VIKĀRA

THE DONALD IS BACK

2024

www.vikara.com

THE DONALD IS BACK
NOVEMBER 2024

Donald J. Trump has been elected the 47th president of the United States. The majority of the American people have spoken and the digital asset markets approve.

Interesting tidbit. Trump is only the second US president to be elected to non-consecutive terms. The other being Democrat Grover Cleveland, 22nd and 24th US president, serving from 1885 to 1889 and from 1893 to 1897. President Cleveland's focus on political reform and fiscal conservatism and a commitment to the principles of classical liberalism made him an icon for American conservatives even though he was a Democrat. Further, his crusade against political corruption, patronage, and bossism convinced many Republicans to cross party lines and support him during his first campaign for president. MAG(A) of the late 1800s?

Trump Pump

The week prior to the election, as uncertainty peaked, crypto markets sold off, with Bitcoin bottoming the day before the election at $68,600. Fast forward two weeks later and Bitcoin is over $90,000, having reached a high of $93,900.

Chart 1 – Bitcoin Price Performance (YTD 2024)

Source: Tradingview

Why the Excitement?

As highlighted in our September note "*Trump vs. Harris: Who's Better for Crypto?*" we commented:

"Donald Trump has been much more consistent while also making multiple policy statements that support the crypto industry. Ranging from the creation of a Bitcoin strategic reserve to self-custody to the creation of a presidential advisory council focused on Bitcoin and cryptocurrency regulation, all are very positive for the industry hence his election would likely be a catalyst for cryptocurrency industry growth and token prices."

Now that he is the President-elect, that view proved to be correct, with shape taking to what the next four years will look like and ensuring the right bodies are in the right seats to push the industry forward.

Recall Trump has made numerous supportive policy statements including:

- Creation of BTC strategic reserve
- Establish a presidential advisory council focused on Bitcoin and cryptocurrency regulation
- Support the right to self-custody
- Nominate a crypto-friendly SEC chair
- Block the Federal Reserve from creating its own central bank digital currency (CBDC)

He also recently added the potential to make certain cryptocurrency gains tax free (woohoo!).
Beyond Trump's statements supporting crypto, his cabinet and advisors are comprised of crypto advocates. This includes:

- JD Vance – VP, previously disclosed a sizable Bitcoin holding, has long held a positive stance on crypto, shaped likely by his time working with Peter Theil.
- Vivek Ramaswamy – appointed as co-head of the Department of Government Efficiency (DOGE), has long been pro-crypto and stated during the Republican Party primary debates that "my view is that most forms of cryptocurrency should be in the category of commodities, not securities", a positive for the space.
- Elon Musk – the first buddy, who is heading up DOGE with Vivek, has accepted crypto payments at his various companies, has held BTC on balance sheet and has been a regular promoter of Dogecoin.
- RFK Jr – appointed head of Health and Human Services (HHS) and has long been pro-BTC, calling it the "currency of freedom". Note he was first to propose a BTC strategic reserve during his presidential run. He also claims to hold 70% of his wealth in BTC.
- Howard Lutnick – appointed Commerce Secretary, Cantor Fitzgerald CEO has been a long-time advocate of BTC and Tether (USDT). Since 2021, Cantor has helped Tether manage their significant holdings of US Treasuries that back its USDT stablecoin. Cantor also recently launched a $2bn BTC financing business with the goal of providing leverage to BTC investors.

There are other pro-crypto professionals vying for cabinet and/or head of agency positions. Frontrunners include:

- Scott Bessent (Treasury Secretary) – the founder of hedge fund Key Square Group has long supported BTC, saying it's a way for young people, many who have been locked out of markets, to participate in capitalism while also stating "crypto is about freedom" and "crypto is here to stay".
- Brian Brooks & Dan Gallagher (SEC Chair) – two leading SEC Chair candidates include Brooks, former CEO of Binance USA and board member of HBAR and Gallagher, Robinhood's chief legal officer. Both are openly pro-crypto and both have worked in industry.

It was also widely reported that on November 18, Trump met with CEO of Coinbase Brian Armstrong, where they discussed personnel appointments for his second administration along with what a BTC strategic reserve would look like (the US government has historically used Coinbase to custody and sell BTC).

This is a great start to creating a pro-crypto administration who can work to provide regulatory clarity, especially as crypto has become a bipartisan issue.

Please Regulate Us

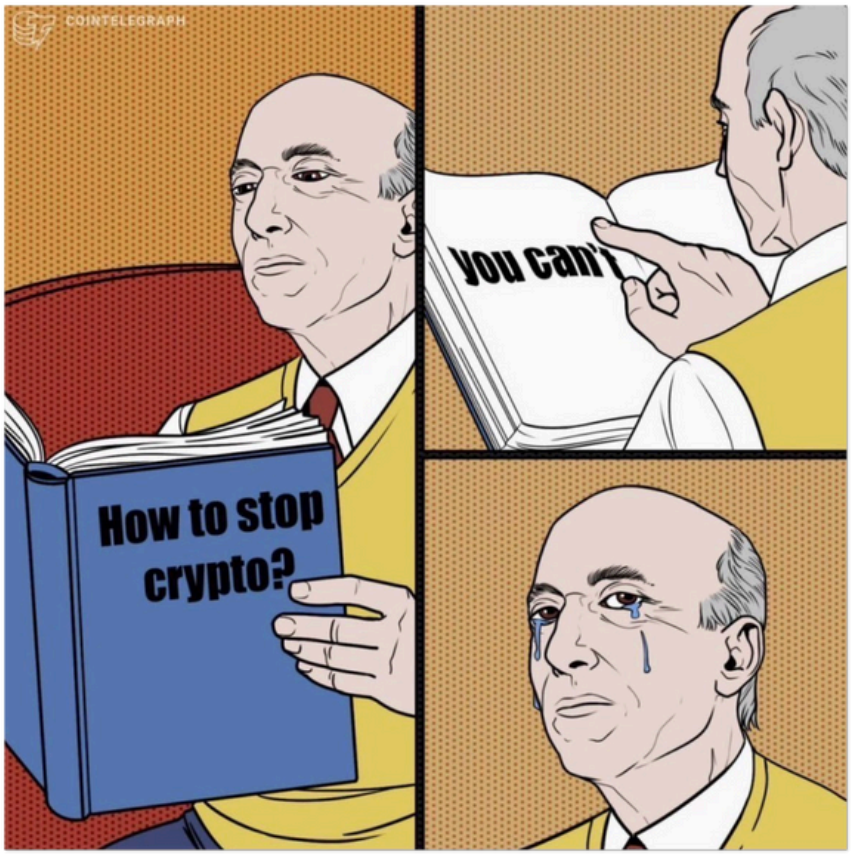
Rarely would we take the view that the US needs more regulation, but in the case of crypto, we would welcome a sensible regulatory framework that achieves the goals of weeding out bad actors, facilitating the on and offboarding of capital, while providing clarity and comfort to capital allocators looking to support a nascent industry.

On the latter point, as we've noted many times, few large asset managers (think state pension funds or university endowments) will allocate in size until there is regulation in place. This is evidenced by assets managers / hedge funds using the BTC ETF or using publicly traded equities such as MicroStrategy or BTC miners to gain exposure to digital assets.

While it's hard to forecast what the regulatory framework will look like, putting the right bodies in the right seats is essential to avoid a Gary Gensler 2.0. Under his SEC leadership, regulation by enforcement became the norm. He presided over Operation Chokepoint 2.0, whose primary goal was to limit or stop access to the cryptocurrency market, at least in the US.

Good news is that Gary Gensler's reign of terror is over. It is rumored that he will submit his resignation in late November / early December and be out of office before Trump's inauguration on January 20.

Figure 1 – SEC Chair Gary Genslar Tried and Failed



Source: x.com

Gensler's impending departure is on the heels a lawsuit filed on November 15 by a coalition of 18 US states against the SEC and Chairman Gensler. The lawsuit accuses the SEC of "gross government overreach" in its regulatory actions against the emerging cryptocurrency industry. It also argues that the SEC has overstepped its authority by attempting to regulate the crypto industry without explicit Congressional approval. The states claim that the SEC has been trying to seize regulatory control from the states through a series of enforcement actions.

Further, the Senate incumbents and anti-crypto army suffered some major casualties earlier this month. Elizabeth Warren, Chief of the embattled forces, won her re-election but with the Republicans winning the Senate, she moves into a minority position.

Recall from our last note that Warren co-sponsored the Digital Asset Anti-Money Laundering Act (DAAMLA) in December 2022, whose name has a nice ring to it but has been heavily criticized on both sides of the aisle. Further, the Blockchain Association alongside 80 former national security and military professionals penned a letter to Congressional leaders stating, "risks our nation's strategic advantage, threatens tens of thousands of US jobs, and bears little effect on the illicit actors it targets." Republican Senator Roger Marshall, who co-sponsored the bill with Warren, recently withdraw his support for his own bill, meaning it no longer has bipartisan sponsorship. Currently there are 18 congresspeople left supporting the bill, with only one Republican, Senator Lindsay Graham.

First Lieutenant in the anti-crypto army, Sherrod Brown, current Senate Banking Committee Chairman, lost his Senate seat to political upstart and Cleveland car dealer magnate Bernie Moreno. He will likely be replaced as Chairman by Tim Scott, current minority Chair. Scott has been a vocal advocate of the crypto industry, stating at BTC Nashville in July:

"We need to make sure that on our Committee, the Banking Committee, that we create the kind of rules of the road for crypto that are very wide. We need a wide pathway for Bitcoin to be successful here at home. We need to make sure that things like taxation and regulation do not stifle innovation."

With Warren moving into a minority position and Brown gone, Operation Chokepoint 2.0 is on life support and we can hopefully move into a new era of a pragmatic, bipartisan regulatory environment.

Bitcoin Strategic Reserve

One of Trump's promises while running for office was to create a BTC strategic reserve. The debate has been whether this is done through on market purchases or if the US pushes their confiscated BTC into a fund.

The initiative's biggest advocate is Senator Cynthia Lummis, who first introduced a bill to establish a strategic Bitcoin reserve, known as the BITCOIN Act of 2024 (Boosting Innovation, Technology, and Competitiveness through Optimized Investment Nationwide Act) in July of this year. The bill proposes that the US treasury acquire one million Bitcoin, just under 5% of the fully diluted supply, over a five-year period.

Figure 2 – Senator Lummis and Creation of a Bitcoin Strategic Reserve

Source: x.com

Advocates claim establishing a strategic Bitcoin reserve will protect against debasement of the US dollar and, over time, will help the nation pay down its US$35 trillion debt. Regardless, it will put a floor under the price of BTC during the US's acquisition period, assuming the path follows Senator Lummis's suggestion.

The Trump Effect

While federal support has significant momentum with Trump's return, states have begun to embrace crypto. The Pennsylvania House of Representatives introduced legislation on November 14 aimed at allowing the state to include Bitcoin as a reserve asset on its balance sheet.

Trump's pro-crypto stance is also having an impact outside America.

In Australia, Coalition MPs (Labor) are calling for government to embrace cryptocurrencies and deliver 'legal certainty' over the industry, following Trump's election and "polls" in the US. Funny how it takes polls in the US to move the needle in Australia! Politicians doing what they do best, I guess.

In Poland, Presidential candidate Sławomir Mentzen pledged that he will turn the country into a "cryptocurrency haven" if he comes to power, including creating a "strategic bitcoin reserve" (Figure 3).

Figure 3 – President of Poland candidate "BTC to the Moon"

Source: x.com

While the Middle East and Asia have embraced the crypto industry, it is encouraging to see countries aligned with the US charting a new course following Trump's return to office.

To the Moon?

While it's still two months until Trump is back in the POTUS seat, industry expectations are high. Normally we'd have little faith that politicians deliver on even 10% of the litany of their promises but it was a red wave. People seemingly voted for real change, and it may happen given Republicans control both the executive and legislative branches. Further, Trump is proposing pro-crypto industry people to powerful roles.

But regardless of the Trump tailwinds, this crypto cycle is mimicking the others. BTC rises followed by large caps (historically Ethereum (ETH) but looks like it's Solana (SOL) now). Then midcaps and finally in the blow off top nearly all alt coins rise. We are likely still in BTC-SOL phase of the cycle.

While the Trump Pump pushed BTC higher, many tokens are still moving sideways, presenting a potential opportunity as the macro and regulatory environments continue to become more favorable moving into 2025.

Contact Us

Vikara is a liquid, open-ended fund investing in digital assets (excluding Bitcoin and Ethereum) with no lockups (add or redeem monthly). Vikara's proprietary investment and rigorous risk management processes aim to outperform the broader digital asset markets. Founders have over 40 years combined investment experience at Millennium, Balyasny, Platinum, Merrill Lynch and Macquarie.

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.

This material is for the general information only and should not be construed as an offer to sell or the solicitation of an offer to buy any security or asset in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any specific action based on this material. It does not constitute a recommendation or take into account the particular investment objectives, financial conditions, or needs of individual clients. Before acting on this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. We do not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. The material is based on information that we consider reliable, but we do not represent that it is accurate, complete and/or up to date, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only and only represent the views of the author and not those of Vikara, unless otherwise expressly noted.

This material is produced as of a particular date. Accordingly, this material may have already been updated, modified, amended and/or supplemented by the time you receive or access it. Vikara is under no obligation to notify you of such changes and you should discuss this material with your Vikara representative to ensure such material has not been updated, modified amended and/or supplemented.