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In the Midst of A Potential
Second Wave, Europeans Are
Increasingly Investing in Bitcoin



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INTRODUCTION

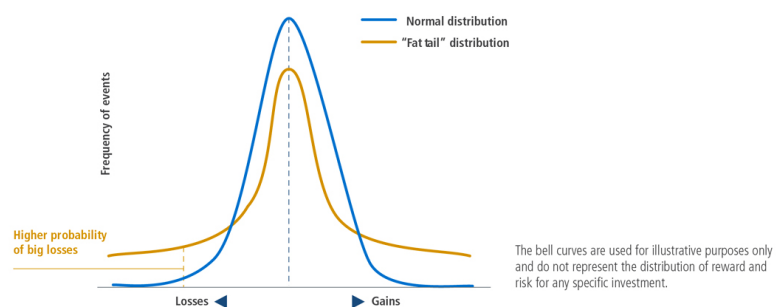
Since the 2020 stock market [crash](#) occurred, as a result of the COVID-19 pandemic, the EURO STOXX 50 has been on a slow but steady rise. As of June 23, the Eurozone stock index has increased by 40%, as the confidence of European investors also saw an uptick in the aftermath of the sell-off in the financial markets. While Europeans are known to be relatively skeptical, the recent measures by countries in the Eurozone to [contain](#) the coronavirus outbreak have helped boost investor's overall confidence. The monetary policy actions of the European Central Banks such as the asset purchase program (APP) have also contributed.

TAIL RISK AVERSION INDEX

The [tail risk aversion index](#) helps quantify such claims. [Tail risk](#) is a phenomenon when the possibility of an investment will move more than its normal return distribution due to unexpected events such as the current health crisis triggered by the Coronavirus outbreak. Although these events have a [99.73%](#) probability of not occurring, when they take place, these rare events have historically spread panic across markets as the probability of the value of portfolios tend to move more than 3 standard deviations from the average historical return or the mean. Left tail events have a devastating impact on portfolio returns as they move more than negative 3 standard deviations from the mean. In other words, they initiate large losses.

FIGURE 1: MARKET TAILS MAY BE "FATTER" THAN NORMAL

Tail events are very rare in a normal curve, but market tails are in fact "fatter," or more frequent, than many people realize.



Source: PIMCO

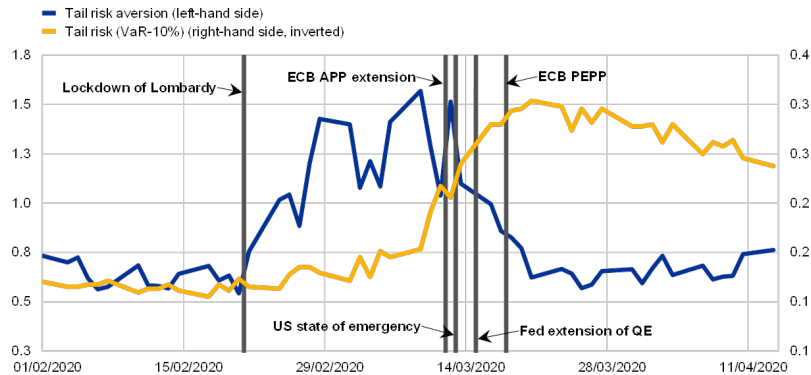
In a nutshell, this tail-risk aversion indicator compares the left tails of two metrics to measure investors' risk aversion.

- 1) The risk-neutral density of an equity price. This metric estimates price expectations and risk attitudes of investors. In other words, it measures the future equity returns based on daily call and put options traded on the EURO Stoxx 50, adjusted to the level of investors' risk aversion.
- 2) Physical density represents investors' best judgment about the probabilities of future equity prices.

When the index is above 1, investors are more fearful and will tend to pay higher premiums on options contracts than historically recorded to insure against adverse outcomes. As such, risk-neutral density will overstate the potential physical density, in other words, investors' best judgments about the probabilities of future equity prices being affected by negative tail events.

TAIL RISK AVERSION INDEX

Conversely, an index between 0 and 1 likely shows a higher appetite for risk and better investors' judgments. Currently, the EURO STOXX 50 tail risk aversion indicator stands at 0.2 indicating greater confidence for potential equity returns and more appetite for riskier assets such as Bitcoin.



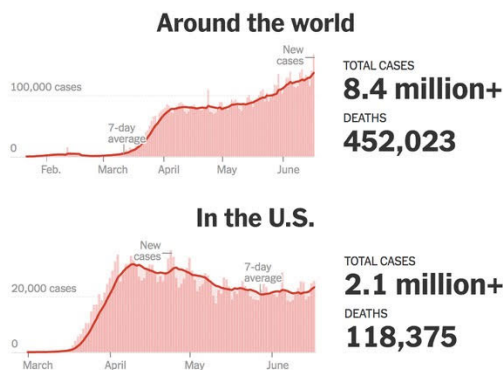
Source: The European Central Bank

EURO STOXX 50 PERFORMANCE VS. BITCOIN

While the EURO STOXX 50 index is -14.2% since its pre-COVID-19 level in early March 2020, Bitcoin has risen by 10.1% over the same time frame. This market rebound once again seals the narrative of Bitcoin as digital gold for European investors, especially in circumstances where social distancing is required. According to a [survey](#) conducted by Fidelity Investments, in Europe and the United States, 45% of respondents are invested in cryptoassets. In fact, there's been an outflow of money from private banks going to Coinbase accounts and to more traditional investment vehicles such as the 21Shares Bitcoin ETP, ABTC.

A POTENTIAL SECOND WAVE

Nonetheless, with a potential second wave on the horizon, drastic lockdown measures as the ones earlier this year could hurt European investors' confidence. But only time will tell, at 21Shares, we will closely follow how the future pans out.



Source: The New York Times