

Crypto Love

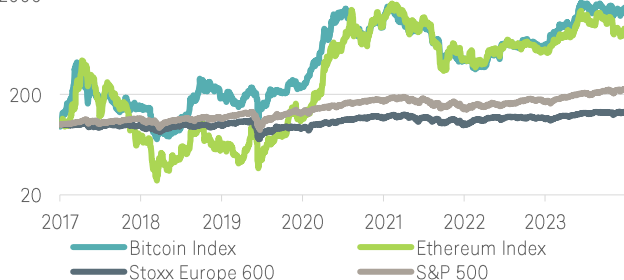
The fourth topic in this series examines where the crypto market is heading after the ETF hype

Bitcoin and Ethereum are becoming increasingly important in terms of portfolio allocation. And we think this trend is likely to continue. The U.S. approval of Bitcoin and Ethereum exchange-traded funds (ETFs) has significantly changed investor perception. However, the question is whether the ETF-driven hype is over, as prices have softened slightly from their highs. The supply/demand constellation should be supportive for prices in the coming years. Therefore, we think that the major cryptocurrencies should continue to perform solidly.

The crypto market has recently performed broadly in line with other risk assets.¹ We expect global monetary easing to be a positive catalyst in the foreseeable future, including through stronger inflows into Bitcoin and Ethereum ETFs. "In the coming years, more countries are likely to allow similar products. This should increase the adoption of Bitcoin and Ethereum by institutional and retail investors," Barbara Schlyter, Head of Xtrackers Digital Products and Partnerships, notes. Improved regulation may also provide a greater sense of security when purchasing crypto assets. Asset managers are increasingly advocating the use of Bitcoin and Ethereum ETFs in client portfolios, opening up a very interesting client segment. Regardless of price movements, investors seem to increasingly rely on crypto assets as a component of their portfolio.

Crypto performance clearly stands out

indexed: 10/2/17 = 100, logarithmic scale
2000



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 9/30/24

However, the performance of Bitcoin and Ethereum is characterized by significant volatility, even though that has declined noticeably in the recent past. It is difficult to draw reliable conclusions about the future performance of the two cryptocurrencies from their historical risk-and-return profiles. However, we believe that increased institutional acceptance and the further development of the respective ecosystems should lead to greater liquidity and stability.

Crypto's correlation with traditional asset classes varies over time. However, it has generally been low enough to make Bitcoin and Ethereum interesting in a portfolio context. The risk implications depend not only on correlation, but also on volatility. "For cryptocurrencies, the volatility is still too high for risk-reduction purposes," says Robert Bush of the DWS Research Institute. "They may not reduce the overall portfolio risk at this stage, but they can change the risk composition, which we think could be compelling to some investors."

The application of crypto and blockchain in the 'real' world is also likely to be an important aspect of acceptance and a price driver. Here the focus is primarily on Ethereum. While Bitcoin is seen as an asset, Ethereum is often referred to as a technology. There are already several applications based on Ethereum, including decentralized finance, non-fungible tokens (NFTs) and, most importantly, stablecoins. Continued growth in this area should drive demand for Ethereum, which should also have a positive impact on the price of Ethereum's native cryptocurrency, Ether.

There are now thousands of cryptocurrencies and a difficult question is which will prevail and form the basis of a future blockchain-based economy. However, we are generally convinced that blockchain and cryptocurrencies are here to stay. The fact that the crypto sector received verbal support in the U.S. election campaign should not be overlooked. Global adoption of cryptocurrencies is growing faster than adoption of the internet. As the underlying blockchain technology offers more and more real-world applications, we expect this growth to accelerate in the coming years.

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Footnotes

¹ All market data, unless otherwise stated, from Bloomberg Finance L.P. as of 9/30/24.

Glossary

Bitcoin is the first and largest crypto asset, enabling decentralized peer-to-peer transactions.

Blockchain technology is defined as a decentralised and distributed accounting system that enables the secure, transparent and tamper-proof recording of transactions over a network of computers.

Correlation is a measure of how closely two variables move together over time.

A **crypto asset** is the digital representation of a value or contractual right that is created, transferred, and stored using distributed ledger technology (blockchain) and authenticated through cryptography.

Decentralized finance is a financial technology that uses blockchain and cryptocurrencies to remove intermediaries.

Ethereum is a decentralized, public blockchain network that supports composable smart contracts which can be used to create decentralized applications and tokens and facilitate peer-to-peer transfers.

An **exchange-traded fund (ETF)** is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Monetary easing includes measures such as lowering interest rates, implemented by Central Banks with the aim of facilitating GDP growth or inflation.

A **non-fungible Token** is a non-replaceable digitally protected object.

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A **stablecoin** is a digital token that is pegged to an asset, like a national currency or gold.

The **Stoxx Europe 600** is an index representing the performance of 600 listed companies across 18 European countries.

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