



518am
Reliable yield

**MONTHLY LETTER TO THE SHAREHOLDERS
OF 518AM DELTA-NEUTRAL STRATEGIES SP**

November 2024

November was another stellar month for our strategy, which saw a 2.1% gain, net of fees. The market's momentum, bolstered by Trump's election, continued into this month, sustaining digital asset rates at attractive levels. We remain optimistic about the asset class as a whole and anticipate further outsized returns in the coming months.



Regulatory clarity, at last!

The resignation of SEC Chair Gary Gensler has ignited speculation about potential reforms that could favor digital assets. This development may pave the way for a more supportive regulatory environment for digital assets.

The US president's recent appointment of a new SEC chair, alongside a pro-crypto Secretary of the Treasury, signals a commitment to bringing much-needed regulatory clarity to the industry.

This shift in leadership partially explains the notable outperformance of digital assets in November yet again.

Additionally, the new leadership's pro-crypto stance is expected to foster innovation and growth within the sector, potentially attracting more institutional investment. The market's continued positive response reflects optimism about a clearer, more favorable regulatory landscape for digital assets.

Coinbase vs. S&P 500

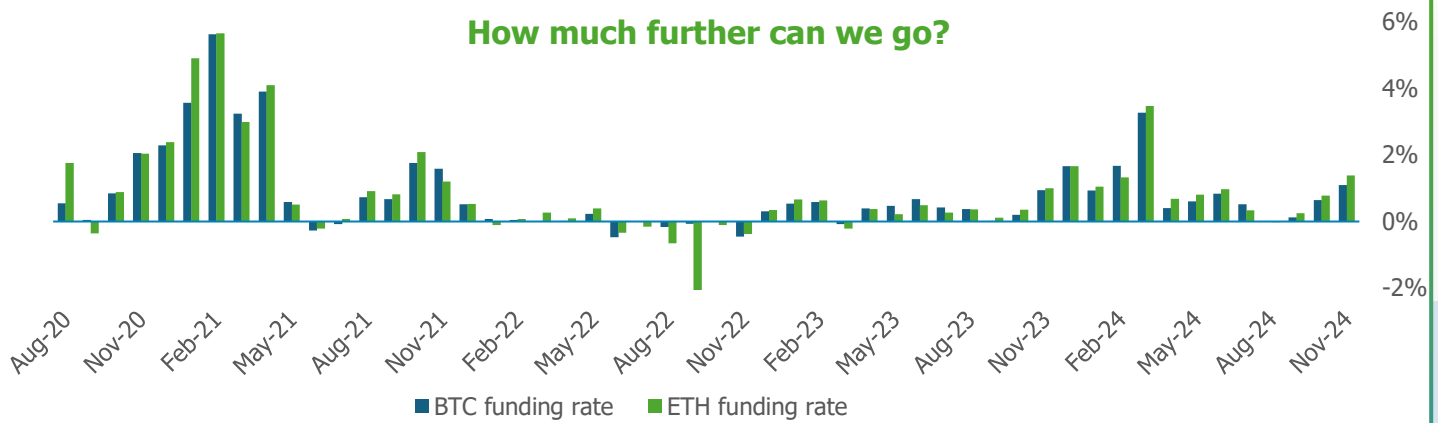


Sources: Bloomberg and 518am's calculations

The recent surge in Coinbase's stock, as depicted in the comparative performance graph above and which incidentally reached its all-time high in November, underscores the burgeoning confidence in the cryptocurrency sector. This conviction now extends beyond the digital assets themselves, which have rallied impressively, to the underlying infrastructure. COIN's robust performance in November signals a notable shift in market sentiment, with investors now anticipating growth for the industry. Additionally, trading volume metrics for the stock further substantiate this renewed interest.

Although the performance of Coinbase's corporate credit did not match the stock's impressive monthly gains, the 2028 issue trades at the year's highs and currently offers a yield to maturity of 6.6%. This is significantly tighter than the 12% yield seen at the depths of the most recent bear market.

How much further can we go?

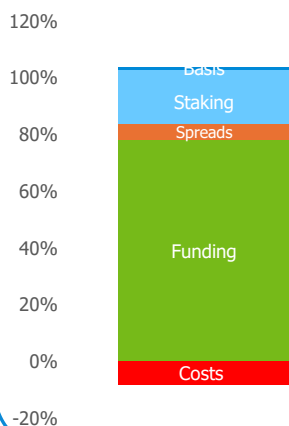


Sources: Binance and 518am's calculations

A theoretical portfolio with equal weights in BTC and ETH funding rates would have earned approximately 1.24% in November, before fees. This is the average of the blue and green columns for the month of November 2024. How does this compare to funding rates in previous market cycles?

The column chart suggests that the market may be entering a sustained cycle of wide funding rates, potentially mirroring rallies from August 2021 or November 2023. However, the current average funding rate is significantly lower than the >4% monthly rates seen in late 2020 and early 2021. Additionally, BTC does not fully represent the broader market, where many digital assets' capitalizations are still at least 50% below their previous highs. Given the potential for growth in both valuations and leverage, we remain optimistic about the strategy achieving substantial returns in the coming months.

Performance attribution November



The Trump victory sent the crypto market into a state of complete euphoria with the industry expecting a strongly pro-crypto incoming government - in total contrast to the incumbents. From a trading perspective, this event produced many opportunities for the fund. However, this did not lead to the large uptick in performance that our modelling forecasted.

The dynamics of the market have been changing and this was first noticeable in the post-election euphoria. In short, the variable cost of our on-exchange leverage has significantly increased this month, often to extreme levels which has overshoot the yield of many of our trading opportunities, which has never happened in previous cycles.

The fund responded by reducing leverage and has performed above expectation despite operating with the least leverage we have ever managed in the 7 years that we have been trading crypto. Why this has happened and what this means is very clear to us but is beyond the scope of this newsletter. We are only a phone call away if you want more color on this topic.

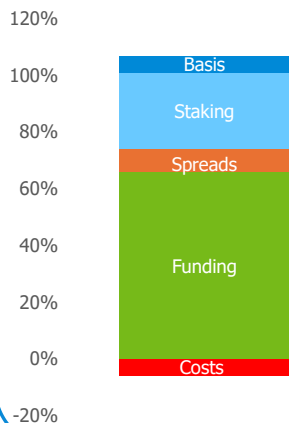
We remain nimble and dynamic in the face of these fast-moving markets which are as exciting as they have ever been. December has started exceptionally well, and I see no obvious reason why this will change. The team @ 518 wishes you all a Merry Xmas.

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Schedule a meeting with your investment manager



Performance attribution YTD



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