SYGNUM

Crypto Market Outlook 2025

Charting the escalating demand for Bitcoin in 2025

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Welcome to Sygnum's Crypto Market Outlook 2025

2024 was quite a year for crypto. In January, days after the SEC approval of the first US spot Bitcoin ETFs, the asset started its >160% climb to the symbolic USD 100,000 level. It reached this landmark on 4 December, no doubt propelled by the incoming US administration's promised regulatory reforms and the well-timed alignment between the crypto and general liquidity cycles.

We anticipate this momentum to continue in 2025, despite a mixed macro outlook, due to a number of powerful drivers. These range from potential demand shocks created by new institutional investors and strong US economic and earnings growth forecasts, to tech-driven advancements in scalability and interoperability.

This year's Outlook starts with the case for the 2025 bull market, and then performs a deep dive into how ETFs and regulatory clarity could combine to deliver a watershed year for the industry. Part III examines the key risks of inflation and geopolitics, with Part IV striking a note of caution over structural changes that might disrupt the crypto cycle's traditional alt season. The final section looks at the industry's potential winners, losers and challengers in detail.

I trust that you will enjoy the read, and that it helps challenge your thinking, shape your investment thesis and navigate the exciting year ahead.

Please feel free to reach out, I am always happy to engage!

M Imbach

Mathias Imbach
Sygnum Co-Founder and Group CEO

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Executive summary

Demand shocks ahead

Traditional institutional investors – the investor base with the largest pool of assets under management – are just beginning to make crypto allocations.

So far, only a very small number of large institutions, such as pension funds, have invested in crypto assets. With increasing US regulatory clarity, it is expected that inflows from sovereign wealth funds, endowments, pension funds and insurers will commence in earnest in 2025.

Multiple central banks and local governments considering proposals for central bank Bitcoin reserves suggests an even greater potential for inflows. Large corporations' treasuries may also follow suit.

Political support and personnel changes

Newsflow since the US elections confirms that Donald Trump's crypto-related campaign promises are on track to be delivered on.

Numerous crypto advocates nominated to cabinet positions, personnel changes at the SEC, the likely extended role of the CFTC in regulatory oversight and a new White House post dedicated to crypto policy suggest a highly favourable environment ahead for innovation and growth.

The Fed remains ahead of the curve

Despite tremendous stresses in the global economy and the current monetary system, trends in the US economy – host to the world's largest financial markets – remain benign. The backdrop of strong US growth and an ongoing rate cut cycle are an ideal scenario for financial markets. In addition, Donald Trump's stated economic policies, such as deregulation and tax cuts, would be positive for earnings growth.

Although there are risks to this scenario, our base case is that strong US economic and earnings growth will support risk assets even if the rate cut cycle proceeds at a more cautious pace.

Alt season may be memecoin season

A broad-based altcoin season that has been a feature of previous crypto bull market cycles is expected only if regulation tailored to the asset class allows projects to pass value to tokenholders without triggering a compliance burden they cannot reasonably fulfil. Barring that, Bitcoin's unusually strong drivers and the presence of new Bitcoin ETF investors limiting the rotation from Bitcoin to other crypto assets will cap the relative performance of altcoins.

Meanwhile, lacklustre user growth for the majority of decentralised applications and use cases has driven speculative investment towards memecoins, risking a bubble.

Scalability shake-up

The concentration of transaction volume growth in memecoins – often traded by bots – has allowed highly scalable blockchains, such as Solana, and further challengers, such as Sui, to outperform.

While Solana's revenues are starting to challenge Ethereum's, these are concentrated in the narrow and fragile sector of memecoins; and it is premature to suggest that Solana is about to unseat Ethereum as the dominant smart contract platform.

Part I:
Bull market likely to continue into 2025

Bull market likely to continue into 2025

New money

The bull case for crypto primarily hinges on the expected allocations to the asset class by new investors.

As the asset class is still small relative to others and most of the world's large institutional investors are not yet participating, the opportunity for further steep price appreciation is from engagement by these investors.

Previous crypto market bull cycles, each delivering returns percentages in the thousands, have also been driven by new investor groups discovering the asset class. Bitcoin holders were initially software developers, followed by those committed philosophically to the decentralised ethos of Bitcoin. The 2017 bull cycle was driven by retail investors discovering crypto, and by 2021, investor participation had broadened to include hedge funds and family offices.

Every wave of new money entering a small asset class has produced extraordinary returns, and the same is expected as traditional institutional investors allocate to crypto – a trend that has begun with the launch of the spot Bitcoin Exchange-Traded Funds (ETFs) this year.

The conditions for institutions to enter the crypto market are currently in place, as follows:

- **Familiarity with the opportunity**
  Awareness is high – at least as far as Bitcoin is concerned – after the entry of major institutions such as BlackRock, crypto playing a central role in the last election cycle, numerous supportive statements from key opinion leaders and Bitcoin ETF issuers marketing the asset to institutions.
- **The ability to trade and settle**
  The ETFs enable investors to gain exposure without having to invest in systems and personnel to be able to trade, settle and risk manage crypto assets, bringing down the practical barriers.
- **Regulatory clarity**
  Although regulatory clarity around crypto assets is still lacking in the US, progress in this direction – coupled with a strongly supportive stance from the new president's team and a significant number of elected legislators – is removing this obstacle.
- **Favourable market conditions**
  The easy availability of liquidity coupled with bullish market conditions facilitates and accelerates new allocations – the prevailing macro backdrop of healthy US GDP growth, the expectation of accelerating earnings growth, a continued rate cut cycle and the prevailing bullish momentum in the crypto market create favourable conditions for institutions to make crypto allocations.
- **Catalysts**
  The US election has provided a catalyst, as the new administration has vowed to implement a host of policies to support the crypto industry.

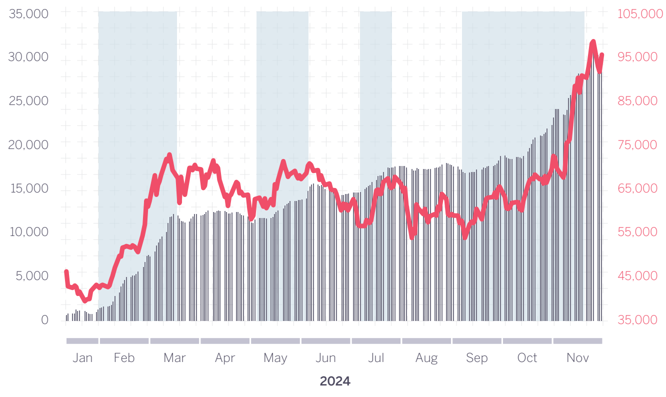
In addition to allocations by institutional investors, there is an ongoing diversification from gold to Bitcoin in safe haven holdings. Senator Cynthia Lummis – the originator of the "Bitcoin Act", the bill aimed at establishing a strategic Bitcoin reserve – has suggested that even the US government may make such a move by selling gold certificates to buy Bitcoin should the Bitcoin Act pass.

Meanwhile, the inflow of new money into the crypto market is met by extremely limited liquid supply, leading to repeated demand shocks and a strong multiplier effect on every dollar.

Bitcoin's theoretical market capitalisation is in itself relatively small compared to the potential size of the allocations, but its circulating supply is smaller still. In addition, a lot of the circulating supply is highly illiquid, with committed long-term holders making up a large share of the investor base. Indeed, the Bitcoin balances on exchanges – a measure of the readily tradeable supply – have been declining for most of this year and dropped off again after the US elections.

We have seen that the inflows triggered by the launch of the ETFs have repeatedly caused demand shocks this year.

BITCOIN PRICE VERSUS BITCOIN ETF CUMULATIVE NET FLOWS



Source: CoinMarketCap, Farside Investors

* Data in the charts throughout this report is dated as of 29 November, 2024 unless noted otherwise.

Analysing the impact of USD 1bn of inflows into Bitcoin ETFs – roughly 0.1 percent of Bitcoin's market capitalisation – we find that smaller waves of inflows of USD 3.5–4.5bn mid-year resulted in 3–4 percent market moves per USD 1bn of inflow, while larger waves of USD 11–12bn at the beginning of the year and recently coincided with 4.5–6 percent price moves per USD 1bn. Accounting for the estimated inflows into spot Bitcoin indicated by increases in stablecoin market capitalisation, we estimate a 20–30× multiplier on every dollar of inflow, with the multiplier increasing with the size of the flows.

The demand shocks are exacerbated by crypto's strong reflexivity, as demand for the asset grows when prices rise.

As institutional inflows accelerate, coupled with the multiplier effect and Bitcoin's reflexivity, this is likely to lead to another year of very strong performance for Bitcoin.

Political support

Expectations of a much more favourable regulatory climate in the US have been fuelling the rally since Donald Trump's election victory.

With crypto widely seen as a "Trump trade", Donald Trump's election victory has allowed the bull trend to resume. A positive shift in the US political and regulatory approach to crypto could be highly impactful, the US being the world's largest financial market as well as host to many of the world's largest investors. The US has been an uncharacteristic laggard internationally in clarifying crypto regulation; indeed, crypto businesses have faced hostility from some political and regulatory entities, and this has held the crypto market back.

However, the Republican clean sweep – achieving a majority in the electoral college, Senate and Congress as well as among the state governors – is even more significant than a crypto-friendly US president, as most crypto sceptics are among the Democrats. A lot of Donald Trump's campaign promises can only be delivered on by legislation or regulation, not by the word of the president. The clean sweep means that the president will tend to have support for his policies in general, and as far as crypto policies are concerned, the news is even better, as the balance of pro versus anti-crypto legislators has shifted very decisively, especially in Congress.

Very encouragingly, crypto has also become a non-partisan issue, with a significant number of pro-crypto elected representatives among the Democrats as well, counterbalancing the remaining staunch critics among the Democrats.

The election outcome bodes well for crypto legislation, with widespread expectation of the establishment of a comprehensive regulatory framework, which includes clarifying the status of crypto assets and defining the roles of the regulatory bodies. It is expected that the Commodity Futures Trading Commission's (CFTC's) role in crypto oversight will be extended, and the chances of the various crypto bills passing and being written into law have increased substantially.

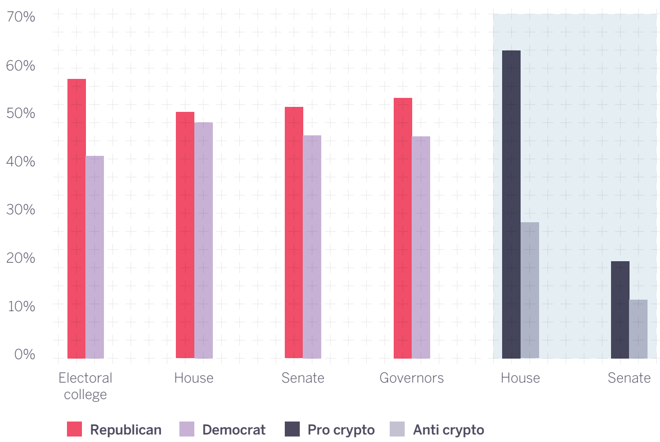
Beyond the FIT21 crypto bill to establish a federal regulatory framework for crypto assets, these include the following:

- SAB 121, which would negate the requirement for US banks offering custody services to hold custodied crypto on balance sheet (unlike custodied securities)
- The Payment Stablecoin Act
- The Bitcoin Act, which compels the US government to build a strategic Bitcoin reserve
- The CBDC Anti-Surveillance State Act
- Various bills supporting self-custody, crypto mining, Decentralised Finance (DeFi) and other issues

Some of these legislative moves would be transformative for the crypto industry, bringing about regulatory clarity, while the treatment of Bitcoin as a central bank reserve asset would catalyse unprecedented demand. Tailor-made regulation that fits disclosure requirements to the nature of the asset class would be particularly powerful. The opaqueness of private corporations necessitates significant disclosures where their regularity, content and restrictions on sharing non-public information are strictly prescribed and supervised. Placing the same burden on decentralised projects appears unnecessary, and in most cases, it is not feasible for the projects to resource such compliance. The necessary disclosures can still be required but such that they can be satisfied by automated displays of transparent onchain information.

This would remove the threat of crypto assets being shoehorned into existing regulations that were created for private businesses and which have limited the ability of crypto projects to pass value on to tokenholders for fear of triggering a regulatory burden they could not reasonably comply with. Suitable regulation would allow projects to structure tokens with real economic value, unleashing innovation and price gains.

SHARE OF ELECTED REPRESENTATIVES BY PARTY AND BY STANCE ON CRYPTO



Source: Stand With Crypto, Ballotpedia

"Personnel is policy"

Donald Trump has vowed to reshape the US government's approach to crypto and is actively seeking candidates with industry-friendly views for key regulatory positions.

Beyond elected representatives, changes at the helm of various regulatory bodies are also expected. The president elect is actively seeking candidates with industry-friendly views for key regulatory positions, while his transition team is consulting with crypto executives to explore potential changes to federal policy.

After the resignation of Gary Gensler, Donald Trump's nomination of a pro-crypto SEC chairman in Paul Atkins, coupled with the resignation of a further Democrat SEC commissioner means that the SEC's overall composition is changing in favour of a pro-crypto tilt. The Federal Deposit Insurance Corporation (FDIC), the Options Clearing Corporation (OCC) and the Federal Reserve Board's vice chair for supervision are also likely to be new nominees. The expectation is that the new appointees are likely to be crypto friendly and that this will impact the crypto industry both directly and indirectly – for example, through easing restrictions on banks engaging with crypto clients.

Most significant for the industry is, of course, a change at the SEC, as under Gary Gensler, the Commission's approach has been to insist that current securities laws are well suited for and apply to the crypto industry. Although many – including legislators – have referred to the SEC's approach as "regulation by enforcement", it is fairer to say that the agency believed that the existing rules were entirely suitable and applicable. As a more pro-crypto approach takes hold in the United States, the SEC is sued by state attorney generals for asserting sweeping jurisdiction without congressional authorisation and for attempting to shoehorn crypto assets into "ill-fitting federal securities laws and inapt disclosure regimes".

Under a pro-crypto chairman and with a new commissioner who is also supportive of the industry, a lot of regulatory obstacles could melt away fast. This would provide fuel for significant price appreciation for many crypto projects: it could remove the risk of most crypto assets being classed as securities in the US, and it would remove the cause for the allegations in various lawsuits against US crypto exchanges (i.e. that they trade unregistered securities), which would also open the way to the launch of further crypto ETFs.

Most relevant of all would be the ability to launch crypto index ETFs, as passive index investing is a substantial part of investors' portfolios and the demand for index ETFs is very high in all asset classes. The same could apply to crypto sector ETFs and thematic funds as well.

In addition to regulatory bodies, Donald Trump has also nominated a number of crypto advocates to cabinet positions, such as Howard Lutnick, Elon Musk or Vivek Ramaswamy, and created a new White House post dedicated to AI and crypto policy.

Mixed macro picture

Although our base case is that strong US economic and earnings growth will support risk assets even if the rate cut cycle proceeds at a more cautious pace, there are uncertainties and risks to this scenario.

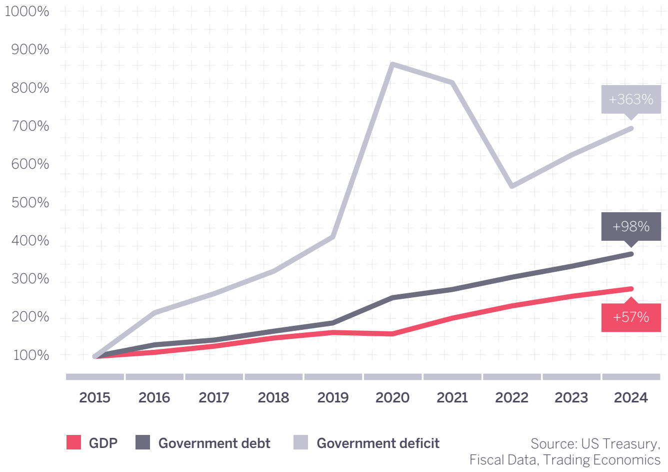
On the surface of it, the backdrop of strong US growth and an ongoing rate cut cycle is an ideal scenario for financial markets. In addition, Donald Trump's stated economic policies would be, on balance, positive for earnings growth – deregulation and tax cuts in particular. Risk also declined post elections, as the results were quick, decisive and uncontested, quelling fears of political or social turmoil. As a result, US equity markets are reacting positively, making new all-time highs.

US bond markets, however, are giving a different signal with rising bond yields – which, in many ways, negate the liquidity-inducing impact of the rate cuts, as mortgage rates and small business loan rates have been rising. While inflation has come down, it is stickier than hoped, and Donald Trump's policies of tax cuts and tariffs would bring about further inflationary pressures. The bond markets remain concerned, and further rises in bond yields could stall the bull market in risk assets.

Meanwhile, equity markets outside the US were falling as Trump's election chances increased and continued to fall after the elections. This is in part due to most Western economies struggling, not least because of the steep increase in energy costs over the past few years. Energy scarcity is driving de-industrialisation in "Europe's economic engine", Germany, with flagship sectors, such as the automotive and chemical industries, suffering steep declines. Meanwhile, Japan faces major structural obstacles to kickstarting a lasting economic revival, including a falling population, lagging productivity and an inflexible labour market; and the prospect of US tariffs threatens the economic prospects of many countries – China in particular but also European economies, neighbouring Canada and Mexico, and developing countries. Although certain low-cost producers may benefit in relative terms from differential tariffs (e.g. a proposed 60 percent on Chinese imports and 10 percent on the rest), the overall impact for the global economy will be negative.

An additional risk is the uncontrolled growth of US debt and government deficit.

GROWTH IN US GDP, DEBT AND DEFICIT



Source: US Treasury, Fiscal Data, Trading Economics

The growth in US government deficit and debt has far outpaced GDP growth over the past ten years, with GDP up 57 percent while government debt doubled and fiscal deficit increased 4 to 5-fold. This suggests that growth has been heavily subsidised by government spending – an ultimately unsustainable path.

The establishment of the Department of Government Efficiency is a positive move in this regard, and no doubt, they will achieve certain results, especially in savings from reducing headcount and bureaucratic overhead as well as cutting funding to international organisations and Non-Governmental Organisations (NGOs) as they claim they intend to do.

However, the size of the savings may come nowhere near the USD 2tn stated target, as two-thirds of government expenditure is mandatory (such as social security and healthcare) and discretionary spending is primarily spent on defence. Trump's stated policies of building an "iron dome" and likely increasing defence spending as well as introducing tax cuts suggest that the budget deficit is more likely to grow than to decrease under his presidency.

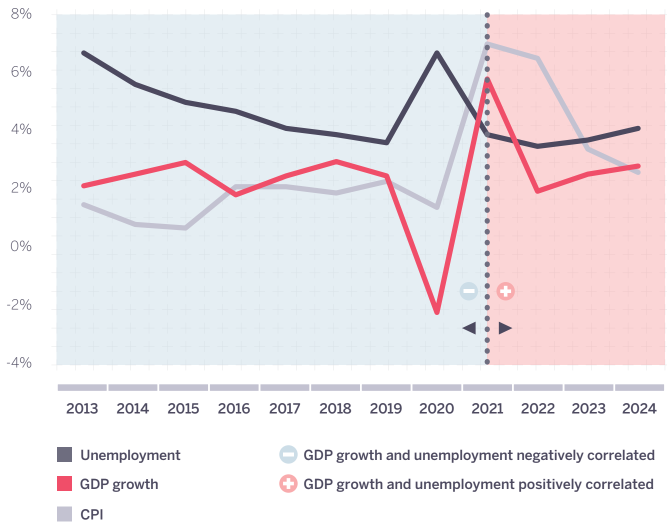
Despite the obvious risks, our base case remains that strong US economic and earnings growth will support risk assets, even if the rate cut cycle proceeds at a more cautious pace.

A new economic paradigm

The ongoing transition in the global economic order is likely to be marred by periods of uncertainty and risk, increasing the demand for safe haven assets and alternative payment mechanisms.

The contradiction in aiming to reduce government deficit while having a set of policies that will likely increase the deficit or in cutting interest rates while proceeding with quantitative tightening suggests the current system is in a tough spot. The recent set of policies have reshaped long-standing economic relationships, and their net effect has been an unchecked increase of government debt – without plans or proposals for arresting the trend.

US GDP GROWTH, INFLATION AND UNEMPLOYMENT



Source: Macrotrends, St. Louis FRED, US Bureau of Labor Statistics

The typical negative correlation between GDP growth and unemployment has transformed over the past few years. Since 2021, unemployment and GDP have been positively correlated. This sounds paradoxical, and it suggests that the engine of GDP growth is no longer organic economic activity but rather that growth is subsidised by government spending while higher unemployment keeps inflation in check.

Although it has been suggested that the rise in unemployment is in part due to an uptick in immigration, in prior periods when immigration increased strongly (e.g. pre-2015), this did not upend the normal relationship between growth and unemployment.

At the same time, the BRICS economic bloc is growing fast, both in terms of the number of countries applying to join and in terms of the BRICS economies outpacing most of the Western economies. At this point, the top four economies in terms of purchasing power parity GDP according to statistics from the International Monetary Fund (IMF) include three BRICS countries and only one Western country (the US, in second place), while Japan and Germany have been relegated to the fifth and sixth positions, respectively.

As the BRICS countries build alternative payment, settlement, investment and trade infrastructures, there is further pressure on the US monetary system from dedollarisation. Although the shift is gradual and it is likely to take some years before a new order takes shape, the trajectory for change appears to be set.

Meanwhile, the US is highly motivated to fight this trend, and a number of statements by Donald Trump and other US politicians suggest that they may be looking to the crypto market for answers to the mounting national debt and to dedollarisation – with the establishment of a Bitcoin reserve and support for the growth of the dollar stablecoin market.

BRICS countries are also softening their stance on crypto. Russia is actively encouraging the use of cryptocurrencies in transactions, while there are signs that China's crypto ban may be relaxed.

Meanwhile, major transitions in the economic order are likely to be marred by periods of uncertainty and risk, increasing the demand for safe haven assets and alternative payment mechanisms. It is not surprising that the price of gold has reached repeated all-time highs all year, with the silver price increasing in tandem. This has increased the demand for Bitcoin as well, with US plans for a Bitcoin reserve now giving further impetus to the already ongoing diversification from precious metals to Bitcoin.

Part II:
Watershed year ahead

Watershed year ahead

Institutional allocations

The crypto industry has long been anticipating the time when institutional investors regard crypto as a legitimate asset class and allocations to crypto assets in portfolios become standard practice - 2025 may be the year when this happens.

We have seen the beginnings of crypto allocations in the balanced portfolios of large traditional financial institutions this year as well as the initiation of crypto investments by a small number of pension funds.

Filings show that an increasing number of funds from institutions such as BlackRock, Fidelity and Morgan Stanley have amended their prospectuses to allow exposures to crypto investments. The typical allocations range between 1 and 3 percent, but in some cases, the ceiling is set much higher (e.g. 25 percent for Morgan Stanley portfolios).

Some pension advisors (such as Cartwright in the UK) are now recommending a crypto allocation to pension funds. Although the US regulator of private pension funds has not yet changed its guidance discouraging crypto investments, some state pension funds have been investing in Bitcoin ETFs (Wisconsin and Michigan), with lawmakers introducing bills to direct the state pension funds to consider crypto allocations in several other US states (Arizona, Louisiana, Missouri, Ohio, Oklahoma and Florida).

The crypto industry has long highlighted the portfolio diversification benefits of crypto investments as well as their asymmetric risk/return profile. The growth of the market has since made investments of a meaningful size possible, the regulatory risk has receded, and the involvement of the largest traditional financial institutions has credentialised the asset class and turned the risk of being an outlier by investing into having to justify not investing.

BlackRock's recent detailed report on Bitcoin as a portfolio diversifier covers the same points the industry has long been arguing – however, coming from the world's largest asset manager, it will support traditional institutions' move into crypto. Options on the Bitcoin ETFs that recently started trading will do the same, as they allow for hedging and creating asymmetric risk profiles.

Central banks and local governments considering Bitcoin reserves may also start a genuine trend of treasury allocations to Bitcoin. Tesla, Block and MicroStrategy started this trend in 2020; however, since then, only a few microcaps followed suit. It is likely that despite the appreciation in MicroStrategy's stock price, the example set by their treasury was more of a deterrent than something corporate treasurers were keen to follow, i.e. making huge leveraged bets on Bitcoin and investing billions versus a topline revenue of just over USD 100m and operational losses in their core business. However, the recent initiatives to add Bitcoin as a central bank reserve asset appear to have already encouraged a list of small companies to make treasury allocations to Bitcoin, and the trend could accelerate expand to large corporations. Shareholder proposals have been submitted to Microsoft and Amazon. Although the proposal was voted down at Microsoft, there is a growing trend of shareholders advocating for Bitcoin treasury reserves.

Regulatory clarity

2025 is likely to see regulation in the US that clarifies the status of crypto assets.

This would be transformative for the industry, with a number of potential benefits, including:

- Enabling institutional allocations to the crypto asset class
- Easier banking access for crypto projects, clarity on regulatory requirements for different token types
- Reduced legal overhead for crypto businesses
- Reinvigoration of innovation, investment and a move of talent into the industry

The stated policies of Donald Trump, the numerous indications that campaign promises are on track to be delivered on and the resignation of Gary Gensler suggest that the expectations of a clear and positive regulatory environment for crypto assets are likely to be fulfilled.

A best-case scenario would see tailored rules that take into account the differences between crypto assets and traditional securities, which in turn would:

- Enable decentralised protocols and applications to pass economic value to tokenholders while complying with reasonable disclosure requirements;
- Remove the basis for the lawsuits against various crypto trading venues "operating unregistered securities exchanges"
- Allow US-based crypto exchanges to be regarded as legitimate surveillable markets by the SEC, therefore removing the obstacle from the issuance of further crypto ETFs.

Many jurisdictions have been well ahead of the US in enacting crypto regulations (e.g. Switzerland, Singapore, the UAE, Hong Kong and the EU), but as the US appears to take the lead, other countries are considering policies that will allow them to stay competitive. There have been indications from the UK and China already of intentions for more liberal crypto regulation.

Meanwhile, enshrining Bitcoin as a central bank reserve asset would be truly transformative. Already a number of US states as well as Brazil are introducing similar bills, and it is likely that if the US takes this step, further countries will follow suit. Recognising the surge in demand that this would catalyse is likely to compel governments to think strategically about how they might position themselves before the price moves.

ETFs

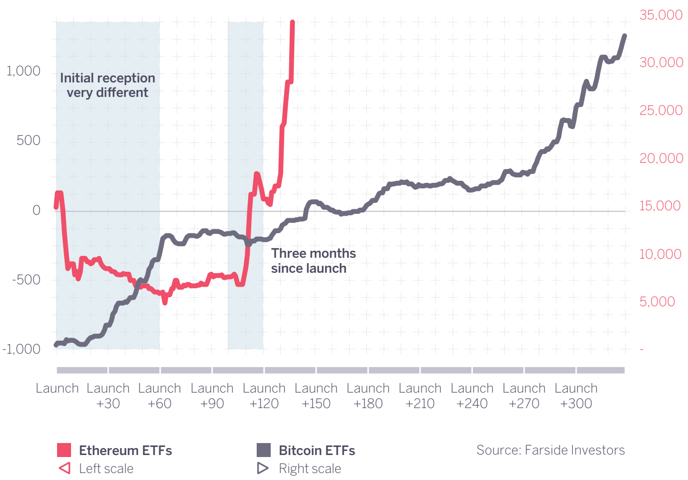
2025 inflows into crypto ETFs are likely to be substantially higher than the net inflows to date.

Allocations to Bitcoin ETFs from traditional institutional investors have started but have so far remained muted. Hedge funds and retail investors have accounted for more of the inflows to date, as large institutions' decision-making processes are slower and more involved. ETF issuers have been supporting sovereign wealth funds, endowments, pensions funds and insurers as they conduct due diligence on Bitcoin. BlackRock's crypto asset allocation report was clearly born out of this process.

As these efforts bear fruit, coupled with a benign macro environment, favourable crypto regulation and potential catalysts (e.g. the Bitcoin Act), we expect to see institutional inflows into Bitcoin ETFs to start in earnest.

Meanwhile, Ethereum ETFs were met with a lot less interest than Bitcoin ETFs initially.

NET FLOWS FOR BITCOIN AND ETHEREUM ETFS (USD MILLIONS)



*Data in this chart is as of 5 December, 2024

This was in part due to the sudden surprise approval and the resulting very short marketing period, Ethereum's far lesser name recognition (approximately half of Bitcoin's according to surveys) and the ETFs not benefiting from Ethereum's staking yield, which compelled Grayscale Ethereum Trust holders to recycle their expensive Grayscale ETFs into spot Ether rather than into the other much cheaper ETFs. Ethereum's bearish trends that have prevailed over the past 1.5–to 2 years also contributed to the lacklustre launch.

However, Ethereum remains the leading smart contract platform, with a broad range of use cases and tokens built on it, and until crypto index ETFs become feasible, it is the best proxy for the rest of the crypto market beyond digital gold – a de facto passive investment in the use cases and applications building across the crypto industry.

Inflows into Ethereum ETFs accelerated recently, roughly three months after these ETFs started trading. This is in line with many platforms' requirements to only invest in products with a minimum of 90 days of trading history. If the inflows continue, this could reverse sentiment on Ether and help the asset outperform.

If regulation moves fast and crypto index ETFs launch relatively soon, they may attract inflows potentially at the expense of Ethereum ETFs in the latter part of 2025. However, if index ETFs take longer to materialise, then we expect to see inflows into the Ethereum ETFs accelerate strongly throughout 2025.

If a more favourable regulatory environment also results in allowing ETF issuers to access the Ethereum staking yield, this would further encourage Ethereum ETF inflows.

When new ETF launches become feasible in the US, we expect that most of the demand will target index and sector ETFs – just as it does in other markets. Passive investing is a substantial part of the investment landscape, and when crypto can offer the same products, they should be met with strong demand.

Single-token ETFs, however, are unlikely to find much adoption, as institutions who choose to manage active crypto portfolios in future will necessarily need to do so via the spot market because the list of ETFs will always be relatively limited. Retail investors will have some demand for other single-token ETFs, but this is not likely to be significant because the name recognition of crypto assets is limited beyond Bitcoin and minimal beyond Bitcoin and Ethereum.

The very low levels of Assets Under Management (AUM) in the Grayscale Solana (just over USD 100m) and XRP Trusts (a mere USD 5m) are a good indication of the lack of demand. For comparison, before the spot Bitcoin ETF launch, the Grayscale Bitcoin Trust already held USD 30bn in assets (currently over USD 110bn across the Bitcoin ETFs), and the Grayscale Ethereum Trust had close to USD 10bn.

Stablecoins

2025 may be the year when stablecoin use in payments becomes mainstream.

Many describe stablecoins as the "most successful crypto use case" and reference stablecoin volumes surpassing those of major payment systems, such as MasterCard and PayPal, and challenging Visa. However, this is not a fair comparison, as the vast majority of stablecoin volume is made up of trading within the crypto market. Stablecoins' use in real-world payments remains relatively limited and is only a fraction of the total stablecoin transaction volumes.

This might change soon, however.

There are a number of drivers that could bring about significant growth:

- Most jurisdictions are working on stablecoin regulatory regimes.
- The Bank for International Settlements (BIS) and central banks are supportive of properly designed and regulated stablecoins.
- Payment service providers are integrating stablecoin payments (Stripe, PayPal, Visa, MasterCard).
- A number of large traditional financial institutions and fintech giants have launched (e.g. Société Générale and PayPal) or are planning to launch stablecoins (e.g. State Street, BBVA, Mitsubishi, Robinhood and Revolut).
- The US in particular sees dollar stablecoins as a means for reasserting dollar dominance globally, while stablecoins backed by fiat reserves create demand for Treasury bonds as US government debt escalates and foreign governments reduce their US Treasury holdings.

Mainstream use of stablecoins in payments makes consumer protection considerations paramount – in terms of the backing of the stablecoin, as well as the infrastructure used for transactions and custody.

Japan pioneered stablecoin regulation, followed by the EU's Markets in Crypto-Assets Regulation (MiCA) regulation and Singapore's stablecoin regulatory framework. These set the blueprint for how governments around the world might approach stablecoin regulation; and the proposals in other jurisdictions that are in the process of creating their own frameworks, such as Hong Kong, are broadly similar. At the same time, there have been proposals discussed in some jurisdictions that would compel a high degree of central control, such as requiring stablecoin issuers to hold their reserves with the central bank or requiring the use of private blockchains. The Swiss regulator, meanwhile, has been highly focused on default guarantees from banks used by stablecoin issuers.

As infrastructure and regulation are put in place, the remaining question is whether users will embrace stablecoins at scale. Their advantages of faster settlements, 24/7 availability and lower transaction fees make them very attractive in certain situations, such as cross-border remittances, as they can bypass the complexities of traditional financial systems. They have also found strong adoption in emerging markets with weak monetary systems and fast-inflating local currencies.

However, in developed markets, there is not a similarly compelling case for stablecoin use in real-world payments on a large scale. PayPal's stablecoin, launched over a year ago, has seen relatively slow adoption – its market capitalisation rising to USD 1bn in the first year but then halving since.

User adoption needs to grow substantially before stablecoins are a sustainable part of the financial ecosystem. Stablecoin issuers may boost real-world adoption with enhanced integrations, educational campaigns, incentives, partnerships and expanding use cases, while Visa is taking a different tack to accelerate mainstream adoption. They refer to it as the "stablecoin sandwich", where stablecoins are used as the payment rails without this being obvious to either the initiator or the recipient of the payment.

Although our base case is that stablecoin adoption in payments will have a breakthrough year in 2025, it is also possible that working out the various consumer protection issues and the incentives for adoption may take a bit longer.

Tokenisation

In 2025, we expect to see the beginnings of mainstream issuance and trading of tokenised assets.

The potential benefits of tokenisation have long been recognised, with broad consensus about the opportunity. The Boston Consulting Group forecast a USD 10–16tn market by 2030, and in a BNY Mellon survey, an overwhelming 97 percent of institutional investors agreed that tokenisation will revolutionise asset management.

However, the "cold start problem" has held growth back – too few products and too little liquidity to incentivise buyers to build out the necessary systems to trade and settle and, consequently, too few buyers to attract issuers.

Eventually, demand from crypto native investors for fiat yield kick-started the market; however, this demand was incentivised by temporary market conditions of elevated fiat yields coupled with a crypto bear market and depressed crypto yields. The rate-cut cycle, coupled with buoyant conditions in the crypto market that include attractive yields available in crypto, will necessarily reduce this demand.

However, the opportunity for growth was always based on demand from traditional institutions, as crypto native demand was never going to be significant.

The optimistic outlook for the growth of this market segment is predicated on the huge buildout we are now seeing among traditional financial institutions to create the infrastructure for issuing, trading and settling tokenised assets and on the support given by governments and regulators putting in place the appropriate legal frameworks and, in many cases, offering sandbox environments to encourage innovation and experimentation with tokenised asset issuance and trading. Examples are the UK, Hong Kong, Singapore and Project Guardian, wherein the IMF and regulators or central banks from France, Germany, Switzerland, the UK, Japan and Singapore collaborate. Project Guardian also includes about two dozen financial institutions, including Citi, BNY, DBS, UBS, Deutsche Bank and others.

There are ever more frequent announcements from leading banks and financial institutions. such as Goldman Sachs, JPMorgan, Visa, DTCC or the BIS, on building capabilities and running trials. Meanwhile, asset managers, such as BlackRock, Franklin Templeton, Fidelity or Janus Henderson, are becoming increasingly active in creating tokenised investment products.

Key opinion leaders have been vocal about the opportunity recently. Franklin Templeton CEO Jenny Johnson called it “the greatest disruption coming to financial services”; BlackRock CEO Larry Fink suggested the tokenisation “of every financial asset” was the next step after the launch of the Bitcoin ETFs; and Deutsche Bank claimed tokenisation could help address the structural margin compression in the banking sector.

As the intent is there from both powerful large institutions and governments and significant investment is being made across the financial services industry to create the necessary platforms, the breakthrough in user growth is likely to follow. It may take a few years for this market segment to achieve high volumes and to track towards the optimistic forecasts, but we may see the first breakthrough in 2025.

Part III:
Risks

Risks

Inflation

One of the risks to the positive outlook for 2025 is a deterioration of the macro environment.

The big picture of spiralling government expenditure that is mostly spent unproductively is ultimately inflationary. Donald Trump's stated economic policies of tax cuts and tariffs would also introduce inflationary pressures.

US bond yields have been rising on these concerns. Although rate cuts usually spur a rally in the bond markets, more recently, this relationship has started to reverse. While there were once only rare examples of bond yields rising on rate cuts (e.g. in 2001), this market response has become more common since 2019, signalling that the Fed has little room to manoeuvre.

For now, our base case remains that the policy changes will not substantially alter the trajectory of the economy or monetary policy over the next year. The appointment of Scott Bessent as US Treasury secretary has also raised hopes that the policies on tariffs and tax cuts will be less aggressive.

However, should bond yields rise further, such as a clear rise above 5 percent for the 10-year yield, this would signal deeper challenges, acting as a canary in the coal mine for escalating risks. This could hurt risk assets and trigger an equity bear market.

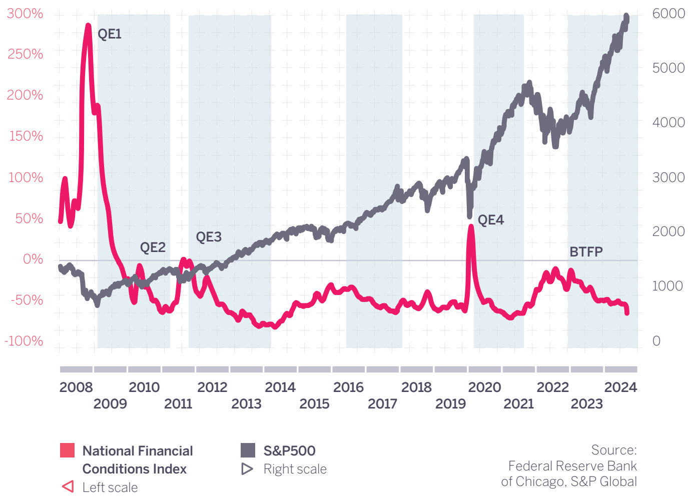
Although a bear market in risk assets can also lead to a rotation into crypto from other assets, based on past track record, a "sell everything" approach is more likely.

Liquidity cycle

The liquidity expansion may be much more muted in 2025 than expectations.

The current cycle of expanding global liquidity is one of the underpinnings of the bullish view on financial assets, including crypto, on the basis that liquidity has been the main driver of financial markets since the 2008 financial crisis.

S&P500 VERSUS THE NATIONAL FINANCIAL CONDITIONS INDEX*



Source: Federal Reserve Bank of Chicago, S&P Global

* Values below zero denote looser-than-average financial conditions and values above zero tighter-than-average financial conditions.

Indeed, cycles of looser liquidity have inspired strong equity market rallies, but these periods have not coincided with rate cut cycles recently. Since the rate cut cycle of 2007-2008 – which failed to inspire a bull market – rate cuts have lost their previous effectiveness as a monetary policy tool. Quantitative easing and other methods of direct liquidity injections have been the dominant force behind creating looser liquidity conditions since then.

The current easing cycle is already showing signs that it is not having the desired effect, as the bond market reacted with rising bond yields, resulting in increased borrowing costs. Mortgage rates and business loan rates have been rising – not falling – since the Fed started cutting rates.

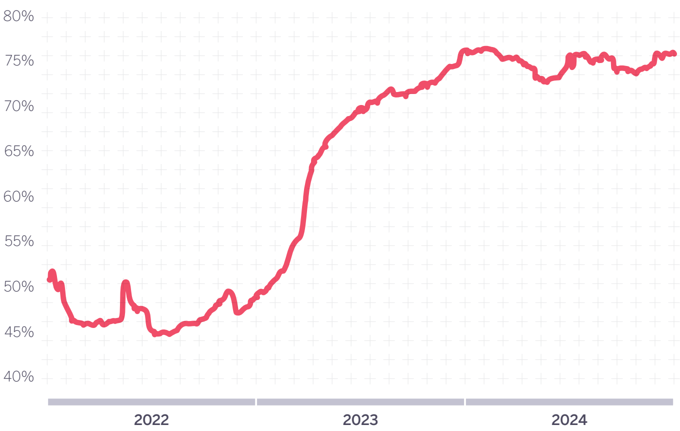
In addition, the pace of rate cuts may slow if inflationary pressures re-emerge, and meanwhile, the Fed is still continuing with quantitative tightening. Although the Fed's balance sheet has been reduced by USD 2tn since mid-2022 when the Quantitative Tightening (QT) programme started, it remains 75 percent above its size in early 2020.

Concentration risk

There are multiple instances of concentration risk in the crypto market which are important to monitor.

Maybe the most significant of these risks is the high market share of Tether among USD stablecoins. After the 2023 US banking crisis, which impacted stablecoins holding substantial portions of their reserves at US banks, Tether's previous 45–50 percent dominance has increased to 75 percent.

THE DOMINANCE OF TETHER IN THE USD STABLECOIN MARKET



Source: CoinMarketCap, Sygnum Bank

The market is especially alert to this risk, with concerns about the completeness and reliability of the information Tether provides about its reserves, especially with Tether's history of settling a 2019 lawsuit alleging that its reserves were used to cover losses at affiliated crypto exchange Bitfinex.

While there was no evidence to support a recent Wall Street Journal report that the FBI was investigating Tether for anti-money laundering violations, it highlights the market's concern and sensitivity to any negative developments surrounding the dominant stablecoin. However, with Cantor Fitzgerald owning a share in Tether and providing custody for its US Treasury holdings, Chairman and CEO Howard Lutnick's appointment to the new administration might mean that Tether's relationship with the US government will improve.

Large concentrations of Bitcoin holdings are also a risk as the sudden sale of 50,000 Bitcoin by the German government this summer highlighted. Holdings by ETF issuers, such as BlackRock, are not a concern in this regard, as they hold the assets on behalf of ETF investors. However, large holdings by MicroStrategy and possibly certain governments could create an uncomfortable concentration risk.

MicroStrategy in particular is a risk for the crypto market, as the way they operate could attract regulatory attention for possibly sidestepping rules that apply to traditional investment funds. This could lead to increased scrutiny or changes in how the company is allowed to operate.

The leverage the company uses is a further risk. While there is no indication of either a regulatory crackdown or any other impetus on the horizon that would compel MicroStrategy to liquidate Bitcoin, with their holdings at two percent of the total Bitcoin supply and a much higher share of the liquid supply, this is a risk to monitor.

Hypothetically, the dormant Bitcoin holdings of "Satoshi" (estimated at over 1 million Bitcoin) could also become active at some point in future.

Bubble

Excessive exuberance can transform a fundamentally driven bull market into a bubble.

There are no signs of this happening in Bitcoin at this point – as demonstrated, for example, by the funding rates, which have risen but remain well below levels seen earlier in the year or in previous cycles, indicating that leveraged buying is more muted.

However, the lacklustre user adoption trends across various crypto use cases have diverted interest into memecoins instead. Some referred to this gambling-style approach to crypto investing as a symptom of financial nihilism – profound scepticism about the value of money and traditional financial systems whereby many individuals, particularly younger generations, have lost faith in conventional investment practices and the intrinsic value of assets. This mindset often leads people to engage in high-risk speculative investments, viewing them as valid alternatives to traditional wealth building methods.

It is regrettable that a sector lacking fundamental value outperforms the rest of the market substantially, as this carries the risk of the memecoin bubble bursting.

PERFORMANCE OF THE MEMECOIN SECTOR VERSUS THE S&P BROAD CRYPTO MARKET INDEX

This trend is more reminiscent of the spate of meritless Initial Coin Offerings (ICOs) in 2016-2017 than of the rise of use cases (e.g. the "DeFi summer" in 2020) that have since become an important part of the crypto ecosystem.

Geopolitics

In the current environment of extraordinary geopolitical tensions, these risks to the market cannot be ignored.

Other than occasional brief corrections caused by geopolitical escalation, markets are pricing in optimistic scenarios. The oil markets are more concerned about global economic slowdown than about an all-out war in the Middle East, and risk assets have continued their upward trajectory even in the face of extremely worrying geopolitical escalations.

This also means that there is a substantial downside to financial markets on a more serious turn of events in the Middle East or Ukraine. Meanwhile, even barring a hot war in the Far East, the impact on global growth from an economic war with China will be significant, especially for Western Europe.

The crypto market is likely to react negatively to serious escalation in the first instance; however, Bitcoin accumulation is likely to continue.

Part IV:
Alt season may disappoint

Alt season may disappoint

Better regulation

On the positive side, the expected improvements in the US regulatory landscape are disproportionately benefiting altcoins.

Altcoins have been depressed by SEC litigation and the threat of most of them being classed as securities. The lower regulatory risk is improving altcoin fundamentals, and an upward price correction in response to the improved regulatory landscape is rational.

Some of this expectation may have already been priced in, as Bitcoin dominance has declined slightly since the elections. However, as we get confirmation that the SEC's approach is indeed departing from Gary Gensler's legacy, this will justify further altcoin appreciation.

The strongest fundamental driver for altcoins would be regulation tailored to the asset class that allows value to accrete to the tokens without triggering a compliance burden that projects cannot reasonably fulfil.

At the same time, Bitcoin's fundamentals remain strong, especially if central banks and local governments start building Bitcoin reserves. This would be a high bar for altcoins to beat, especially as there are several factors potentially holding altcoins back.

Less rotation

The typical rotation from Bitcoin to altcoins in later-stage bull markets is expected to be muted in the current cycle.

Crypto market cycles have been extremely analogous so far, both in terms of their duration and in terms of the progression of the cycle phases. One aspect of past bull markets that has repeated in each case so far is the so-called "alt season", when substantial profits in Bitcoin are recycled into other tokens as risk appetite increases, investors' outlook on the crypto industry becomes ever more optimistic and profits made are reinvested in other opportunities.

However, recycling Bitcoin profits into altcoins is likely to be far less of a feature of the current bull market, as the new money flowing into the Bitcoin ETFs was largely incentivised by the availability of an easily tradeable traditional wrapper. The Bitcoin ETFs provided market access to investors who are not set up to trade and settle direct investments in crypto assets. These holders will not be selling their Bitcoin ETFs to buy altcoins.

Of course, some rotation is expected in this cycle as well. We have seen quite a lot of new money flowing directly into the spot markets, too, as indicated by the almost 50 percent year-to-date increase in stablecoin market capitalisation. These investors are likely to follow the pattern of recycling profits and increasing their risk profile as the bull market progresses.

Value leakage

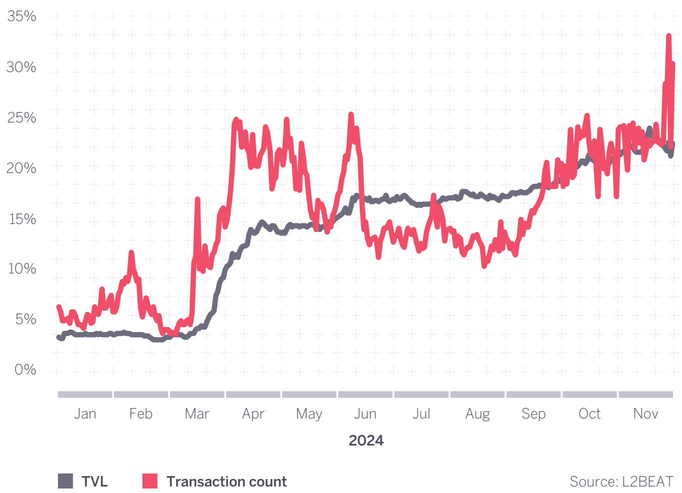
Value being diverted to private sector entities is holding altcoins back.

The success of protocols such as Base comes at the expense of tokens in the Layer 2 sector. When the profits of successful projects accrue to private corporations, this siphons value off the crypto market. This is most obviously the case when the protocol has no token nor any plans to issue a token. However, even when there is a token in issue, if it trades merely as a de facto memecoin without any links to the economic success of the project while revenues are paid to a private company, it can have the same effect.

The practice of protocol revenues not supporting token value may be temporary and the consequence of past regulatory approaches, and in future, we may see these currently private projects issuing tokens and protocols passing value to tokenholders.

However, for now, projects such as Base are detracting value from the crypto market. Growth in transaction volumes in the Layer 2 sector does not translate into token price appreciation, as Base's market share gains cannibalise the value of Layer 2 protocols with tokens.

LAYER 2 MARKET SHARE OF BASE IN TRANSACTION VOLUME AND TOTAL VALUE LOCKED



As far as the Layer 2 sector is concerned, Ethereum founder Vitalik Buterin has been very vocal about wishing to see genuine decentralisation for Ethereum-based Layer 2 projects.

Ultimately, the contribution of the crypto industry is the creation of decentralised ecosystems and the resulting benefits and opportunities. "Digitalisation" was not invented by crypto projects – that trend predated the crypto market, and it can proceed with or without the crypto industry.

Decentralised ledger technology was the breakthrough innovation, enabling trustless transactions without the need for intermediaries, bringing about transparency and remedying many of the counterproductive incentives in centralised systems. If the projects building on top of blockchains reintroduce centralisation, this undermines much of the rationale for using blockchain technology – and it also hinders or even prevents meaningful token price appreciation in the altcoin sector.

Similarly, if high-potential use cases, such as tokenisation or stablecoin issuance, were implemented on private blockchains (e.g. JPMorgan's Quorum), this would cannibalise the opportunity for decentralised protocols and limit the upside in the crypto market.

User traction

User growth for many crypto applications and use cases has been muted, keeping a lid on altcoins.

Along with Bitcoin's unique strong drivers and the regulatory concerns earlier in the year (e.g. the SEC claiming most crypto assets were securities), one of the reasons for altcoin underperformance year-to-date has been the lack of strong user growth. There have been a few notable exceptions, and the market highly rewarded these tokens. However, on the whole, user traction for applications has disappointed.

Despite the compelling rationale for avoiding centralised social media platforms, decentralised social media has struggled to gain a critical number of users. Some projects, such as friend.tech, Farcaster or Lens, experienced a period of success and raised substantial funding (in Farcaster's case, an incredible USD 150m) but have since suffered sharp declines in user activity. Farcaster's new users fell from 15,000 in February to 650 in September, while friend.tech, developers renounced control over its smart contracts following a significant collapse in protocol revenues.

Currently, the most promising project in decentralised social media, UXLINK, has exceeded 30mn registered users, and it may be on the verge of a breakthrough in network effects. Its active user numbers compare favourably with, for example, Donald Trump's Truth Social platform, but it still remains to be seen if it will succeed in combatting the large social media platforms' incredibly powerful network effects.

Decentralised alternatives to other sectors have also struggled to offer a user experience that attracts a critical mass. Token incentives briefly succeeded in achieving exponential growth for blockchain-based gaming, but the fundamentally Ponzi-like design of the tokenomic models led to a collapse in users during the bear market. User growth may be revitalised as the crypto industry continues to innovate, including improving the quality of the games, experimenting with sustainable token models and developing fully onchain games that offer a qualitatively different experience.

Decentralised prediction markets have seen rapid success recently. However, volumes plummeted after the US elections, and the FBI raid on the home of leading prediction market platform Polymarket's CEO – for which no justification was provided – raised concerns.

The Decentralised Physical Infrastructure Networks (DePIN) sector, which provides computing, bandwidth, energy and other resources sourced from a decentralised network of suppliers, continues to progress with aggregate user growth of 20 percent year-to-date. Decentralised AI projects, such as Bittensor or Artificial Superintelligence Alliance, show promise; new sectors, including "decentralised science", are emerging; and DeFi projects (decentralised exchanges in particular) are benefiting from the interest in memecoins. However, we are not seeing the breakthrough in user adoption for most decentralised applications that is necessary to fuel an altcoin rally grounded in fundamentals rather than hype. The growth in the use of stablecoins in payments and real-world asset tokenisation could spur tremendous growth in protocols that support these market segments. This would primarily benefit the DeFi sector. However, if stablecoins or tokenisation are diverted to private blockchains or executed by centralised providers, then the opportunity for the crypto market will be much diminished.

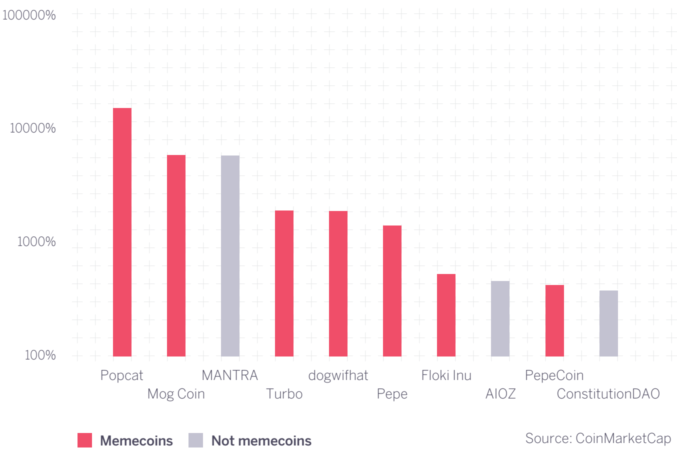
For now, decentralised applications are still facing headwinds from often unclear sector-specific regulation, strong resistance from leading centralised competitors and user inertia leading to lacklustre adoption. However, an improved regulatory landscape and, in particular, regulation that would allow projects that create tokens with real value accrual could transform the market segment of blockchain-based decentralised applications and support a strong alt season.

Memecoins

The alt season may simply be a memecoin season in the current cycle.

The memecoin sector outperforming all other crypto sectors is a lamentable mark of the current cycle.

TOP-PERFORMING CRYPTO ASSETS YEAR-TO-DATE*



* Launch-to-date for tokens trading less than 1 year

Seven of the top-ten highest-performing crypto assets year-to-date are memecoins. This has diverted funds from flowing into the tokens of productive projects and creates the risk of a bubble that will inevitably burst eventually.

It is also decredentialising crypto in the eyes of traditional investors new to the crypto market. Once they look beyond Bitcoin, Ethereum and Tether, they find a host of tokens lacking even the pretence of fundamental value.

Memecoins are a sign of a culture of gambling without any attempt to do anything productive. Successful traders can make a lot of money on memecoins, and strong price appreciation in the sector has inspired various justifications of why memecoins are a good investment. However, the vast majority of the memecoin sector are animal-themed tokens without a project behind them that actually does anything – these are not expressions of "culture", certainly not in the way that memes have become a cultural phenomenon. Memecoins are not memes. There is also no real reason why a dog with a knitted hat should be favoured by the market over another dog or a cat with a hat.

Dogecoin is different in this regard, as it is an actual blockchain and cryptocurrency rather than a token issued on top of another protocol. Should Elon Musk mandate or allow the use of Dogecoin in payments across his businesses, this would be a genuine revenue-generating use case, and Dogecoin's current attempts to boost development on the platform are encouraging.

Meanwhile, Shiba Inu has attempted to convert its user base to launch various applications: decentralised exchange, a game, a metaverse and, more recently, a Layer 2 protocol. Although these launches have failed to capture any significant market share thus far, the project's efforts to generate real value make it stand apart from the rest of the memecoin space.

Hypothetically, other memecoin projects could also choose to make efforts to create value, and some of the AI-issued memecoins may choose this path should their AI agent conclude that this is valuable. Memecoins with actual cultural significance may also converge in future towards something similar to prediction markets – betting on social and cultural trends. However, various dog and cat breeds and competing penguins and hippos will not do that. For now, the vast majority of the memecoin market are tokens without value that trade with a high beta to the market.

The hope is that progress in regulation, innovation and user traction will catalyse a genuine alt season in the current cycle rather than merely a "memecoin season".

Part V:
Winners and losers

Winners and losers

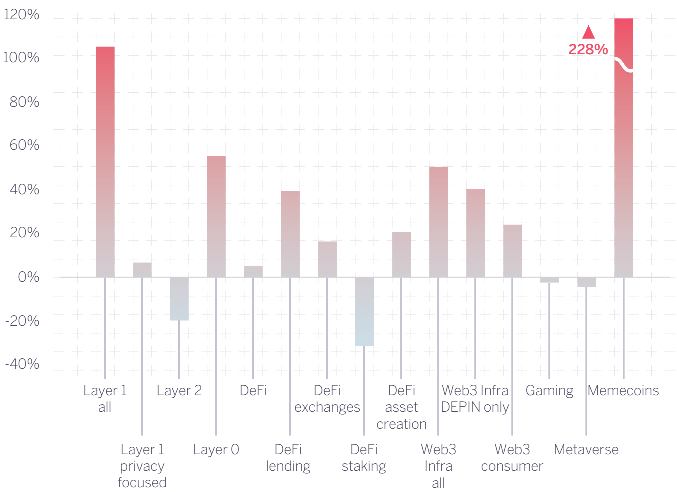
Infrastructure focus

The challenges of the application sectors coupled with the continued need to improve scalability, interoperability and security have resulted in a renewed focus on the blockchain protocol layer.

Year to date, most bullish narratives and almost half of the Venture Capital (VC) investment have targeted blockchain infrastructure. This has been a marked departure from prior years. In the previous bull cycle, application sectors dominated the narrative, and over 2021-2023, they remained the primary beneficiary of VC investment, particularly the gaming sector and, more recently, DePIN projects.

In line with the renewed focus on infrastructure, the protocol layer has outperformed the application layer substantially year to date, and the Layer 1 sector in particular has been the strongest performer – aside from memecoins.

YEAR-TO-DATE PERFORMANCE OF CRYPTO SECTORS



Source: CoinMarketCap, Sygnum Bank

Although we expect that clearer and more supportive regulation will bring renewed energy to sectors implementing various crypto use cases; for now, most of the focus is on the efficiency of blockchains, their scalability, interoperability and security, and the various different approaches to improving and optimising along these requirements.

A major part of the debate focuses on whether integrated scaling solutions (e.g. Solana) or a modular approach (e.g. Ethereum scaling through Layer 2 protocols) is superior, with sentiment strongly favouring the former over the past year.

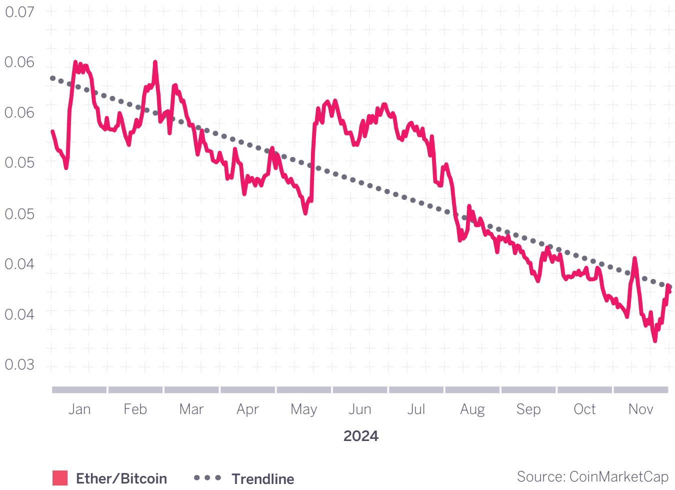
As transaction volume growth from use cases has not been strong, aside from memecoin issuance and trading, and more centralised (e.g. Kraken) and decentralised (e.g. Uniswap) entities are launching their own Layer 2 networks; Ethereum's transaction volume has remained mostly flat – while Solana, having cornered the memecoin market, has seen a steep rise in both activity and revenues.

However, the modular and integrated approaches may suit different requirements, and the approaches may slightly blur, as Layer 2 protocols are now appearing on Solana as well to further enhance the network's efficiency. Additionally, Ethereum's strategy will only bear fruit in an environment of fast-growing adoption of a multitude of crypto use cases, so it is premature to judge the relative success of the different strategies.

Ethereum's crisis

As traditional investors embraced Bitcoin and the crypto industry embraced Solana, Ethereum was left behind.

PERFORMANCE OF ETHER VERSUS BITCOIN



Source: CoinMarketCap

Ether has substantially underperformed both Bitcoin and Solana this year. Relative to Bitcoin, the underperformance started after Ethereum implemented the Merge upgrade in September 2022, and relative to Solana, it started in summer 2023 when Solana gained price momentum and strong narrative support.

Ethereum's slow and steady approach to implementing upgrades is an advantage when it comes to network security and stability, but it is a disadvantage relative to more dynamic projects surpassing it along metrics such as scalability. While different attributes of a blockchain are considered more important at different times, the main factor holding Ethereum back recently has been the poor user growth for most crypto applications and use cases, with the exception of memecoins. This also had the knock-on effect that the upgrade earlier in 2024 that drastically lowered costs for Ethereum-based Layer 2s led to growth for most of these Layer 2s but not for Ethereum itself.

As a result, Ethereum's previously dominant market share in revenues earned by Layer 1 blockchains has declined, and Ether has become inflationary again.

In addition, most institutional investors are not yet ready to invest in crypto assets beyond Bitcoin. This is not necessarily a consequence of their view on the rest of the market or on Ethereum specifically but more the result of a lack of sufficient familiarity. However, this had the consequence of poor inflows into the Ethereum ETFs initially, which further depressed sentiment on Ether.

Ethereum is also struggling with finding a relatable narrative. "The leading smart contract platform", while true, is less effective as a narrative when other protocols are eating into Ethereum's lead. "Ultrasound money" is not a powerful message when the token is inflationary. "The blue chip provider of security" remains a strong point in favour of Ethereum, but the crypto industry is only in the early stages of leveraging highly secure blockchains to back other younger, less secure protocols.

We expect that if the bull market culminates in broad-based innovation and user growth across a wide range of applications, Ethereum's metrics will improve. As Ethereum Layer 2s improve their interoperability and user experience, this may allow them to increase their aggregate market share, which would also help improve Ethereum's revenues.

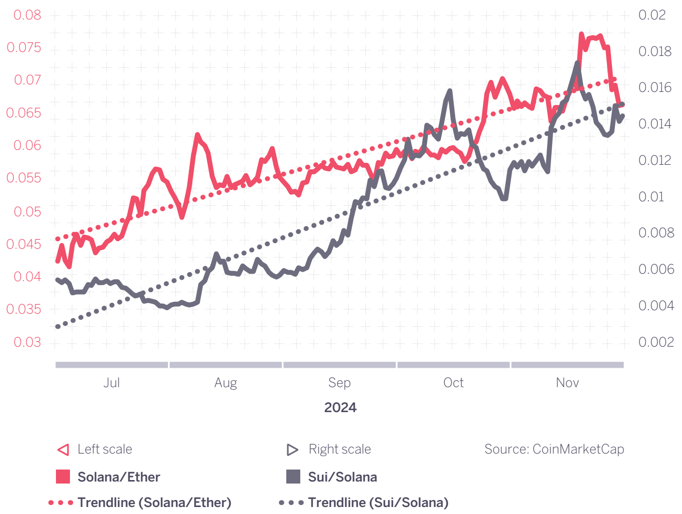
Additionally, as we have seen a recent acceleration in Ethereum ETF inflows, this has had the immediate effect of improving the sentiment towards Ethereum, with narratives suddenly extolling the value of Ethereum's stability, security, reliability, high-quality execution and the network effects of its leading market share. If the Ethereum ETF inflows are sustained, this is likely to mark a turnaround in Ethereum's relative performance.

Challenger blockchains

The success of some high-performance blockchains in gaining market share has generated a lot of positive momentum not only for Solana but also for “Solana killers”, such as Sui, Aptos or Sei.

While Solana is capturing significant market share and revenues from memecoin activity, especially by bots, other high-performance chains are gaining on Solana. Ultimately, being the fastest or cheapest network is not a sustainable advantage when other even faster or cheaper networks launch.

PERFORMANCE OF SOLANA VERSUS ETHER AND SUI VERSUS SOLANA



Revenues largely derived from a sector that lacks fundamental value and from activity executed by bots are particularly fragile, while hosting a broad variety of applications can create the sticky network effects that ensure long-term success.

Solana has made some progress in this regard, attracting headline projects in the DePIN sector, for example. However, competing against Ethereum’s network effects remains a tall order. Meanwhile, projects that have access to substantial user bases can capture a significant market share even with far less technical merit. Examples are Toncoin’s access to Telegram’s nearly 1bn users and TRON’s success in brokering deals that allowed it to become a dominant player in stablecoin Total Value Locked (TVL) and transaction volumes. Indeed, TRON’s revenues outstrip all other blockchains’ currently.

At the same time, it is important to remember that scalability will be critical to unlocking many potential crypto use cases, including micropayments, fully onchain gaming, decentralised metaverse applications and others.

Additionally, as traditional financial institutions embrace tokenisation and stablecoins, the platforms they choose to launch on may tip the balance of which blockchains will dominate in the long run. For instance, BlackRock’s leading tokenised money market product BUIDL originally launched on Ethereum, and further share classes were added later on several Ethereum-based Layer 2s as well as Aptos and Avalanche.

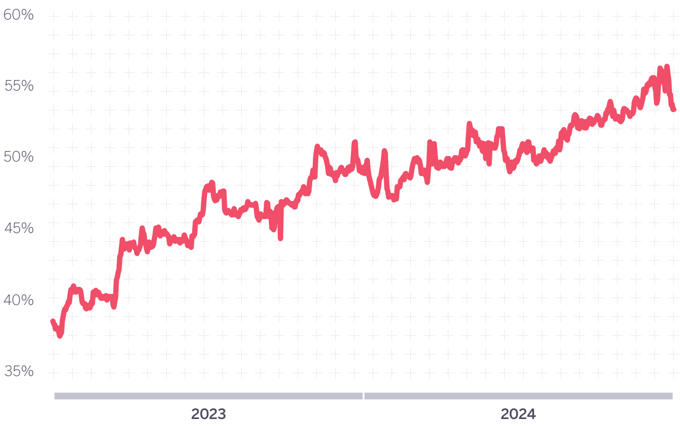
Other traditional financial institutions, such as PayPal, have been vocal about the advantages of Solana over Ethereum in payments; nonetheless, after the market share of Solana in PayPal USD TVL reached 64 percent, it fell back to 23 percent.

Bitcoin's identity

Reinvigorated innovation on the Bitcoin network enabling DeFi applications, NFTs and other uses of Bitcoin as a smart contract platform at the same time that its use as a central bank reserve asset is proposed in several countries has inspired a debate about Bitcoin's identity.

Bitcoin has had unusually strong drivers in the current cycle, leading to its dominance continuing to increase as the market cycle progressed. This is atypical behaviour relative to past cycles, where Bitcoin dominance increased in the early stages of a bull market but then started declining rapidly as the bull trends got established.

BITCOIN DOMINANCE



Source: CoinMarketCap

Although we have seen a brief decline in Bitcoin dominance recently, Bitcoin's strong drivers remain in place; and if anything, they have become stronger since the possibility of central banks building Bitcoin reserves is seriously being considered.

Meanwhile, innovation on the Bitcoin network continues to accelerate. Investment in the Bitcoin ecosystem has become a key focus area for crypto venture capital firms, and there are very bullish predictions about the opportunity from opening up long-term Bitcoin holdings to DeFi applications that allows investors to generate yield or from using the Bitcoin blockchain's security to support other protocols.

However, not everyone in the Bitcoin community welcomes these developments. Some fear that using the Bitcoin network in new ways could introduce resource strain or cause congestion, and it may even introduce vulnerabilities. If serious issues arise, this could impact Bitcoin's reputation and dilute its qualities as a store of value.

At the same time, although purists insist that Bitcoin is the best form of money, its use has been primarily as a store of value. Governments' current move to potentially use it as a reserve asset further enhances Bitcoin's value as a safe haven asset but not as a payment currency. As long as prices of goods and services are set in fiat currencies, the price volatility makes Bitcoin's use as money mostly impractical.

Security versus scalability

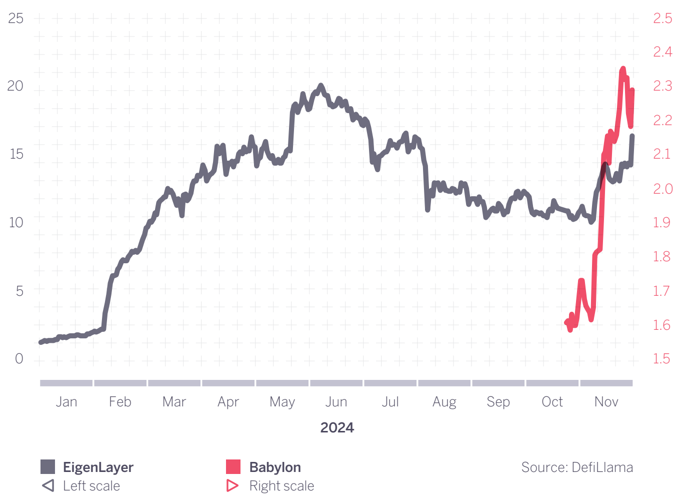
The revolutionary innovation of restaking helps to maximise the security and scalability of blockchains without sacrificing decentralisation, making projects delivering shared security solutions a very promising market niche.

As blockchains innovate to achieve the scalability required to unlock mass adoption of various crypto use cases, this may come at the expense of security and stability. Solana's frequent past outages are an example, as their initial focus on scalability led to tradeoffs in decentralisation and security. In addition, trust in a platform takes time to build, and projects lacking longevity can struggle with attracting users, however technologically brilliant the protocols might be.

The innovation of shared security bridges this gap. Although projects such as Cosmos, Polkadot or Avalanche have offered shared security solutions of their own, trust is highest in the security of Bitcoin and Ethereum. EigenLayer delivered the innovation of allowing protocols to share Ethereum's security, and Babylon is now offering Bitcoin security sharing.

Both projects saw very fast inflows when they opened the networks to accept staking deposits.

EIGENLAYER AND BABYLON TOTAL VALUE LOCKED (USD BILLIONS)



Source: DefiLlama

There is substantial opportunity in the restaking and liquid restaking sector, and the potential to earn additional yield on the tokens of trusted protocols, such as Ethereum and Bitcoin, also bolsters the outlook for these assets.

Meet the author

Katalin Tischhauser
Head of Research

At Sygnum, Katalin manages investment funds and other investment products. Katalin has over 20 years' experience at Goldman Sachs, UBS Warburg, and other major investment banks in trading, sales, and investment research. Katalin has held startup Board, CEO and Advisor roles across a variety of sectors, with a focus on the blockchain space since 2015.

About Sygnum

Sygnum is a global digital asset banking group, founded on Swiss and Singapore heritage. We empower professional and institutional investors, banks, corporates and DLT foundations to invest in digital assets with complete trust. Our team enables this through our institutional-grade security, expert personal service and portfolio of regulated digital asset banking, asset management, tokenization and B2B services.

In Switzerland, Sygnum holds a banking license and has CMS and Major Payment Institution licences in Singapore. The group is also regulated in the established global financial hubs of Abu Dhabi, Luxembourg and Liechtenstein.

We believe that the future has heritage. Our crypto-native team of banking, investment and digital asset technology professionals are building a trusted gateway between the traditional and digital asset economies that we call Future Finance. To learn more about how Sygnum's mission and values are shaping this digital asset ecosystem, please visit **www.sygnum.com**

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