

# IDEG

## MARKET UPDATE AND OUTLOOK

Dear Reader,

Extreme market volatility returned to the crypto markets this week as the market saw a fundamental pillar of algorithmic stable coins, UST / Luna, owned by TerraLabs, de-pegged and unwound as investors fled the protocol. The unwinding caused over US\$50bn in wealth destruction, and the speed of the stablecoin bank run caught many off guard as it was hugely popular among both institutional and retail users. Given the latter, US Treasury Secretary Yellen has already pointed to further regulation of the sector. Given the size of this ecosystem's market capitalisation, contagion risk quickly crept into the wider digital asset market dragging the entire market down as BTC hit a recent low of US\$26.8k, down from US\$35.2k at the start of the week. ETH touched US\$1.7k, down from US\$2.6k at the start of the week. Trading volume for Terra Luna was second only to BTC volume on Binance and FTX for the past week.

IDEG's professional team aims to give a view on current **market implications** and, going forward, **provide some outlook and opportunities**, highlighting unique **views that IDEG can uniquely access** via our group companies. We remind our followers to sign up and follow our regular news flow, thoughts and outlook by signing up for our regular newsletter.

### MARKET IMPLICATIONS

- The Terra ecosystem protocol (UST / Luna) unwind caught many off guards and caused ~\$50bn of wealth destruction. To put into context, for you boomers that remember, in 2008 Lehman's market cap was \$60bn and Bear Stearns was \$30bn. Terra Luna was hugely popular among both institutional and retail users. Many are in awe of how quickly the ecosystem fell, those with exposure will be taking both pause and stock.
- The Terra Luna unwind event is feeding global financial headlines and causing contagion across the digital asset markets.
- Attention of both investors and founders is focused on reassessing the collateral supporting the remaining stablecoins in existence and technical analysis and re-audit of the code bases governing associated DeFi businesses.
- We do not see the end of the DeFi industry. Rather, we see a possibly faster evolving DeFi industry.
- With the downturn and impact on retail investors, the regulators will likely up the pace of regulation on stablecoins. That said, over the longer term, this will allow for greater institutional adoption of the sector.
- The finger-pointing has just begun. There are many speculations on who led this 'financial' vector attack on the LUNA ecosystem. Please subscribe to our regular newsletters to receive updates for further news as it emerges.

### IDEG's OUTLOOK AND OPPORTUNITIES

As a dedicated digital asset manager, IDEG is the eyes and ears of our clients. Our experienced team has witnessed a number of these fast-paced market cycles. Peering through uncertainty, the recent dislocation offers multiple opportunities for investors.

1. **Short-term pain:** As a direct result of the Terra Luna / UST de-pegging, we will likely see a cyclical period of 'contained contagion' across the industry. Projects and their investors scramble and assess the underlying collateral of remaining stablecoins, patching and reallocating assets to mitigate risks of financial vector attacks.
2. **Dislocations bring opportunity:** After witnessing cyclical breakneck growth –the market will take a short-term breather. Long-term investors can (and will) pick up cheap bargains, and build positions of both talent, assets, and technology.
3. **Remain constructive over the secular longer-term:** Geopolitical uncertainty and demand for diversification of both assets and centralised counterparties will strengthen the case for the crypto over a secular horizon. From a strategic perspective, short-term price dislocations allow for asset accumulators to step in.
4. **IDEG embraces regulation.** Global regulators, already having stablecoins in view, will actively push hard to pursue action upon the stablecoin market.

### IDEG's ACCESS TO UNIQUE INSIGHTS

IDEG's investment process incorporates leading Venture Capital investor thoughts. Through our sister company, **Fundamental Labs**, a leading crypto native Venture Capital managing over 300 projects, their perspective on the current environment. Here is what they had to say to the IDEG investment team when canvased...



## MARKET UPDATE AND OUTLOOK

### Fundamental Labs

“Given the huge uncertainty within macro environment the crypto market is currently in tumult. However, dislocations bring additional opportunities for those actively involved in the market. A direct consequence of recent events will force digital asset projects with weak fundamentals or tokenomic bugs to re-audit, patch and fix their processes to avoid becoming the next victim, such as Terra LUNA. Traders, seeking to generate performance, will probe public chain business models. We actively remind our portfolio companies to review their tokenomic models and learn from this experience.”

**SENIOR INVESTMENT PARTNER: (ASIA-PAC)**

“We all knew this was going to come due to experimentation. Just a matter of when. Now the breaking will strengthen the ecosystem in the long term - short term people will panic.”

**SENIOR INVESTMENT PARTNER: (US)**

#### IDEG - DIGITAL ASSET MANAGER

As a dedicated digital asset manager, we are the eyes and ears of our clients. We have been actively monitoring and sharing with our relevant stakeholders, it is an opportune moment for IDEG followers to be aware of our unique insights, thoughts, and outlook. Learn from our experienced team who have witnessed a number of these fast-paced market cycles.

We offer various solutions open to institutional investors who are looking to capitalise and enter the digital asset market at suitable valuations and secure some diversification within an ever-uncertain macro-environment through the **TIMES product suite**.

Recent market corrections will have many pausing and taking stock. Opportunities from current dislocations will be abundant for those remaining constructive over the secular long term. Fundamentally, protocols and projects will adapt and reallocate quickly, to fix the gaps from these prior events. Both investors and founders alike focus on reassessing the underlying collateral of the stablecoins that remain, naturally this opens an interesting opportunity for a digital asset wealth manager, such as IDEG.

Fundamental technical audits of “tokenomic” mechanisms safeguarding individual DeFi protocol ecosystems will be done by founders and investors. The race to improve just got quicker, the DeFi industry, facing a challenging environment will evolve quicker with new innovations.

IDEG embraces regulation. We can expect more of it with the recent events. Regulation offers an avenue for further institutionalisation of the market. As with previous crypto cycles, we expect that this market will now take a short-term breather, investors will pick up cheap bargains and talent, build positions and institutional adoption will continue.

IDEG’s investment process comprises the opportunity to selectively access some leading VC thought leaders. Through our sister company, Fundamental Labs, a leading crypto native Venture Capital with over 300 projects, we benefit from their perspectives. “We all knew this correction was going to come due to experimentation. Just a matter of when. Now, short-term people will panic, recede and give way to a rapid strengthening of the ecosystem in the long term.”.