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Crypto 2025: the rise of digital assets into the mainstream portfolio

2024 has seen numerous extraordinary events in the digital asset space so far. But in the near future, further developments are on the horizon that could not only usher in a spectacular fourth quarter but also an exciting 2025.

The year to date shows an impressive performance of Bitcoin and the entire crypto market. The largest cryptocurrency gained 52%, while the total market, measured by market capitalization, grew by 37%. By comparison, the S&P 500 Index gained 20% and gold rose 30%. In the coming months, the market is likely to benefit from the expansionary monetary policy initiated by the Federal Reserve's interest rate cut in September.

The easing of monetary policy will expand the money supply globally, which is historically closely correlated with rising risk assets and should also give the crypto market additional tailwind. Despite the ever-present risk of setbacks, there are some special features in the area of digital assets that should be considered.

US market: pioneer of institutional crypto investments

The US plays a crucial role in the digital asset space, as it is home to the world's largest capital market. Bitcoin ETFs have been established in this market since January, and Ethereum ETFs have also been recently introduced. The former have seen net inflows of around \$17 billion to date and hold over 900,000 Bitcoins – an impressive figure given that the total available quantity, minus lost Bitcoins, is estimated at around 15 million. The trend of inflows strengthened, with a further \$1.2 billion inflow seen in September.

The US elections in November will also have a short-term impact on crypto prices. While presidential

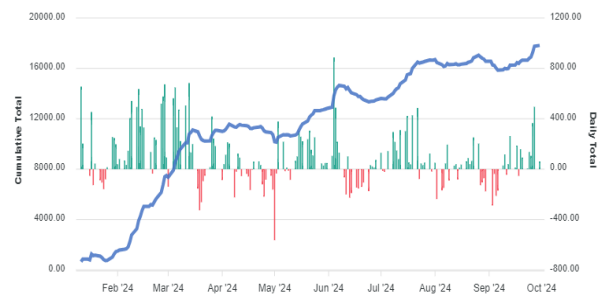


Figure 1: Cumulative (blue) and daily (bars) flows of US Bitcoin ETFs / Source: CVJ.CH

candidate Trump actively supports Bitcoin and cryptocurrencies, candidate Harris is more cautious. A victory for the Democrat would likely maintain the pressure by regulators like the SEC, which would slow down but not stop adoption.

Global trends: adoption without borders

It is important to emphasize that crypto adoption is happening on a global scale and is gaining momentum worldwide due to its decentralized nature. While developments in the US are influential, other regions are also making significant progress. In Western countries, both retail and institutional investors have increasingly regulated access to digital assets. At the same time, in countries with high inflation, the population is increasingly turning to Bitcoin and US dollar-linked stablecoins to escape the devaluation of their currencies.

The Chainalysis Global Crypto Adoption Index shows that the top-performing countries demonstrate a diverse range of crypto adoption, with both emerging



and developed economies represented. Regions such as South and Southeast Asia, Latin America and Africa show high levels of use by individuals.

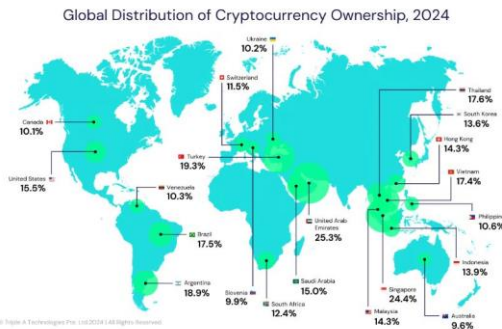


Figure 2: Crypto participation by country 2024 / Source: Chainalysis

Crypto in the portfolio: from outsider to wild card?

In the current investment environment, digital assets offer unique potential. A glance at global assets under management shows that digital assets are underrepresented in most portfolios, which significantly increases their upside potential due to their low market capitalization. At just over USD 2 trillion, the total market capitalization of the blockchain sector is still well below that of other asset classes and is in fact smaller than the capitalization of some large tech companies.

Gesamte Marktkapitalisierung verschiedener Anlageklassen (Billionen USD)



Figure 3: Crypto market capitalization vs. traditional asset classes / Source: Digital Asset Solutions

A Citibank study of family offices illustrates this: crypto investments are hardly mentioned, while a high cash share (29%) and a low allocation to commodities (0.7%) stand out. Digital assets remain chronically underrepresented – be it in corporate balance sheets, investment portfolios or sovereign wealth funds. However, if just a fraction of the capital held worldwide were to flow into this asset class, it would unlock enormous potential.

FIGURE 1: ASSET ALLOCATIONS (EQUAL-WEIGHTED)*

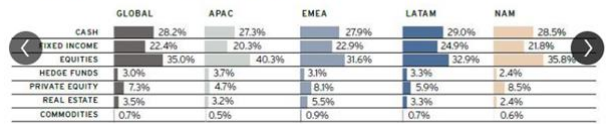


Figure 4: Portfolios of the surveyed family offices / Source: Citibank

With the expected expansion of money supply and the associated increase in investment in risk assets, digital assets could prove to be the wild card in portfolios in 2025. Even a small allocation can make a significant difference. A Bitcoin weighting of just 2% would have added +11% in total returns to a traditional 60/40 portfolio over the past five years. The portfolio's volatility would have only increased by 1.3%.



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