

Bitcoin's Correlation with Equities Approaches Local High, Likely To Fall

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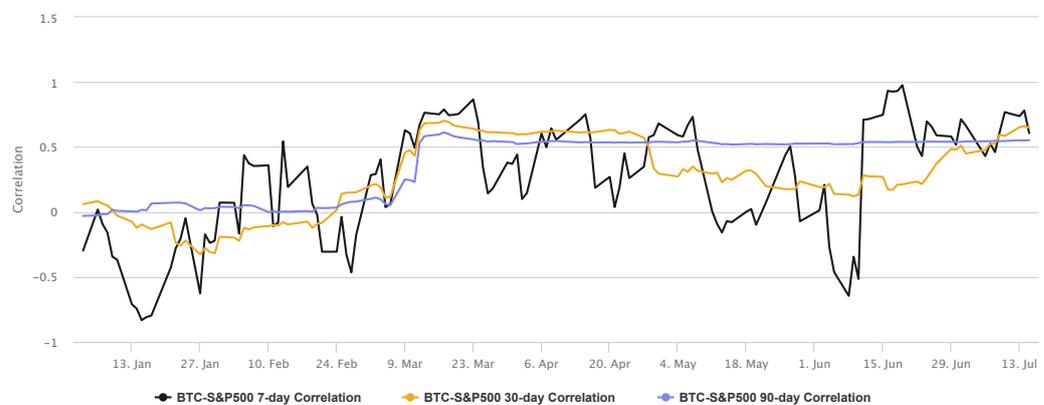
CRYPTO MARKET ANALYSIS

Historically, Bitcoin has maintained a noticeably low correlation with traditional assets such as stocks and bonds. For example from 2017 to now, Bitcoin's average correlation with the S&P500 has been 0.04 and -0.016 with treasury bonds. This remarkably low correlation has been a driving factor behind the institutional interest in Bitcoin due to its characteristics as an emerging store of value.

During the mid-March market crash, correlations between Bitcoin and traditional assets increased as the market experienced a pronounced flight-to-cash period. This was due to the actions of multi-strategy funds and large Bitcoin holders with positions in stocks, bonds, and Bitcoin who sold off their positions for cash. As a result, the entire market, cryptoassets included, crashed in tandem. However, the return profiles of Bitcoin and other assets coming out of the downturn were noticeably differentiated.

OUR CHART OF THE WEEK

7-day, 30-day, and 90-day
Moving Average of Bitcoin
Correlation with the S&P500



KEY INSIGHTS

To demonstrate this point, BTC has returned 85.44% since March 12 (the date of the crash) compared to 30.07% for the S&P500, 41.15% for DAX, 26.47% for SMI, and 32.73% for the EURO STOXX 50. While Bitcoin's correlation with other assets peaked during the flash crash, this phenomenon even affected other "safe haven" assets such as gold which went from a -0.688 correlation (rolling 30d MA) with the S&P500 on February 21 to a correlation of -0.00193 on May 16.

While correlations of Bitcoin with the S&P500 fell noticeably since their highs around March 12, they have begun to once again increase on both a 7-day and 30-day basis. With current values of 0.606 for Bitcoin's 7-day correlation with the S&P500, 0.649 for its 30-day correlation, and 0.552 for its 90-day correlation, these levels are significantly higher than historical averages which suggests they are unlikely to remain stable. We see Bitcoin as an emerging store of value so short-term correlations with other asset classes are not unexpected. In the long term, especially as uncertainty around the United States' continued federal response to the COVID-19 crisis dissipates, we expect correlations for Bitcoin with equities to substantially decrease.