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

JANUARY 2026

518am

Reliable yield

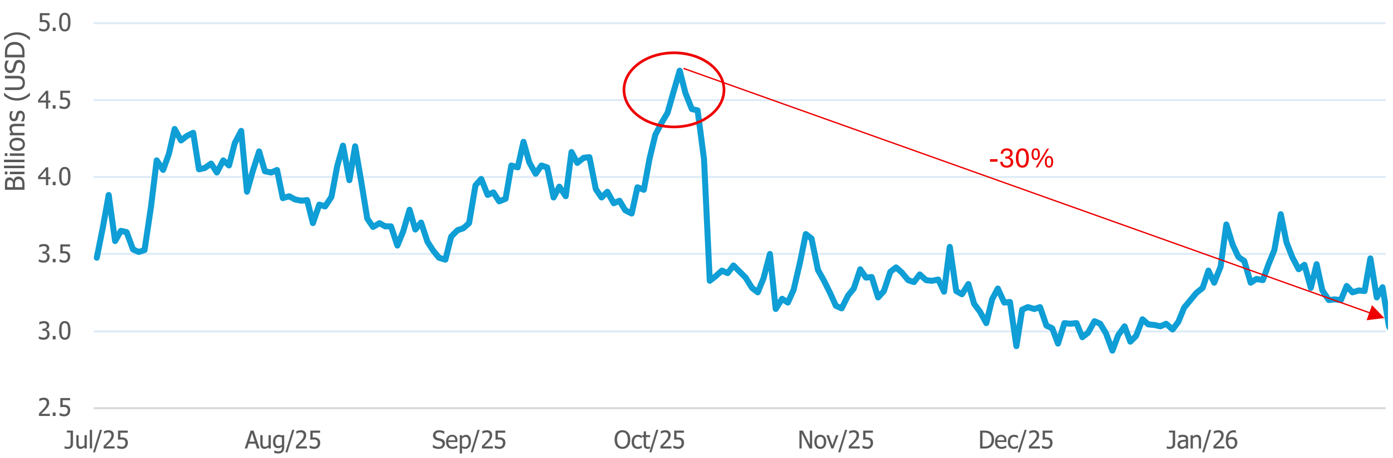
January was a brutal month for directional crypto investors. Bitcoin fell 10% — its fourth consecutive monthly decline — crashing 15% in a single session on January 29 and triggering $2.5 billion in liquidations within 24 hours. Our delta-neutral strategy delivered a positive 0.20% return, uncorrelated and unscathed.

The Warsh Factor

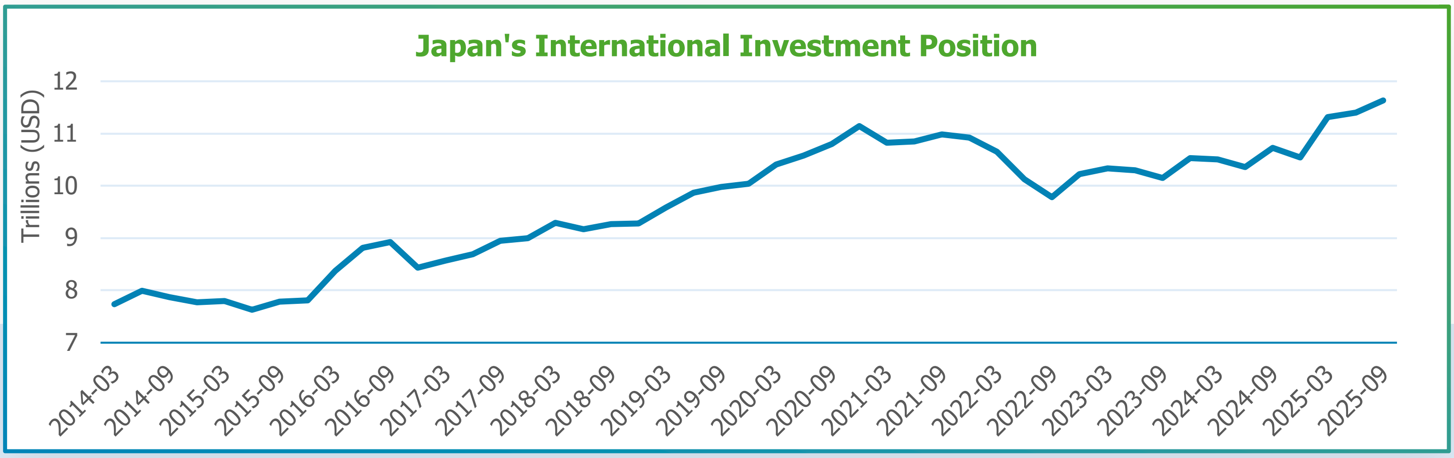
The Federal Reserve held rates at 3.50%–3.75% at its January meeting — the maintenance scenario we flagged in December. Bitcoin dropped 7.3% within 48 hours. Then, on January 30, President Trump nominated Kevin Warsh as the next Fed Chair, triggering a broad sell-off across risk assets. Markets read the nomination as straightforwardly hawkish, but the reality is more nuanced. Warsh's framework distinguishes between the *price* of money and the *quantity*. He advocates aggressively shrinking the Fed's balance sheet to restore genuine market price discovery, while arguing that AI-driven productivity gains are lowering the neutral rate — ultimately enabling rate cuts. In short: a balance sheet hawk, but potentially a rate dove.

For our strategy, this combination is constructive. A leaner balance sheet restores volatility and pricing dislocations that our strategy thrives on, while lower nominal rates sustain leveraged demand.

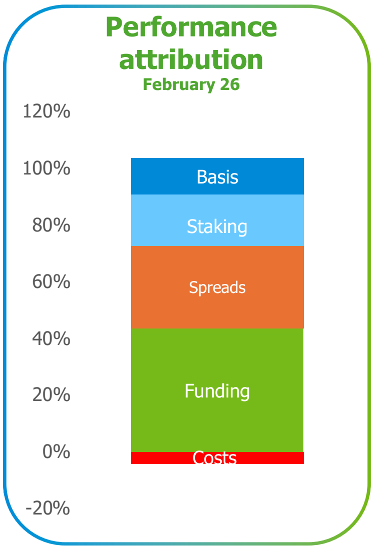
Open Interest for BTC Derivatives on OKX

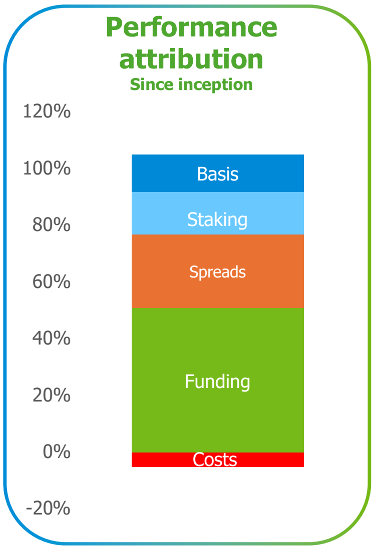


The chart above tells the story of a market steadily shedding leverage. BTC open interest on OKX peaked at $4.69 billion in early October — right around the 10/10 debacle — and has been bleeding relentlessly since. Through November and December, positions unwound steadily as participants de-risked into year-end. Early January brought a brief resurgence, with OI climbing back toward $3.8 billion as optimism returned, but the rally proved short-lived; by month-end, open interest had slipped back to $3.28 billion — a 30% decline from the October peak. This sustained compression in positioning is the primary driver behind the depressed funding rates and basis spreads we have experienced in recent months. Less leverage in the system means less demand for synthetic long exposure, which in turn means narrower premiums for strategies like ours to harvest. The good news: when open interest recovers — and it will — so too will the opportunities.



This deleveraging is not unique to crypto — it is a global phenomenon, and its most potent vector may be the much-feared unwinding of the Japanese yen carry trade. For decades, near-zero Japanese interest rates made the yen the world's preferred funding currency: borrow cheap yen, convert to dollars, deploy into higher-yielding assets. Estimates of the trade's total size range from $261 billion (per the BIS) to $500 billion (Morgan Stanley), with some analysts arguing that when indirect flows are included, the figure approaches the trillions (as shown above). In January, the Bank of Japan held rates at 0.75% — their highest in thirty years — while signaling further hikes toward 1.25%. The yen responded, rallying 3.3% against the dollar in the final weeks of the month alone. When the cost of yen funding rises, the trade mechanically unwinds: overseas positions are liquidated, starting with the most speculative and least liquid assets. Crypto, perennially seated at the far end of the risk spectrum, is among the first to feel the outflows. The result is precisely the dynamic we observe in our own markets — leverage exiting, positioning compressing, and the premiums that strategies like ours harvest narrowing in tandem.





January continued the subdued tone we saw into the year end. Volatility remained compressed for much of the month, with prices trading in a narrow range until the last few days when prices broke down heavily. Liquidations across the market were limited until then and funding levels traded close to flat, continuing the lack of conviction we have been seeing between buyers and sellers. As was the case last month, the overall opportunity set was inconsistent, with spreads and basis levels offering limited carry.

Returns this month were driven primarily from our cross-exchange strategies. Over the course of the month we doubled the size of the cross-exchange book, where some generous yield opportunities still exist, although it still remains a relatively small allocation within the overall portfolio. Through the conservative use of leverage and modest sizing in these positions, we completely avoided any risk of liquidations or drawdowns during the late month volatility as the markets reacted to changing macro expectations.

Whilst we will continue to allocate additional capital towards this strategy, we will do so in a measured and disciplined manner, maintaining our focus on capital preservation. We have no intention in this environment of chasing marginal yield through increased leverage. Managing risk remains paramount whilst this regime persists, particularly with liquidity conditions being inconsistent across exchanges.

Looking ahead to February, Crypto is likely to continue its decoupling from the traditional markets. We will patiently maintain a defensive stance and are fully prepared to scale exposure should liquidity improve and more persistent opportunities emerge in our core strategies.

E-mail : dns@518am.io

Schedule a meeting with your manager