NextAdvisor
In Partnership with TIME

SHARE

UP NEXT


How the Changing Economy and Midterm Elections Will Affect Bitcoin and Ethereum Prices


'A Nothing Burger': How Expectations Are Influencing Bitcoin and Ethereum Prices Following Latest Fed Rate Increase


Hov
Wee
Bitc

INVESTING CRYPTOCURRENCY

Bitcoin and Ethereum Prices Usually Mirror the Stock Market. Is That Changing?


Marcos Cabello
October 6, 2022 | **5 MIN READ**

Editorial Independence

Bitcoin and ethereum's prices have been unusually stable in recent days. That's remarkable for crypto — notorious for its price volatility — especially as the stock market closed its worst September since 2008 last week.

The crypto and stock markets have generally moved together this year. So, some crypto investors might be wondering if the two are starting to diverge as bitcoin and ethereum remained steady while the stock market plummeted. Experts aren't so sure, at least not yet.

Bitcoin's price has been above $20,000 since rising above that Wednesday afternoon, but there's no guarantee it'll stay there or push further up. The token has struggled to stay above that key price point over the last two weeks, keeping mostly to the low $19,000 range. Occasionally, the token has dipped into the $18,000s. Ethereum has followed a similar trend, keeping to the $1,300 range and occasionally swinging above and below that price over the last two weeks.

Despite these lows — down more than 60% since the start of the year — the tokens have remained resilient over the last two weeks as stock prices collapsed. That could indicate the correlation between crypto and the stock market may be loosening, but it's not enough to break free yet.

crypto and digital asset space.

“We expect them to not be as highly correlated going forward,” he said. “But I do think a positive correlation between bitcoin and risk assets, in particular things like technology stocks, is here to stay. That’s something investors have to think about in their positioning now that they can no longer necessarily rely on a low correlation between bitcoin to tech stocks or bitcoin to equities going forward.”

So, what would it take for crypto to break away from the stock market? We asked experts to find out.

Will Bitcoin and Ethereum Prices Ever Stop Following the Stock Market?

Over the last year, crypto has been closely following the stock market, specifically tech stocks. The correlation was seen most acutely over the summer, when the correlation between bitcoin and the S&P 500 was nearly one-to-one.

These digital assets were designed to operate outside the mainstream financial system, but investors’ evolved understanding of the tokens as they became more popular in the last couple years drove a connection ~~n~~ between crypto and the stock market.

“This should be a non-correlated asset,” said Douglas Boneparth, CFP and president of Bone Fide Wealth. “But as the market capitalizations have gone up, people are piling into bitcoin just like their tech stocks.

A growing appreciation for the underlying technology, aka the blockchain, has also propelled investors to treat crypto similarly to tech stocks, according to McMillan. He points out that blockchain actually provides utility, contrasting bitcoin and its ilk to gold, which doesn't provide utility. Through that, investors are recognizing that bitcoin isn't just a digital proxy for gold, McMillan explained, but built on technology that'll power things like web3 and DeFi. As a result, crypto started to trade more like a tech stock.

So, what would it take for crypto to stop tracking the stock market? It needs more time to develop as its own distinct asset class, according to both McMillan and Boneparth. How — and whether — it carves that out is still up in the air.

One possible way for crypto to get there is to gain more practical use, and for that it'll need supporting infrastructure, according to Boneparth. Integrating crypto wallets with iPhone wallets and being able to tap and pay just like you do with your credit card would provide one avenue for more practical use.

"As bitcoin and ethereum's ecosystems evolve, they'll start to have their own idiosyncratic risks," McMillan said. "Right now, they're still trading like tech proxies. But as bitcoin and ethereum ecosystems evolve, as there's more applications built on top of them, as the use cases become broader and more diversified, I think it'll start to look more like their own distinct asset classes."

What Should Crypto Investors Do As Digital Assets Continue To Track the Stock Market?

Nothing. Crypto is a volatile and risky asset, and this will be true whether or not its performance tracks the stock market. And the effects will continue to be supercharged during this time of economic uncertainty in the U.S.

This year's financial narrative has largely hinged on the Federal Reserve's moves to combat inflation — and that'll likely continue during the final months of the year. The Fed is likely to continue raising rates to combat inflation, which will have necessary pain points for the economy, and that will likely send crypto and stocks reeling.

Experts say you should allow your investments to ride out the lows; avoid selling low in a panicked frenzy after buying high. For now, you want to adopt a long-term perspective and give your investments the time and breathing room they need to mature.

Experts suggest that you dedicate no more than 5% of your portfolio to crypto and to invest only what you're OK with losing. And be careful not to make impulsive moves when the crypto market suddenly dips, as it often does.