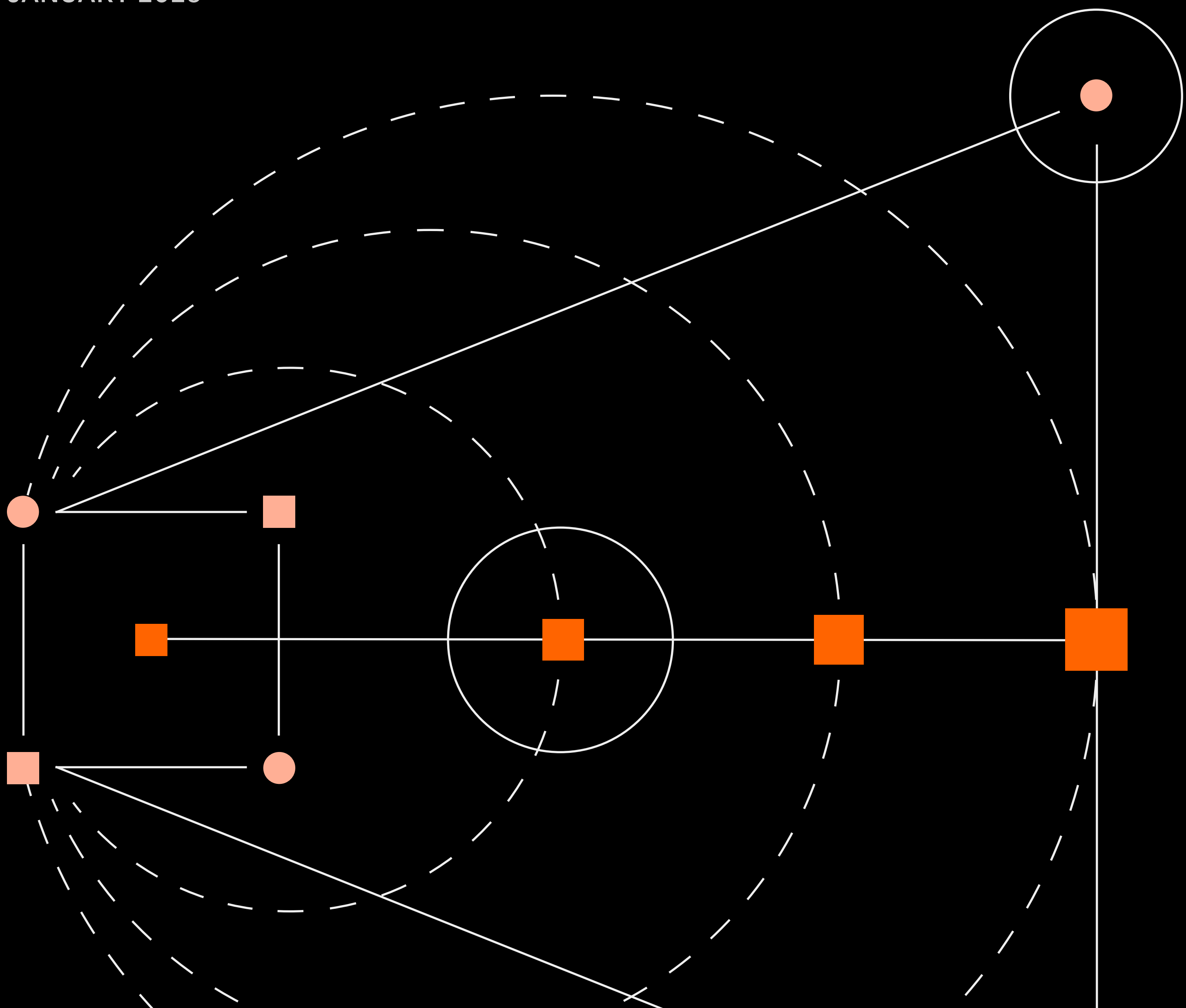
Galaxy Asset Management

2025 Investment Outlook

JANUARY 2025



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This report is a product of Galaxy Research, a research organization within Galaxy, the leading provider of financial services in the digital assets, cryptocurrency, and blockchain technology sector. Galaxy Research provides top-tier market commentary, thematic views, tactical insights, and deep protocol research.

This report was written in January 2025.

View our publicly available research at www.galaxy.com/research. Contact us at research@galaxy.com.

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A Note From Our Global Head of Asset Management

Galaxy Asset Management Investors,

As we look forward to a 2025 crypto industry which will be defined by the categorical positive shift of regulators and politicians in the United States, it is easy to forget how remarkable 2024 was in crypto's history. In parallel to the arrival of spot BTC & ETH ETFs, Bitcoin's 4th halving, and the election of "crypto President" Donald Trump, crypto's total market cap eclipsed $3.9T while bitcoin achieved the vaunted $100K price milestone.

2024 was a formative year for both Galaxy and Galaxy Asset Management (GAM). Galaxy finished the year with over 500 employees globally, our markets business registered as a swap dealer in the U.S. with over $17B of derivatives volume through Q3, and our banking business advised on a number of marquee transactions (including advising Bitstamp on its pending sale to Robinhood). Our digital infrastructure business executed a non-binding term sheet with a U.S.-based hyperscaler to host high performance compute at its Helios campus, and our staking business became and remains a top validator on the Solana network.

On the asset management side, I am particularly proud of the work we completed on behalf of the FTX Estate and its creditors. The GAM team returned in excess of $8B of cash to the estate, while successfully executing a number of different liquidation mandates, from liquid crypto to hedging to locked token sales to the disposition of certain trust assets. In parallel, our overall asset management platform has evolved dramatically, with a wide range of products now live, spanning ETF and Alternatives verticals.

On the ETF side of our business, we launched BTC & ETH products in the US with Invesco (BTCO & QETH), BTC & ETH products with DWS in Europe (XXBT and XETH), and a suite of three active equity products with State Street: SPDR Galaxy Digital Asset Ecosystem ETF (DECO), SPDR Galaxy Hedged Digital Asset Ecosystem (HECO), SPDR Galaxy Transformative Tech Accelerators ETF (TEKX). We will continue to build high quality, institutional quality ETF offerings with our large issuer partners.

On the Alternatives side of the business, our liquid crypto fund had a stellar year (+76.65%) and is approaching its three-year track record. We also launched Galaxy Ventures Fund I, which has made several exciting and, we hope, transformational investments on behalf of LPs. To date, the fund has raised $135MM to target disruptive themes such as stablecoin adoption for cross-border payments. We anticipate holding a final close in the coming months, and have closed on and are actively offering additional co-investment opportunities to our investor network.

Looking forward, the recent flurry of political and regulatory appointments, working groups, statements, and executive orders gives us tremendous confidence to launch the Galaxy Absolute Return Fund. The Fund is a low-vol, fundamentally driven, multi-asset hedge fund designed to capitalize on the transformative, misunderstood technologies and infrastructure tied to the digital asset ecosystem. The Fund will not hold tokens and will instead invest exclusively in the rapidly expanding universe of equities, derivatives, and credit instruments tied to the crypto theme.

With the developments in Washington over the last week, ranging from President Trump's digital-asset-focused executive order to the repeal of SAB 121, I am deeply excited to see our efforts of the past seven years finally come to fruition. We expect an unprecedented wave of talent and capital to drive product innovation, IPOs and M&A, and investments to our space. As always in crypto, this will not happen in a straight line, and we will do our best to maintain a balanced and focused approach to our investing. We appreciate your support and look forward to what is ahead.

Steve Kurz

Introduction

Despite more than a decade of education, adoption, growth, and appreciation, crypto has faced headwinds from the U.S. government's stance toward the industry – a stance that has alternated between opposition, ambiguity, and tentative engagement. The uncertainty has often hung like a cloud over institutional crypto conversations. Our core view had remained, however, that the U.S. would come to crypto late but in force – and this is exactly what is taking place today.

As the crypto industry evolves, many of the debates that previously shaped investment decisions have become less relevant. Therefore, we suggest that investors set aside preconceptions and approach the industry with fresh perspectives in this new phase of regulatory clarity and adoption.

Looking forward, it is also crucial to distinguish the most substantial developments from the distractions, and tailor investment strategies and position sizing accordingly. Legislative developments, adoption curves, and emerging technologies will play key roles in shaping the future of the crypto industry.

Below, we outline key areas of focus identified by our investment teams as we navigate this rapidly changing landscape.

Accessibility: Expanding Investment Opportunities

As the U.S. adopts a more progressive, clear, and innovation-focused regulatory posture to digital assets, we expect the entrance of traditional finance (TradFi) to help bring liquidity, unlock new pools of capital, normalize and standardize investment in digital assets, and bring confidence to traditional investors who will be able to access exposure through their traditional, highly regulated brokerages. Specifically, we expect a significant growth of investment vehicles through a wave of ETF launches, newly public companies through IPOs, and equities evolving into tokenized securities. This expansion will provide investors with a broader range of options, offering greater flexibility to tailor their exposure and construct diversified portfolios.

Bitcoin (BTC)

Bitcoin continues to become an institutional asset, with the anticipated buyer base expanding to institutional wealth, corporate treasury, and sovereign wealth funds. Institutions are increasingly recognizing BTC as a viable store of value and inflation hedge, while corporate treasuries see it as a strategic asset to diversify reserves and strengthen balance sheets. Sovereign buyers, motivated by currency stability and geopolitical considerations, are beginning to explore BTC as a component of national reserves. On just his fourth day in office, President Donald Trump ordered a new presidential working group (PWG) to evaluate the creation of a national digital assets stockpile, after promising to create a "strategic national Bitcoin reserve" in Nashville last July.

In December 2024, asset manager BlackRock formally recommended a 1-2% allocation to BTC in investment portfolios. Just last week, at the World Economic Forum in Davos, BlackRock's CEO Larry Fink disclosed that sovereign funds had approached him for guidance on appropriate BTC allocations. These developments could open the floodgate of institutional allocation and drive significant inflows into bitcoin investment products, particularly BTC spot ETFs, which are likely to see their asset under management (AUM) swell as BTC becomes further entrenched in traditional investment frameworks.

ETFs

Before the approval of spot BTC and ether (ETH) ETFs, investments through hedge funds and trusts were the primary ways for investors to gain exposure to crypto. However, these vehicles often came with lock-in periods, higher management fees, and elevated barriers to entry. The SEC's approval of both BTC and ETH ETFs has opened the door for more crypto ETFs to enter the market, including single-cryptocurrency ETFs for assets like Solana (SOL) and Ripple (XRP), as well as leveraged, inverse and basket ETFs.

However, the adoption and demand for these new funds may be more measured compared to spot BTC ETFs' success, as the launch of spot BTC and ETH ETFs in 2024 was a milestone built on years of anticipation. Riskier assets will likely see lower adoption, while riskier strategies, such as leveraged ETFs, are likely to face a lengthier approval process due to their relative complexity and potential risks. Nonetheless, we anticipate a strong inflow of funds into crypto products as they are incorporated into model portfolios. This influx of capital is expected to contribute to a reduction in crypto's overall volatility, helping to alleviate investor concerns about this asset class.

Corporate Financing Instruments

Following the success of MicroStrategy's bitcoin treasury strategy, public companies are increasingly turning to capital markets to finance their entry into the crypto space. Instruments like convertible bonds, hybrid or preferred securities, and investment-grade or high-yield debt allow companies to raise capital from a broad range of investors with varying risk appetites. Convertible bonds and hybrid securities offer flexibility and potential upside for investors while providing companies with lower-cost funding. Investment-grade and high-yield debt expands access to institutional capital, enabling strategic investments in the crypto space. These instruments in turn provide investors with a wider range of options to gain exposure to crypto.

IPO and M&A Activities

On the venture side, the IPO market will open more meaningfully to crypto-native companies, finally opening a pathway to realizing return on investments via exits. Today, the only venture-backed crypto startup to go public (other than a few SPACs) is Coinbase, and most of the other public crypto securities are associated with bitcoin miners. By our estimation, in 2025 there could be more than 12 crypto firms looking to go public in the U.S., spanning areas such as trading platforms, blockchain analytics, and custody solutions.[1]

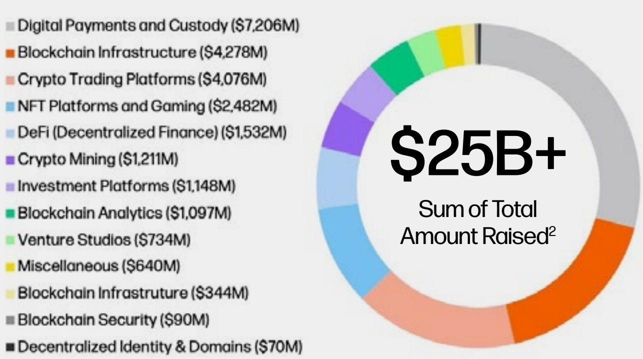
The IPO market holds significant potential. Between 2018 to 2024, over 300 venture deals with deal sizes exceeding $50 million were conducted, raising a total of $25 billion - these companies form a large and diverse pool from which the public markets may draw.[2] The anticipated wave of IPOs can offer investors and crypto funds with a broader array of options for gaining exposure to the crypto sector. Hedge funds and liquid crypto strategies are particularly positioned to seize these opportunities compared to passive funds.

Tokenized Securities

Depending on the SEC's stance on Howey and token disclosures, we could see a wave of new types of tokens and existing tokens add more equity-like features to enhance their value propositions. We expect that the tokenization of existing securities, such as U.S. equities, will begin to be possible within sandboxes and approved proofs of concept under the guidance and oversight of a new, more forward-thinking SEC. An expanded and improving asset ecosystem will be supportive of the liquid crypto hedge fund industry whose investible universe can both mature and expand. Improved token disclosure and issuance capabilities in the U.S. could finally challenge or even reverse the existing Simple Agreement for Future Tokens (SAFT) to low float, high fully diluted valuation (FDV) regime which favors venture capital (VC) over liquid crypto strategies.

Figure 1: Opportunities in Public Markets

Source: Galaxy Research



By the Numbers

300+

Deals with a deal size >$50m since 2018[1]

$255B+

Estimated last known valuation[2]

Notable Companies

Fireblocks

Chainalysis

CIRCLE

kraken

As of December 31, 2024
Data: Pitchbook

All third-party company product and service names in this presentation are for identification purposes only. The product names, logos, and brands are property of their respective owners. Use of these names, logos, and brands does not imply endorsement.

[1] The information provided is based on publicly available sources, including news outlets such as CoinDesk, The Block, and Forbes.

[2] See Figure 1.

Structure: Establishing a Robust Institutional Framework

Following the November 2024 presidential election, President Trump has been assembling a cabinet to support the development of the crypto industry. Since President Trump took office last week, a slew of positive headlines emanated from the new administration and Congress on crypto. Key developments include President Trump signing an executive order (EO) to establish the federal government's approach to digital assets, the SEC repealing SAB121, allowing banks to custody cryptoassets, and the creation of a new SEC crypto task force called "Crypto 2.0." These developments signal that President Trump intends to marshal the efforts of the U.S. government to support digital asset leadership and lay the foundation for a robust institutional framework designed to enable institutional participation. We expect these regulatory changes and national prioritization to impact various aspects of financial services, including banking, asset management, sales and trading, and corporate operations.

Stablecoins, Modern Payments, and Dollar Strength

On January 23, 2025, President Trump signed an executive order banning the creation of a U.S. central bank digital currency (CBDC). This move gives preferences to private-sector-led stablecoin initiatives, which are seen by the U.S. Congress to be a top priority. Indeed, House Financial Services Committee Chairman French Hill (R-AR) said he intends to put his committee to work on new stablecoin legislation in the first 100 days of the 199th Congress. Stablecoins have experienced rapid growth, with the number of projects now reaching 202[3], including several with strong ties to TradFi. This surge is driven by two primary factors: the demand for a more efficient payment system and the strategic need to strengthen the U.S. dollar's global dominance.

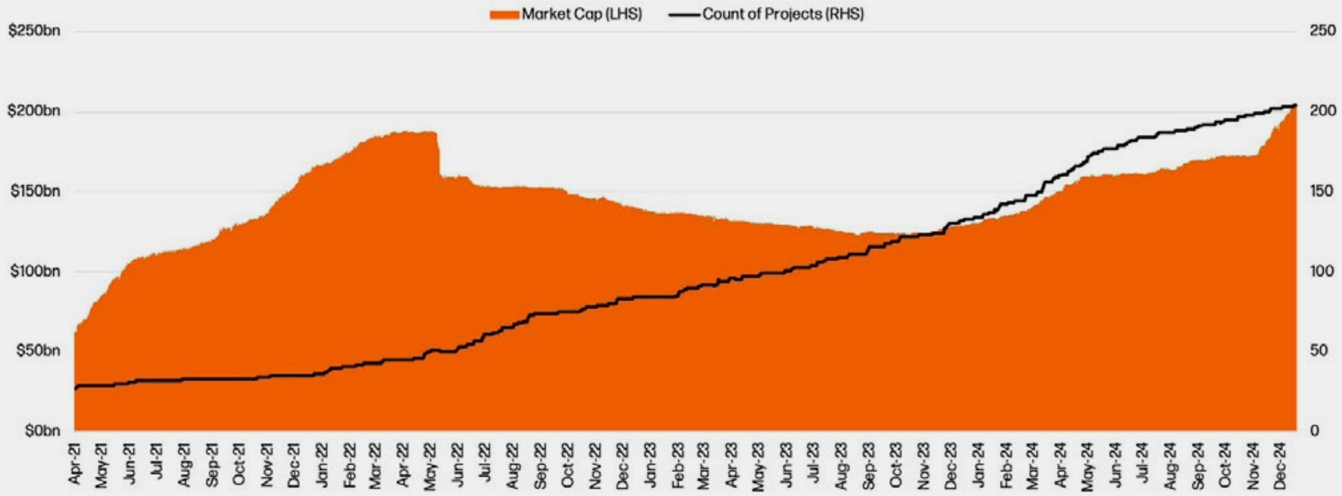
Stablecoins offer inherent advantages over traditional payment methods that are often fragmented, analog, and dependent on intermediaries, making them expensive, inefficient, and slow, particularly for cross-border transactions. Stablecoin transactions, on the other hand, are cheaper, faster, global, and easier to integrate. These qualities uniquely position them to disrupt legacy financial systems. This disruption is already evident in their transaction volume growth, which is up ~1.6x year-over-year. Focusing the analysis on volumes that are directly initiated by consumers and business, Visa estimates stablecoin transaction volumes over 2024 to be ~$5.6 trillion. To put that into perspective, that is ~3.5x PayPal's total payment volume in 2023.

In addition to their utility in payments, macroeconomic conditions are supportive of the continued adoption of digital dollars. The need to bolster sovereign debt ownership, combined with the President's commitment to protecting and expanding the dollar's global reserve status, serves as a strong catalyst for stablecoin growth. For example, asset managers like VanEck and BlackRock are actively collaborating with stablecoin projects as part of a broader tokenization strategy to support this narrative. As regulatory clarity emerges – potentially with bipartisan support for stablecoin legislation in 2025 – we expect that major institutions will issue their own stablecoins. These institution-backed stablecoins could eventually surpass existing players like Tether's USDT and Circle's USDC in the long term.

[3] See Figure 2.

Figure 2: Count of Stablecoin Projects & Aggregate Circulating Supply (USD)

Source: Galaxy Research



As of December 24, 2024
Data: Defi Llama

Traditional Banks Becoming Self-Custodial Neobanks

With the potential overhaul of the crypto regulatory landscape, including the likelihood that regulatory changes and new authorizing legislation will allow highly regulated institutions to handle digital assets and interact with blockchains, we anticipate that traditional banks will begin to offer crypto custody and trading services, starting a process that could see them gradually transform into self-custodial neobanks. Indeed, traditional brokerages such as Charles Schwab and Morgan Stanley's E*Trade have already expressed interest in offering direct crypto investment options just since the November elections.

As the next step, we expect the world's top custody banks to eventually custody digital assets. This will serve as a launching point for the maturation and institutionalization of bitcoin and digital assets markets. For example, once banks can custody BTC and ETH, it becomes more likely that the SEC will allow the spot-based ETFs to perform in-kind creations and redemptions. Banks could also begin offering lending and financing services for digital assets, such as margin trading backed by bitcoin collateral or the creation of innovative structured products that provide bespoke exposure to the underlying digital assets. As banking infrastructure begins to support crypto, we can expect digital asset investment products to diversify in types, improve in design, reduce fees, and become a more naturally integrated component of investment portfolios.

Corporates Launching Their Own Blockchain Networks

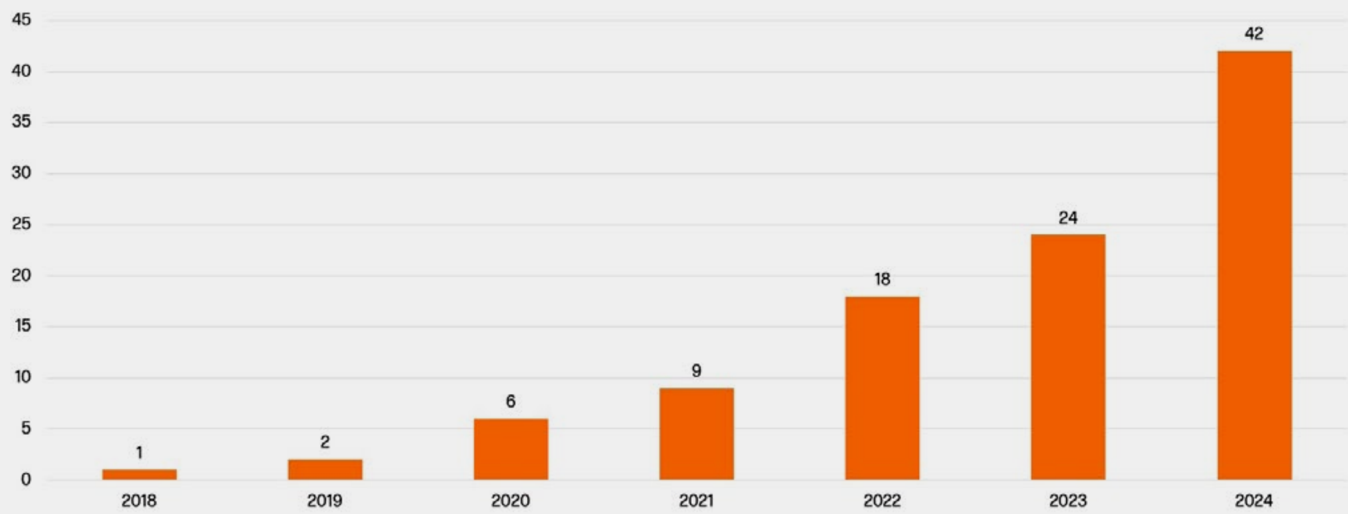
Since JPMorgan Chase's creation of its blockchain-based platform Onyx (now called Kinexys) in 2020, numerous firms have initiated pilot programs exploring blockchain technology. These initiatives typically leverage Ethereum for tokenizing real-world assets (RWA), issuing stablecoins, and minting non-fungible tokens (NFTs). By our estimates, more than 50 companies, including 13 financial institutions, are actively building on Ethereum's platform.

Recently, we have seen an increasing number of firms launching their own Layer-2 (L2) rollup blockchain solutions on top of major Layer-1 (L1) blockchains. Notable examples include Coinbase's Base network, Kraken's Ink, Deutsche Bank's L2 blockchain, and Sony's Soneium. These companies utilize L2s to design systems tailored to their end-users while preserving data transparency, auditability and efficiency. Such systems are being applied to construct know-your-customer (KYC) and anti-money laundering (AML) ledgers and to create ecosystems for gaming, finance and entertainment applications.

Overall, we are witnessing companies actively testing blockchain's smart contract capabilities to enhance the existing infrastructure of TradFi. We anticipate more corporates experimenting with blockchain's potential, developing controlled, open or closed systems tailored to meet their operational requirements.

Figure 3: Count of High-Profile Entities Building on Ethereum

Source: Galaxy Research



As of January 21, 2025
Data: https://ethereumadaptation.com/

Fundamental Value Shared with DeFi Users

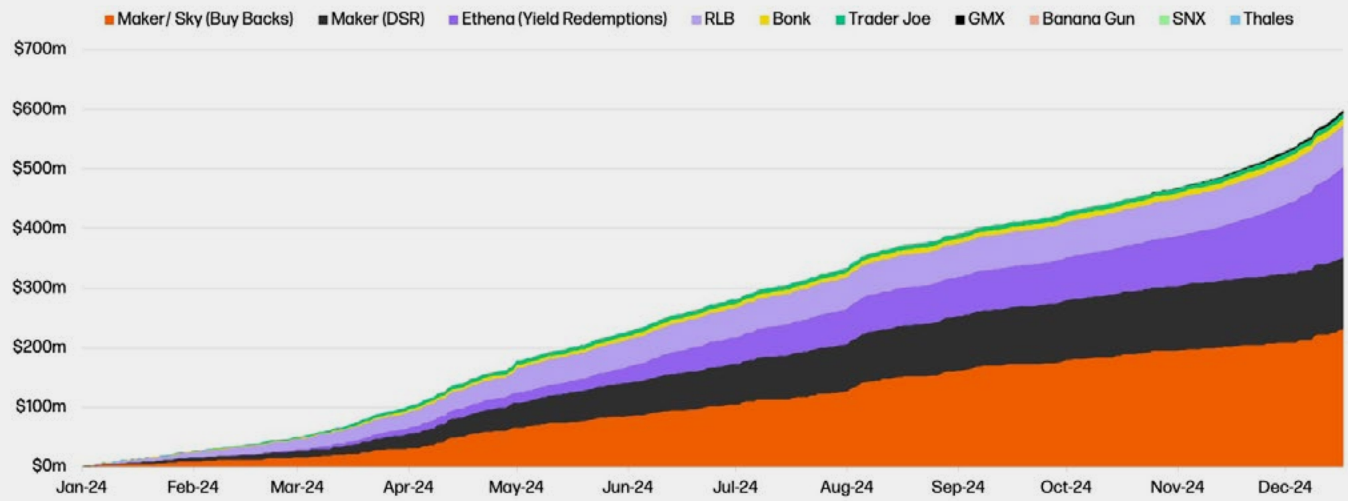
With the expected relaxation of the SEC's applicability of the Howey test to digital assets – potentially expanding the definition of crypto asset securities that can be traded by broker and dealers – the scope for value sharing within crypto protocols is set to grow. Ethena, the third largest stablecoin protocol, and Aave, a long-standing lending protocol, have already initiated discussions or passed proposals to implement their fee switches, a mechanism enabling value distribution to token holders. Other protocols that previously rejected such mechanisms, including Uniswap and Lido, may reconsider their stance due to regulatory clarity and competitive market pressures. As more value accrues within on-chain protocols, buybacks and direct revenue-sharing mechanisms are expected to occur more frequently and at higher rates than previously observed.

Historically, value generated by the protocol was primarily split between liquidity providers (LPs) and protocol or decentralized autonomous organizations (DAO) treasuries, excluding token holders from earning rewards generated by the core businesses of applications. The yield that is paid to token holders, often mistaken as value distribution, is usually generated by the protocol releasing more token supply into circulation, causing inflation (such as through staking or airdrops). The introduction of buyback mechanisms, alongside revenue-sharing structures, is expected to address this imbalance. As a result, token prices will receive positive support based on network fundamentals, particularly for assets associated with lending apps, crypto-backed stablecoins, liquid staking, basis yield platforms, perpetual decentralized exchanges, and funding yield protocols.

The evolution of buyback mechanisms brings crypto tokens closer to functioning like equity securities, providing holders with proper value. Previously, token prices lacked a consistent driver for value accrual due to the design of these protocols. With these new mechanisms, token prices can begin to reflect their underlying utility and revenue generation, offering a more compelling investment case for token holders.

Figure 4: Total Value Distributed to Users & Token Holders in 2024

Source: Galaxy Research



As of December 24, 2024
Data: Dune

Growth: Emerging Frontiers in Digital Infrastructure and Interaction

As crypto continues to evolve, new innovations are emerging at the intersection of crypto and artificial intelligence (AI). The rapid advancement of AI technology has made its convergence with crypto both inevitable and impactful, as both technologies share foundational principles of data processing and efficiency. This synergy is creating opportunities for crypto infrastructure providers, accelerating growth in the AI industry, and opening new frontiers in gaming, digital identity, automated trading, and quantum computing. For investors, these developments present compelling opportunities to explore.

Bitcoin Mining Transitioning to AI Compute

As demand for AI-driven compute continues to grow, Bitcoin miners are expected to retrofit, build, or co-locate high-performance computing (HPC) infrastructure within or alongside their existing operations. This integration will enable miners to remain competitive and explore dual-purpose use cases that maximize efficiency and profitability.

Both Bitcoin mining and HPC require access to significant energy infrastructure and top-tier data center architecture, creating a natural alignment that allows Bitcoin miners to address hyperscalers' significant HPC needs. By leveraging their existing infrastructure and using sophisticated energy strategies for both mining and AI computation, Bitcoin miners can unlock new revenue streams and generate additional value. However, only miners with the proper infrastructure and adaptability will be positioned to capitalize on these opportunities. We believe that miners with large scale acreage, water for cooling, dark fiber, reliable power, a skilled labor force, power approvals, and critical long-lead time infrastructure components are in a prime position to increase the value of their assets, whereas other miners will lose their competitiveness over time and consolidate.

In parallel, spatial computing, a technology that aims to use digital means to recreate real-world experience for users, offers additional synergies with Bitcoin mining and AI compute. Spatial computing has driven advancements in processing techniques, data privacy, and streaming capabilities. Together, these developments can further enhance both HPC and Bitcoin mining operations, especially as gaming technologies like Graphics Processing Units (GPUs) become increasingly relevant in these industries.

As these trends unfold, large Bitcoin miners present a compelling investment opportunity, while spatial computing may emerge as an undervalued avenue. Although Bitcoin miners currently hold a significant presence in investment portfolios, their share may decline over time as the industry consolidates and more companies go public.

AI Driving Web3 Gaming Experience

Since Web3's inception in 2014, Web3 gaming has primarily focused on in-game economies, leveraging NFTs and play-to-earn mechanics to encourage community participation. However, following the hype surrounding projects like Axie Infinity and StepN, the industry experienced a decline in momentum. To regain player interest, games such as "Off the Grid" by Gunzilla Games are shifting the focus back to player experience. Developers are increasingly integrating Web2 technologies to create smoother gameplay experiences, significantly improving overall quality and boosting the appeal of Web3 games.

At the same time, advancements in AI technology are opening new possibilities to enhance the playability of Web3 games. AI-powered tools are reducing production timelines, allowing developers to prioritize creative innovation and deliver higher-quality games. For example, AI-driven non-player characters (NPCs) are evolving, offering dynamic and personalized gameplay that adapts to player behavior.

With these developments, high-quality and well-designed Web3 games are likely to drive large-scale adoption by and from major publishers and developers, such as Ubisoft's launch of "Champions Tactics: Grimoria Chronicles," where players assemble fantasy warriors minted as NFTs to compete against others.

The convergence of AI and blockchain technology positions Web3 gaming for accelerated adoption, with enhanced player experiences as a driving force. In 2025, we expect Web3 gaming to make notable advancements in player experience, blurring the line between Web3 and Web2 gaming while aligning the gaming community with blockchain technology.

Conclusion

In 2025, we believe the crypto industry will undergo meaningful growth by transitioning from speculative cycles to tangible applications that redefine the digital economy. Driven by favorable top-down regulatory changes and support from the new administration and cemented through increased industry maturity and enhanced accessibility, an openness toward the crypto industry will generate new ideas and lead to opportunities for industry growth and widespread adoption.

While certain aspects of this evolution will take us to new economic ideas and paradigms, many of these developments will look and feel like the status quo. For example, the integration of crypto and traditional markets has already been accelerating through both crypto-native features being added to ETF products (e.g., in-kind create & redeem mechanisms and staking) and increasing TradFi activity in crypto (e.g., increased IPO issuance and M&A activity).

However, 2025 could also herald the beginning of a multi-year period of adoption and integration of new blockchain technology applications that shape our world and markets. We expect numerous applications to be developed over time - synergies between crypto and adjacent technologies like AI, gaming, and spatial computing are unlocking new possibilities. Bitcoin miners are adapting their operations to meet the rising demand for high-performance computing in AI, while Web3 gaming is poised to revolutionize player experiences through AI-driven advancements. These intersections represent the next wave of innovation, pushing the boundaries of technology and finance.

We believe this year will redefine how value is created, accessed, and utilized in the crypto industry. At Galaxy, we are committed to building, investing in, and explaining these transformative shifts in our industry.

Contact Us

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