The Dawn of Digital Assets

An Investment Research Group publication

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The last year has proven to be yet another period of exceptional volatility for cryptocurrencies. Bitcoin, the dominant market leader with an estimated 58% share of the crypto space (according to Coinbase.com), started 2025 at $94,694 per coin, rose as high as $126,110 by early October (Oct. 6, 2025), only to end the year at $88,649. As of this writing, coins are priced at $68,080. (All price quotes via FactSet.)

Regardless of volatility, the landscape for digital assets is broadening. A digital asset is one that exists in the digital realm; however, like a physical asset, it can be bought, sold, held, or traded. As innovation in the space continues, it now includes items such as Non-Fungible Tokens (NFTs), Central Bank Digital Currencies (CBDCs), utility and governance tokens, stablecoins, and cryptos.

Financial innovators are also looking to blur the lines between digital and physical by linking traditional financial assets, such as real estate, stocks, and bonds, to digital tokens that confer and confirm ownership rights to an underlying asset. Pending legislation, however, could have much to say about how, or if, these products emerge. Overall, we believe the entire space is still early in its life cycle, especially when compared to traditional financial alternatives, and forward prospects remain highly dynamic.

Key Takeaways

- The “digital asset” space has expanded well beyond cryptocurrencies alone.
- Digital assets are a growing asset class that’s seeing greater interest. Government regulation and transaction utilization, however, offer an uncertain future.
- As evidenced in recent price declines, crypto values remain extremely volatile, and most have uncertain paths.
- Stablecoins are an important recent development that could, over time, compete against other cryptocurrencies for share.

Most digital assets are unique in that they tend not to be evaluated the same way as stocks or bonds, that is, via cash flow generation or interest payments. Products in the space are typically valued on simple supply and demand alone. The “supply” can be a known factor (such as the limited number of coins to be mined), but demand, in many cases, is speculative and based on highly uncertain assumptions of market acceptance. For some products, the very innovation that led to their existence could also lead to their obsolescence.

This brief note does not offer an opinion on Bitcoin, cryptocurrencies, digital assets, or any fund /business related to such. We simply seek to address some of the questions received on this topic. We caution that digital assets remain a relatively new financial asset class where values can be extremely volatile, and their path ahead remains highly uncertain.

What *IS* a cryptocurrency?

We start our look at digital assets with the most notable category: cryptocurrencies. In very simplified terms, cryptocurrencies are digitally generated assets designed to enable peer-to-peer transactions without a central authority (such as a central bank). They were framed as a form of digital money, though many are now used as investment assets rather than an everyday currency.

There are no "hard copy," physical coins. They exist only in the digital world. The coins often seen in stories related to the space are simply illustrations. For example, Bitcoin is often depicted in the media by a gold coin with an embossed upper-case 'B'. These depictions are for illustrative purposes only, as there is no such thing as a physical cryptocurrency.

Since the inception of digital currencies, which is generally attributed to the emergence of Bitcoin in 2009, a key to their allure has been that their numbers (i.e., supply) are limited by the algorithms used to generate the "coins." This is distinctly different from traditional currencies, which normally grow in number each year as central banks act to support economic conditions via the money supply. Bitcoin's algorithm, for example, allows for a total of 21.0 million coins to be generated, and as of December 2025, about 20 million have been produced (or "mined," in crypto parlance), according to Coinbase.com. However, Bitcoin's underlying code dictates that its pace of coin generation slows as the number of coins outstanding approaches its limit (halving every 4 years), so it's estimated that the full limit of 21.0 million won't be reached until 2140.

Digging a little deeper, cryptocurrency coins are generated via different means, but for the most common example, Bitcoin, the currency is generated via "mining," a process in which powerful computers solve complex puzzles to validate transactions. The validated transactions are then added to a public ledger called a blockchain. The first miner to complete the puzzle and verify the block of transactions is awarded with newly minted bitcoin. The term "crypto" derives from "encryption," meaning the digital currencies are protected by cryptography. The ledger itself is not encrypted as it remains publicly readable. Cryptographic tools ensure transaction integrity and prove ownership of the coins without revealing private keys. We also note that a portion of cryptos could be susceptible to advances in quantum computing if their encryption is not updated to address them.

Is it even a currency?

Any currency should have two primary functions: you should be able to use it in transactions such as buying a loaf of bread, and it should also act as a store of value. The prospect of cryptos being widely used for transactions has greatly diminished in recent years – at least for now. Since goods and services are priced in dollars, the need to constantly convert between dollars and a cryptocurrency limits their usefulness as a medium of exchange and reinforces their reliance on the existing financial system.

Also, coin holders don't want to part with their coins because they generally believe they will appreciate in value. Businesses, meanwhile, have become reluctant to accept cryptos given their price volatility and the risk of rapid depreciation. Still, some cryptos have become a popular means of transferring money internationally, especially in the developing world, where bank access may be limited and typical currency exchange fees significant.

Nevertheless, there appears to be growing acceptance of certain digital assets as potential stores of value. Regulators are enacting rules and frameworks to establish common guidelines, while major financial institutions have expanded access through packaged solutions. As a result, a growing number of investors may consider digital assets as a small allocation in a well-diversified portfolio.

The value of a cryptocurrency.

What is the true value of a cryptocurrency? In finance, the value of an asset is determined by the income it generates. Income can be in the form of dividends, earnings, interest payments, rent, lease payments, or prospects for future streams of any of the above. Of course, not all assets conform to these parameters. Commodities, such as gold or oil, and collectables such as baseball cards, art, or classic cars, are examples of assets that investors may purchase, in part because they believe scarcity, demand, or changing market sentiment may lift the item's value over time. Cryptocurrency values do not adhere to these traditional finance valuation methodologies. Like many currencies, supply and demand in the marketplace are the primary influences of value.

Given the finite number of coins that can be 'mined' in some cryptos, including Bitcoin, they have been viewed by some as a possible inflation hedge. The idea being that their finite numbers should allow them to retain their value relative to traditional national currencies whose value can be diluted as more currency units are "printed." At some point in the distant future, this may come to pass. However, in our view, the extreme volatility of cryptocurrencies represents a poor hedge against a 2% to 3% annual change in consumer prices.

Cryptocurrency acceptance has been growing among large financial firms worldwide, mostly as a perceived store of value rather than for transactional purposes. Additionally, while the supply of individual cryptos may be limited, the total number of cryptos is certainly not. Some estimates place the number of active and inactive cryptocurrencies at the end of 2025 between 20,000 and 24,000.

The range of opinions on the long-term prospects of cryptocurrencies is also quite wide. Some of the financial industry's brightest and most prominent participants have drastically conflicting opinions. Some even take both sides, noting that yes, volatile moves can reflect significant speculation, but the market is likely to persist, and there is no way to tell how values will proceed or when (or if) prices might rise or deflate.

While proponents of cryptocurrencies often focus on their potential upside, investors should understand that these assets are subject to significant risks beyond price volatility. First, cryptocurrencies rely on cryptographic systems to secure ownership. Advances in computing technology, including quantum computing, could pose challenges if those cryptographic standards are not successfully updated over time. If signature security is compromised, an attacker could potentially forge transactions and steal coins. In response, the industry is developing and standardizing post-quantum cryptography, including a new NIST standard for quantum-resistant keys and digital signatures. Additionally, the role and, hence, the value of cryptocurrencies could be materially altered by regulatory action.

Cryptocurrency Marketplace:

Cryptocurrencies are not traded directly on traditional financial exchanges because they are not registered securities. Coin prices are determined by buying and selling activity on coin exchanges. To hold individual coins, individuals must set up an account with a coin exchange to receive or send coins. There is a growing list of mutual funds and exchange-traded funds (ETFs) that also offer investors an indirect avenue of exposure to the space, with many more in registration with the Securities and Exchange Commission (SEC). Investors should note that some funds can trade at a premium or a discount to the value of their underlying holdings.

According to Coinbase, the total market value of all cryptocurrencies in existence equals a market capitalization of approximately $2.3 trillion, as of March 2, 2026. *(Note: Market capitalization is the price of each coin times the number of coins outstanding.)*

The market is very top-heavy, however, with Bitcoin's market capitalization of $1.4 trillion accounting for approximately 58% of the entire crypto market. In a distant second place is Ethereum, accounting for about 12% of the market. *All figures cited are as of March 3, 2026, and sourced from CoinMarketCap.com.*

The chart at right shows the price of a single bitcoin on a logarithmic (log) scale for greater clarity. A log scale maintains consistent representation throughout a price range. For example, a 100% increase from 1,000 to 2,000 appears the same as a 100% increase from 10,000 to 20,000.

Bitcoin: Cost per coin.

Enter… Stablecoins.

Stablecoins are a relatively new form of cryptocurrency whose value is linked to that of an underlying asset, such as a national currency, often the U.S. dollar. The relative stability of national currencies (or bloc currencies, such as the Euro) allows stablecoins to be used with the same speed, efficiency, and cost advantages of blockchain networks while avoiding the sharp, near-daily value swings most cryptos experience.

This past summer, new legislation (the GENIUS Act) was passed to provide the first regulatory framework for Stablecoins. The Act creates guidelines with an aim of financial stability, consumer protection, and asset class clarity for the developing stablecoin market. Most notably, the Act requires stablecoins to be backed 1:1 by cash or U.S. Treasuries. Additionally, only authorized entities, such as depository institutions or non-bank issuers chartered by the U.S. Office of the Comptroller of the Currency, are allowed to issue stablecoins under the legislation.

Conceivably, stablecoins could eventually infringe on the allure of other cryptos, at least for transaction purposes, in our view.

Congress has turned to broader legislation on the structure of the digital asset market, which would establish guardrails for digital assets beyond stablecoins. The CLARITY Act, passed by the House of Representatives and awaiting action in the Senate, seeks to draw clear jurisdictional lines between the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) regulatory authorities, and define when digital assets are treated as securities versus digital commodities. It further seeks to create disclosure, registration, and compliance regimes for exchanges, brokers, and intermediaries. Several issues remain unresolved, including the treatment of decentralized finance, stablecoin yield, and related banking concerns, the scope of exemptions for mature networks, and alignment on anti-money-laundering and investor protection standards are central to the discussion of whether a compromise bill can be signed into law

The Regulatory Threat:

Government regulation could be a significant long-term threat to cryptocurrency values because it has the authority to quickly and materially change the rules governing trading, transparency, custody, taxation, or real-world use. Unlike traditional financial assets, which operate within well-established regulatory frameworks, cryptocurrencies exist in a fluid, evolving policy environment.

In our view, monetary authorities are unlikely to cede control of domestic monetary policies, which they have long used to manage economic conditions, and further regulation is likely over time. As a result, regulatory scrutiny of cryptocurrencies is likely to increase over time rather than diminish. While some jurisdictions (e.g., European Union, Singapore, and Switzerland) have moved toward accommodating digital assets within existing financial systems, others have taken a more restrictive approach.

China provides a clear illustration of the latter. The country has explored digital payments through relatively small-scale tests of its own Central Bank Digital Currency (CBDC). Importantly, these efforts focused on state-issued and state-controlled digital currency, not Bitcoin or any other preexisting coins. By issuing its own CBDC, a central bank preserves control over monetary policy transmission, capital flows, and financial surveillance, while still capturing the efficiencies of digital settlement. In this framework, cryptocurrencies are not viewed as complementary innovations but as potential competitors to sovereign currency authority. As a result, the development of CBDCs may reduce the perceived need for, or tolerance of, privately issued cryptocurrencies, particularly in jurisdictions where maintaining control over the financial system is a policy priority.

To wit, the Chinese government has previously acted to restrict Bitcoin and other cryptocurrency activity when it was being used to circumvent capital controls and move money out of the country. Similar concerns exist elsewhere, particularly in countries seeking to maintain control over capital flows or financial stability. These examples highlight how regulatory action can be swift and decisive when cryptocurrencies conflict with national economic priorities.

Taken together, this regulatory backdrop represents a meaningful overhang for cryptocurrency valuations. Even in the absence of outright bans, changes to rules governing custody, reporting, taxation, or institutional participation could materially affect demand, liquidity, and price formation. For investors, this reinforces the reality that regulatory risk is not a distant or abstract concern, but a central factor shaping the long-term viability and valuation of cryptocurrencies.

SUMMARY

The original allure of cryptocurrencies was faster, lower-cost settlement, and a blockchain proof of ownership. In practice, broad adoption for transactions has been inconsistent, at least in part due to price volatility that works against routine commercial use. Meanwhile, the macro narrative often used to justify holding crypto, such as inflation protection and hedging geopolitical instability, has been mixed in real time.

Over the long term, we believe there could be a role for various digital assets, but what that role will ultimately be, its shape, and its value within the financial system appear far from settled. In the meantime, momentum/speculation alone is often the primary propellant of periodic price surges in the space; importantly, momentum can shift quickly.

The policy and competitive landscapes are evolving. Governments have limited incentive to cede monetary control, and central bank digital currencies (CBDCs) and stablecoins represent parallel efforts to capture some of the speed and settlement features of blockchain networks while keeping tighter links to the traditional financial systems. While traditional financial firms have been more willing to engage the space, it does not eliminate the core risks: uncertain regulation, market frictions, custody and operational vulnerabilities, and the possibility that future advances in computing could test cryptographic standards.

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