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The Waning Correlation Between Cryptocurrencies and Equities

The correlation between global equities and cryptocurrencies present a complex and evolving picture, particularly Bitcoin. Bitcoin has long been regarded by some investors as the new digital gold, a safe haven from global geopolitical uncertainty. While there are indications of an existing correlation, there's also emerging evidence suggesting a potential waning of this relationship, especially in the context of recent events like the implementation of tariffs.

Factors Suggesting a Correlation Between Cryptocurrencies and Equities

Numerous sources point to a relationship between the stock market, particularly technology companies like the Nasdaq, and Bitcoin (and cryptocurrencies in general). Prices for bitcoin have been seen to follow those of U.S. technology stocks and the Nasdaq. A "risk-off" attitude is frequently blamed for this correlation. Stock and cryptocurrency values typically fall when events like tariffs raise economic uncertainty and recession fears because investors are less likely to put their money into risky assets. A growing number of people consider Bitcoin to be a "risk-on beta asset" like equities.

Both stock and cryptocurrency markets have seen sell-offs at times of market turbulence brought on by tariff announcements, suggesting a favorable correlation. For example, Bitcoin and other cryptocurrencies had significant losses following President Trump's tariff statements, and stocks linked to cryptocurrencies in the United States also experienced a decrease. According to data from Franklin Templeton, there is a higher connection between Bitcoin and tech stocks (Nasdaq) than there is between Bitcoin and gold. Over the last three years, the correlation has even reached 0.7. This strengthens the connection between Bitcoin and stocks. It has been observed that during times of market stress or economic uncertainty, the relationship between Bitcoin and the stock market gets stronger.

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According to some observers, Bitcoin may be beginning to decouple from its association with U.S. stocks, especially in reaction to changes in tariffs. Bitcoin held steady at $82,000 after a decline in the stock market brought on by tariffs. The previous correlation between Bitcoin and traditional markets may have been "fake," driven by market maker activity, according to analysts like BitMEX co-founder Arthur Hayes. He suggests that tariffs may be the catalyst that causes Bitcoin to decouple from its association with risky tech stocks. According to Binance CEO Richard Teng, the present climate may "accelerate interest in crypto as a non-sovereign store of value" and that Bitcoin has great long-term recovery potential, even though short-term economic uncertainty has caused pullbacks. The head of digital assets at Standard Chartered said that Bitcoin "will become a hedge against tariff risks" and that the decentralised nature of Bitcoin as an alternative to fiat money could be advantageous due to U.S. isolationism.

Bitcoin's price responded to tariff news far less sharply now than it did a few weeks ago, possibly signaling a waning sensitivity after an initial decline following tariff announcements. Since digital tokens are not as significantly harmed by tariffs as many corporations in equity indexes, other industry analysts have also pointed out an unusual reversal in which the stock market moved more dramatically than Bitcoin as a result of tariffs. This could indicate a possible decoupling of cryptocurrencies from traditional capital markets and points to a divergence in price activity. Furthermore, according to other industry analysts like Macroscope, Bitcoin's price trajectory may resemble the historical patterns of gold, suggesting a possible move away from the influence of the equities market.

In summary, although there is a strong correlation between cryptocurrencies (especially Bitcoin) and stocks (especially tech stocks), according to both historical and recent data, the ongoing effects of new economic policies like tariffs seem to be adding complications and may, in some cases, cause this correlation to weaken. According to some analysts, Bitcoin may develop into a more secure asset that functions independently of or even gains from the volatility that plagues conventional capital markets. Consequently, the relationship is dynamic and could change depending on investor sentiment and macroeconomic developments.

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