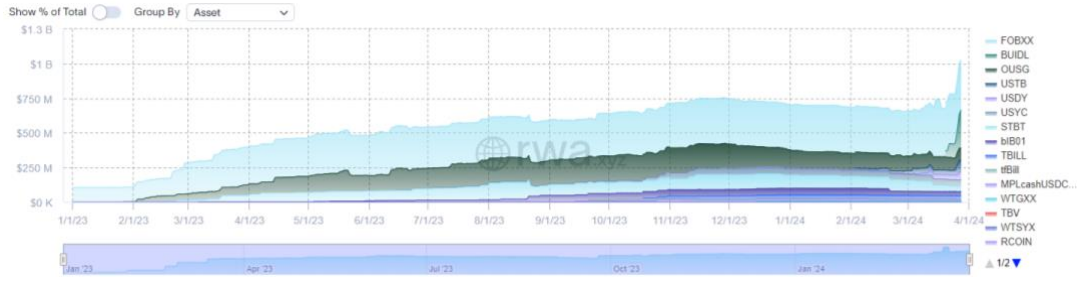
Real World Assets (RWAs) are back in vogue after BlackRock announced the tokenization of their USD Institutional Digital Liquidity Fund. While RWA tokens skyrocketed since the BlackRock announcement and while we do own a handful of smaller cap RWA companies, many are still very early in their journeys and/or have small pools of assets relative to market capitalization.

Further, legal frameworks around tokenizing some real assets are still being developed, thus it may be hard to determine the ability and/or value of certain businesses until those legal frameworks are in place.

One would imagine if the market is open for the large scale tokenization of real estate, for example, tradfi business will enter the space given the enormous amount of real estate available to tokenize and potential revenue to earn.

While much of asset tokenization is still in its infancy, US Treasuries have grown steadily. Multiple platforms current offer tokenized US government debt, for example (Chart 24). According to rwa.xyz, there are now >$1bn over tokenized treasuries products.

Chart 24 – Tokenized Treasury Offerings



Source: rwa.xyz

One is Ondo Finance ($ONDO). Ondo is a defi protocol that tokenizes income-generating assets (i.e. US Treasuries) onchain. The businesses is split into asset management and technology divisions. The former creates and manages tokenized financial products and the later develops decentralized finance protocols.

The goal of the Ondo platform is a common one in defi - to make institutional grade financial products and services available to the masses. They also believe investor protections, transparency in reporting, legal and regulatory compliance and product structuring can be improved through the use of blockchain technology.

The team is comprised of ex-executives from Goldman Sachs, Bridgewater, Millennium and Maker. Notable investors include the Founder's Fund, Pantera Capital and Coinbase.

They currently offer four primary products:

- OUSG (a tokenized wrapper of a BlackRock short-term US Treasuries ETF)
- OMMF (a tokenized BlackRock money market fund)
- USDY (a yield-bearing alternative to traditional stablecoins)
- Flux Finance protocol (supporting tokenized securities collateral)

The currently have a $221m TVL and a $1.3bm circulating supply market cap (only 14% of tokens outstanding).

Chart 25 – Ondo TVL

Source: DefiLlama

While the token has performed very well since the January launch, we view this as a lower risk way to gain exposure to the RWA theme, especially on any pullbacks. Given it's a newly listed token, there are token unlocks over the next year which need to be monitored. We also view their products as a potential hidey-hole in a market that inevitably will correct. Let's hope that's a conversation for a much later day…

Contact Us

Vikara is an open-ended fund, with investors able to add or redeem monthly. Please contact Luke or Mark if you would like to discuss anything further.

Luke McFarlane: Luke.mcfarlane@vikara.com

Mark Riccio: Mark.riccio@vikara.com

Vikara, in Sanskrit, describes the process of change. Its definition is constantly evolving, changing with economic cycles, technology, and geopolitics. It is a transformation of thought or logic, a modification in the direction of travel, an alteration in action or participation. It is one thing to want change, but another to drive it. We believe in a world where commerce doesn't need intermediaries. Where people are paid directly for content, time, and effort. Where privacy, data and free speech is given, not something to opt-in for.

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