

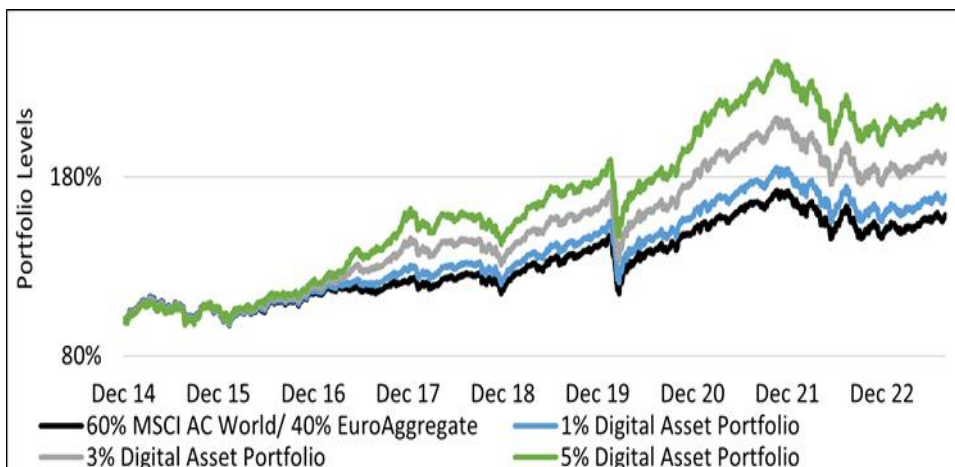
INSTITUTIONAL INVESTMENT FLOWS COULD IGNITE A NEW BULL MARKET IN CRYPTO

Wisdomtree EU
29 Nov 2023

Crypto could enhance multi-asset portfolio returns

In a recent WisdomTree survey¹, 36% of institutional investors indicated they are looking to increase their allocation to digital assets and cryptocurrencies. Investing in digital assets could increase the return potential of a multi-asset portfolio. At WisdomTree, we did several portfolio simulations allocating 1-5% of a multi-asset portfolio's funds to digital assets, and in all cases over the long term², the annual return for the digital asset portfolio was higher than for a traditional 60/40 equities/bonds portfolio and only with a small increase in volatility. Note that in our simulation, the requirement is that the illustrative portfolio is rebalanced at least quarterly to limit the downside.

Figure 1: Portfolio with digital assets outperformed the traditional 60/40 portfolio



Source: Wisdomtree. Time frame simulated: December 2014 – August 2023.

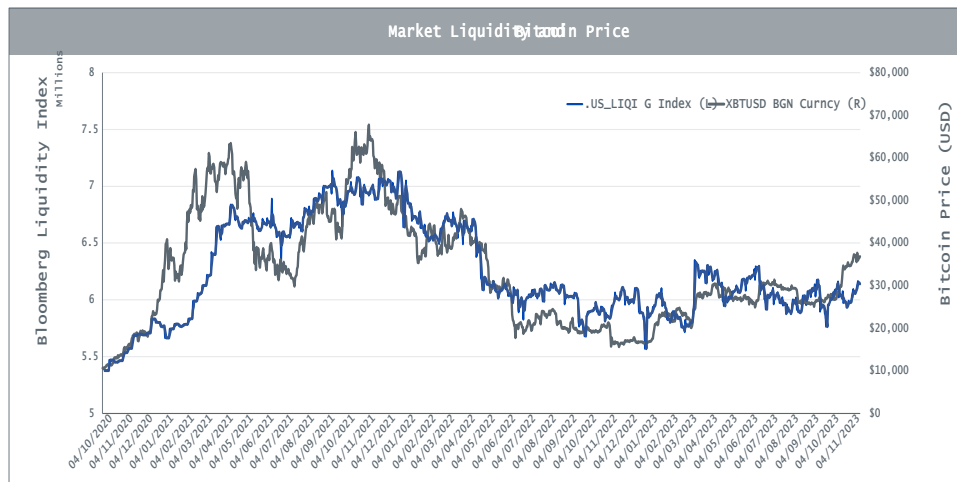
Historical performance is not an indication of future performance and any investment may go down in value.

Macro environment improving

At the moment the crypto industry seems to be gaining in positive momentum and the macro environment seems to be improving. It appears that the interest rate hiking cycle could be behind us and that markets are anticipating lower interest rates for next year. This

could be positive for crypto assets. We have also observed that the central bank liquidity that went down from December 2021 to December 2022 has slowly been improving and this could be positive for digital assets as well.

Figure 2: Market liquidity and bitcoin price



Source: WisdomTree, Bloomberg, 20 November 2023.

Historical performance is not an indication of future performance and any investment may go down in value.

Bitcoin price driven by potential approval of spot bitcoin ETFs and bitcoin halving in 2024

Bitcoin, the largest crypto asset by far, making up over 50% of market cap in the space, is likely to be driven by the very likely approval of spot bitcoin exchange-traded funds (ETFs) in the US. The potential approval of this ETF wrapper will make it much easier for wealth advisors and institutional investors to invest in the largest digital asset efficiently at a very low cost. We have written about our expectations for the changes in the competitive landscape in the US if spot bitcoin ETFs are approved [here](#). It is possible that tens of billions, and over the years, over a hundred billion US dollars could flow into spot crypto products in the US.

Next year, the potential approval of a spot bitcoin ETF could coincide with bitcoin halving, an event where the number of new bitcoin awarded to bitcoin miners per block will get cut in half from 6.25 to 3.125 bitcoin. This means that bitcoin miners will have less bitcoin to sell in the market. This could lead to a meaningful supply/demand imbalance and an increase in price as less bitcoin is available in the market.

Bitcoin halving

Event	Date	Reward	Mined (BTC)
Launch	Jan 09	50	10,500,000
Halving 1	Nov 12	25	5,250,000
Halving 2	Jul 16	12.5	2,625,000
Halving 3	May 20	6.3	1,312,500
Halving 4	Mar 24	3.1	656,250
Halving 5	Expected 2028	1.6	328,125
Halving 6	Expected 2032	0.8	164,063

Source: WisdomTree.

Historical performance is not an indication of future performance and any investment may go down in value.

Major blockchains in race toward scalability

In the past month or so³ we have also seen an increase in the price of ethereum, the second largest crypto asset, with 17% of the crypto market cap, and solana, another popular smart contract network with less than 2% of the total crypto market cap. It is quite likely, in our view, that spot ether ETF will also be launched after the bitcoin product in the US. Both ethereum and solana are in a race to upgrade their blockchains to more scalable forms. Ethereum has postponed its Proto-Danksharding scalability upgrade to early 2024, and solana has introduced its Firedancer scalability upgrade in the solana testnet. It's also expected to be launched in the solana mainnet in early 2024.

Several layer 1 networks were introduced in 2021 during the last crypto bull market when the ethereum blockchain could not cope with a large number of transactions which led to some very high transaction fees in the network. Solana was designed to be a faster and cheaper version but has suffered from stability problems. The network has, however, had a very loyal developer base and so we believe institutional investors are particularly attracted to solana. Encompassing just less than 2% of the crypto market cap, many institutional investors believe solana could have more upside potential than ethereum.

Scalability upgrades are absolutely necessary for a true mass market to emerge. The blockchains need to be able to handle a large number of transactions at a very cheap price and in seconds. This is not the case today.

Making blockchain transactions easier to pay potentially another driver

One of the key features of blockchain payments is their decentralised nature which eliminates the need for banks and other intermediaries. Transactions are recorded on distributed ledgers and become immutable and secure in the process. Blockchains are based on code, which are executed automatically after rule-based conditions are met. At the moment, it is necessary to hold ether or solana, for example, on one's crypto wallet to make a small transaction directly on the blockchain. We think this is too cumbersome. We view the experiments conducted by visa, for example, very positively, as users could

potentially pay their monthly blockchain transactions with a credit card instead of having to pay a transaction fee every time a small transaction is made on the blockchain.

Sustainable bull market needs killer use cases

The two most prevalent use cases for blockchains today are tokenised currencies or stablecoins, often the US dollar, and tokenisation of real-world and financial assets. We have listed a number of potential blockchain use cases in our recent [Crypto Monthly](#), but as is often the case with new technologies, it is very likely that something totally new will come along. An application that's far superior to anything we are using today will take the market by storm and push the crypto industry mainstream. It will only be obvious in hindsight.

Sources

¹ Source: WisdomTree, Censuswide. Pan-Europe Professional Investor Survey Research, Survey of 803 professional investors across Europe, conducted during August 2023.

² Portfolio simulations included years between December 2014 - August 2023. More information can be found in our white paper, [A New Asset Class: Investing in the Digital Asset Ecosystem](#).

³ From mid October to mid November 2023.

Related blogs

- + [Grayscale wins the Securities and Exchange Commission \("SEC"\) case – a spot bitcoin ETF just got a bit closer](#)
- + [Crypto outlook: new flows needed to mark the end of the crypto winter](#)

Related Products

- + [WisdomTree Physical Bitcoin \(BTCW / WBIT\)](#)
- + [WisdomTree Physical Ethereum \(ETHW / WETH\)](#)
- + [WisdomTree Physical Cardano \(ADAW\)](#)
- + [WisdomTree Physical Solana \(SOLW\)](#)
- + [WisdomTree Physical Crypto Market \(BLOC / WBLC\)](#)
- + [WisdomTree Physical Crypto Altcoins \(WALT / ALTC\)](#)
- + [WisdomTree Physical Crypto Mega Cap Equal Weight \(MEGA / WMEG\)](#)

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.