
WHAT LIES AROUND THE CORNER FOR DIGITAL ASSETS?

Benjamin Dean – Director of Digital Assets at WisdomTree in Europe
02/04/2022

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 capitalization](#), the ecosystem hit an all-time high during 2021 of more than US\$3 trillion equivalent before being shaken up by news like [Federal Reserve rate hikes](#) potentially coming sooner than expected. Now hovering around US\$2 trillion, this does not include the value of the businesses that have been built on or are using digital asset networks—Coinbase was recently valued at more than US\$40 billion¹ and FTX at US\$32 billion², just to name two. Moreover, the transactions facilitated by some of these decentralized payment networks clear more than US\$100 billion in USD terms per day³—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. With the recent launch of the [RWM WisdomTree Crypto Index](#), consisting of [Bitcoin](#) and Ethereum as well as 11 altcoins spanning a multitude of use cases from [decentralized finance \(DeFi\)](#) to the metaverse, there is no shortage of new ecosystem developments to monitor throughout the new year.

Payments is the original use case—the “killer app”—for digital asset networks, and it 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 day-to-day mobile payments applications. For instance, Jack Dorsey's Twitter has begun to assign Bitcoin Lightning wallets to users' profiles, allowing people to cheaply, quickly and seamlessly “tip” one another in exchange for content.⁴ 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's⁵ “mobile recharge” model voucher product. Western Union is going to need to change its business model—again.

At the same time, developers are finding new ways to make full use of the decentralized application functionality of networks like Ethereum, Solana and Avalanche. The [decentralized finance](#) field will keep traditional finance (TradFi) people awake later at night as exchanges (e.g., Uniswap), lending (e.g., Aave) and yield farming (e.g., Yearn Finance) 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 OpenSea⁶. 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 and the metaverse are other areas where smart contract functionality is being

pushed. Gaming has generated more revenue than Hollywood for years.⁷ Recently, 500 million people tuned in to watch the finals of an eSports tournament.⁸ Digital asset networks are providing the infrastructure to support both in-game tokens and economies, which undergird many of these virtual worlds (e.g., Axie Infinity, Decentraland). [As the lines between metaspaces and cyberspace continue to blur](#), 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. Last November, the Bitcoin network underwent a major upgrade—called Taproot—aimed at increasing network privacy and security.⁹ At some point, the Ethereum network will make the long-awaited transition to a proof-of-stake consensus mechanism¹⁰, which will create a new source of returns to those who “stake” ether to run a validator node. Finally, expect greater interoperability between digital asset networks as people attempt to make the most of a combination of specialized 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 characterizes the entrepreneurial engine. This is not unique to digital assets; it is an essential dynamic that new technologies experience throughout their development, commercialization 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 provides novel solutions. The [RWM WisdomTree Crypto Index](#) will change to reflect the evolution in the ecosystem and thereby provide a way to capture exposure to emerging opportunities in this space.

¹ <https://www.bloomberg.com/quote/COIN:US>

² <https://www.cnbc.com/2022/01/31/crypto-exchange-ftx-valued-at-32-billion-amid-bitcoin-price-plunge.html>

³ https://www.coingecko.com/en/coins/high_volume

⁴ https://blog.twitter.com/en_us/topics/product/2021/bringing-tips-to-everyone

⁵ <https://azte.co/>

⁶ <https://opensea.io/>

⁷ <https://www.marketwatch.com/story/videogames-are-a-bigger-industry-than-sports-and-movies-combined-thanks-to-the-pandemic-11608654990>

⁸ <https://www.bloomberg.com/news/articles/2021-11-08/tencent-gets-respite-from-crackdown-with-league-of-legends-hits>

⁹ <https://www.theblockcrypto.com/linkedin/124276/bitcoin-taproot-activated>

¹⁰ <https://ethereum.org/en/eth2/>

Important Risks Related to this Article

Benjamin Dean is an employee of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management Inc.'s parent company, WisdomTree Investments, Inc.

There are risks associated with investing, including the possible loss of principal. Crypto assets, such as bitcoin and ether, are complex, generally exhibit extreme price volatility and unpredictability, and should be viewed as highly speculative assets. Crypto assets are frequently referred to as crypto “currencies,” but they typically operate without central authority or banks, are not backed by any government or issuing entity (i.e., no right of recourse), have no government or insurance protections, are not legal tender and have limited or no usability as compared to fiat currencies. Federal, state or foreign governments may restrict the use, transfer, exchange and value

of crypto assets, and regulation in the U.S. and worldwide is still developing.

Crypto asset exchanges and/or settlement facilities may stop operating, permanently shut down or experience issues due to security breaches, fraud, insolvency, market manipulation, market surveillance, KYC/AML (know your customer/anti-money laundering) procedures, noncompliance with applicable rules and regulations, technical glitches, hackers, malware or other reasons, which could negatively impact the price of any cryptocurrency traded on such exchanges or reliant on a settlement facility or otherwise may prevent access or use of the crypto asset. Crypto assets can experience unique events, such as forks or airdrops, which can impact the value and functionality of the crypto asset. Crypto asset transactions are generally irreversible, which means that a crypto asset may be unrecoverable in instances where: (i) it is sent to an incorrect address, (ii) the incorrect amount is sent or (iii) transactions are made fraudulently from an account.

A crypto asset may decline in popularity, acceptance or use, thereby impairing its price, and the price of a crypto asset may also be impacted by the transactions of a small number of holders of such crypto asset. Crypto assets may be difficult to value, and valuations, even for the same crypto asset, may differ significantly by pricing source or otherwise be suspect due to market fragmentation, illiquidity, volatility and the potential for manipulation. Crypto assets generally rely on blockchain technology, and blockchain technology is a relatively new and untested technology which operates as a distributed ledger. Blockchain systems could be subject to internet connectivity disruptions, consensus failures or cybersecurity attacks, and the date or time that you initiate a transaction may be different then when it is recorded on the blockchain. Access to a given blockchain requires an individualized key, which, if compromised, could result in loss due to theft, destruction or inaccessibility. In addition, different crypto assets exhibit different characteristics, use cases and risk profiles.

Information provided by WisdomTree regarding digital assets, crypto assets or blockchain networks should not be considered or relied upon as investment or other advice, or as a recommendation from WisdomTree, including regarding the use or suitability of any particular digital asset, crypto asset, blockchain network or any particular strategy. WisdomTree is not acting and has not agreed to act in an investment advisory, fiduciary or quasi-fiduciary capacity to any advisor, end client or investor, and has no responsibility in connection therewith, with respect to any digital assets, crypto assets or blockchain networks.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Bitcoin (the currency): A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Decentralized Finance (DeFi): A system by which financial products become available on a public decentralized blockchain network.