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# WHAT LIES AROUND THE CORNER FOR DIGITAL ASSETS

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In just over a decade digital assets have gone from nothing to what is now a vibrant, diverse and fast-growing ecosystem. By some measures, such as market capitalisation, the ecosystem recently hit an all time high of over USD\$3 trillion equivalent<sup>1</sup>. This does not include the value of the businesses that have been built on, or using digital asset networks – Coinbase is presently valued at over USD\$70 billion<sup>2</sup> and FTX was recently valued at USD\$25 billion<sup>3</sup>, just to name two. Moreover the transactions facilitated by some of these decentralised payment networks clear over USD\$100 billion amount in USD terms per day<sup>4</sup> – a figure that does not include the transactions conducted within closed-loop services such as Cash App or Blockchain.com.

With this growth and these milestones no longer hypothetical, two questions arise: where might this space grow in the future – and what opportunities might this create? When thinking over answers to these questions it is helpful to frame one's thinking in terms of emerging use cases as well as technical changes.

Payments is the original use case – the 'killer app' – for digital asset networks and this use case is not going away. The most important development for this use case is the integration of digital asset networks – and their payment functionality – into existing internet platforms and into day-to-day mobile payments applications. For instance, Jack Dorsey's Twitter has begun to assign Bitcoin Lightning wallets into users' profiles, which allows people to cheaply, quickly and seamlessly 'tip' one another in exchange for content . More and more open source Bitcoin Lightning wallets are appearing on mobile app stores with better designed user interfaces (e.g. Muun , Pine , Bluewallet ). This is coupled with novel ways of acquiring Bitcoin, such as Azte.co's 'mobile recharge' model voucher product. Western Union is going to need to change its business model – again.

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At the same time developers are finding more and new ways in which to make full use the decentralised application functionality of networks like Ethereum, Solana or Avalanche. The decentralised finance (DeFi) field will keep traditional finance (TradFi) people awake later at night as exchanges (e.g. Uniswap<sup>10</sup>), lending (e.g. Aave<sup>11</sup>) and yield farming (e.g. yearn<sup>12</sup>) services pick up new users.

Non-fungible tokens (NFTs), more simply referred to as digital collectibles, have been

one of the breakout parts of the digital asset ecosystem in 2021. They have brought in new users, particularly from the entertainment and arts industries, and driven immense activity via platforms like OpenSea<sup>13</sup>. The first iterations of business models seen in this space during 2021 are likely to evolve in the near future. When one throws technically-minded developers together with creatives in art, music and gaming it makes for an eclectic combination.

Gaming is another area where smart contract functionality is being pushed. Gaming has generated more revenue than Hollywood for years<sup>14</sup>. Recently, 500 million people tuned in to watch the finals of an esports tournament<sup>15</sup>. Digital asset networks are both providing the infrastructure to support in-game tokens and economies, which undergrid many of these virtual worlds (e.g. Axie Infinity<sup>16</sup>). As the lines between meatspace and cyberspace continue to blur<sup>17</sup> be prepared to see changes in how people interact financially in what some people currently refer to as metaverses.

This all comes against a backdrop of continuing technical improvements and evolutions. The Bitcoin network underwent a major upgrade this month – called Taproot – which is aimed at increasing network privacy and security<sup>18</sup>. At some point the Ethereum network will make the long-awaited transition to a proof of stake consensus mechanism<sup>19</sup>, which will create a new source of returns to those who ‘stake’ ether to run a validator node. Finally, expect greater interoperability<sup>20</sup> between digital asset networks as people attempt to make the most of a combination of specialised functionalities offered across different networks.

Thinking about the future of the digital asset ecosystem is difficult because of the unpredictability of open source developer communities coupled with the iterative, trial and error process that characterises the entrepreneurial engine. This is not unique to digital assets though – it is an essential dynamic that new technologies experience throughout their development, commercialisation and diffusion. The last decade saw various ups and downs in the digital asset ecosystem – all of which led to where the space finds itself today – and this will continue as new technical functionality is developed and people run into new problems for which the functionality of digital asset networks provide novel solutions.

## Sources

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<sup>2</sup> <https://www.cnbc.com/2021/11/12/backblaze-ipo-takes-opposite-approach-to-rivian-going-public-small.html>

<sup>3</sup> <https://www.finextra.com/pressarticle/89905/ftx-hits-25bn-valuation-on-420m-funding-round>

<sup>4</sup> [https://www.coingecko.com/en/coins/high\\_volume](https://www.coingecko.com/en/coins/high_volume)

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<sup>6</sup> <https://muun.com/>

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<sup>14</sup> <https://www.marketwatch.com/story/videogames-are-a-bigger-industry-than-sports-and-movies-combined-thanks-to-the-pandemic-11608654990>

<sup>15</sup> <https://www.bloomberg.com/news/articles/2021-11-08/tencent-gets-respite-from-crackdown-with-league-of-legends-hits>

<sup>16</sup> <https://axieinfinity.com/>

<sup>17</sup> <https://www.wisdomtree.com/blog/2021-11-11/welcome-to-the-metaverse>

<sup>18</sup> <https://www.theblockcrypto.com/linked/124276/bitcoin-taproot-activated>

<sup>19</sup> <https://ethereum.org/en/eth2/>

<sup>20</sup> <https://www.wisdomtree.eu/en-gb/blog/2021-11-10/digital-asset-networks-are-like-train-lines>

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