Will Crypto Survive the Coming Interest Rate Hikes?

By: www.ProfitableInvestingTips.com

Nine months ago as crypto winter was taking hold, we wrote about how **interest rates affect crypto investing**. At the time we wrote that, Bitcoin had just fallen to less than half its value at the November 2021 high. A month later it fell again by a third. At that time the US Federal Reserve had only raised the United States funds rate to 1%! Now in February of 2023 it is at 4.75% and more rate increases are certain. How will crypto survive the coming interest rate hikes?

How Interest Rate Increases Have Affected Cryptocurrencies

Once upon a time in the brief history of cryptocurrencies the story was that crypto was where you put your money to protect it from inflation. It was a store of value that protected your wealth when financial and social chaos swept the world and when the world was at war. Crypto was said to be a financial asset apart from fiat currencies like the dollar or euro, different from stocks. The take home lesson from 2022 was that crypto was not immune from the factors that drive other markets like stocks and actually has tracked pretty closely with the **Nasdaq market**. Thus, as higher interest rates and the prospect of an economic recession drove stocks down they drove crypto prices down as well. Now the question is if last years' experience will apply to 2023.

What Is Going On with Interest Rate Hikes?

The United States central bank is the Federal Reserve. Their **mandate from congress** is to maintain stable interest rates and high employment. They, two Presidents, and two Congresses poured trillions of dollars into the economy to prevent a total collapse during the Covid Crisis. The Biden administration and Congress controlled by Democrats pass a long overdue infrastructure bill to fix bridges, roads, airports, and other things critical to keeping society and the economy going.

This was followed by Russia invading the country of Ukraine and the US and EU imposing sanctions and financially supporting Ukraine. The end result of all this spending and disruption of global commodity supply chains was the highest inflation in forty years. The Fed's response was to reduce its balance sheet and raise interest rates, which is what it has always done in order to reduce inflation. History tells us that the Fed rarely succeeds at this task without driving up unemployment and causing a recession.

Where Are Interest Rates Going Next?

By the end of 2022 the Fed had raised rates to 4.5% and in January 2023 only increased rates by 0.25%. The stock market (Nasdaq) and crypto responded with enthusiasm, in the mistaken belief that the Fed was done and might even lower rates. Then the January inflation numbers came in with a bump up in inflation and the job numbers came in showing that the United States unemployment rate is at its lowest since the early Nixon administration in 1969! The point of this long winded discussion is that the Fed is likely to jack up rates every month and will quite possibly go back to 0.5% increases instead of 0.25% increases. When, not if, they do that

the Nasdaq will fall and so will crypto.

How Much More Can Crypto Take?

Cryptocurrencies were fat at the beginning of 2022 having hit a Bitcoin peak of $67,000 in November 2021. Dramatic peaks and valleys were common in crypto prices. Pretty much everyone in the crypto world expect a crypto valley and another crypto peak. The valley happened but the next crypto peak never materialized. Numerous crypto businesses that were built on the idea that crypto would always go up **failed**, declared bankruptcy, and were even charged with **fraud** as they attempted to move assets around to avoid financial disaster.

The point of all this is that crypto was fat a year ago when the Fed started raising rates. Today it is not and thus crypto businesses will have less ability to cope with interest rate and recession-driven shocks. The **mining overhead** for Bitcoin and other tokens is such that there may come a point where creating new tokens costs more than the tokens are worth!

In the short life and history of cryptocurrencies traders and investors got used to high volatility and a steadily rising average market price. If there were to be a true collapse of the crypto markets it might not have a bottom or at least not one currently envisioned by investors. As an example, the **1929 stock market crash** that led to the great recession actually was several sequential crashes that went on until 1932 and took 90% of the pricing out of the stock market. If that were to be the case this year and next with crypto we would be looking at Bitcoin going for $6,700 a token and many of the lesser tokens simply vanishing as many **banks did during the Great Depression**.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.