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**Bitcoin in a Changing Macro Regime**

**By**

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**31 March 2026**

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**Executive Summary**

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**Bitcoin and M2 Expansion**

- ✦ Bitcoin has historically tracked global liquidity (M2) with a lag, but despite M2 rising again to ~\$22.4T in 2026, the expected price response has not yet materialized due to delayed transmission and changing market dynamics.
- ✦ The divergence reflects weaker *effective* liquidity (low velocity, real M2 below peak), tighter financial conditions (high real yields, strong dollar), and new transmission channels (ETFs, stablecoins), meaning liquidity is not flowing into Bitcoin as directly as in past cycles.

**Bitcoin Failing To Act Like Digital Gold**

- ✦ Bitcoin is not acting as “digital gold” because it no longer behaves as a hedge: its correlation with gold and the dollar has broken down, while it increasingly moves with equities, reflecting its role as a risk-sensitive macro asset.
- ✦ Recent market dynamics, including the 2026 Iran conflict, show that both gold and Bitcoin can fall under tightening financial conditions, with Bitcoin sometimes outperforming only due to positioning rather than safe-haven demand.
- ✦ The shift is structural: Bitcoin is highly liquid, actively traded, and used as a source of liquidity in stress, lacks stable demand like central bank buying, and is better suited to long-term systemic risks than short-term shocks, making its behavior regime-dependent rather than gold-like.

**Higher Energy and Mining**

- ✦ Oil impacts Bitcoin mining mainly indirectly through macro channels: higher oil prices raise inflation, strengthen the dollar, and tighten financial conditions, which lowers Bitcoin prices, reducing mining revenues and compressing margins more than energy costs themselves.
- ✦ Mining profitability has deteriorated sharply (hashrate down, hashprice at lows), forcing miners to cut capacity, sell BTC, and pivot toward AI/HPC, indicating that the key pressure is falling prices and margins, not rising energy costs.

**Bitcoin and Institution Adoption**

- ✦ Bitcoin has shifted from a retail-driven to institutionally dominated asset, with spot ETFs absorbing ~\$70bn in inflows and at times exceeding new supply by over 12x, making institutions the key price-setters.
- ✦ The market dynamic has changed from speculative flows to portfolio allocation, meaning Bitcoin is now managed alongside other assets and influenced by rebalancing, risk limits, and macro positioning.
- ✦ Despite strong adoption, flows have become more cyclical and sensitive to macro conditions, with ETF outflows and retail selling offsetting institutional accumulation (e.g., individuals –696K BTC vs institutional buying).
- ✦ Institutionalization has altered liquidity transmission and increased macro sensitivity, so Bitcoin now reacts to allocated liquidity and financial conditions, behaving more like a high-beta macro asset than a safe haven.

**Key Picture: How Bitcoin Has Performed Vs Other Asset Classes (Changes from Pre-War Levels)**



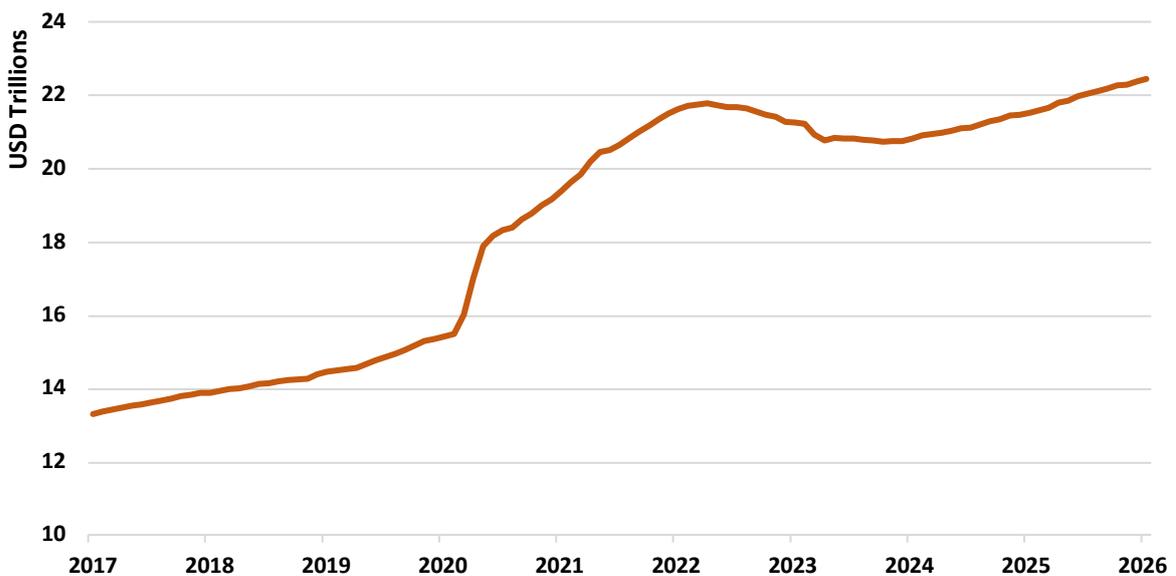
Source: [Coindesk](https://coindesk.com).

**Why Is Bitcoin Not Rising Despite M2 Expansion?**

Our previous analysis on the fair valuation of Bitcoin argued that global liquidity, measured through Global M2, has historically acted as the primary indicator of Bitcoin price cycles, with expansions during periods such as post-2008 QE and the COVID-19 stimulus aligning with major bull markets and contractions often preceding corrections. Bitcoin responds to changes in liquidity with a notable delay of roughly 10–12 weeks, illustrating that it functions as a macro-sensitive asset whose long-term behavior is shaped by central bank policy, debt conditions, and investor sentiment rather than by crypto-specific narratives alone.

Broad money supply is expanding again: [US M2 reached roughly \\$22.4 trillion in January 2026](#), up about \$922 billion year-on-year, a development that historically supported rallies in scarce assets such as Bitcoin and gold. Several structural factors explain why rising M2 has not translated into higher Bitcoin prices.

**Figure 1: M2 (M2SL), Trillions of Dollars, Seasonally Adjusted**



Source: [FRED](https://fred.stlouisfed.org/)

The first explanation is timing. Bitcoin’s relationship with liquidity operates with a lag, typically on the order of several weeks to a few months. This reflects its nature as a macro-sensitive asset: it reacts not to the level of liquidity, but to how that liquidity filters through financial markets. The current divergence may therefore reflect a delay rather than a breakdown.

**Figure 2: Coinbase Bitcoin (CBBTCUSD)**



Source: FRED

More importantly, however, not all liquidity is equal. Rising M2 does not automatically translate into deployable capital. Real M2 remains below previous peaks, while money velocity is historically weak. Much of the expansion is sitting idle in deposits rather than flowing into risk assets. In other words, nominal liquidity is rising, but effective liquidity is not.

At the same time, other macro forces are dominating price formation. Real yields remain elevated and the U.S. dollar has strengthened, both of which tighten global financial conditions. Higher real rates increase the opportunity cost of holding non-yielding assets like Bitcoin, while a stronger dollar suppresses global risk appetite. These effects tend to be faster and more powerful than gradual changes in money supply.

Finally, the transmission channels of liquidity into crypto have changed. In previous cycles, retail flows linked broad monetary expansion more directly to Bitcoin prices. Today, liquidity enters through more complex mechanisms, such as ETFs and stablecoins. If these channels are not expanding, Bitcoin may fail to respond even in the presence of rising aggregate liquidity.

In short, Bitcoin is not ignoring liquidity. It is reacting to a macro environment in which liquidity is weaker in practice, slower to transmit, and overshadowed by tighter financial conditions.

### Why Is Bitcoin Not Acting Like Digital Gold?

Bitcoin’s failure to behave like “digital gold” is not accidental, it reflects a deeper shift in how the asset is priced, traded, and integrated into the financial system. The digital gold thesis assumes that Bitcoin should act as a hedge during periods of stress and exhibit some relationship with gold while moving inversely to the U.S. dollar. In practice, neither condition consistently holds.

The 2026 Iran conflict illustrates this clearly. Both gold and Bitcoin came under pressure as oil-driven inflation pushed yields higher and tightened financial conditions. However, Bitcoin declined less than most traditional assets, including gold, which suffered a prolonged sell-off despite its safe-haven status.

Recent market data shows a clear breakdown in these relationships. Bitcoin's correlation with gold and the dollar has weakened to roughly zero, while its correlation with equities, particularly the Nasdaq, has strengthened significantly, often ranging between [+0.35 and +0.6](#). This places Bitcoin firmly within the risk-asset complex rather than alongside traditional safe havens.

This reflects a broader transformation in Bitcoin's identity. Rather than functioning as a stable store of value, Bitcoin behaves differently across macro regimes: at times as a liquidity-sensitive asset, at times as a high-beta proxy for risk, and only intermittently as a hedge. In the current environment—defined by elevated real yields, a strong dollar, and tighter financial conditions—the high-beta identity has dominated. Bitcoin tends to move with, and often tends to amplify, broader risk assets, rising in risk-on periods and falling more sharply in risk-off episodes.

The mechanism behind this shift is rooted in how Bitcoin is used within portfolios. Unlike gold, which is typically held as a defensive reserve, Bitcoin is highly liquid and easily tradable. In periods of stress, it is not accumulated, it is sold. Its 24/7 liquidity makes it an efficient source of cash for investors seeking to reduce risk, unwind leverage, or rebalance portfolios. In this sense, Bitcoin functions less like gold and more like a liquidity instrument, while gold remains a destination for defensive capital.

However, this relationship is not static. The behaviour of both assets depends on the dominant macro constraint. In some episodes of geopolitical stress, Bitcoin declines while gold rises, reflecting its role as a risk asset. This relationship is not stable and depends on the macro regime. Thus, in others, particularly when inflation shocks drive yields higher and liquidity tightens, both gold and Bitcoin can fall simultaneously. This was evident during the 2026 Iran war, where oil-driven inflation pushed yields higher and strengthened the dollar, leading to a broad sell-off across both assets. At times, Bitcoin even outperformed gold on a relative basis, but this reflected positioning, gold entering the shock overbought, Bitcoin oversold, rather than a structural shift in its role.

These dynamics highlight a key distinction. Gold benefits from stable, price-insensitive demand, particularly from central banks, reinforcing its role as a reserve asset. Bitcoin lacks such an anchor. Its demand remains more cyclical and flow-driven, and its high volatility—[often involving drawdowns exceeding 50%](#)—undermines its credibility as a store of value. Scarcity alone is not sufficient; stability and consistent demand are equally necessary.

There is also a mismatch in the risks each asset hedges. [Gold protects](#) against immediate shocks, war, financial instability, sudden loss of confidence. [Bitcoin is better suited to longer-term systemic risks](#), such as monetary debasement or erosion of trust in fiat systems. As long as markets interpret current shocks as temporary rather than systemic, gold remains the preferred hedge.

The key insight is that Bitcoin does not have a fixed identity. Its behavior depends on whether markets are driven by risk sentiment, liquidity conditions, or long-term monetary concerns. In the current regime, liquidity and financial conditions dominate, and under those conditions, Bitcoin behaves not as digital gold, but as a high-beta macro asset.

## Are Higher Energy Prices Hurting Bitcoin Mining?

The link between oil and Bitcoin, and by extension Bitcoin mining, is not direct, but mediated through macroeconomic channels. In the short term, rising oil prices tend to be bearish for Bitcoin because they push inflation higher, strengthen the dollar, and reduce the likelihood of monetary easing. This tightens financial conditions and weighs on risk assets. For miners, this indirect channel matters far more than energy costs themselves. [Most global hashrate](#) operates in electricity markets that are not tightly linked to crude oil prices, limiting direct exposure to oil shocks. The primary impact instead comes through Bitcoin's price.

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As prices fall, mining revenues decline, compressing hashprice and squeezing margins. This dynamic is now clearly visible. [Network hash rate has dropped to around 920 EH/s](#), roughly 8% lower week-on-week, with a similarly sized downward difficulty adjustment expected. [An estimated 250 EH/s of capacity](#) is currently offline or curtailed.

Profitability has deteriorated sharply. Hashprice has fallen to record lows, while operating costs remain elevated, leaving many miners under pressure. Although oil prices, driven by geopolitical tensions, have risen significantly, their direct impact on mining economics remains secondary. The dominant factor is weaker Bitcoin prices.

In response, mining firms are adjusting. Many have reduced Bitcoin holdings and begun reallocating capital toward artificial intelligence and high-performance computing infrastructure, seeking more stable revenue streams. This shift points to a broader structural change in the industry.

Thus, higher energy prices are not the primary threat to Bitcoin mining. The real constraint is a combination of falling prices, compressed margins, and rising capital intensity, which is forcing consolidation and strategic repositioning across the sector.

## Is Institutional Adoption Changing Bitcoin's Price Dynamics?

One of the most important shifts in recent years is that Bitcoin is no longer primarily a retail-driven asset. The rise of spot ETFs, institutional custody, and regulated investment vehicles has fundamentally altered who the marginal buyer is and how Bitcoin reacts to macro conditions. At first glance, this should be unequivocally bullish. Institutional participation has expanded rapidly. Since their approval, [US spot Bitcoin ETFs have absorbed roughly \\$70 billion in cumulative inflows across 2024-2025](#), marking one of the fastest ETF adoption cycles on record.

At peak demand, [daily ETF inflows exceeded newly mined Bitcoin supply by more than 12 times](#), effectively making institutional vehicles the dominant marginal price-setters in the market. By late 2025, Bitcoin ETFs held over \$100 billion in assets, with institutional investors accounting for roughly a quarter of total exposure, and a majority of institutions preferring to access crypto through regulated vehicles rather than direct ownership.

In structural terms, institutionalization is a defining feature of the market. Yet recent price action suggests a more nuanced reality: adoption is rising, but price responsiveness is weakening.

### *From Speculative Flows To Portfolio Allocation*

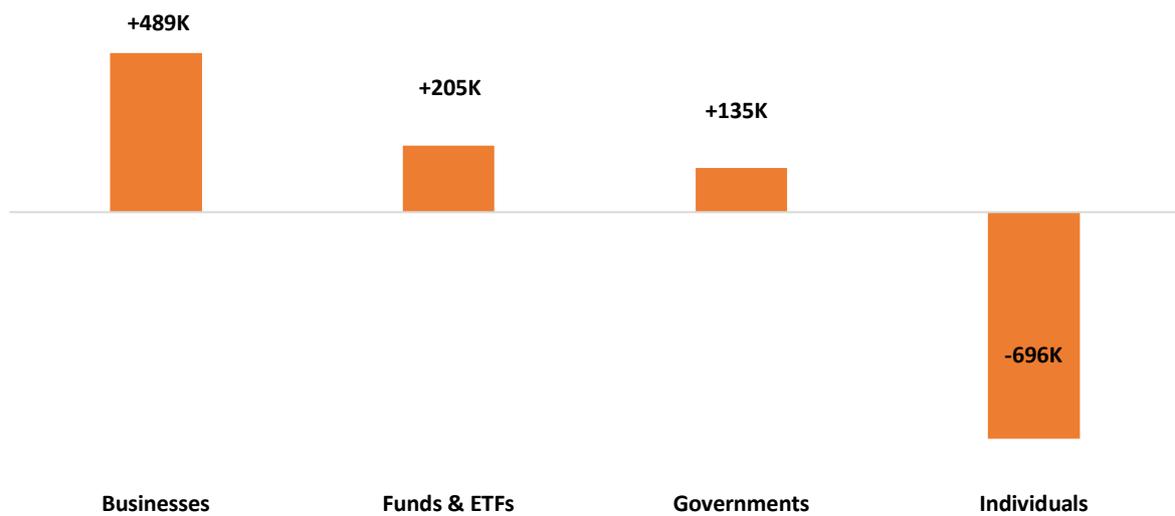
The key change lies in how Bitcoin is held and traded. In earlier cycles, price dynamics were largely driven by retail flows, momentum, and narrative. Liquidity entering the system could quickly translate into crypto demand, amplifying price moves. Today, Bitcoin is increasingly treated as part of a diversified portfolio allocation. Institutional investors do not buy Bitcoin in isolation; they allocate to it alongside equities, bonds, and other assets. As a result, Bitcoin is now subject to portfolio rebalancing, risk limits, and macro positioning.

This helps explain a key paradox visible in recent data. Despite the structural strength of institutional adoption, flows have become more cyclical. Since the start of 2026, [US spot Bitcoin ETFs have seen roughly \\$2.6 billion in net outflows](#), following earlier periods of strong inflows. Over a broader period, ETF complexes have recorded

multi-week outflows [totaling \\$4-5 billion](#), reflecting a clear shift toward de-risking by institutional investors. In other words, institutions are not passively accumulating Bitcoin—they are actively managing exposure in line with macro conditions.

The reason becomes clearer when looking at the composition of demand, not just its size. Recent ownership data shows a striking divergence between institutional and retail behavior. In 2026, businesses increased their Bitcoin holdings by roughly +489,000 BTC, funds and ETFs added around +205,000 BTC, and governments accumulated approximately +135,000 BTC. At the same time, individual investors reduced their exposure by about -696,000 BTC.

**Figure 3: 2026 Change in Bitcoin Ownership**



Source: [Cryptocurrency](#)

### *Liquidity Now Flows Through Institutional Channels*

Institutionalization has also changed the transmission mechanism of liquidity. In previous cycles, broad monetary expansion could feed relatively directly into crypto markets via retail speculation. Today, liquidity is filtered through ETF flows, portfolio allocation decisions, and risk management frameworks.

This means that rising M2 or improving liquidity conditions are not sufficient on their own. For Bitcoin to benefit, liquidity must pass through these institutional channels—and those channels are governed by macro considerations such as interest rates, volatility, and overall portfolio risk. As a result, Bitcoin no longer reacts to liquidity in aggregate, but to liquidity that is actively allocated to it.

### *Institutionalization Increases Macro Sensitivity*

A further consequence of institutional adoption is that Bitcoin has become more tightly integrated into the broader financial system. As institutional investors treat it as part of a multi-asset portfolio, its price becomes more sensitive to interest rates, the dollar, and global risk sentiment. This shift is visible in market behavior. Despite strong long-term inflows and growing institutional ownership—estimated at over 30% of known Bitcoin supply in some datasets—Bitcoin has struggled to act as a safe haven in recent geopolitical stress.

Instead, it has traded more like a high-beta macro asset, responding to tightening financial conditions and risk-off sentiment rather than to crisis-driven demand. Paradoxically, the same process that lends Bitcoin greater legitimacy—its integration into institutional portfolios—also makes it behave more like a conventional asset.