Effect on Crypto of Long Term Higher Interest Rates

By: www.ProfitableInvestingTips.com.

Crypto grew and prospered during a period of abnormally low interest rates. Crypto winter happened when the US Federal Reserve responded to inflation by raising rates. At the start of 2023 crypto and stock markets started to think that the Fed was pretty much done cutting rates and might even lower them. This is mostly wishful thinking. Nevertheless, crypto recovered. Bitcoin rose from $16,000 to as high as $30,000 and stocks went on a tear. Then markets started to pay attention to what the Fed had been saying since the start of their rate increases. Now we are looking at the effect on crypto of long term higher interest rates.

What Happened With the Federal Reserve?

What spooked both crypto and stock markets recently was a comment by Jerome Powell, the Chair of the US Federal Reserve. He said that the Fed is nearly done raising interest rates but there may be another increase or two down the road. This did not scare anyone. What spooked the markets was Powell saying that we are probably looking at **higher for longer interest rates** for quite some time to come. In other words, hopes that the Fed would turn around and start lowering rates back to the levels of the good old days of 2009 to 2015 and 2020 to 2021 were founded on wishful thinking. In fact, Powell has been saying about the same thing for a year and a half and the markets finally listened!

How Do Interest Rates Affect Crypto?

There are two things to consider regarding crypto and interest rates. One has to do with crypto winter and the gigantic house cleaning of sloppy business practices and outright fraud. The other has to do with long term effects of higher rates on a rational crypto market. Going back about ten years, crypto started to get everyone’s attention. Bitcoin used to be worth a fraction of a cent. Then it was worth cents and then dollars and then tens and hundreds of dollars. When Bitcoin passed the thousand dollar mark in 2017 the mantra for crypto was that it always went up. And it did, although there were peaks and valleys. People made tons of money in decentralized finance by borrowing dollars, doing business in crypto and then cashing out their now-more-valuable crypto for more dollars. Higher rates drove the value of the dollar up and both the crypto and stock markets down. Assuming that the crypto world has come to its senses, how will higher rates affect crypto over the longer term?

Crypto and High Interest Rates

Despite the belief that crypto is a world apart from traditional finance, that is not the case. In fact, Bitcoin tracks up and down more or less with the **Nasdaq** stock market. The Nasdaq stock market goes up and down with the economy and interest rates. The Federal Reserve raises rates to slow the economy which, in turn, slows inflation. Higher interest rates for longer will have a depressing effect on the economy and stock market. Since Bitcoin tracks the Nasdaq, more or less, we can expect a long flat price chart for the major cryptocurrency. Within that picture there will be some sorting out of crypto as the system matures. For example, we believe that the primary value of crypto in the years to come will be in DeFi. Ethereum and the Ether token will be the major beneficiaries of that.

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