

Crypto Risk Memo (Q2 2026)

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Reference point: Bitcoin price \approx \$74,822 as of April 15th, 2026

Cycle status: Late-cycle, liquidity-constrained adjustment

Recommended posture: Capital preservation with selective, tactical deployment

Primary Risk Drivers:

- **Incomplete market reset across key indicators**
On-chain and behavioral metrics have improved from prior extremes but have not reached levels typically associated with durable cycle lows, leaving the market vulnerable to further downside.
- **Restrictive liquidity with delayed policy easing**
Persistent inflation and rising energy prices have pushed back expectations for rate cuts, limiting the path toward looser financial conditions that typically support crypto.
- **Weak breadth and subdued participation**
Narrow leadership, rising BTC dominance (ex-stables), and declining social engagement indicate limited speculative demand and reduce the likelihood of a sustained expansion phase.

Quick Read

Bitcoin has repriced materially, but the broader environment remains late-cycle, with restrictive liquidity and weak participation. While downside risk has moderated since January, the absence of a full reset suggests that rallies may be tactical and further downside remains possible.

Scope & Limitations

This memo evaluates directional risk and regime conditions for Bitcoin and major crypto assets. It does not attempt to forecast short-term price movements, identify precise cycle lows, or predict policy decisions. Its purpose is to assess whether current conditions favor **capital preservation or capital deployment** based on macro liquidity, market structure, and behavioral signals. This memo is for informational purposes only and does not constitute investment advice.

Executive Summary

Bitcoin and the broader crypto market continue to behave in a manner consistent with a late-cycle environment characterized by restrictive liquidity, weakening participation, and increasing fragility in speculative assets. Since late 2025, Bitcoin has declined from a cycle high near \$126k to a local low near \$60k, before rebounding into the mid \$70k range. While the magnitude of the move is notable, the structure of the decline and subsequent recovery is more important. The pattern of sharp downside followed by reflexive rallies is consistent with prior late-cycle environments.

Market internals remain weak. Bitcoin dominance, when adjusted for stablecoins, continues to rise, while the advance-decline index for the top 100 cryptocurrencies trends lower. At the same time, social participation remains subdued, and on-chain metrics indicate a partial reset rather than full capitulation.

Macro conditions reinforce this view. Liquidity remains restrictive, and broader business cycle indicators continue to point to a late-cycle regime. Persistent inflation and heightened geopolitical tensions have delayed expectations for monetary easing, further limiting the outlook for liquidity conditions that typically support crypto markets.

Taken together, the current environment is best characterized by time-based capitulation, where excess is unwound through prolonged consolidation and intermittent rallies rather than a single, rapid liquidation phase.

What the Market Confirmed

In late 2025, we outlined the potential for Bitcoin to reach a cycle peak during the fourth quarter, which ultimately coincided with a high near \$126k. By January 15th, with Bitcoin trading near \$97k, we transitioned to a more formalized framework, highlighting a late-cycle environment defined by tightening liquidity, weakening participation, and increasing fragility in speculative assets.

Following that transition, Bitcoin declined to a local low near \$60k before rebounding into the mid \$70k range. From peak to trough, the move from \$126k to \$60k represents a drawdown of over 50%. Notably, the majority of this drawdown occurred after the identification of a late-cycle regime, reinforcing the broader view that crypto markets had entered a more fragile phase.

The structure of the move is also important. The sequence of a sharp decline followed by a reflexive rally and subsequent consolidation is consistent with prior late-cycle environments. This behavior reflects a market transitioning away from expansion and toward a more constrained regime.



Figure 1: Bitcoin price.

Macro Backdrop: Late-Cycle Conditions Persist

Our business cycle composite continues to point to a late-cycle regime characterized by restrictive policy, slowing growth, and increasing fragility in risk assets.

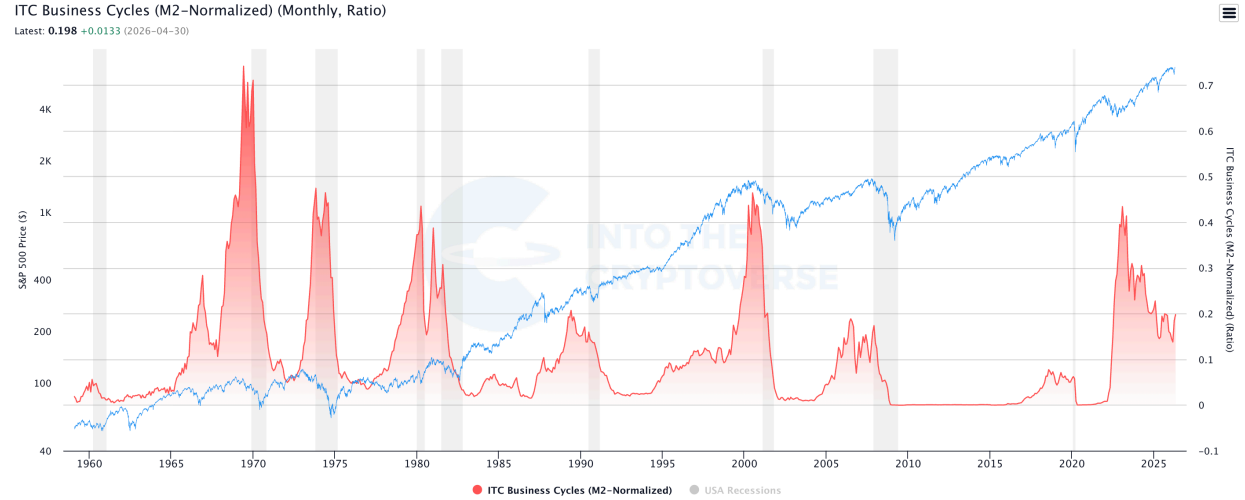


Figure 2: ITC business cycle composite, indicating late-cycle conditions.

Late-cycle environments are often defined by a divergence between still-resilient economic data and increasingly restrictive financial conditions. While growth may not yet have fully deteriorated, the cumulative impact of tighter policy begins to constrain risk-taking behavior.

In this phase, markets tend to become more selective. Leadership narrows, speculative assets underperform, and capital rotates toward perceived quality or defensiveness. These dynamics are already visible within crypto markets through declining breadth and rising Bitcoin dominance when adjusted for stablecoins.

Liquidity Conditions

Liquidity remains restrictive relative to prior expansionary periods, and current conditions continue to present a headwind for risk assets. The ITC liquidity risk model provides a useful framework for assessing this environment. Historically, periods where the model moves into the upper range have coincided with tighter financial conditions and increased vulnerability in risk assets.



Figure 3: ITC liquidity risk model, showing elevated risk levels.

The current reading remains elevated, placing it firmly within a regime that has historically been associated with constrained liquidity. While the model has shown some recent moderation, it has not declined to levels typically associated with supportive conditions for sustained risk-taking.

This distinction is important as markets can experience pressure even without further deterioration in liquidity. Sustained periods of elevated risk alone are often sufficient to suppress upside and create unstable rallies. In prior cycles, similar regimes have coincided with environments where markets exhibit reduced speculative participation, narrowing leadership, and increased sensitivity to macro developments

These characteristics are already visible in the current crypto market structure. The broader liquidity backdrop reinforces this view. Global liquidity expanded significantly into 2021 and provided a strong tailwind for risk assets, including crypto. However, that expansion has since stalled and partially reversed.

More recently, liquidity has stabilized but has not meaningfully resumed its prior upward trajectory. This creates a different type of environment. Rather than actively tightening, liquidity is no longer expanding at a pace sufficient to support broad-based risk asset appreciation. This dynamic is particularly important as it implies that even in the absence of aggressive tightening, the lack of incremental liquidity can act as a constraint on markets that rely on continuous capital inflows. The combination of elevated liquidity risk and stagnant global liquidity creates a structurally restrictive environment.



Figure 4: Global liquidity proxy, defined as major central bank balance sheets adjusted for RRP and TGA.

Recent macro developments further reinforce this constraint. Persistent inflation, combined with rising energy prices driven in part by geopolitical tensions, has delayed expectations for monetary easing. As a result, the transition toward more accommodative policy has been pushed further out. This limits the likelihood of a near-term improvement in liquidity conditions. Without a clear shift toward easing, the macro backdrop remains one in which liquidity is either constrained or, at best, neutral.

For crypto markets, this distinction is critical. Unlike traditional assets, which can benefit from earnings growth or defensive positioning, crypto has historically been more directly tied to changes in liquidity conditions. When liquidity is expanding, capital flows broadly across the asset class, supporting both Bitcoin and higher-risk segments of the market. When liquidity is constrained, capital becomes more selective, concentrating in higher-quality assets and reducing speculative participation.

This dynamic helps explain the current environment. Rallies can occur, but they are less likely to be sustained or broad-based. Instead, they tend to be driven by positioning and short-term flows rather than a structural improvement in underlying conditions.

Crypto Breadth and Dominance

At the surface level, Bitcoin dominance has remained relatively stable in a range near 58 to 60% when stablecoins are included. However, this stability is misleading. When stablecoins are excluded, Bitcoin dominance continues to trend higher. The apparent stability is largely explained by an increase in stablecoin market share rather than strength in altcoins. This distinction highlights a key structural feature of the current market. Capital is not rotating into higher-risk assets, but instead consolidating into Bitcoin or moving to the sidelines.

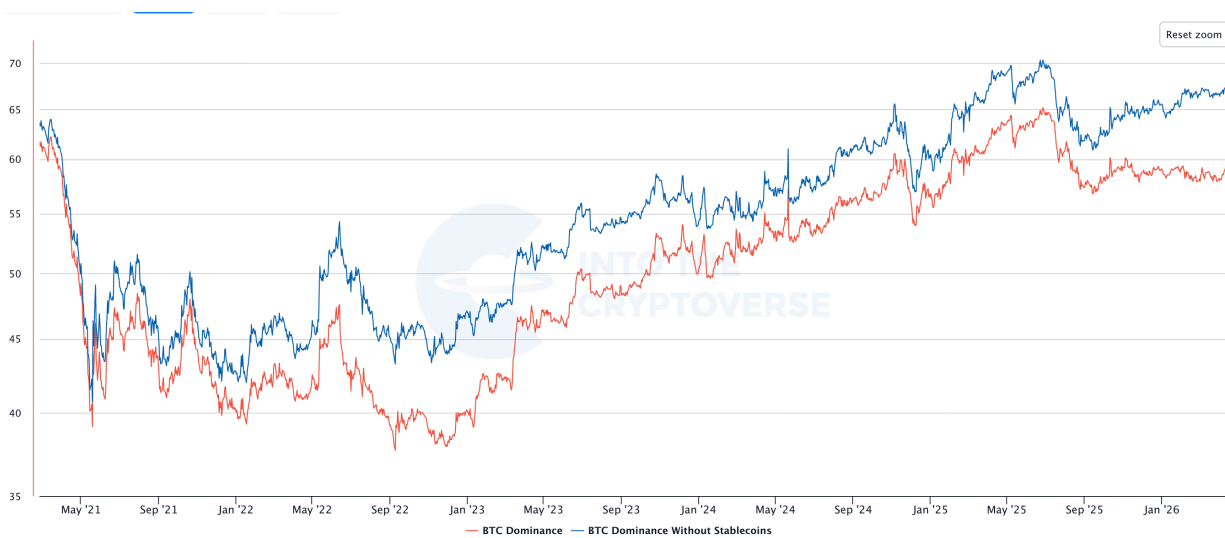


Figure 5: Bitcoin dominance including and excluding stablecoins, illustrating divergence driven by stablecoin growth.



Figure 6: Stablecoin dominance (top 10 stablecoins), indicating capital moving to the sidelines.

Altcoins continue to weaken relative to Bitcoin, reinforcing the trend of narrowing market leadership. This is further confirmed by the advance-decline index of the top 100 cryptocurrencies,

which continues to trend lower. The combination of rising Bitcoin dominance, when adjusted for stablecoins, and declining breadth points to a structurally weak market. Participation has narrowed, and leadership remains concentrated.



Figure 7: Top 100 crypto advance-decline index, highlighting ongoing deterioration.

Seasonality and Cycle Structure

Bitcoin’s year-to-date (YTD) performance remains broadly consistent with historical midterm year behavior, which has often been associated with weaker performance and increased volatility.

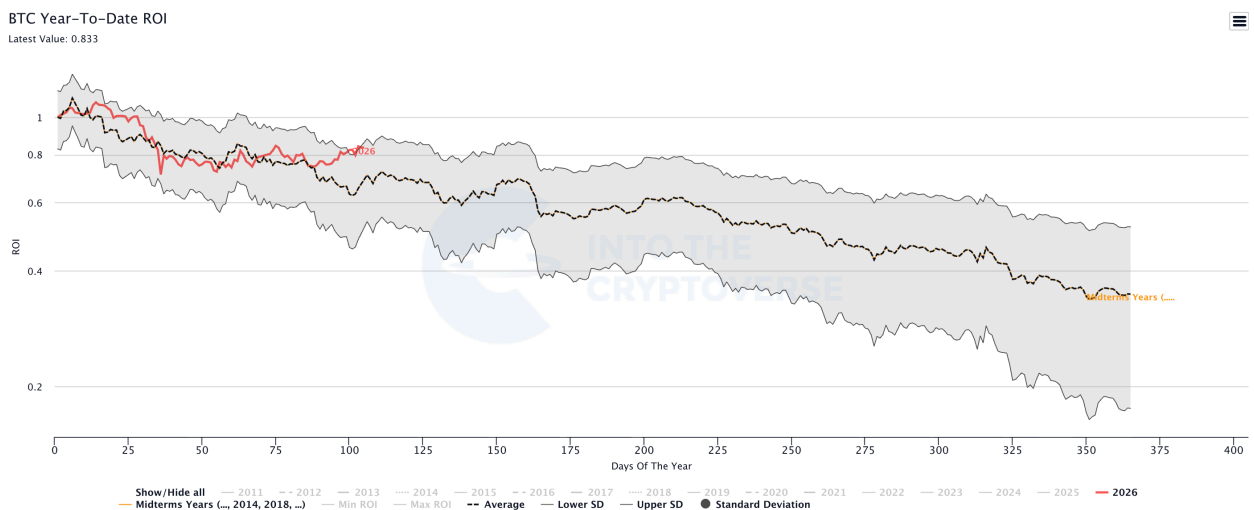


Figure 8: Bitcoin YTD ROI compared to average midterm year performance, with ± 1 standard deviation bands.

While seasonality provides useful context, it should not be interpreted as a standalone driver of market outcomes. Midterm years do not always correspond to late-stage business cycle conditions, and multiple crypto cycles can occur within a single broader business cycle. This distinction is important. The presence of midterm year seasonality alone does not imply a late-cycle environment or an elevated risk of deeper drawdowns. Instead, it introduces a tendency toward weakness that may or may not be amplified depending on the underlying macro backdrop.

In the current environment, midterm year seasonality is occurring alongside restrictive liquidity conditions and late-cycle signals from broader macro indicators. It is this combination, rather than seasonality in isolation, that increases the relevance of historical midterm patterns.

When viewed through this lens, the alignment with midterm year performance becomes more meaningful. It reflects not just a seasonal tendency, but a convergence between seasonal patterns and macro conditions. At the same time, it is important to avoid overfitting this relationship. There have been prior instances in the stock market where midterm year weakness did not evolve into deeper or prolonged drawdowns, particularly when liquidity conditions were more supportive.

Following cycle peaks, Bitcoin has historically exhibited a wide range of outcomes in both magnitude and duration of drawdowns. While earlier cycles were characterized by more extreme declines, more recent cycles have shown some evidence of diminishing downside, though still significant in absolute terms.

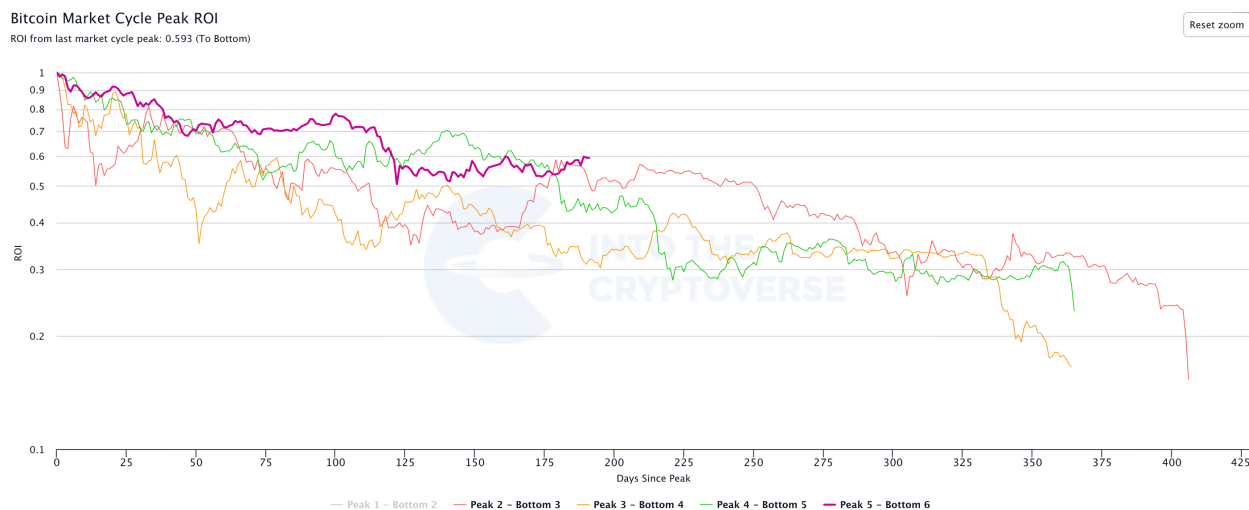


Figure 9: Bitcoin ROI following prior cycle peaks, aligned at local tops across multiple cycles.

Across these cycles, drawdowns have varied substantially, often extending well beyond initial declines before reaching a durable bottom. This variability highlights an important structural feature of crypto markets. The process of unwinding excess tends to occur over time and rarely resolves in a single move.

Importantly, initial declines following a peak often represent only the early stages of the adjustment process. Even in cycles where the ultimate drawdown is less severe, the path to a

bottom has typically involved multiple phases, including sharp declines, reflexive rallies, and extended consolidation.

In the current cycle, the drawdown of just over 50% from peak sits within the historical range, but does not appear extreme when viewed in the context of prior cycles. This suggests that the decline thus far is consistent with historical norms, but does not, on its own, indicate that the full adjustment process has been completed.

Tightening Cycle Comparison: 2019 vs 2026

While the full distribution of prior cycles provides important context, a more targeted comparison can be made to periods characterized by tightening liquidity. The 2019 cycle offers a useful analogue. During that period, Bitcoin peaked in the context of restrictive monetary conditions and subsequently experienced a drawdown followed by an extended period of volatility and consolidation.

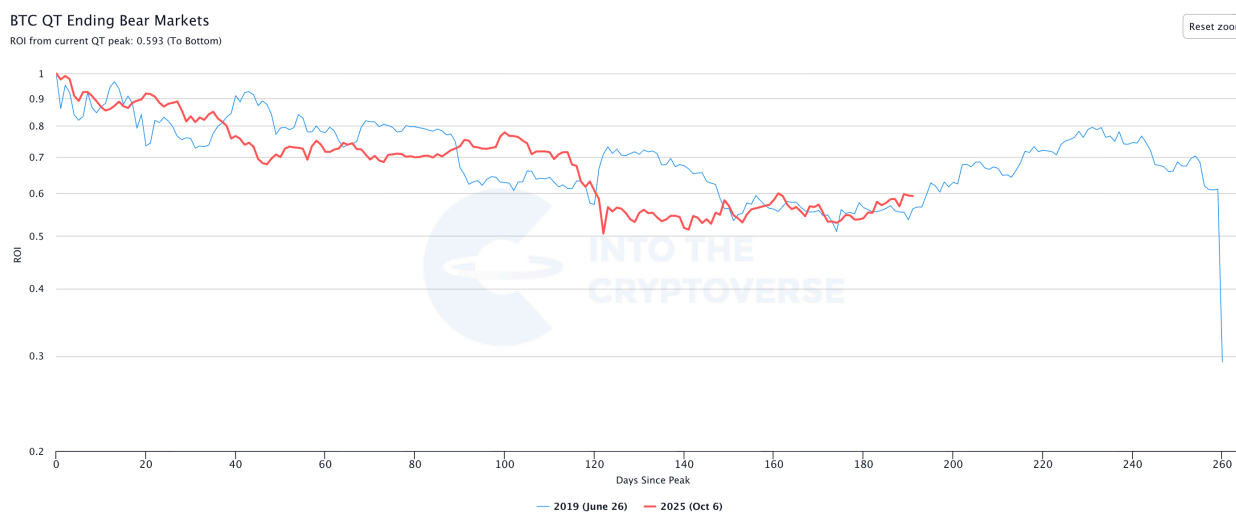


Figure 10: Bitcoin ROI from peak, comparing the 2019 tightening cycle to the current 2026 cycle. The current drawdown of approximately 50% aligns with the initial phase of the 2019 decline during liquidity tightening.

In the 2019 cycle, Bitcoin declined by roughly 50% in the initial phase before entering a prolonged period of sideways movement and intermittent rallies. That initial decline was largely driven by liquidity constraints rather than a full macroeconomic deterioration. The more severe drawdown occurred later, during the pandemic-driven shock, when macro conditions deteriorated rapidly and risk assets broadly repriced.

This distinction is critical. It suggests that not all drawdowns are driven by the same underlying forces. Initial declines in late-cycle environments often reflect tightening liquidity and reduced speculative demand, while deeper drawdowns tend to coincide with broader economic stress.

While a similar exogenous shock is not expected, the 2019 comparison highlights an important implication for the current cycle. The initial drawdown driven by liquidity tightening may not, on its own, be sufficient to produce a deeper decline. In prior cycles, more severe drawdowns have typically coincided with broader macro deterioration rather than liquidity conditions alone. As a result, further downside, if it occurs, may require an additional catalyst, such as a deterioration in labor markets, a sustained equity market decline, or a broader negative feedback loop between financial conditions and the real economy. Absent such developments, the market may be more likely to continue adjusting through time rather than experiencing a single, decisive move lower.

Interpreting the Current Cycle

The current cycle shares several characteristics with prior tightening environments. The drawdown of just over 50% aligns with the initial phase observed in earlier cycles, particularly 2019. However, there are also important differences. The current environment has not yet exhibited the type of forced liquidation or widespread capitulation that has historically accompanied deeper drawdowns.

This raises an important question. Is the current drawdown sufficient to complete the cycle, or is it simply an early stage in a broader adjustment process? From a historical perspective, both outcomes are possible. Some cycles have resolved through deeper price-based capitulation, while others have normalized through extended periods of consolidation.

One of the key distinctions across cycles is the mechanism through which excess is unwound. In some cases, the adjustment occurs primarily through price, with sharp declines driving rapid capitulation. In other cases, the process is more gradual, unfolding over time as participation declines and interest fades. The current environment increasingly resembles the latter. While price has declined meaningfully, the absence of a full reset in key indicators suggests that the adjustment process may continue through time rather than requiring a single, decisive move lower.

This interpretation is consistent with both the midterm year framework and the broader late-cycle macro environment. Restrictive liquidity and delayed policy easing reduce the likelihood of a rapid recovery, while also limiting the need for immediate capitulation.

Taken together, seasonality and cycle structure provide a consistent framework for interpreting current conditions.

- The alignment with midterm year performance suggests that volatility and weakness are consistent with historical patterns
- The comparison across cycles shows that the current drawdown is within historical norms, but not necessarily complete
- The 2019 analogue highlights the role of liquidity tightening in driving initial declines, with deeper drawdowns historically associated with later macro deterioration

This combination supports a balanced interpretation. The market has undergone a meaningful adjustment, but the broader cycle may not yet be fully resolved. As a result, both extended consolidation and additional downside remain plausible outcomes, depending on how macro conditions evolve and whether a broader feedback loop develops.

On-Chain and Social Risk

On-chain metrics provide a direct view into how market participants are positioned and how much of the prior cycle excess has been unwound. The share of Bitcoin supply in profit has declined materially from cycle highs, reflecting the drawdown from peak levels. During expansion phases, a large proportion of supply sits in profit, reinforcing positive sentiment and encouraging continued participation. This dynamic tends to amplify upside, as market participants are less incentivized to sell.

As price declines, that dynamic begins to reverse. A reduction in supply in profit introduces more sensitivity to price movements and increases the likelihood of distribution. However, the current level does not yet reflect the type of widespread stress typically associated with late-stage bear markets. A meaningful portion of supply remains in profit, indicating that while excess has been reduced, it has not been fully cleared.

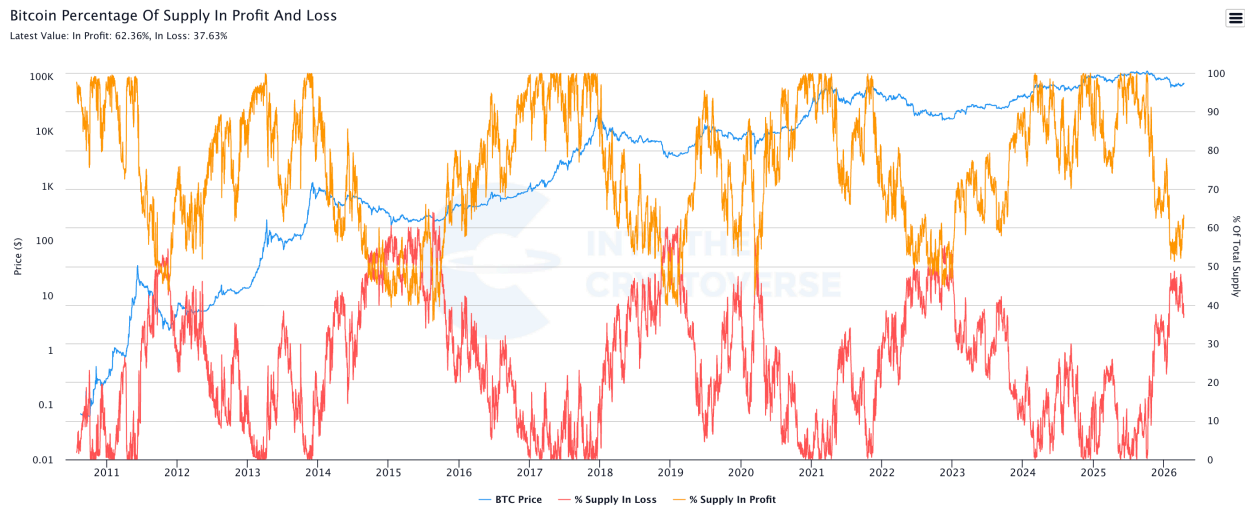


Figure 11: Bitcoin percentage of supply in profit and loss.

The MVRV Z-score provides a complementary perspective by measuring the deviation between market value and realized value. Elevated readings are typically associated with periods of overvaluation and speculative excess, while depressed readings often coincide with periods of capitulation and long-term opportunity.

In the current cycle, the MVRV Z-score has declined from prior extremes, confirming that the valuation has normalized from peak conditions. However, it remains above levels that have historically coincided with deep undervaluation. The market is no longer in a state of excess, but it has not yet transitioned into a state of distress. This intermediate positioning is consistent with a late-cycle adjustment rather than a fully developed bear market bottom.



Figure 12: MVRV Z-score, illustrating moderation from elevated levels.

Realized price and balanced price provide further context by anchoring valuation to aggregate cost basis and long-term mean reversion dynamics. In prior cycles, deeper phases of the bear market have often brought price toward or below these levels, reflecting a transfer of coins from weaker hands to stronger hands and a more complete reset in positioning.

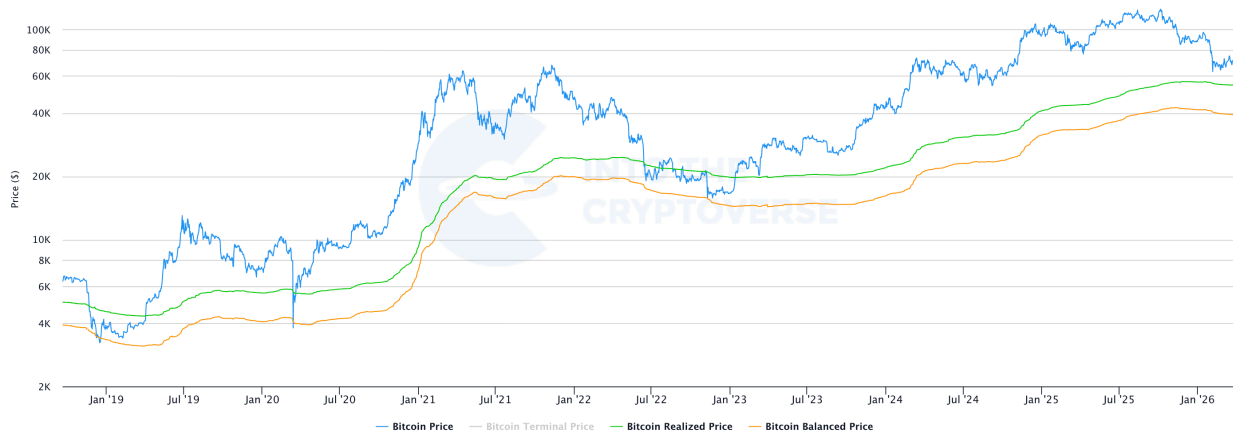


Figure 13: Bitcoin price relative to realized price and balanced price.

In the current cycle, Bitcoin remains above these valuation bands. This suggests that the market has not yet undergone the type of forced liquidation or capitulation that typically marks late-stage

bear market conditions. At the same time, the gap between price and these levels has narrowed, indicating that the market is moving toward equilibrium, even if it has not yet reached it.

While individual metrics provide useful insights, a composite framework offers a more holistic view of market conditions. The ITC on-chain risk metric aggregates multiple dimensions of valuation, profitability, and positioning into a single measure. This allows for a clearer assessment of whether the market is extended, neutral, or approaching capitulation.

The metric has declined significantly from prior cycle highs, confirming that a substantial portion of excess risk has already been removed. This aligns with the observed drawdown and the moderation in other on-chain indicators. However, the metric remains above levels typically associated with major cycle lows. Historically, those lows have been characterized by extreme readings, reflecting widespread capitulation, forced selling, and a broad disengagement from the market. The absence of such readings suggests that the current environment represents a partial reset rather than a completed one.



Figure 14: ITC on-chain risk metric, showing normalization from elevated levels.

On-chain metrics are closely tied to participation, which has historically been a key driver of crypto cycles. The updated ITC social risk metric incorporates a broader set of inputs, including Google Trends data and Coinbase rankings, as well as followers and subscribers to crypto-related accounts on YouTube and X (formerly Twitter) to better capture shifts in retail engagement.



Figure 15: ITC social risk metric.

In prior expansion phases, rising participation has coincided with broad-based market strength, particularly in altcoins. These periods are typically characterized by increasing search interest, rising exchange rankings, and growing social engagement. In contrast, the current cycle has been defined by a persistent downtrend in participation since 2021. Despite intermittent rallies, there has been no sustained recovery in retail engagement.

This lack of participation is a defining feature of the current environment. Without a renewed influx of capital and attention, rallies are less likely to broaden into sustained expansion phases and more likely to remain narrow and selective. The combination of partial positioning reset and weak participation creates a distinct market dynamic. On one hand, the reduction in excess reduces the probability of immediate, large-scale downside. On the other hand, the lack of participation limits the potential for sustained upside.

Taken together, on-chain and behavioral metrics present a consistent and cohesive picture.

- Valuation has normalized from prior extremes
- Positioning has improved
- Risk has declined from peak levels

However, capitulation has not been fully realized, participation remains weak, and key indicators have not reached levels associated with durable bottoms. This aligns closely with the broader macro and market structure framework. The current environment reflects a late-cycle adjustment in which excess is being unwound, but not yet fully cleared.

Importantly, the absence of full capitulation does not imply that it must occur through a sharp decline. Instead, it supports the view that the market may continue to normalize through time-based capitulation, where participation gradually declines and positioning slowly resets. In this sense, the on-chain data reinforces the central thesis of the report. The market has improved, but

not enough to declare resolution. The adjustment process remains ongoing, and its completion is likely to depend as much on time as on price.

Institutional Flows and Strategic Accumulation

Institutional participation remains one of the defining structural features of the current cycle, but the nature of that participation has begun to evolve. Since their introduction, Bitcoin ETFs have accumulated 6.77% of total supply, reflecting sustained institutional demand. This steady inflow of capital acted as a key tailwind during the expansion phase, absorbing supply and reinforcing upward price momentum.

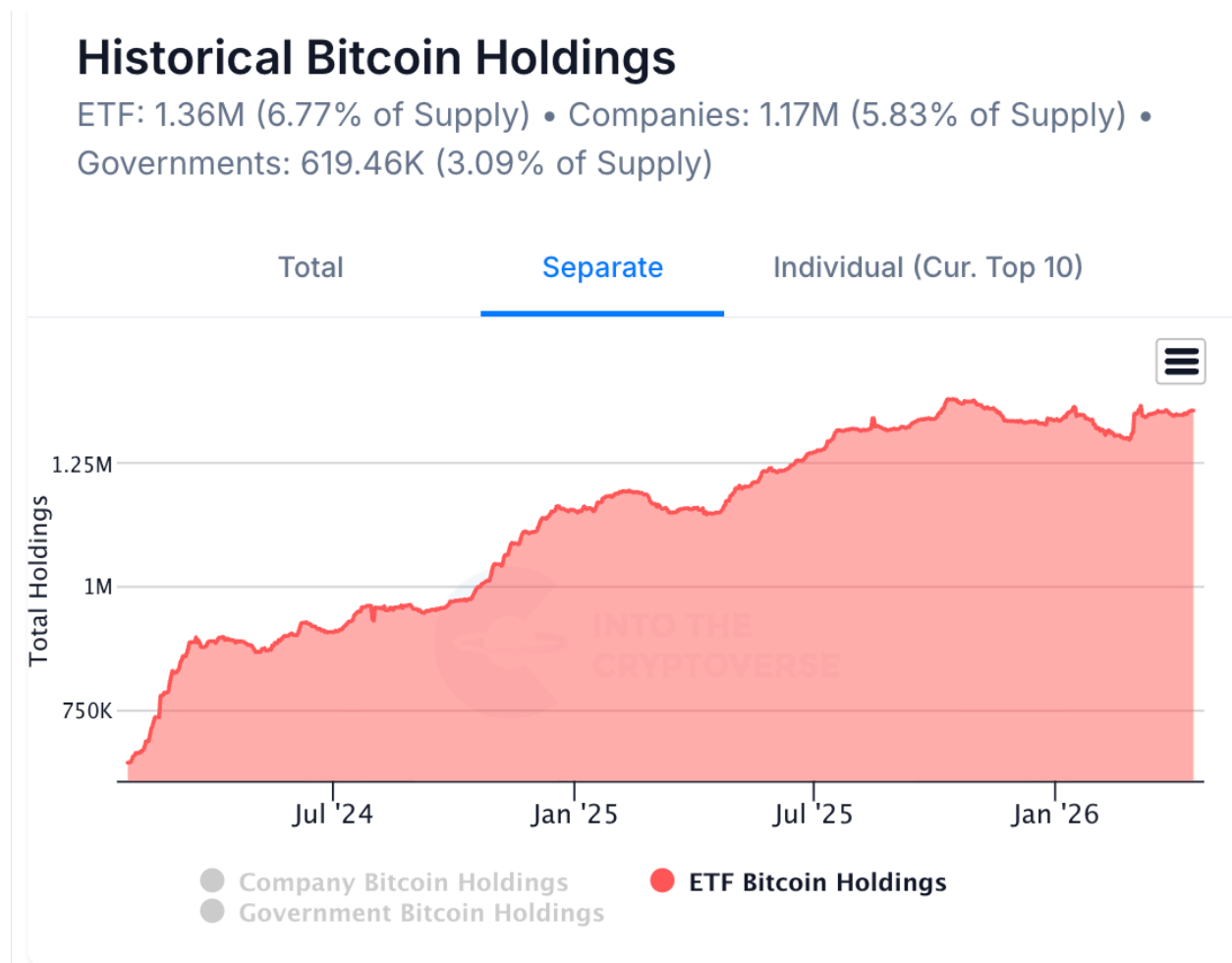


Figure 16: Bitcoin ETF holdings, showing steady accumulation followed by recent stabilization.

More recently, however, ETF holdings have begun to stabilize, with periods of slower accumulation and intermittent outflows. While not indicative of outright distribution, this shift suggests that marginal demand from this cohort has weakened relative to earlier in the cycle.

This transition is consistent with broader late-cycle dynamics. Early in the cycle, new demand sources tend to accelerate, providing incremental support for higher prices. As the cycle matures,

those flows often plateau, reducing their ability to drive continued upside. In this sense, ETF flows appear to be transitioning from a driver of price appreciation to a stabilizing component of market structure.

In contrast to ETF flows, company Bitcoin holdings have continued to trend higher, even as price has declined from cycle highs. This distinction is important. Company accumulation tends to be less sensitive to short-term market conditions and more reflective of longer-term strategic positioning. As a result, it often persists through periods of volatility where more flow-driven demand may slow. The steady increase in company holdings suggests that, while speculative demand has weakened, structural demand remains intact. This provides a degree of underlying support, even if it is not sufficient to drive a new expansion phase on its own.



Figure 17: Public company Bitcoin holdings, showing continued accumulation despite recent market volatility.

Implications for the Current Cycle

This shift reinforces the broader late-cycle framework.

- Liquidity remains constrained
- Participation remains weak
- Marginal demand is slowing

At the same time:

- Structural accumulation persists
- Long-term positioning remains constructive

This combination supports a market that is more likely to stabilize or consolidate than to immediately re-enter an expansion phase. In this sense, institutional demand has not disappeared, but it has changed in character, shifting from a catalyst for upside to a foundation for stability.

Market Behavior in Late-Cycle Environments

Late-cycle market environments are often characterized less by a single directional move and more by a sequence of drawdowns, recoveries, and extended periods of consolidation. Declines tend to be sharp and concentrated, while recoveries are slower and more gradual. As a result, markets can appear to be improving even as the broader trend remains under pressure.

The recent rally from approximately \$60k into the mid \$70k range is consistent with this pattern. Such moves can persist and appear convincing, but they do not necessarily indicate the start of a new expansion phase. From a structural perspective, the current drawdown also fits within historical norms. While deeper drawdowns are possible, they have historically coincided with broader macro deterioration rather than liquidity tightening alone.

It is also possible that midterm year weakness plays a role in this process. Weakness in risk assets can contribute to a feedback loop, where declining prices lead to tighter financial conditions, reduced hiring, slower demand, and eventually layoffs.

At the same time, not all cycles resolve through sharp capitulation. In some cases, the adjustment process is driven more by time than by price. Time-based capitulation refers to a prolonged period of sideways behavior during which participants gradually disengage. Rather than forcing participants out through large losses, the market wears them out over time. The current environment exhibits many of these characteristics, suggesting that the adjustment process may continue through time rather than a single decisive move lower.

Outlook and Positioning

The current environment remains consistent with a late-cycle regime, but the degree of downside risk has moderated relative to earlier in the year. Bitcoin has already undergone a meaningful repricing, and several indicators have partially reset. As a result, the market is less extended than it was in January, and some of the excess that characterized the prior phase has been unwound.

That said, the adjustment process appears incomplete. Key indicators have improved, but not to levels typically associated with durable cycle lows. Participation remains weak, liquidity remains restrictive, and market breadth continues to deteriorate beneath the surface. This combination suggests that while conditions have stabilized, they have not yet transitioned into a supportive environment for a sustained expansion phase.

In this context, the path forward is likely to be less defined by a single directional move and more by a period of continued volatility and consolidation. The market may oscillate between rallies and drawdowns as it works through the remaining excess. These rallies can be meaningful and persist longer than expected, but in the absence of improving liquidity and participation, they are less likely to mark the beginning of a new cycle.

A key consideration is whether the current drawdown and subsequent stabilization are sufficient to allow for normalization through time rather than price. If the market is able to consolidate over an extended period, this may gradually reduce excess without requiring a deeper capitulation phase. This outcome would be consistent with a time-based adjustment, where positioning and sentiment normalize through duration rather than forced liquidation.

However, this outcome is not guaranteed. Midterm year seasonality introduces a tendency toward continued volatility, and the broader macro backdrop remains a constraint. Persistent inflation, elevated energy prices, and delayed expectations for policy easing all limit the potential for a near-term improvement in liquidity conditions. In addition, the risk of a broader macro deterioration, while not yet realized, cannot be dismissed. Should financial conditions tighten further or labor market conditions begin to weaken more materially, a negative feedback loop could develop, increasing the likelihood of additional downside.

From a market structure perspective, the current environment reflects a transition. The market is no longer in a phase of excess, but it has not yet reached a point of full capitulation. Structural demand remains present, but marginal demand has weakened. This creates a backdrop where downside may be more gradual, but upside is also constrained.

Positioning should reflect this balance. The objective is not to maximize exposure to any single outcome, but to remain adaptable as conditions evolve.

- **Favor higher-quality assets**, particularly those that continue to attract structural demand
- **Avoid chasing rallies**, as strength is more likely to be tactical than structural in nature
- **Maintain flexibility and patience**, allowing for opportunistic deployment as conditions improve or dislocations emerge