

Q: What is driving Bitcoin's recent surge and where does it end?

Brian Lockhart: The dramatic rise in Bitcoin has been attributed to everything from coming hyper-inflation, speculation about government bond defaults, and Elon Musk making the decision to invest billions in the cryptocurrency. The mainstay of the crypto world, Bitcoin was just \$3,400 in December 2018 and only \$6,000 in March 2020 when COVID-19 was spiraling out of control. Bitcoin had risen to \$32,000 by January 1, 2021 and above \$55,000 at the end of March after nearly touching \$60,000 earlier in the month. I do see Bitcoin becoming much more mainstream as an investment tool, even prior to Musk's announcement. Catherine Wood of ARK has been bullish on crypto-related investments for some time and believes there is much further to go with both currencies and blockchain in general.

Bitcoin also becomes its own self-reinforcing mechanism as wealth is created from its rising price. Many of the people participating in Bitcoin mining and trading are not interested in traditional markets like stocks and bonds. The higher its price moves, the more attractive many will find the alternative currency. People who shunned it at \$3,400 all of a sudden think it is a great idea north of \$50,000. There is also a tremendous amount written in blogs about Bitcoin getting to \$250,000 in the future, giving the impression to some that it has much further to climb.

Clint Pekrul, CFA: Bitcoin certainly has been on a roller coaster ride lately. A year ago, Bitcoin was trading around \$7000. Today it has surged to roughly \$58,000, which translates into a gain of approximately 700%. The volatility of Bitcoin is pronounced with daily changes of +/- 5% not uncommon, so as an investment, Bitcoin is not for the faint hearted. It has been speculated that the recent surge in the crypto currency has been driven by fears of inflation. The line of reasoning is that if inflation becomes a real issue – which is far from certain – Bitcoin will retain its value due to its limited supply. It is the same reason that investors flock to gold when inflation concerns become elevated. After all, the government cannot print gold like it can print U.S. dollars. Moreover, the government cannot mint crypto currencies. It seems reasonable that if the inflation narrative continues, the value of Bitcoin can remain at elevated levels. However, at the end of the day, crypto currencies are simply commodities with no intrinsic value (there are no earnings or cash flows associated with Bitcoin). So, if the inflation narrative wanes, do not be surprised if the price of Bitcoin experiences a significant move downward.

Despite the above, there has been increased attention paid to efforts to incorporate cryptocurrencies, such as Bitcoin and Ethereum, into conventional payment infrastructure. For example, Visa recently announced plans to settle transactions in "UDSC" cryptocurrency on the Ethereum blockchain. As these efforts to "mainstream" cryptocurrencies advance, they may gain value as monetary units.