Digital Assets in 2024: Reflections on a Revolutionary Year

As we close the third quarter of 2024, it is now time to start reflecting on how Digital Assets have performed as an asset class and revisit the broader strategy for the next calendar year.

So far, the first three quarters of 2024 have been more than eventful with the following topics dominating the performance of this new asset class: the institutionalisation of Digital Asets through the approval and launch of the Bitcoin and the Ethereum ETFs; the politicization of Digital Assets in the United States as bipartisan battle horse; and the shift in monetary policy at the highest level.

But before we start analysing the above-mentioned topics and their projected impact on the asset class, a quick glance at price performance would be a good warm up for readers who are not too familiar with the subject matter.

Digital Asset Price Action: A Fragmented Market

As at the end of September, Bitcoin, which dominates the asset class in terms of valuation, was worth around \$65,000, which is a gain of about 55% on a year-to-date performance. This gain however was not replicated uniformly across all subsectors with several subsectors underperforming or even printing a loss, while other subsectors printed massive gains.

To illustrate this imbalance, the total market capitalisation of Digital Assets went from \$1.65 trillion to \$2.22 trillion in the first three quarters of 2024 which is around a 35% gain for the whole sector. For the benchmark to be performing a full 20% under the leading asset that is Bitcoin, it needed a lot of underperformers, so who are they?

- Non-Fungible Tokens or NFTs never came back from their fall. Seasoned investors still hold those memorabilia of past irrational exuberance.
- Projects which failed the test of fire and never found any sustainable business model such as Axie Infinity (play to earn) shed more than 95% of their market capitalisation from their all-time highs and kept slowly grinding to zero throughout the year.
- Legacy blockchains such as EOS and Cardano are each down -30% for the year, having never delivered on their promises despite billions being raised, ghost chains as we call them.
- High FDV tokens kept getting released every day into the market, creating a continuous selling pressure on their already frail price.

While the failed crops are numerous, so are the shining stars. Meme coins, for one, returned an average of over 350% for the year as a subsector, with several outliers returning in the four to five digits region, reflecting on the power of memetic investing. Real World Assets or RWAs returned an average of over 400% in the same period, as an indicator how traditional finance is pivoting into the new technology. While the average Digital Asset investors likely made some money in 2024, the astute ones definitely made good returns.

Unlike the previous cycles where the rising tide lifted all the boats, 2024 was definitely a more selective year.

Although understanding Digital Asset fundamentals was key to unlocking the big gains of 2024, you could also have made it without even knowing anything on blockchain technology. This is because prices were heavily influenced by three main external factors: the ETF approvals, the US presidential election, and monetary policy.

Digital Asset ETFs: The Institutionalisation of a New Asset Class

A strong contributor to the rise of Bitcoin prices and a decrease in the historical volatility can be attributed to the approval of the Bitcoin ETFs that was made at the beginning of the year. Since that historical approval, over $415 billion in cash flowed into those new investment vehicles, taking a significant amount of Bitcoin out of circulation and making Bitcoin accessible to hundreds of millions of investors. Further to that, we received yet another ETF approval in July, this time for Ethereum, the silver to Bitcoin's gold. While the performance of Ethereum has been lacklustre at best, we would not recommend discounting the potential of silver in an upcoming gold bull market.

US Elections: A Bipartisan Political Battle Horse

In November, the US will be taking to the polls with current VP Kamala Harris being pitted against ex-president Donald Trump. Setting aside all the traditional mudslinging that goes on in such contests, this year's election is particularly interesting as we saw Digital Assets arise as a pillar of the political campaigns from both sides. As per the latest surveys, 40% of American adults own Digital Assets, so any political party hostile to Digital Assets would be losing votes and quite possibly the whole election. Trump in particular took a strong stance on the subject matter, promising to make the US, the crypto capital of the planet; and even went as far as launching his own DeFi platform, World Liberty Financial, garnering a lot of support from the sector.

Monetary Policy: Tamed Inflation, Strong Growth and Dovish Outlook

With inflation under control and the US GDP projecting to reach 2.4% in 2024, we are now witnessing the beginning of a new monetary easing cycle. The first peace offering came on the 19th of September 2024 with a 50 bps cut in the fed rates. In simple terms, the Federal Reserve controls base interest policy, so when they lower rates, this makes it cheaper for investors to borrow, thus enticing investors to take on more exposure to risk assets. Digital Assets traditionally have stood at the end of the risk asset spectrum, so they stand much to win from new inflows of money chasing higher risks and their higher returns.

From an investment advisor perspective, we believe that all the stars are aligned for Digital Assets as a sector to outperform. The three biggest barriers, that is regulatory, political and monetary, were not only torn down, but flipped from being obstacles to enablers of this asset sector.

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