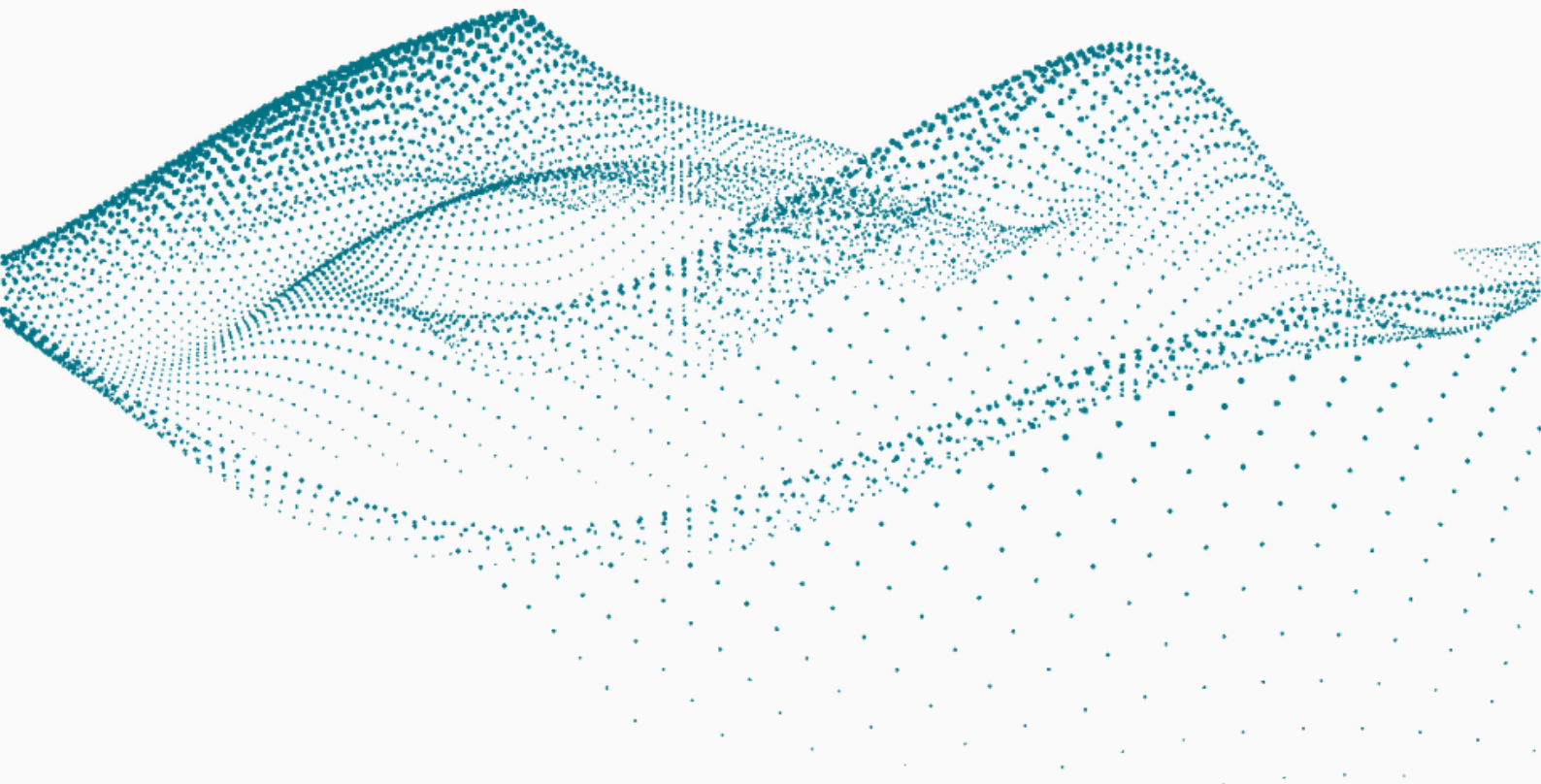


Quarter 2 Outlook

Capturing the Late-Cycle Inflection



Purpose of the Report

This report examines the key macroeconomic, geopolitical, fundamental, and technical forces that may shape Bitcoin and the broader digital asset market throughout Q2 2026.

Digital assets increasingly trade within the global macro environment, where liquidity conditions, monetary policy, and geopolitical developments play a significant role in shaping investor behaviour. At the same time, institutional adoption and on-chain activity continue to strengthen Bitcoin's long-term investment thesis.

As we progress through Q2, markets remain cautious amid rising geopolitical tensions and persistent inflation risks. Bitcoin currently trades well below its previous cycle highs, yet institutional demand through ETF inflows and corporate treasury adoption continues to expand. The key question for the quarter ahead is not only how macro conditions will impact digital assets, but whether Bitcoin is beginning to evolve beyond its role as a traditional risk asset and toward a global monetary asset within the financial system.

Key Findings

Our analysis suggests that Bitcoin is operating in the later stages of its current market cycle correction, with structural conditions increasingly aligning with a transition toward accumulation rather than continued decline.

- Market structure indicates late-stage consolidation, consistent with previous cycle bottoms
- Institutional participation continues to expand, with evidence of accumulation during periods of weakness
- Liquidity conditions are beginning to stabilise, with early signs of capital returning to the digital asset ecosystem
- Macro conditions remain mixed in the short-term, but gradually improving over the medium term

While the precise bottom may not yet be fully confirmed, the balance of probabilities suggests that Bitcoin is positioning within the latter phase of the bear market, where risk-reward dynamics begin to favour long-term accumulation.

At the same time, structural developments across adoption, market infrastructure, and global macro conditions are contributing to a broader shift in Bitcoin's narrative, supporting its evolution toward a scarce, neutral monetary asset.

Global Macro and Geopolitical Outlook

Global macroeconomic conditions and geopolitical developments continue to play a significant role in shaping digital asset market cycles. Liquidity dynamics, monetary policy expectations, and broader financial conditions remain key drivers of risk appetite across global markets.

As Bitcoin increasingly trades within the global macro environment, shifts in liquidity, interest rates, and geopolitical stability have become important determinants of market direction. The ongoing conflict in the Middle East also introduces an additional variable, with geopolitical instability potentially acting as a catalyst for a broader shift in Bitcoin's narrative from a risk-on asset toward a more neutral monetary asset. These forces do not operate in isolation. Liquidity conditions, bond yields, monetary policy, and geopolitical developments interact continuously, shaping the broader financial environment in which digital assets trade.

The following section examines the key macroeconomic and geopolitical forces likely to influence digital asset markets throughout Q2 2026.

Liquidity conditions remain the primary driver of digital asset market cycles, although Bitcoin's growing role as a global monetary asset means its behaviour is increasingly influenced by broader macroeconomic and geopolitical forces.

A Transitional Liquidity Environment

Global liquidity remains one of the most important drivers of digital asset market cycles. M2 money supply reflects the total amount of liquid capital within the financial system, including cash, deposits, and other highly accessible assets. Changes in liquidity conditions often influence investor risk appetite and capital flows across financial markets.

Following the aggressive monetary tightening cycle following the pandemic, liquidity conditions have begun to stabilise. The Federal Reserve's quantitative tightening programme concluded in December, marking the end of a prolonged period of balance sheet contraction. While quantitative easing has not yet resumed, the cessation of tightening removes a key source of liquidity withdrawal from global markets.

At the same time, the Federal Reserve's reverse repo facility has continued to decline from its peak levels, effectively releasing liquidity back into the financial system.

Historically, similar dynamics have been observed during periods of coordinated currency and debt management, such as the Plaza Accord of 1985, where multi-national co-ordinated policy actions were used to manage trade imbalances through targeted US dollar depreciation and liquidity adjustments. More recently, Japan's Yield Curve Control policy between 2016 and 2024 demonstrated how central banks can directly intervene in bond markets to manage yields and debt sustainability.

The relevance of these historical examples becomes clearer when viewed against the current structure of the US debt market. The combination of rising sovereign debt, elevated refinancing needs, and increasing interest costs is placing growing pressure on the financial system. These conditions have historically led to policy intervention, particularly when market-driven outcomes begin to destabilise broader economic activity.

Throughout Q2 2026, this dynamic suggests a transitional liquidity environment. While conditions remain relatively tight in the near term, the probability of future liquidity expansion is increasing as systemic economic pressure builds.

M2 Supply since 1960

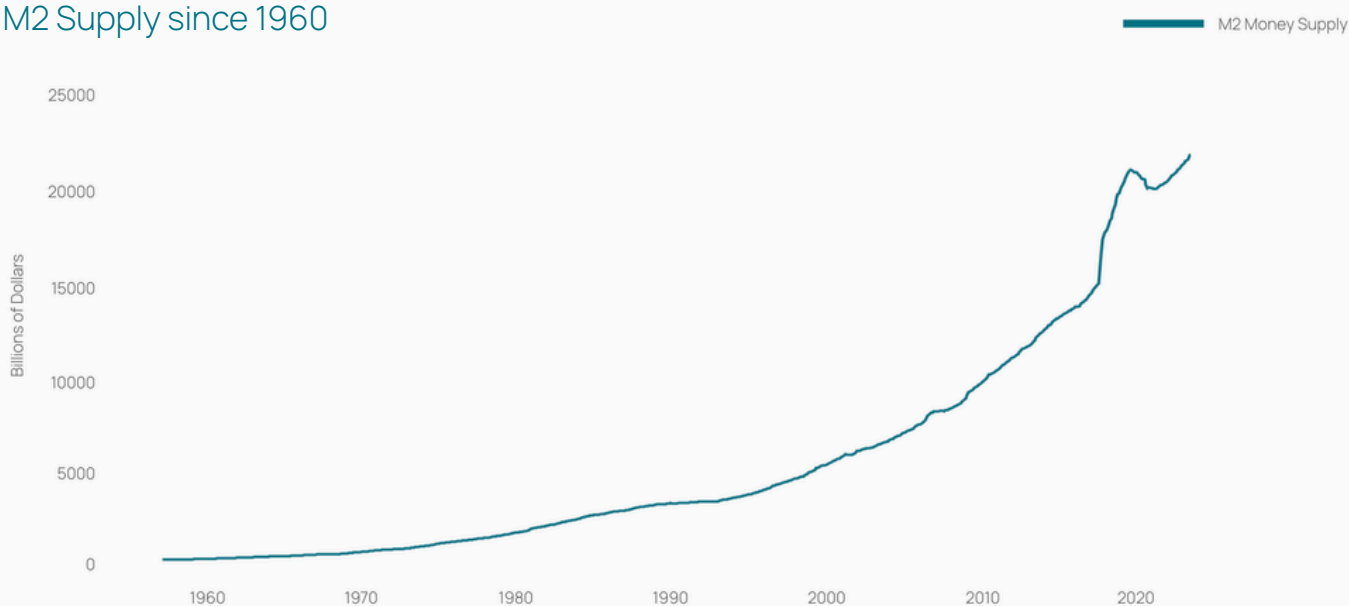


Figure 1 : M2 Money Supply (M2SL)

Source: Board of Governors of the Federal Reserve System (US) via FRED®, Stormrake Research

Impact on Bitcoin

Elevated bond yields continue to act as a near-term headwind, tightening liquidity and increasing the opportunity cost of holding Bitcoin. This has historically weighed on risk assets and may limit upside in the short-term.

However, Bitcoin appears to be responding more to expected future liquidity than current conditions. As rising yields increase pressure on debt markets, the probability of policy intervention also rises.

As a result, yields act not only as a constraint, but as a leading indicator. Any stabilisation, post-normalisation in yields could signal improving conditions and act as a catalyst for renewed strength in Bitcoin.

While liquidity provides the foundation for market cycles, its impact is most clearly expressed through bond markets and yield behaviour, making yield dynamics the next critical layer to assess.

Yield Curve Fractal

Yield curve dynamics, particularly the spread between the US 2-year and 10-year Treasury yields, provide a reliable framework for understanding macro cycles. The 2-year yield reflects short-term policy expectations, closely tied to central bank decisions, while the 10-year yield captures longer-term growth and inflation outlooks. The relationship between the two offers insight into where the market sits within the economic cycle. When short-term yields rise relative to long-term yields, financial conditions tighten and recession risks increase. When this pairing steepens significantly and short-term yields are providing a noticeably higher return than long-term yields, this misalignment is known as an “Inverted Yield Curve” - signalling to market participants something is severely broken in the global-financial framework.

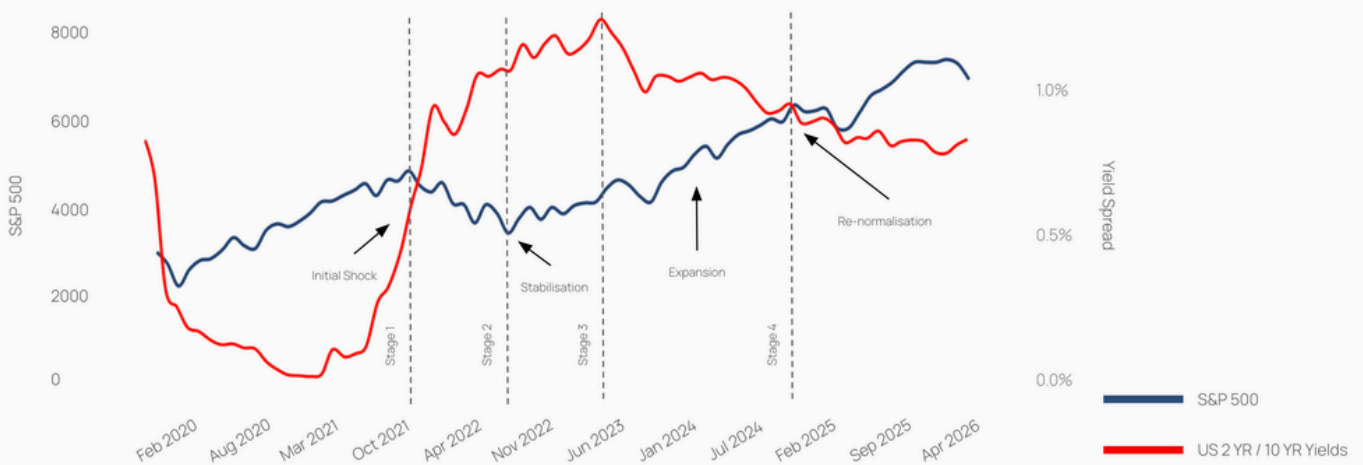


Figure 2: US 2 / 10 Year Treasury Yields & S&P 500
Source: TradingView, Stormrake Research

Yield Curve Fractal

Equities, such as the S&P500 and risk assets tend to be highly sensitive to these shifts. Rising yields increase the cost of capital and reduce liquidity, placing pressure on valuations. As a result, equities often decline during periods of aggressive tightening, with Bitcoin typically moving in alignment given its position as a high-beta asset. Over time, however, Bitcoin has shown a tendency to decouple earlier, responding more directly to forward-looking liquidity expectations.

Bitcoin’s price behaviour has historically followed a repeatable pattern in response to rising bond yields, which can be understood across four stages.

Stage 1: Initial Shock

A rapid increase in yields leads to a broad risk-off move, with Bitcoin declining alongside equities as financial conditions tighten.

Stage 2: Stabilisation

Bitcoin begins to stabilise despite continued pressure in bond markets, as investors reassess its role within the broader financial system.

Stage 3: Expansion

As markets begin to anticipate potential policy intervention, Bitcoin breaks out of its consolidation range and enters a phase of accelerated price appreciation.

Stage 4: Re-normalisation

As short-term yields begin to fall relative to long-term yields, the market shifts from anticipating a slowdown to actively pricing in recession. This transition typically forces a dovish central bank response to stabilise financial conditions following periods of intensified selling.

The current cycle appears to be progressing through this framework. Following the yield spike in early 2026, Bitcoin has remained relatively stable in recent months, suggesting the market may be transitioning toward the later stages of this cycle. While there remains potential for further downside with yields re-normalising, much of the bear market repricing appears to have already occurred. Any broader sell-off across equities and global markets, driven by yield re-normalisation, may present incremental opportunities for positioning.

While yield dynamics provide a framework for understanding market cycles, their real-world impact is reflected in broader financial conditions, including debt markets, capital flows, and currency strength.

Financial Conditions: Bond Yields, Debt Markets, and the US Dollar

Financial conditions play a central role in determining global capital flows and investor risk appetite. In the United States, rising government debt and higher interest rates are creating increasing pressure within Treasury markets. US government debt has now surpassed \$39 Trillion, with more than 30% of outstanding debt expected to be refinanced during 2026, including approximately \$2.5 Trillion throughout Q2 alone.

Because much of this debt was originally issued during periods of extremely low interest rates, refinancing it at today's higher yields significantly increases the cost of servicing government debt. As a result, Treasury issuance may continue to rise, potentially placing upward pressure on bond yields as markets absorb the increased supply.



Figure 3 : US Treasury Yields and Dollar Strength
Source: TradingView, Stormrake Research

At the same time, the US dollar has strengthened, reflecting a broader shift toward liquidity and perceived safety amid global uncertainty. Historically, rising yields and a stronger dollar have coincided with tighter financial conditions and reduced appetite for risk assets.

Impact on Bitcoin

In the near term, higher yields and dollar strength would typically act as a headwind for Bitcoin as capital rotates toward lower-risk assets. However, recent price behaviour suggests Bitcoin has shown relative resilience despite tightening financial conditions. This divergence may reflect growing investor interest in Bitcoin as an alternative monetary asset, particularly as rising sovereign debt and increasing debt servicing costs highlight structural pressures within traditional financial systems.

These conditions are not formed in isolation. They are ultimately driven by central bank decisions, making monetary policy the key force shaping the direction of yields, liquidity, and financial markets.

Monetary Policy and Liquidity Conditions

Monetary policy remains a key driver of global financial conditions, influencing borrowing costs, capital flows, and investor risk appetite across financial markets. As shown in Figure 4, the proportion of central banks implementing rate cuts has begun to increase while the number of rate hikes has steadily declined. Data as of April 2026 indicates that over 82% of central banks now count a rate cut as their most recent policy move, suggesting that the global tightening cycle that followed the pandemic may be approaching its later stages. Furthermore, the GDP-weighted net proportion of 86.03% is currently outstripping the raw count of banks, signalling that the world's largest economies are leading this shift toward accommodation.

While the global policy environment is gradually shifting, the outlook remains uneven across regions. Persistent inflation pressures and geopolitical uncertainty continue to influence central bank decisions. In particular, escalating conflict in the Middle East has introduced fresh volatility into energy markets, creating a potential headwind for the easing cycle. Some economies, such as Australia, have recently raised interest rates to combat localised pressures, highlighting ongoing policy divergence.

Despite these variations, US monetary policy remains the most influential driver of global financial conditions. The federal funds rate currently sits within a target range of 3.50% to 3.75%, with markets expecting a cautious and data-dependent path through 2026. An additional variable is the upcoming Federal Reserve leadership transition, with Kevin Warsh expected to assume the role of Chair during the coming quarter. Markets are closely monitoring whether this transition will signal a shift in how the Fed balances easing against the inflationary risks posed by geopolitical instability.

Proportion of Global Central Banks Cutting/Hiking Rates

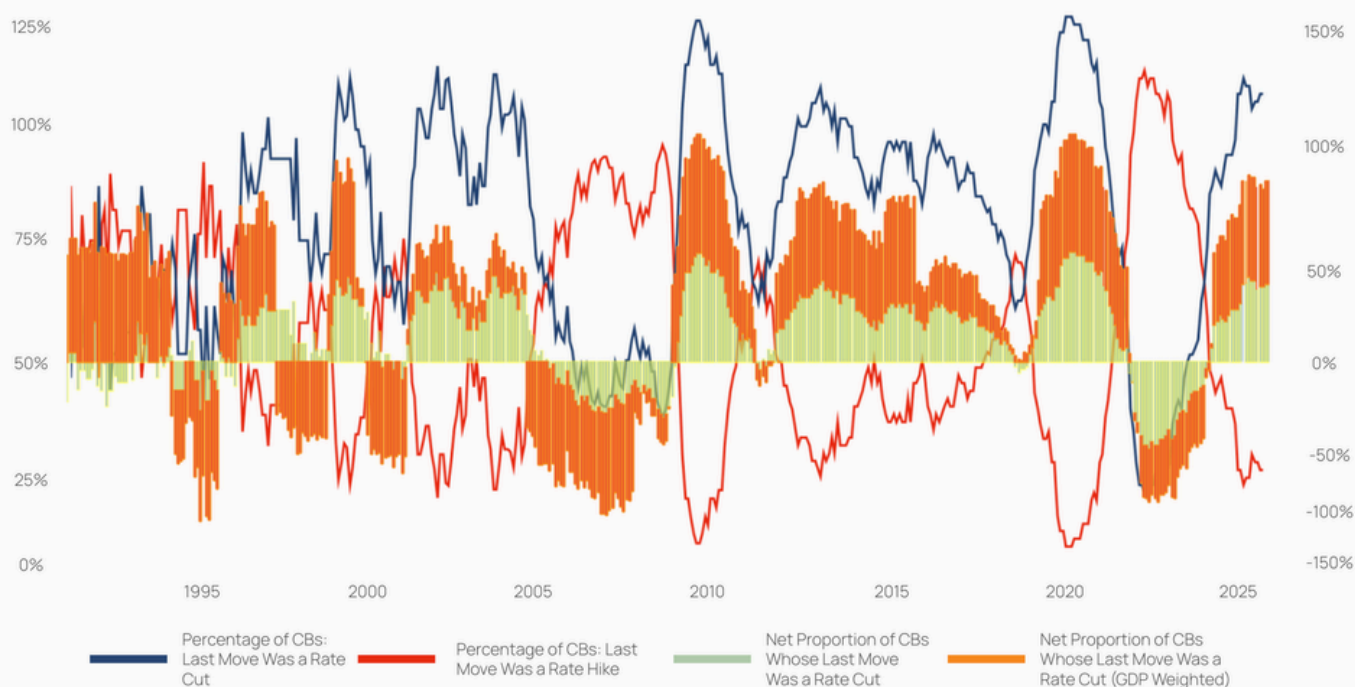


Figure 4 : Proportion of Global Central Banks Cutting vs Hiking Rates

Source: MacroMicro, Stormrake Research

Impact on Bitcoin

Historically, shifts toward a more accommodative monetary policy environment have coincided with improving performance across risk assets. If global policy continues to ease through 2026, improving financial conditions may provide a more supportive backdrop for Bitcoin and the broader digital asset market. While monetary policy sets the baseline for financial conditions, external shocks, particularly within energy markets and the broader Middle East region, can disrupt this path and reshape inflation expectations. Consequently, geopolitical developments remain a critical variable for the liquidity outlook and the performance of digital assets.

Geopolitical Risk: Middle East Conflict and Energy Markets:

Geopolitical developments remain a key variable within the global macro environment, particularly through their impact on energy markets. Ongoing tensions in the Middle East have driven oil prices to their highest levels since July 2022, with sustained increases posing a direct risk to global inflation.

Importantly, there remains no clear resolution or timeline for the conflict, increasing the likelihood that supply disruptions and elevated energy prices could persist. The scale of the

disruption is also significant, with estimates suggesting up to 8 million barrels per day at risk, compared to approximately 1 million barrels during the Russia–Ukraine conflict. Historically, oil-driven inflation has forced central banks to maintain restrictive policy for longer, tightening financial conditions across markets.



Figure 5 : Global Conflicts Impact on Oil and Bitcoin
 Source: TradingView, Stormrake Research

Global Conflicts Impact on Oil and Bitcoin

Impact on Bitcoin

In the short-term, rising oil prices may act as a headwind by delaying monetary easing. However, prolonged instability may also contribute to a shift in Bitcoin’s narrative, with early signs of relative strength suggesting increasing recognition of its role as a neutral monetary asset. Beyond their macroeconomic impact, energy markets also influence Bitcoin more directly through production costs and network dynamics, linking geopolitical developments to the asset’s underlying structure.

Bitcoin, Energy, and the Next Macro Leg Higher

Bitcoin is entering a phase where its price is increasingly shaped by structural forces rather than purely cyclical liquidity. At the centre of this shift sits the interaction between rising production costs and global energy markets, with oil now playing a more indirect but meaningful role. Bitcoin’s network backdrop remains strong, and is observably measured by Hash rate. This refers to the total computational power securing the Bitcoin network, representing the scale of energy and resources committed to validating transactions and maintaining the system. Bitcoin’s Hash rate is currently near record levels around 900 EH/s, reflecting sustained miner commitment despite tighter post halving margins. At the same time, production costs have moved higher, with

estimates placing electricity breakeven in the \$64K to \$75K range and all-in costs above \$110K depending on efficiency and geography. Electricity continues to account for up to 80% of mining expenses, anchoring Bitcoin firmly to the global energy complex.

Bitcoin Price vs Mining Production Cost

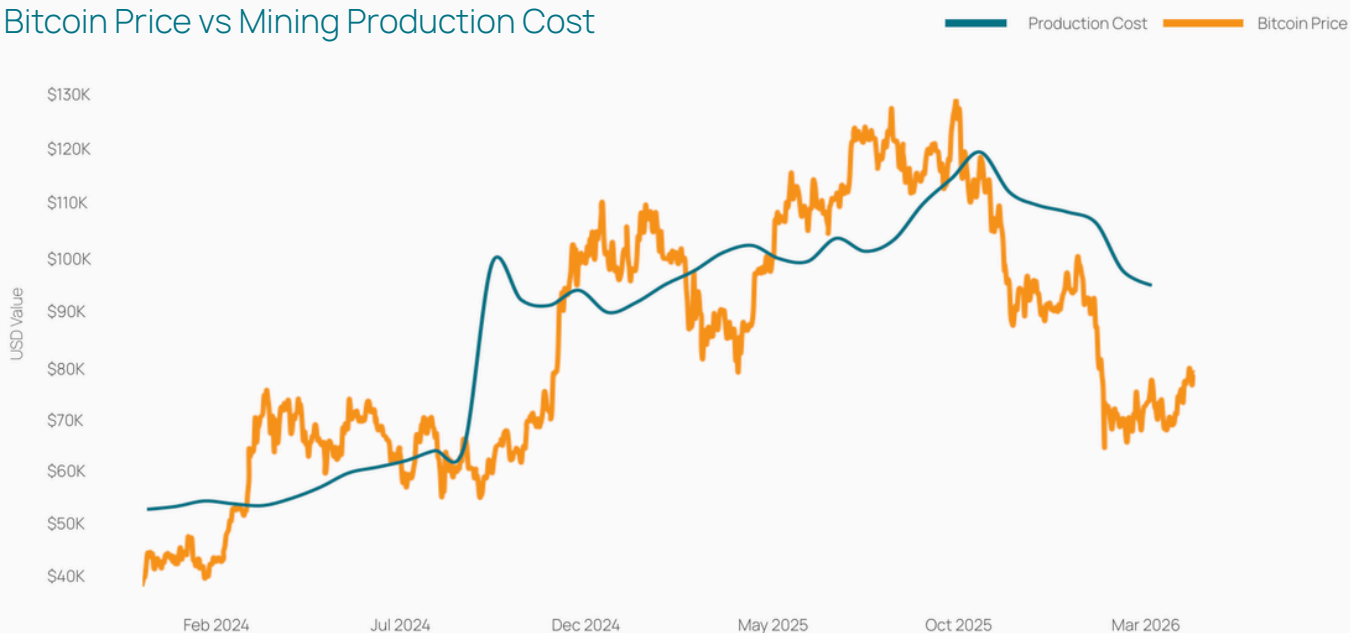


Figure 6 : Bitcoin Price & Mining Production Cost
 Source: MacroMicro, Stormrake Research

Overlaying this with global energy markets reveals a clear macro alignment. The surge in energy prices between 2020 and 2022 coincided with Bitcoin’s move from \$10,000 to its \$69,000 peak. As energy markets cooled and liquidity tightened into 2022 and 2023, Bitcoin entered a corrective phase. Now, in 2026, energy prices remain structurally elevated, with oil trending higher once again and electricity costs still well above pre-2020 levels. Bitcoin’s ability to hold significantly higher range lows reflects this shift in the underlying cost base.

The mechanism behind this correlation is straightforward. Higher energy costs increase the expense required to secure the network, which in turn raises the marginal cost of production. Miners, operating as rational economic actors, are unlikely to sell at a loss for extended periods. This constrains supply and gradually pushes price toward a new equilibrium. At the same time, rising energy costs often signal broader inflationary pressure within the global economy, weakening fiat purchasing power and strengthening the appeal of scarce, non-sovereign assets. Historically, when Bitcoin trades near or below average production cost, it tends to align with cycle lows. This reinforces the idea that rising costs create a soft floor, supporting price over the medium term as inefficient supply is forced offline.

However, the transmission from oil to Bitcoin is not primarily direct. Most of the network operates on energy sources that are not immediately repriced by crude oil, limiting the short-term impact on mining costs. Instead, the more important channel is macro.

Where oil becomes more influential is through the macro channel. Sustained increases in energy prices can feed inflation, shaping monetary policy and liquidity conditions.

This is where the geopolitical backdrop becomes critical. The escalating tensions involving Iran introduce a direct risk to global energy supply chains, particularly through the Strait of Hormuz,

which handles around 20% of global oil flows. Markets are already pricing in a risk premium, with estimates around \$14 per barrel, and further disruption could push energy prices higher. Iran remains a key player in oil markets, and any disruption in the region has immediate consequences for pricing. Higher oil prices feed into transportation, manufacturing, and electricity generation, amplifying inflation across multiple sectors. The result is a feedback loop where rising energy costs accelerate monetary debasement concerns.

Bitcoin sits directly at the intersection of these forces. Unlike traditional energy assets, it cannot be restricted, redirected, or politically controlled. In an environment where energy is increasingly weaponised, Bitcoin functions as a form of sanction resistant value transfer. This characteristic becomes more relevant as geopolitical fragmentation increases and trust in sovereign systems begins to erode.

The Two-Sided Implication for Higher Oil Price

On the bullish side, this reinforces Bitcoin's narrative as a scarce asset with rising extraction costs - much like gold. Inflation shocks may also drive demand for alternative stores of value, positioning Bitcoin alongside traditional hedges.

However, the bearish implications are harder to ignore. Elevated oil prices tend to push central banks toward tighter policy, supporting higher real yields and a stronger US dollar. Both have historically weighed on Bitcoin, which remains sensitive to liquidity conditions.

There is also a demand-side risk: higher fuel and energy costs compress disposable income and reduce speculative appetite. In such an environment, retail flows weaken and miners facing tighter margins may increase selling pressure to cover expenses. In the short-term, these macro headwinds often outweigh the supportive effect of a rising cost floor.

If conditions shift and the Iran situation stabilises, the outlook changes. Lower energy prices would ease inflation pressure, reduce the need for restrictive policy, and support liquidity and risk appetite. This has historically aligned with stronger Bitcoin performance, even if it softens the cost floor narrative.

From a forward-looking perspective, the key takeaway is that Bitcoin is no longer just reacting to liquidity cycles. It is increasingly responding to structural shifts in the global energy landscape. With oil markets tightening and geopolitical risks building, the probability of sustained energy inflation is rising. That environment has historically aligned with stronger Bitcoin performance, not immediately, but through a lagged repricing process as markets adjust to new cost realities.

The Q2 Impact

This places Bitcoin in a balanced but constructive position. While short-term volatility may persist, particularly around macro headlines and bond market stress, the underlying trend is being supported by a rising global cost base. If energy markets continue to tighten, Bitcoin's long term valuation framework will need to adjust accordingly.

Bitcoin's current structure remains fundamentally strong. A near record hash rate and elevated production costs support the long term thesis of a resilient and scarce digital asset. The more important driver, however, is how oil influences inflation, policy, and global liquidity.

Oil does influence Bitcoin, but not primarily through mining costs. Its real impact flows through macro conditions, making liquidity and policy the decisive factors for Bitcoin's next move.

Digital Asset Fundamentals

While macroeconomic and geopolitical forces shape short-term market conditions, developments within the digital asset ecosystem provide insight into the **underlying strength and direction of the cycle**. Adoption trends, institutional participation, and on-chain activity remain key indicators of **structural demand for Bitcoin**.

As the asset class matures, Bitcoin's integration within traditional financial systems has accelerated through **institutional adoption, regulated investment vehicles, and increasing corporate participation**. These developments are not only expanding market access, but also gradually embedding Bitcoin within the broader global financial system.

This evolution is beginning to shift market perception. As adoption deepens alongside rising macro uncertainty, Bitcoin is increasingly being viewed not solely as a speculative risk asset, but as a **scarce, decentralised monetary asset operating outside traditional financial systems**.

The following section examines the key indicators shaping this transition throughout Q2 2026.

Institutional and Corporate Adoption

Institutional adoption remains one of the strongest fundamental drivers of Bitcoin's long-term growth. The introduction of spot Bitcoin exchange-traded funds (ETFs) has significantly expanded access to the asset, allowing traditional investors to gain exposure through regulated financial products. ETF flows have therefore become a key indicator of institutional demand, with sustained inflows supporting both liquidity and market structure.

Recent market behaviour suggests that institutional participation has continued to build quietly during periods of price weakness, particularly around local cycle lows. This pattern indicates that longer-term capital may be accumulating Bitcoin during periods of uncertainty, rather than chasing momentum at market highs.

At the same time, progress toward greater regulatory clarity remains a key catalyst. Prediction markets currently assign approximately 28% probability to comprehensive US crypto market structure legislation, including the Clarity Act, becoming law in Q2. If passed, such legislation could further reduce barriers to institutional participation and accelerate capital inflows into the asset class.

Corporate adoption is also expanding, with companies increasingly allocating Bitcoin to treasury reserves as a potential store of value in an environment characterised by inflation uncertainty and rising sovereign debt.

Impact on Bitcoin

If institutional accumulation during periods of weakness continues throughout Q2, it may provide a strong foundation for price appreciation as market conditions stabilise.

Combined with increasing regulatory clarity and reduced circulating supply through ETFs and corporate holdings, this dynamic reinforces Bitcoin's position as a scarce, increasingly institutionalised monetary asset.

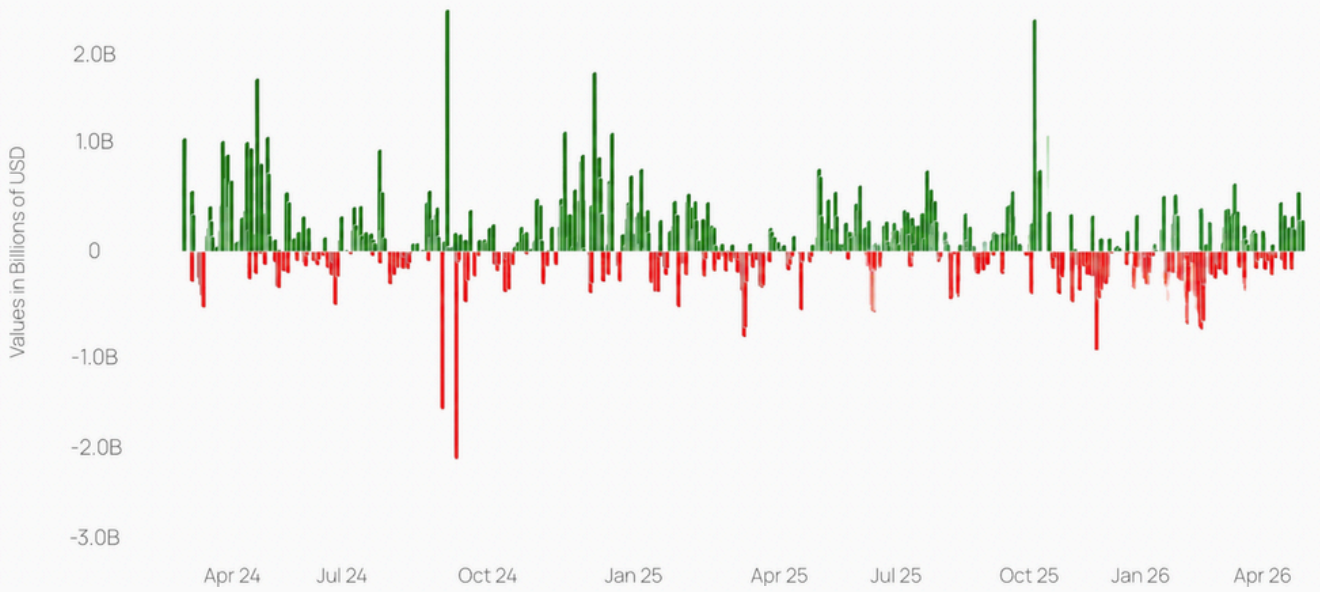


Figure 7 : Bitcoin ETF Flows

Source: Bitbo, Stormrake Research

█ BTC ETF Inflows █ BTC ETF Outflows Bitcoin ETF Flows

On Chain Analysis

Bitcoin supply on exchanges has reached the lowest point in over five years, but price remains at \$75k. The below chart illustrates that smart money is beginning to accumulate Bitcoin at these prices and moving the BTC into cold storage which is an extremely bullish sign.

This could cause a supply shock in the upcoming quarter when even slight demand results in a rapid price impact, often resulting in Bitcoin higher.

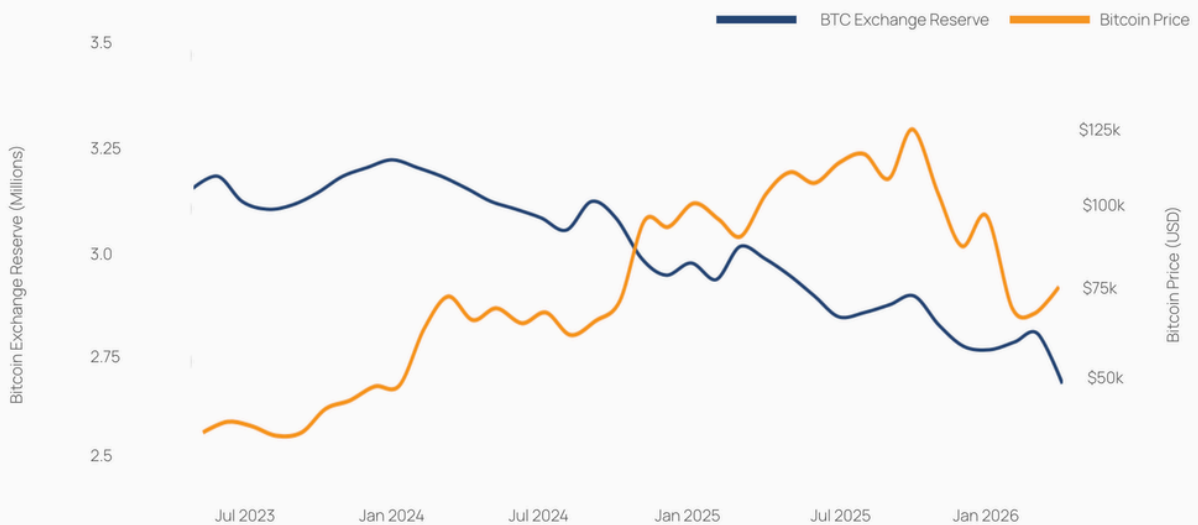


Figure 8 : Bitcoin Exchange Reserves

Source: CryptoQuant, Stormrake Research

Bitcoin Exchange Reserves

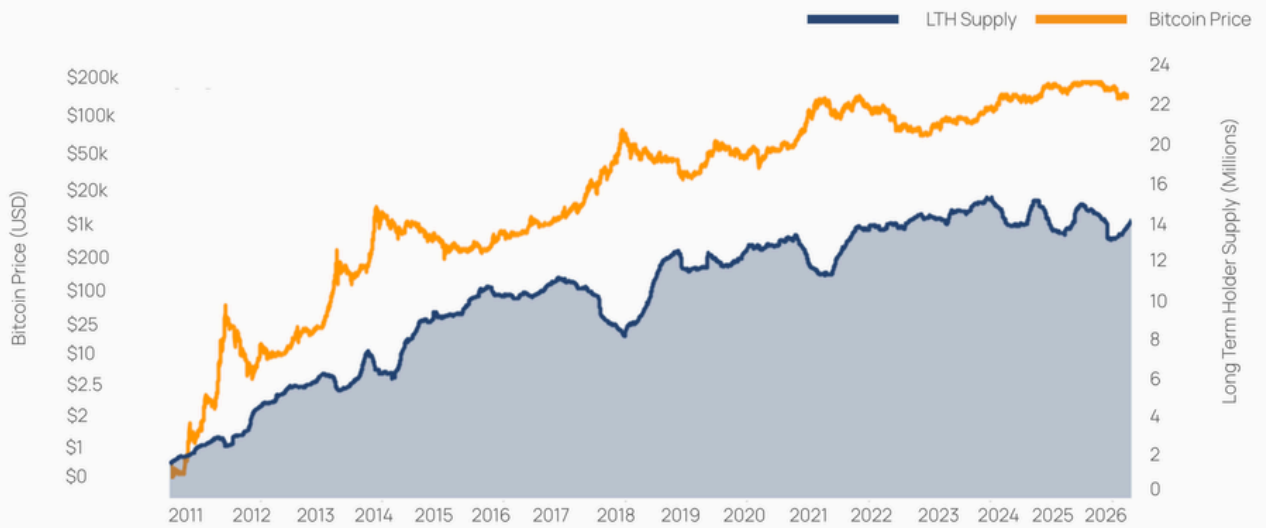


Figure 9 : Bitcoin Long-Term Holder Supply
Source: Bitbo, Stormrake Research

Long Term Holder Supply

Long-term holders have begun to tick up again, signalling that the aggressive distribution of 2025 has ended and a new accumulation phase is underway. While this is historically the most opportunistic time for patient capital to accumulate, the initial uptick serves as a structural floor rather than an immediate launchpad, often preceding a multi-month period of consolidation before the next parabolic phase of the bull run.

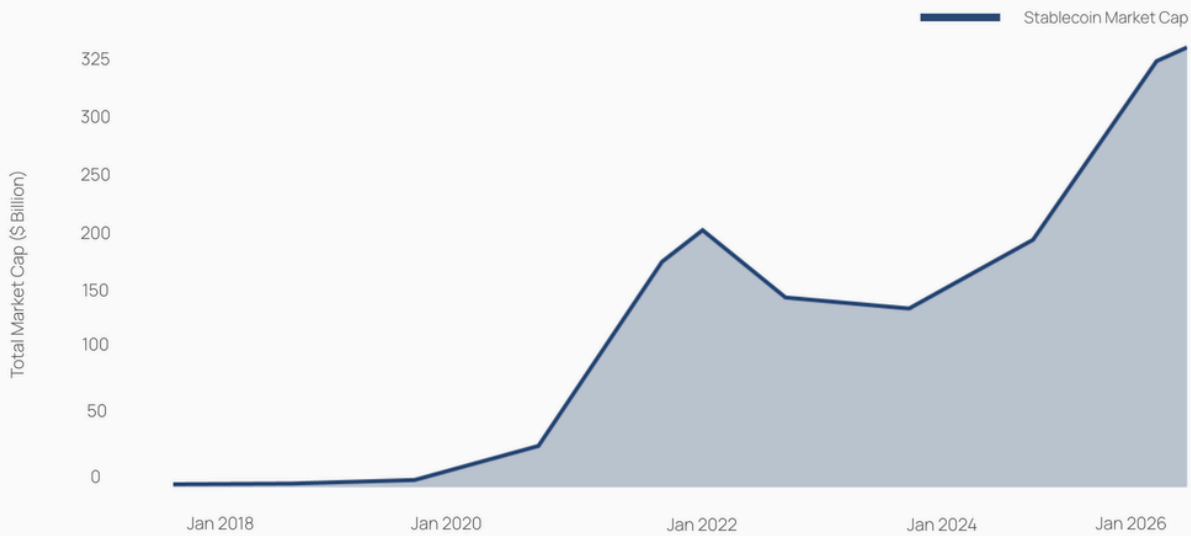


Figure 10 : Stablecoin Adoption
Source: Bitbo, Stormrake Research

Stablecoin Adoption

Stablecoin supply has shown a clear shift from contraction to expansion over the past 18 months. Following a decline throughout 2022 and 2023, total stablecoin market capitalisation has steadily increased, recently reaching new cycle highs. This trend indicates that capital is re-entering the digital asset ecosystem after a prolonged period of outflows. Historically, expansions in stablecoin supply have coincided with improving market conditions, as increased liquidity provides the foundation for sustained price appreciation across digital assets. Looking ahead, continued regulatory progress, particularly the advancement of stablecoin-focused legislation such as the GENIUS Act, may further support this trend by providing clearer frameworks for issuance and usage, potentially opening the door to increased capital inflows into the digital asset market.

Bitcoin at a Decision Point

Bitcoin’s current structure continues to reflect the late-stage behaviour seen after the 2017 and 2021 cycle peaks, where extended compression followed the initial drawdown. A key signal from the 2022 bear market, visible in the data above, was the divergence between price and Open Interest following the June capitulation. While price moved lower into the final November low, Open Interest began trending higher, consistently building above prior levels. This shift, captured in CoinGlass data, indicated that positioning was returning even as price remained weak, signalling absorption rather than continued distribution.

That divergence marked an early indication that the market was transitioning toward a bottom before price confirmed it. Leverage was being rebuilt in a controlled manner, not flushed out, which historically aligns with accumulation phases.

Applying this framework to current conditions, a similar setup would emerge if Bitcoin were to sweep below the \$60K region while Open Interest expands rather than contracts. This would suggest that downside is being absorbed, with new positioning entering despite weaker price action. In contrast, a drop toward \$48K alongside declining Open Interest would reflect a more traditional deleveraging phase.

As in prior cycles, the relationship between price and Open Interest remains the signal. Strength in positioning during weakness in price has historically preceded cycle lows and the transition into expansion.

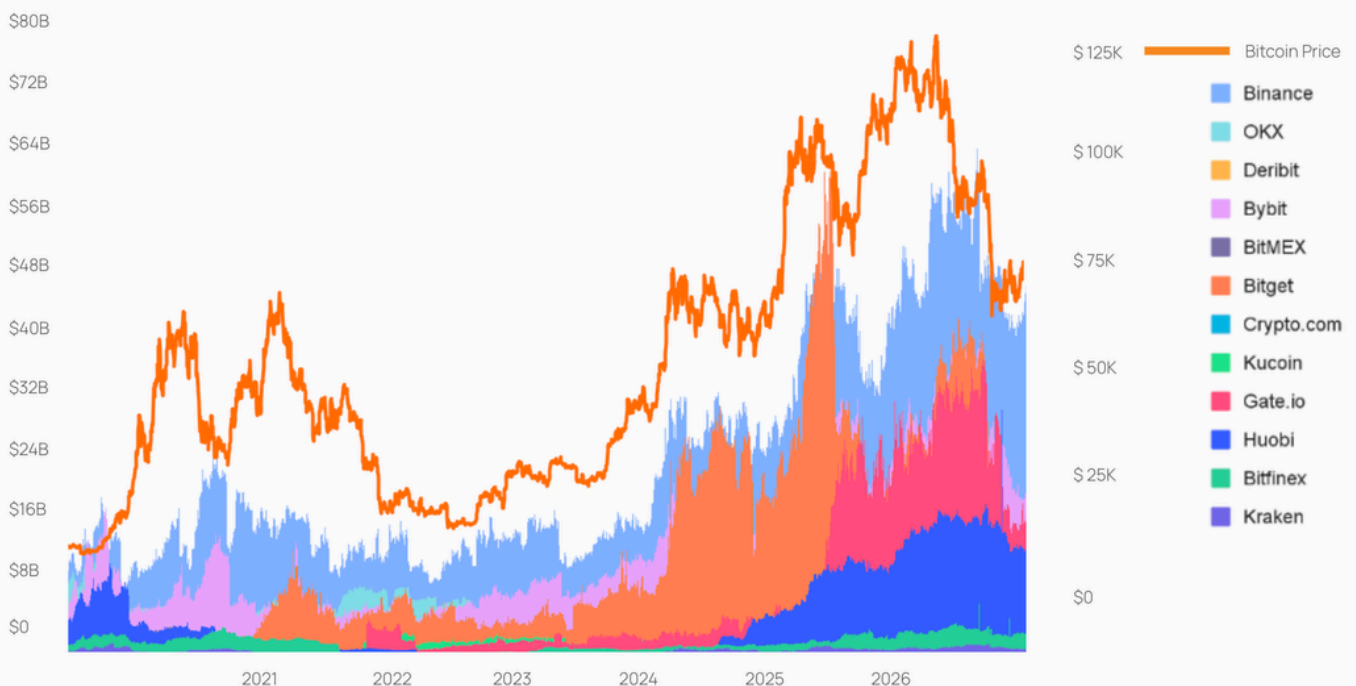


Figure 11 : Exchange Open Interest
 Source: CoinGlass, Stormrake Research

Exchange Open Interest

MVRV

The Market Value to Realised Value (MVRV) Z-Score is an on-chain valuation metric that compares Bitcoin’s market value to its realised value, helping assess whether the asset is overvalued or undervalued relative to its historical norm. It is widely used to identify market extremes and cycle turning points.

Historically, elevated readings have aligned with market tops, while lower readings, particularly near the green zone (around 0), have coincided with periods of undervaluation and long-term accumulation opportunities.

Currently, the MVRV Z-Score is approaching this lower range, suggesting Bitcoin is moving toward historically favourable accumulation levels. In previous cycles, similar conditions have aligned with the later stages of market corrections and the formation of cycle bottoms.

Impact on Bitcoin

If historical patterns persist, current MVRV levels may indicate that downside risk is diminishing, while the probability of long-term accumulation and eventual upside expansion continues to increase.

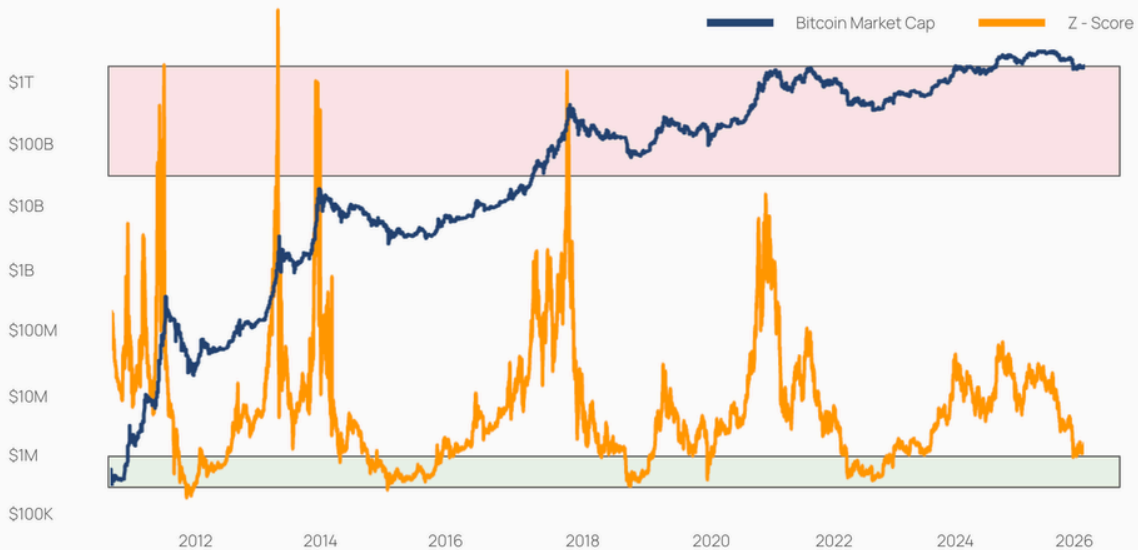


Figure 12 : Bitcoin MVRV Z-Score
 Source: Newhedge, Stormrake Research

Bitcoin MVRV Z-Score

Lightning Network Adoption

The Underlying Engine Powering Bitcoin's Real-World Utility

While attention remains on Bitcoin's price between \$60K - \$75K, a more structural shift is underway. Q2 2026 is shaping into an "invisible adoption" phase, where the Lightning Network; a second-layer protocol built on Bitcoin that enables instant, low-cost transactions by processing payments off-chain while still leveraging Bitcoin's security, is quickly becoming vital infrastructure as opposed to a simple tool.

A key driver is the rise of AI agents. Protocols such as Coinbase and Cloudflare's x402 are enabling machines to transact autonomously using Lightning. Payments worth fractions of a cent can be executed instantly when accessing paid services, allowing AI systems to operate continuously without human input. Google's Agent Payments Protocol extends this by introducing programmable budgets, connecting directly to Lightning providers to facilitate real-time spending.

At scale, Lightning is already proving viable. In early 2026, a \$1 Million transfer between institutions settled in under a second, demonstrating the network's capacity for high-value, low-cost transactions. The integration of stablecoins via Taproot Assets further expands utility by combining Lightning's speed with price stability, making the network more practical for everyday and institutional use.

For Q2, the outlook centres on early-stage network effects. As AI-driven microservices expand, they introduce a new source of consistent, programmatic demand. This creates a feedback loop where Bitcoin is increasingly required as collateral within Lightning channels, gradually pulling liquidity back into BTC as usage scales.

The broader shift positions Bitcoin as a settlement layer for machine-driven commerce, where rising transactional demand and constrained supply begin to reinforce each other over time.

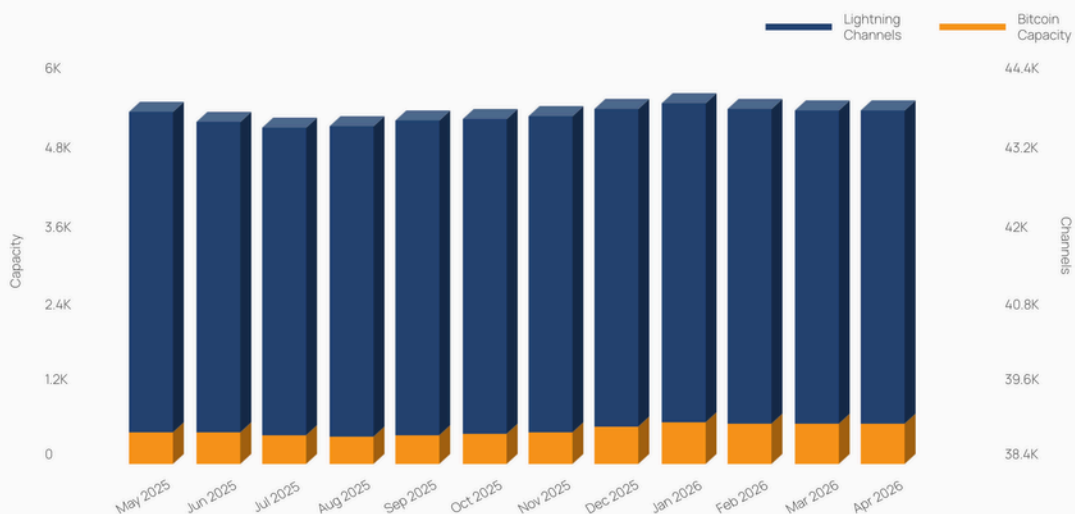


Figure 13 : Lightning Network Capacity
Source: Newhedge, Stormrake Research

Lightning Network Capacity

Market Cycle Positioning

Financial markets move through recurring psychological phases driven by investor behaviour. These cycles typically progress from optimism and belief to euphoria at market peaks, followed by fear, capitulation, and eventual recovery. While macroeconomic conditions and fundamentals provide context, market structure is often shaped by how participants react to price movements and evolving narratives.

Within the digital asset ecosystem, Bitcoin leads the broader market cycle, with liquidity and sentiment typically flowing into Bitcoin before rotating into alternative assets. As a result, Bitcoin’s position within the cycle often determines the direction of the wider digital asset market.

Based on current sentiment, macro conditions, and price behaviour, Bitcoin appears to be operating within the anger phase of the cycle. This stage is typically characterised by persistent frustration, reduced participation, and short-lived rallies that fail to establish sustained momentum. Current conditions continue to reflect a mid-to-late stage consolidation phase, following the broader correction from previous cycle highs.



Figure 14 : Bitcoin Market Cycle Psychology (Probabilistic Assessment)
 Source: Stormrake Research

Psychology of A Market Cycle

Impact on Digital Assets

Historically, the anger phase has occurred during the later stages of market corrections, often preceding the formation of a structural bottom. If the current cycle follows similar patterns, Bitcoin may continue to consolidate in the near term. However, as selling pressure subsides and long-term accumulation increases, the probability of a bottom forming may rise, potentially laying the foundation for the next expansion phase.

Technical Analysis

Technical analysis provides insight into how macroeconomic and fundamental forces are reflected in price structure. By analysing historical patterns and market behaviour, it helps assess the probability of different market outcomes.

Bitcoin's current price action reflects a period of late-cycle consolidation, shaped by tightening financial conditions and subdued investor sentiment. However, as highlighted in previous sections, improving liquidity dynamics and continued accumulation suggest that underlying conditions may be stabilising.

The following analysis focuses on cycle fractals to evaluate whether Bitcoin is approaching the final stages of consolidation and to identify the conditions required for a transition into the next phase of the market cycle.

Bitcoin Bear Market Fractal

Bitcoin's current market structure is beginning to closely resemble the 2022 bear market bottom, with both technical structure and macro conditions suggesting the market may be approaching a critical inflection point. The key question for Q2 is not whether volatility persists, but whether the consolidation phase that has defined early 2026 is nearing completion.

Historically, Bitcoin has followed repeatable structural patterns during periods of correction. Both the 2022 cycle and the current market display a similar four-stage consolidation process within a defined range:

In 2022, this process took approximately nine months to fully develop. In the current cycle, consolidation has lasted around five months, suggesting a similar structure may still be unfolding. Bitcoin appears to be transitioning between the Dead Cat Bounce and Final Flush phases, with price pressing toward the upper boundary of the range.

Four-stage consolidation process of Bitcoin

1. Crash Low

Initial capitulation as panic selling drives price toward a temporary floor.

2. Dead Cat Bounce

A sharp rebound that briefly restores optimism before momentum fades.

3. Final Flush

Liquidity is swept below prior lows, marking the final phase of capitulation.

4. Breakout Test

Price attempts to reclaim the upper range, signalling a potential trend reversal.



Figure 15 : Bitcoin Market Cycle Fractal (2022 vs Current Cycle)
 Source: TradingView, Stormrake Research

Bitcoin Bear Market Fractal

Implications for Market Structure

If the fractal continues to play out, Bitcoin may experience further consolidation or a final liquidity sweep before establishing a structural bottom. However, increasing institutional participation may compress the cycle timeframe, allowing the market to resolve more quickly than in previous cycles.

This suggests the current environment may represent late-stage accumulation, rather than the beginning of a prolonged downtrend.

Stormrake's Outlook

While the longer-term outlook for Bitcoin remains constructive, current conditions suggest a 65% probability that the market has not yet fully established its cycle low. The focus for Q2 is therefore not on immediate expansion, but on how the current consolidation phase resolves.

Market Structure: The Late-Cycle Inflection

Bitcoin appears to be operating within the latter stages of its correction, where market behaviour shifts from aggressive selling toward absorption and positioning. Price action is increasingly defined by compression rather than continuation lower, with volatility fading and structure stabilising. Historically, this phase has marked the transition from distribution into accumulation. From a structural perspective, the market is no longer behaving like an early-stage downtrend. Instead, price is holding within a developing range, with underlying demand gradually absorbing supply. This type of environment often precedes a bottoming process, but rarely resolves quickly. Final lows, where they occur, are typically formed through either extended periods of low-volatility price discovery or after a final liquidity-driven move lower.

Accumulation and Market Behaviour

Fundamentals are increasingly aligned with this structure. Institutional participation continues to expand, with evidence of accumulation during periods of weakness rather than strength. At the same time, broader market sentiment remains cautious, a combination that has historically emerged near cycle lows rather than cycle tops.

Macro Environment: Supportive but Constrained

The macro environment provides both support and friction. Liquidity conditions are expected to improve over time, particularly if geopolitical uncertainty persists and monetary policy begins to ease. However, in the near term, financial conditions remain relatively tight, and ongoing tensions within energy markets continue to introduce volatility. This creates a backdrop where time becomes the primary driver of the bottoming process, rather than price alone.

Bitcoin's tendency to move ahead of policy remains critical in this phase. Markets often begin repricing future liquidity conditions before they are fully visible, meaning accumulation can take place while the macro environment still appears restrictive.

Key Levels and Market Confirmation

From a market structure perspective, \$74K represents the first meaningful shift in momentum, signalling a move away from short-term accumulation. However, this level alone would not confirm that the bear market has fully concluded. A more definitive transition into a new cycle phase would require a reclaim of \$100K, marking a break beyond prior structural highs.

Q2 Outlook: Base Case

For Q2, the most probable outcome is a continuation of this late-stage consolidation phase, where price remains range-bound while underlying conditions continue to improve. This period often feels indecisive, but historically it has been where the foundation for the next expansion is formed.

Positioning and Opportunity

The key takeaway is not whether the exact bottom has already been set, but that the market is in the process of forming it. As this phase progresses, the opportunity to accumulate ahead of confirmation begins to narrow, particularly as price approaches key breakout levels.

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