Bitcoin Prices: What Can We Learn From Past Fed Rate Hikes?

Makara Published April 5, 2022 · 3 mins

As the Federal Reserve begins to raise interest rates to curb inflation, investors are trying to determine how this will impact cryptocurrency. Bitcoin, the original cryptocurrency, has only been around for 11 years. In its short but eventful life, it has only lived through one Fed rate hiking cycle between 2015 and 2018. Let's take a look back in history to see how Bitcoin performed the last time the Fed pulled its rate levers.

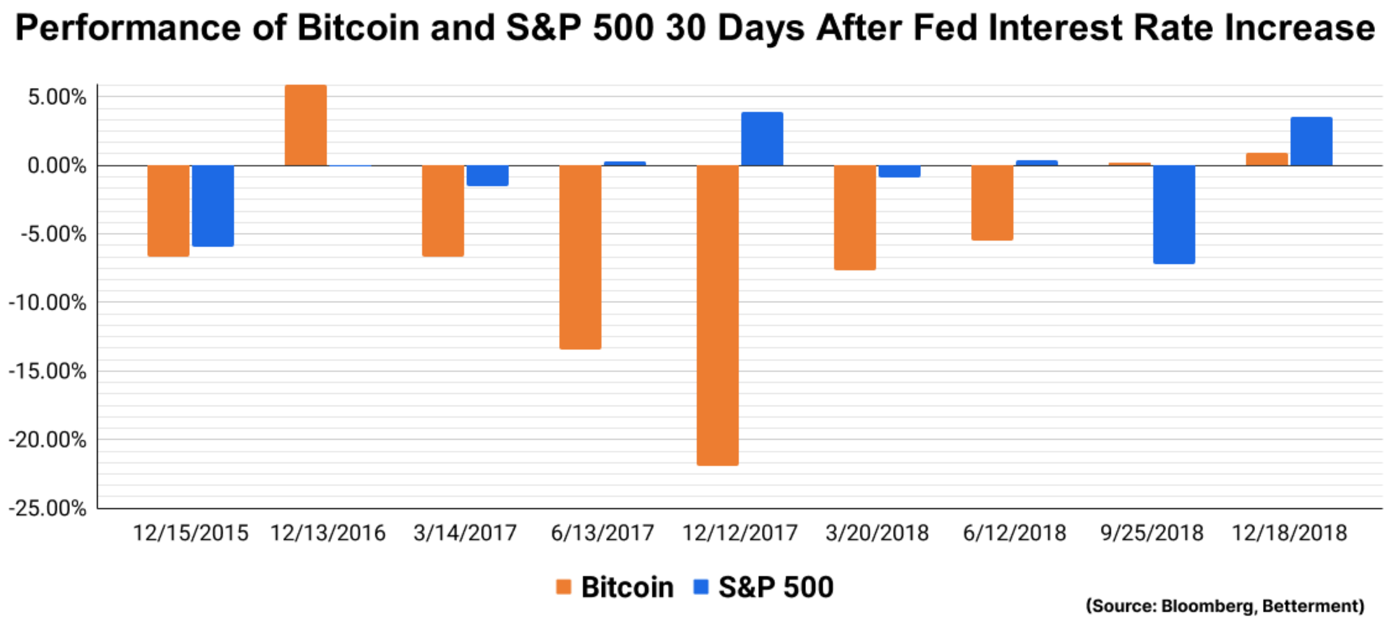
Time Matters

In December 2015, the Fed increased interest rates for the first time since 2006. During the following three years, the Fed would hike rates a total of nine times, each increase 0.25%.

As we analyze Bitcoin prices as the Fed raised rates, the time frame matters—a lot. If you put on short-term goggles, you may come to a much different conclusion than if you looked through a long-term telescope.

Short-term Goggles

For example, if we look at the price of Bitcoin in the 30 days following each rate hike during the 2015 to 2018 cycle, we see that Bitcoin performed relatively poorly compared to the S&P 500. The S&P 500 lost 0.83% on average while Bitcoin lost 6.1% on average, 30 days post-rate hike.



SEE ENLARGED GRAPH

Long-term Telescope

Now let's zoom out. If we look at Bitcoin's price movement from the Fed's first rate bump on December 15, 2015 to the final rate bump on December 18, 2018, we see that Bitcoin increased about 689% in value. We also see in the graph below that a lot more than Fed rate hikes influenced the price of Bitcoin.

SEE ENLARGED GRAPH

Crypto then and Crypto now

As we see in the graph above, time matters. It matters if you take a short-term or long-term view. It also matters because the world we live in changes—crypto was relatively unknown with low adoption in 2015.

From 2015 to 2018, Bitcoin increased in value due to advancements in technology and speculation. Then, in 2018, it gave up gains due to limited Bitcoin mining, uncertain institutional adoption, and technical uncertainty, among other factors which increased selling pressure. Being aware of the many nuances at play in markets allows you to zoom out and think long-term.

Additionally, the last time the Fed started hiking rates, in December of 2015, just 1% of American adults claimed to have owned Bitcoin. By 2021, one survey reported that around 22% claimed to have owned Bitcoin. At the institutional level, crypto was barely touched between 2015 and 2018. By 2021, tens of billions of institutional dollars funneled into crypto. Also in 2021, we saw Mastercard, Visa, PayPal, and Venmo begin adopting crypto. And let's not forget, Facebook changed its name to Meta, welcoming mainstream adoption of the crypto-driven metaverse.

What did we learn?

Let's revisit our original question: what can we learn from past fed rate hikes? The past is not necessarily a good indicator of future performance. Times were much different the last time the Fed raised rates. And your time frame matters. We recommend thinking about crypto portfolio allocations based on your confidence level in the long-term growth of the crypto industry. From there, make diversified allocations across crypto assets and be patient as the Fed makes its moves.

M A K A R A

COMPANY
Home
About Us
Team
Press

LEARN
Blog
EDU
Baskets
Assets
FAQ

LEGAL
SEC Form CRS
SEC Form ADV Part II
Advisory Agreement
Terms of Service
Privacy Policy

8 W. 24th Street, 6th Floor
New York, NY 10010

Original article is no longer available on Makara.com. To see an archive, visit https://web.archive.org/web/20220929174348/https://makara.com/blog/bitcoin-prices-fed-rate-hikes