Is bitcoin a safe-haven asset in a geopolitically uncertain world?

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Key Takeaways

- On a long-term basis, bitcoin offers investors an alternative store of value that transcends the current economic and financial systems.
- While bitcoin's long and successful track record and lack of any relationship with geopolitical risks position it as a safe-haven asset, it is not a hedge against geopolitical events.
- Bitcoin ETPs remove any need for an investor to store private access keys or interact with the blockchain and crypto infrastructure in any way.

Geopolitics is the study of how geography and economics have an influence on politics and on the relations between nations1. Any nation's involvement in international affairs exposes it to potential political, economic, military, and social risks2. These risks are geopolitical risks.

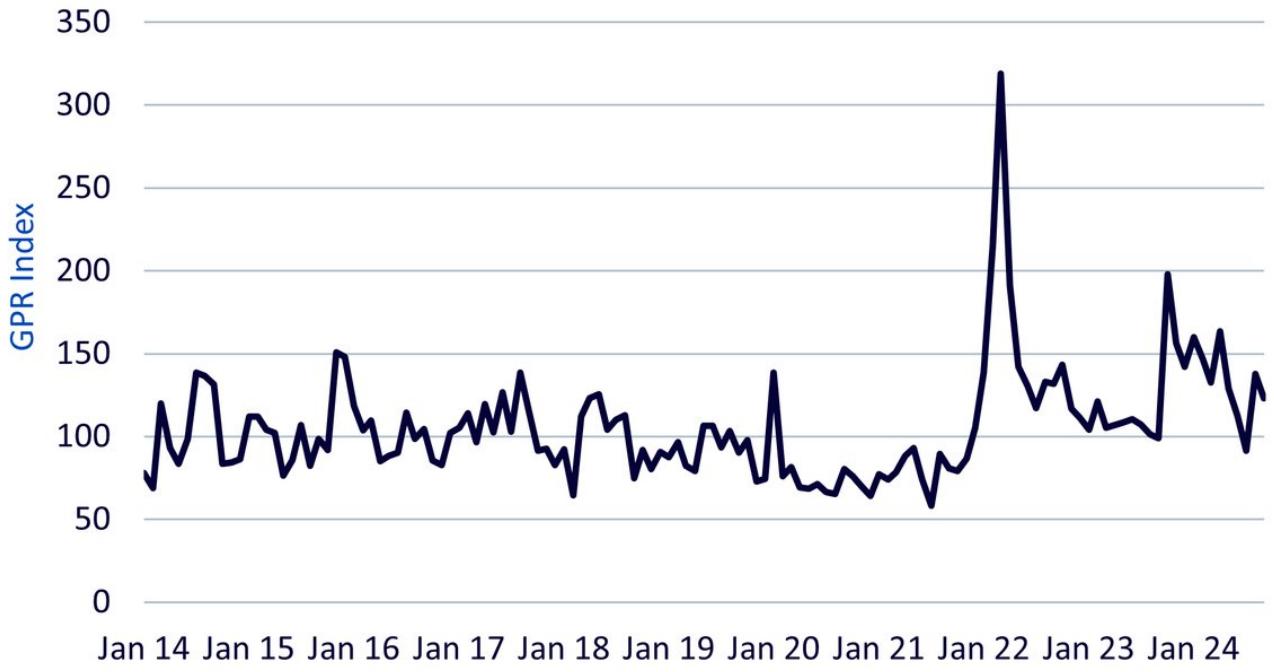
Various geopolitical events, such as the United Kingdom's vote to leave the European Union, the COVID-19 outbreak, or Russia's invasion of Ukraine, impact asset prices. In most cases, as geopolitical risk increases, investment is reduced, negatively impacting employment and asset prices.

Can bitcoin help investors protect their savings in a geopolitically uncertain world? Let's find out.

Geopolitical risk

Geopolitical uncertainty is geopolitical risk. Investors can estimate it by taking a look at the Caldara and Iacoviello geopolitical risk (GPR) index that is currently calculated by counting the number of articles that ten different newspapers (Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, The Los Angeles Times, The New York Times, USA Today, The Wall Street Journal, and The Washington Post) publish on adverse geopolitical events3.

Figure 1: The Caldara and Iacoviello geopolitical risk (GPR) Index



Source: https://www.matteoiacoviello.com/gpr.htm . From 01 January 2014 to 01 September 2024. Monthly data. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

Figure 1 (above) shows the Caldara and Iacoviello geopolitical risk (GPR) index, which was constructed to measure adverse geopolitical events and associated risks. Most investors expect stock prices to be lower as this index spikes. But what link, if any, is there between this index and the price of bitcoin?

Correlations

To explore the relationship between bitcoin price and the GPR index, we look at their correlations4 which were:

- -0.03 during 01 January 2014 – 07 October 2024 period
- 0.01 during 08 October 2023 – 07 October 2024 period

This clearly indicates that bitcoin's price is not correlated with geopolitical events. In addition, Figure 2 (below) shows the trailing one-year daily correlations between bitcoin and the GPR index. It is a good visual representation of the lack of any relationship between bitcoin's price and adverse geopolitical events.

Figure 2: Trailing one-year daily correlation to GPR index



Sources: WisdomTree, GlassNode, https://www.matteoiacoviello.com/gpr.htm. Daily data. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

While bitcoin and the GPR index are uncorrelated on a long-term basis, most investors have a much shorter-term view. If they see a large geopolitical event evolving, they want to understand its immediate impact on their portfolios.

Figure 3: Bitcoin's price around large geopolitical events

Source: WisdomTree, GlassNode, https://www.matteoiacoviello.com/gpr.htm. T = the day of the event. Historical performance is not an indication of future performance and any investment may go down in value.

Figure 3 (above) shows three sample events and how bitcoin's price changed from a day before event (i.e. T-1), to the day of the event (i.e. T), to 3, 7, and 30 days after the event (i.e. T+3, T+7, and T+30). Bitcoin's price went down on the day of the event in two out of three cases, and it did not recover within 30 days after both events. This is just a simple illustration that bitcoin is not a hedge for geopolitical risk.

Bitcoin's story

Bitcoin is both the network and the currency:

- As a **network**, it operates without any centralised intermediary. This makes it possible to transfer value between two different parties in a censorship-resistant manner. With over 15 years of track record, Bitcoin as a network has proven especially useful in developing regions with unreliable/corrupt financial systems and/or discriminatory capital controls.
- As a **currency**, bitcoin has a limited supply that is capped at 21 million coins, with a clear, codified issuance schedule. As a result, bitcoin's 'monetary policy' is transparent, in contrast to central bank-issued currencies. Bitcoin as a currency is scarce and has characteristics similar to gold, but it has the capacity to make nearly instantaneous payments and settlements without the need for a centralised counterparty.

As explained above, bitcoin is uncorrelated to the GPR index on a long-term basis. In addition, bitcoin has a very low correlation to traditional assets. During the 31 December 2013 to 30 September 2024 period, correlations between bitcoin and most traditional assets were around or below 20%5. As such, bitcoin would appear to be a great portfolio diversifier in both normal market conditions and in geopolitically stressed environments.

Conclusion

In summary, on a long-term basis, bitcoin offers investors an alternative store of value that sits beyond the current economic and financial systems. While historically, bitcoin's long and successful track record and lack of any relationship with geopolitical risks position it as a safe-haven asset, it is not a hedge against geopolitical events.

1 Source: Britannica Dictionary (https://www.britannica.com/dictionary/geopolitics)
2 Source: Geopolitical Futures (https://geopoliticalfutures.com/risk/)
3 Source: https://www.matteoiacoviello.com/gpr.htm
4 Sources: WisdomTree, GlassNode, https://www.matteoiacoviello.com/gpr.htm. Weekly Friday data. **Historical performance is not an indication of future performance and any investment may go down in value.**

Important Risks Related to this Article

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