518am

Reliable yield

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

February 2025

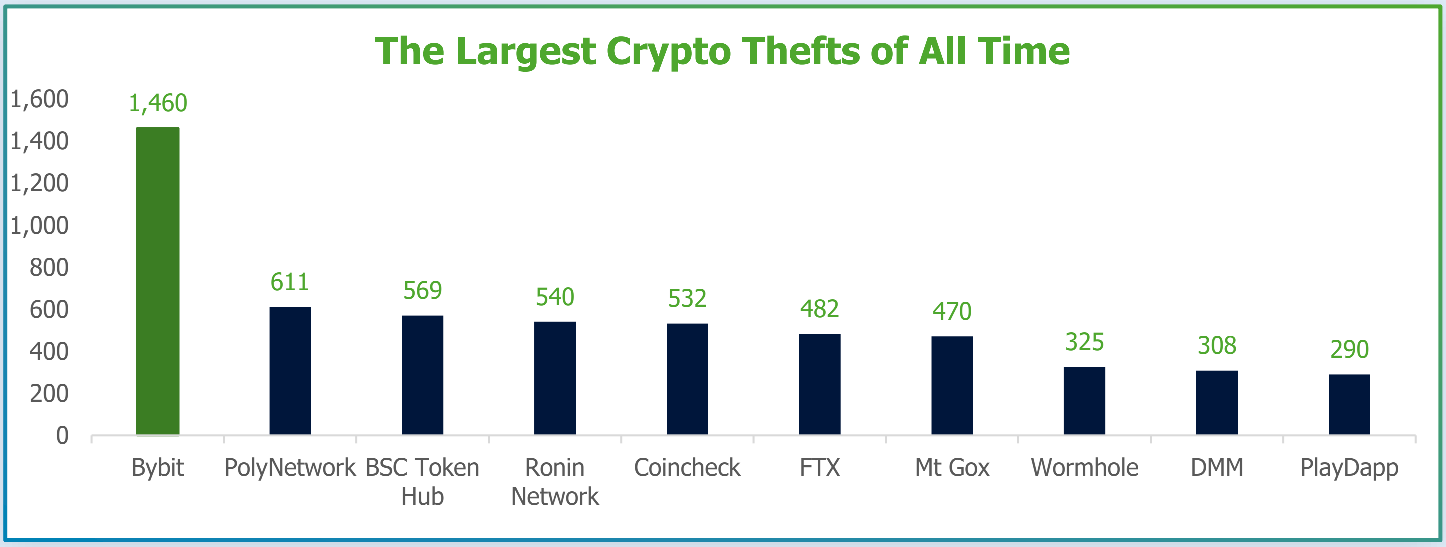
February was challenging for the crypto space, marked by a significant market correction. BTC shed 18% and ETH 32%, indicators of a broad and deep downturn. Despite these harsh conditions, our delta-neutral strategy proved its worth. Even amid such a severe sell-off, we posted a gain of 0.29%, underscoring our defensive approach and ability to navigate turbulent times effectively.

Fading of Trump euphoria?

On March 2nd, President Trump announced further details regarding the United States' strategic cryptocurrency reserve. This announcement boosted BTC prices by roughly 10% during an illiquid Sunday trading session. However, BTC prices have since grinded lower to 86k, below pre-election levels. A cryptocurrency summit at the White House is scheduled for Friday, which may bring further positive developments. Nevertheless, the market appears to be reassessing the initial Trump-induced euphoria.

Even the SEC's decisive action to drop its most high-profile litigations in the space could not offset the negative impact on risk assets caused by the unveiling of the Fair and Reciprocal Plan (i.e., tariffs). The plan has clearly influenced the Federal Reserve's perception of future inflation risks, leading to a consequent repricing of anticipated rate cuts and a general selloff in risk.

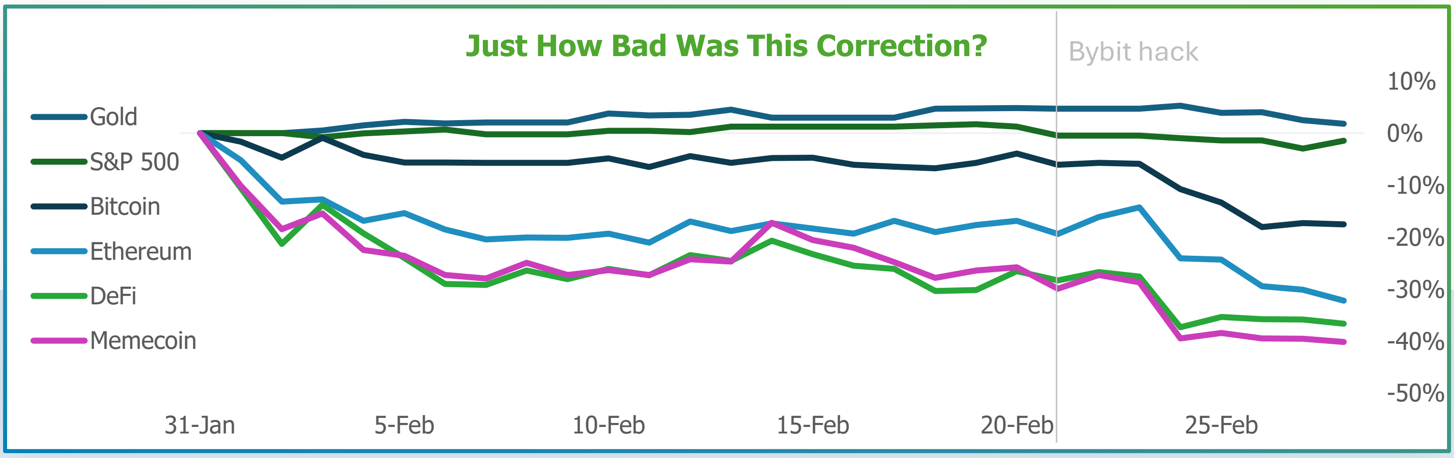
At this juncture, we are exercising caution and awaiting clarity from the administration before increasing risk exposure.



On February 21st, Bybit, one of the world's largest cryptocurrency exchanges, experienced the biggest hack in crypto history. We would like to reassure you that 518am DNS's assets remain secure and have always been protected.

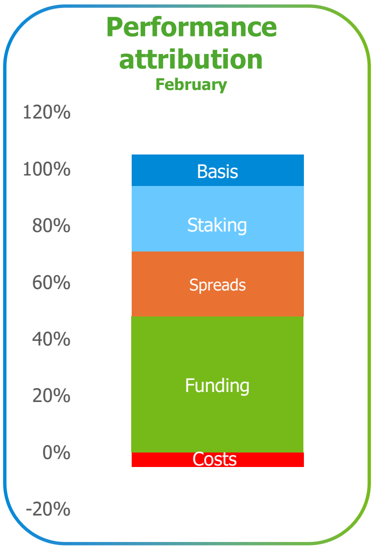
Approximately 403k ETH, valued at around $1.5 billion at the time of the theft, were stolen. For comparison with previous events, please refer to the chart above. Unfortunately, the materialization of credit risk in the cryptocurrency space is a frequent occurrence. However, of note is the fact that exchanges have adapted to this environment. Most now publish proof of reserves, providing transparency and enhancing their credibility. Furthermore, the largest ones have set up liquidation funds and/or purchased insurance policies to deal precisely with extreme events of this nature.

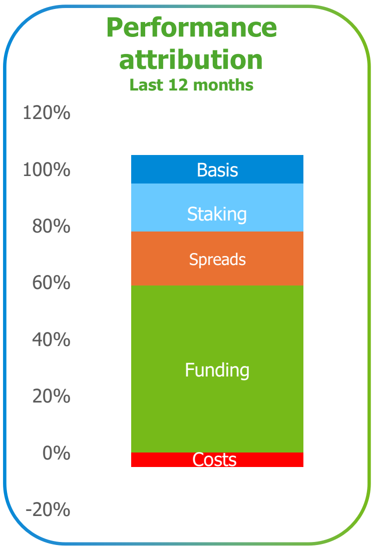
We were impressed by how quickly and professionally Bybit was able to diffuse the crisis. This incident underscores how much the industry has grown and matured in communicating and dealing with tail risk.



Cryptocurrencies had been significantly outperforming traditional assets over the past few months. However, February's performance reversed much of those gains. While core assets like gold and the S&P 500 remained unchanged for the month, memecoins, which had been stellar performers recently, saw approximately 40% of their value wiped out. Despite Bitcoin plunging by 18%, it still fared better than Ethereum and digital assets in general. This was not only due to the Bybit hack being concentrated on Ethereum but also because significant equity-linked note issuance by MicroStrategy (MSTR) buoyed Bitcoin. It seems the market may be approaching saturation point for this type of instrument, which warrants additional prudence

As pertains to our investment strategy, it is worth highlighting the correction was mostly spot led. Rates offered by perpetual futures remained somewhat attractive throughout the initial part of the down move, even as the spot market lost its bid. Furthermore, as is usually the case with disorderly markets, certain opportunities across venues have arisen which we might act on.





February was defined by a broad *risk-off* sentiment across markets and as crypto is a 24/7 market, it is particularly sensitive to these shifts. Early in the month, news surrounding innovative Chinese AI developments triggered a sharp sell-off, setting the scene for the following weeks, not helped by Trump and his rhetoric. As volatility surged during the month, over $10 billion in Open Interest was wiped out across major exchanges, a 30% decline. The Fear & Greed Index hit its lowest level since 2022, signalling extreme negative sentiment.

While our strategy is market direction-agnostic, returns are often easier to generate when the sentiment is positive—certainly when leverage is being added to the system. As negative news continued to compound throughout the month, we took a progressively defensive approach, actively repositioning the book to take advantage of the deleveraging environment.

Looking back, one key takeaway from February's performance is that we could have transitioned to a more defensive stance sooner. Refining our ability to anticipate these shifts remains a focus for ongoing strategy development.

Looking ahead to March, market conditions may not improve for us, however opportunity and inefficiency remain abundant, and we are confident returns will revert. We also expect to recover certain mark-to-market losses absorbed during this month.

E-mail : dns@518am.io

Schedule a meeting with your manager