Is Bitcoin Going Mainstream?
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Will Peck, Head of Corporate Strategy for WisdomTree Asset Management
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It’s been a bit of a bumpy road since bitcoin emerged in 2008.

With its peer-to-peer structure and lack of intermediaries, a decentralized currency was a novel concept. Bitcoin was envisioned as an alternative to traditional payment systems, intending to give individuals freedom of payment, transparency, as well as security and control. It gained early acceptance from those whose faith in the traditional financial system was shaken by the global financial crisis and from those who wanted to move money without being detected.

It wasn’t until the rapid price run in 2017, when bitcoin’s value increased from around US$1,000 to nearly US$20,000, that investors took notice. Much of Wall Street was dismissive, labeling it a bubble or a scam. Nevertheless, the digital system underpinning bitcoin, distributed-ledger technology (DLT), was beginning to proliferate. A common refrain among institutions who recognized the potential of DLT became, “Blockchain, not bitcoin.” While DLT projects abounded, many struggled to fully deliver on the technology’s promise.

The Birth of an Asset Class?

In just a few years, the conversation has changed. We brought together industry leaders to discuss the potential for digital assets to fundamentally reshape capital markets. Their message was clear: perceptions of bitcoin and digital assets are shifting and institutional investors are seeing new potential.

“If investors are looking for a store of value or a non-correlated asset, then there’s some pretty decent evidence that says bitcoin could be an option for them,” said Jason Ward, vice president of blockchain product management at Fidelity.

“Bitcoin is kind of digital gold. If you think gold has real financial value, then you could think bitcoin has real value,” Will Peck, head of corporate strategy for WisdomTree Asset Management, told the group. In early December, the asset manager launched a physically backed bitcoin exchange-traded product on SIX, the Swiss Stock Exchange.

Our own research also points to signs that digital currencies are gathering tangible interest. In the 2019 update to our annual Growth Readiness Study of more than 500 asset managers, owners and insurers, 25 percent said they are invested in digital currencies or related products such as bitcoin futures. This is up five-fold from a year ago, when just five percent of respondents said they were invested. An additional 25 percent of respondents said they intend to invest soon. Furthermore, the number of respondents who cited lack of client interest as a top barrier fell by nearly 60 percent.

25 percent now say they are invested, compared to just 5 percent one year ago.
What is your institution’s experience with investing in digital currency or related products (e.g., bitcoin futures)?

<table>
<thead>
<tr>
<th>Year</th>
<th>Early-mover</th>
<th>Recent investor</th>
<th>Intend to invest soon</th>
<th>Still monitoring</th>
<th>No plans to invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>3%</td>
<td>19%</td>
<td>52%</td>
<td>2%</td>
<td>22%</td>
</tr>
<tr>
<td>2019</td>
<td>6%</td>
<td>19%</td>
<td>25%</td>
<td>32%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: State Street Growth Readiness Study, 2019

Fundamental Questions Linger

Despite the growing interest, unresolved issues are keeping many investors on the sidelines. These run the gamut from how to hold and settle digital assets, regulatory treatment, the potential for market manipulation and even the efficacy of the technology itself.

“We have 18 to 24 months for traditional institutional investors to view the investment infrastructure as sufficient for execution, administration and custody. This infrastructure limitation is part of the investment opportunity for believers in the technology and why we created a registered fund using typical institutional service partners. The real unknown is whether blockchain will scale enough in transaction-throughput for global use.

If this gets validated over the next two years then several market issues will be resolved,” said James Slazas, co-founder and CEO of DARMA Capital.

Our Growth Readiness Study found that cybersecurity concerns, high volatility and lack of sufficient regulatory oversight are the top factors holding respondents back from investing in digital currencies. However, the regulatory issue may be turning a corner. In early December 2019, the United States Securities and Exchange Commission (SEC) approved Stone Ridge Trust VI’s bitcoin futures fund, signaling a moderated stance on the asset and willingness to find common ground.¹ Still, the list of bitcoin-backed exchange-traded fund (ETF) rejections continues to grow.

What are the most significant barriers to institutional investors investing in digital currency?

- Cybersecurity concerns: 41%
- Too much volatility: 35%
- Lack of sufficient regulatory oversight: 30%
- Unreliable pricing: 29%
- Lack of trusted and reliable asset servicing partners and solutions: 26%
- Lack of conviction in the long-term viability of current digital currency assets: 25%
- Not enough liquidity: 22%
- High margins: 21%
- Negative response by central bank(s) to digital currency investment: 20%
- Lack of suitable products: 20%
- Lack of client interest: 9%

Source: State Street Growth Readiness Study, 2019
“The bitcoin ETF will be a gamechanger,” argues Richard Johnson, CEO of Texture Capital. As efficient vehicles that trade and settle like stocks, investors flock to ETFs for their transparency, liquidity, tax benefits and low fees, as well as the access the funds offer to a variety of sectors, themes and geographic markets. A bitcoin ETF would tick several of the boxes that mainstream institutional investors are looking for: innovation, opportunity for growth and operational efficiency. However, the SEC has withheld its approval of these products, citing concerns around the possibility of market manipulation or other fraudulent activity.\(^2\)

Many investors, however, are confident that these challenges can be resolved and that a landmark approval is coming. 45 percent of respondents in a recent State Street Pulse Survey said they believe that a bitcoin ETF (or similar cryptocurrency ETF) will receive regulatory approval to launch in 2020.\(^3\)

We’re experiencing the longest running bull market ever recorded, but history tells us that the music will eventually stop. How bitcoin will weather different market cycles remains to be seen, but one thing is certain: it’s inching ever closer to the mainstream.

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\(^3\) State Street Markets Innovation Pulse Survey, 2019
“The bitcoin ETF will be a gamechanger.”

Richard Johnson, CEO of Texture Capital
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