
ETHEREUM SHANGHAI UPGRADE IS A SUCCESS

Blake Heimann – Senior Associate, Quantitative Research
13 Apr 2023

The most significant upgrade to the Ethereum network since the ‘[Merge](#)’ took place last night.

The Shanghai upgrade was successfully implemented on the Ethereum mainnet, enabling the withdrawal of staked ether (ETH) to complete the full transition to Proof-of-Stake (PoS).

Since the go-live date of the first Ethereum Proof-of-Stake chain launched in 2020, the concept of staking has been on the mind of investors as they demanded yield in a low rate environment.

By locking up, or ‘staking’ Ethereum, to validate transactions on the network, a yield could be generated in the form of newly minted ether rewards.

In 2020 (an environment where treasury yields were quite low and crypto prices were climbing) this seemed to be a reasonable yield-generating alternative investment to many investors.

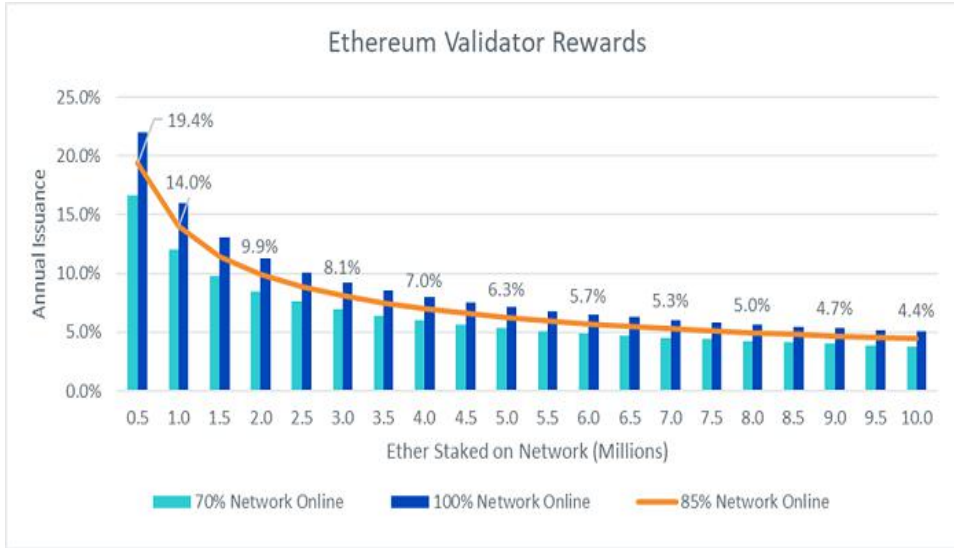
The caveat – no liquidity until withdrawals were enabled. This all changed last night.

With the successful upgrade, investors have liquidity – which has been in higher demand recently.

With downward price pressure on digital assets and higher treasury yields offering a more familiar risk profile, investors who staked ether for the sake of generating yield now have reasonable alternatives to traditional assets like fixed income.

Now that Ethereum staking withdrawals are enabled, there are some potential implications for the tactical investor to consider.

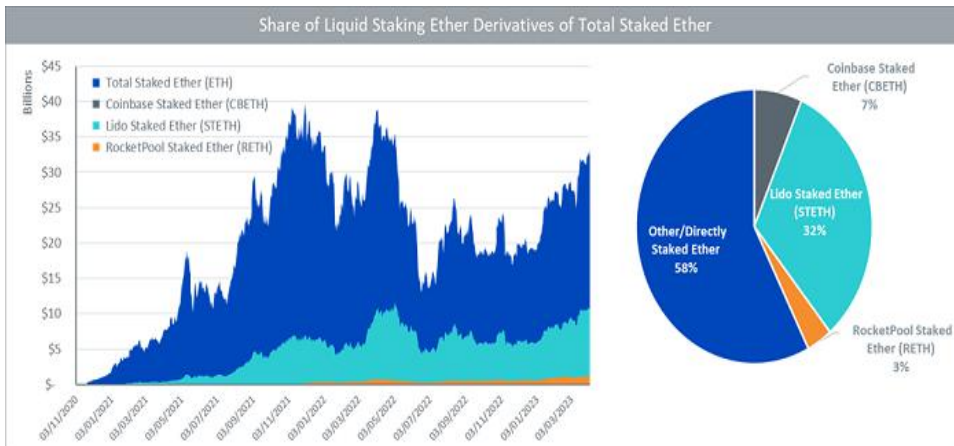
1. Around 14% of the Ethereum supply is staked and has been inaccessible for withdrawal -- until now. Depending on the demand to unstake and possibly liquidate ETH positions, this could further apply downward price pressure on the asset. On the other hand, it’s also reasonable to view the Shanghai upgrade as a catalyst for increased staking demand, as the inability to withdraw may have driven potential investors away. In either view, it is important to note that, as the amount of ether staked decreases, the yield increases, and vice versa, which may offset any extreme shifts in demand. As of early March, there was over 16M ether staked, which places the current state of affairs off the far right hand side of the chart below.



Source: WisdomTree, launchpad.ethereum.org.

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

2. Due to the lack of ability to withdraw staked ether since 2020, various ‘liquid-staking’ service providers have emerged and amassed a large amount of assets under their provision. With withdrawals enabled, there is potential risk for reduced demand for the services of these providers, and could lead to redemptions of their derivative tokens. In the past, when the demand for redemptions exceeded the capacity of exchanges and liquidity pools, the pegs to Ethereum wavered.



Source: DeFiLlama, Glassnode, WisdomTree as of April 2023.

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

3. On the regulatory front in the United States (US), the Head of the Securities and Exchange Commission, Gary Gensler, has stated that any Proof-of-Stake digital asset may be considered a security. Although this contradicts views and statements made by the Commodity Futures Trading Commission, another US regulatory body, it highlights the potential risk for regulatory impact for US investors. Any conclusions made around classifying Ethereum as a security would only be speculative, but the

successful upgrade further puts Ethereum into the regulatory spotlight as the largest Proof-of-Stake asset by market capitalisation.

The long-term potential of Ethereum remains strong, despite short-term risks, as the growing developer community deploys an increasing number of smart contracts that can revolutionise traditional operating models through the efficiency and transparency of the blockchain.

Additionally, the impressive coordination of the decentralised community in reaching consensus on the design, implementation, and maintenance of the Ethereum blockchain as a public good, instills confidence in the network's longevity. The successful implementation of the Shanghai upgrade demonstrates the power of decentralised communities to drive innovation and solve complex problems efficiently.

Related blogs

- + [Ethereum Merge complete. What's changed?](#)
- + [The Ethereum 'merge' and its consequences](#)

Related products

- + [WisdomTree Ethereum \(ETHW / WETH\)](#)
- + [WisdomTree Crypto Market \(BLOC / WBLC\)](#)
- + [WisdomTree Crypto Altcoins \(WALT / ALTC\)](#)
- + [WisdomTree 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.