CONSIDERING THE INVESTMENT CASE OF CRYPTOCURRENCIES

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The broad cryptocurrency sell-off in May has prompted many questions from investors. The perception of digital assets in the wealth and investment management industry and regulatory circles is evolving but concerns persist - particularly around the volatility of the asset class. But was the sell-off in May a sign of things to come or a blip for this nascent asset class?

As a new asset class, any developments that may affect the outlook for adoption can have a sharp impact on price. These events help to remind us that any investment needs to be done in a risk adjusted way.

While it is true that every asset class goes through corrections at one time or another, what was witnessed in the cryptocurrency sell-off has added fuel to the fire of those doubting the potential of digital assets. Despite the criticism there is still a case for considering digital assets. The first reason is portfolio diversification and potential enhancement of the risk-adjusted profile. The asset class shows a correlation close to zero with most other asset classes, from traditional assets like equities and bonds, to alternative asset classes like infrastructure, commodities, or hedge fund strategies. From that perspective, investors could consider whether digital assets make sense in the context of their portfolios.

The second possible advantage is upside potential. As a young technological development, blockchain in general appears to provide some growth opportunities, whether through investing in digital coins, tokens, listed blockchain companies or venture capital investments. In a low yielding environment, investors are looking for ways to generate return, and this asset class represents a new opportunity for doing so.

Digital assets represent an opportunity to participate in the next internet revolution. We are witnessing exponential growth in many services which are getting their decentralised, blockchain-based version, spearheaded by the Decentralised Finance (DeFi) ecosystem. Funding is strong, as the space attracts a lot of capital, even from some of the most prominent figures in traditional finance. This has helped the ecosystem to develop significantly over the past few years, and this is likely to keep accelerating.

Growth in adoption from institutional investors has also been accelerating significantly since the middle of 2020. More sophisticated investors are getting exposure to the asset class, increasing demand for digital assets, which supports the bullish case going forward. The development of new products, such as exchange traded products (ETPs), brings easier ways to obtain safe exposure for investors. European and Canadian ETPs have been successful, and hint to the demand that US exchange traded funds could witness when approved.

A well-funded ecosystem is developing a strong, institutional-grade infrastructure around digital assets. This gradually is leading to more acceptance from regulators and the traditional investment world, who are working to integrate digital assets. This could present the case for further growth and adoption in the future.

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