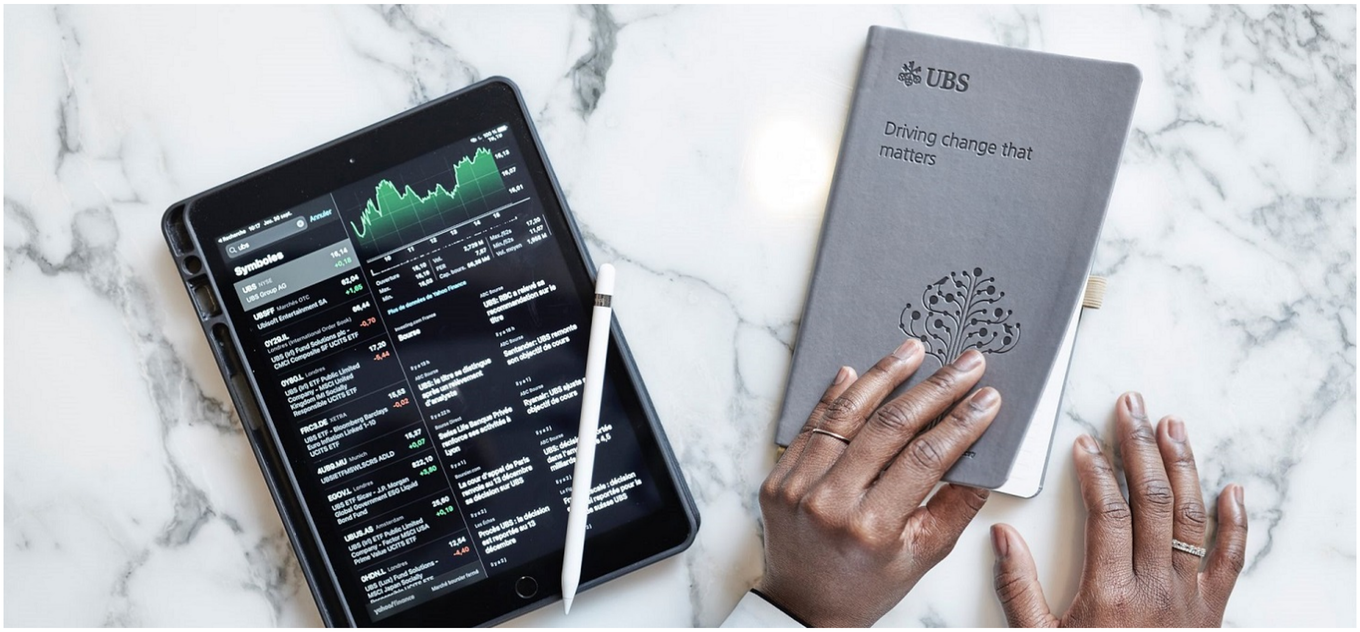

While access to Bitcoin ETFs has helped investors overcome technical challenges in storing digital assets, CIO remains unconvinced of the structural case for crypto assets. (UBS)

The case for cryptos remains weak

08 February 2024, 4:23 pm CET, written by UBS Editorial Team

Following the 10 January US Securities and Exchange Commission (SEC) approval for exchange-traded funds (ETFs) that invest directly in Bitcoin, 10 funds opened their doors to new investors and one existing Bitcoin Trust converted to an ETF.

While many investors view ETFs as an easier way to access, store, and invest in digital assets, investor interest and flows have so far not lived up to pre-launch expectations. The fundamental investment case for crypto assets broadly remains weak, in our view.

Since the ETFs began to trade on 11 January, all 10 have received net inflows, as investors rotated some assets away from existing higher-cost vehicles. The 10-year-old Grayscale Bitcoin Trust (which was converted into an ETF) has experienced approximately USD 4 billion of outflows since its conversion into an ETF. In the two weeks since the SEC approval, the price of Bitcoin has declined 15% to below USD 40,000 at the time of writing.

But, while access to Bitcoin ETFs has helped investors overcome technical challenges in storing digital assets, we remain unconvinced of the structural case for crypto assets.

Investor requirements remain restrictive. Part of the initial excitement for Bitcoin ETFs was based on the hope of large inflows, as institutional investors sought a more liquid way to allocate to the asset class. While inflows may grow as firms study and approve investments, the initial flows have been underwhelming. Additionally, potential asset flows have been limited due to the restrictive requirements on assets under management for investments in Bitcoin ETFs at many investment brokerage firms.

There is little correlation between Bitcoin "halving" and improved performance. The fourth halving event is expected in April 2024 when the reward for Bitcoin mining transactions will be cut in half. From that point onward, miners will receive 3.125 Bitcoin for adding a block to the network, down from 6.25 Bitcoin. While the third halving coincided with a rally to an all-time high of nearly USD 68,000, we do not see a statistically significant pattern that would suggest a strong correlation between the event and price performance. Additionally, we believe crypto assets are likely to stay volatile.

Security concerns remain. Fundamentally, we are still not convinced that crypto assets can make significant inroads in meaningful and disruptive real-world use cases. Crypto assets can expose investors to legal, regulatory, technological, reputational, and market risks, as well as criminal and illicit activities.

So, while Bitcoin ETFs provide an easier way for investors to access, store, and invest in digital assets, the fundamental case for crypto assets broadly remains weak, in our view. We believe the significant price swings make them more of a speculative trade and advise longer-term investors to focus on technology disruptors—leading firms that deliver, enable, or use new technology for growth, gaining market share, or cutting costs. For more information, please read our recent crypto report: "After a strong rebound in 2023, what lies ahead for crypto assets in 2024?"

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Read the original report : **The case for cryptos remains weak, 25 January 2024.**