

THE TROJAN HORSE

Bitcoin boomerang for Tesla: drop shakes up US indices

The company's stock falls on the stock exchange alongside the cryptocurrency: Nasdaq and S&P 500 hit

Morya Longo

Its name is Tesla. It makes electric cars. But on the stock exchange it looks like it has become a sort of Trojan horse: the vehicle through which Bitcoin's extreme volatility (which in three days lost around 10k dollars in value, decreasing to 47k yesterday) enters straight into the "control room" of the Nasdaq and the New York Stock Exchange. In recent days the price of technology stocks have fallen, and with it also Wall Street, with the reason at least partly to be found in the close link that Elon Musk has created between Tesla and Bitcoin. The car manufacturer announced that it had purchased 1.5 billion dollars worth of Bitcoin on 8 February and since then its prices have been highly influenced by the cryptocurrency's erratic trend. And given that Tesla only has a 4.5% weighting in the Nasdaq and 1.65% in the S&P 500, its stock's fluctuations have a rather significant impact on all prices. "This is the first time that Bitcoin has had such a direct and significant influence on stock exchange prices", observes Antonio Cesarano, chief investment strategist at Intermonte.



We know how the story goes. On 8 February, in an official document submitted to the SEC, Tesla announced that it had purchased 1.5 billion dollars worth of Bitcoin and was looking to accept the cryptocurrency as a payment method for its cars. The news sparked interest across the world not only because the car manufacturer has committed a significant part of its cash on a highly volatile asset (in late 2020 it was worth 19 billion dollars in total), but especially because the announcement came after a series of tweets by its CEO, Elon Musk, in favour of Bitcoin. This heavy "endorsement", made on Twitter and worth billions, resulted in Bitcoin flying high: closing at 37,902 dollars on 7 February, the cryptocurrency managed to top 58 thousand dollars on 21 February.

On that day, an analyst from Wedbush Securities, Daniel Ives, quoted by many American newspapers, estimates that this investment yielded around one billion dollars in profit for Tesla. In a few days, essentially, the car manufacturer potentially made more profit than in 2020 as a whole, when it recorded 782 million. On the stock exchange, Tesla is not performing as well as in those days, also because its prices are already extremely high. It is thought that it is currently capitalising 650 billion dollars: this is practically equal to every other car manufacturer in the world combined and over 900 times higher than the profits that Tesla made in 2020. Francesco Castelli, CFA at Banor Capital, states: "These prices would only be consistent if in the future of electric cars Tesla managed to conquer a very large segment of the market". In brief: a great deal of faith is needed.

But Musk's bet on Bitcoin backfired. Also because of the Tesla CEO, who last weekend described the price of the cryptocurrency as "high". So from that day, it lost 10k dollars in value and in the same period of time Tesla dropped around 13%. A decrease that only yesterday reached well over 10%, before reducing at the end of the session. In this see-saw effect, Musk became the richest person in the world before being overtaken once more by Jeff Bezos of Amazon in the Forbes World's Billionaires list (185 against 167 billion). Bringing Bitcoin's volatility, like a Trojan horse, right into the heart of Wall Street and Nasdaq.