Chainalysis

APRIL 2024

The 2024 Crypto Spring Report

Assessing the crypto comeback: Recovery insights and growth opportunities

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Introduction

The crypto industry is showing signs of recovery following a turbulent period widely referred to as crypto winter.

Blockchain innovation endures, underneath the noise of boom and bust rhetoric and price speculation. The revival we are observing may not just be another cycle, but a sign of ongoing maturation of the ecosystem. Continued innovation in blockchain along with integration into traditional finance validates the legitimacy of the sector and suggests that blockchain technology is quietly delivering on its promise to rewire the financial infrastructure of the world. Organizations are not just adapting to the new landscape, but also participating in its development and shaping its future.

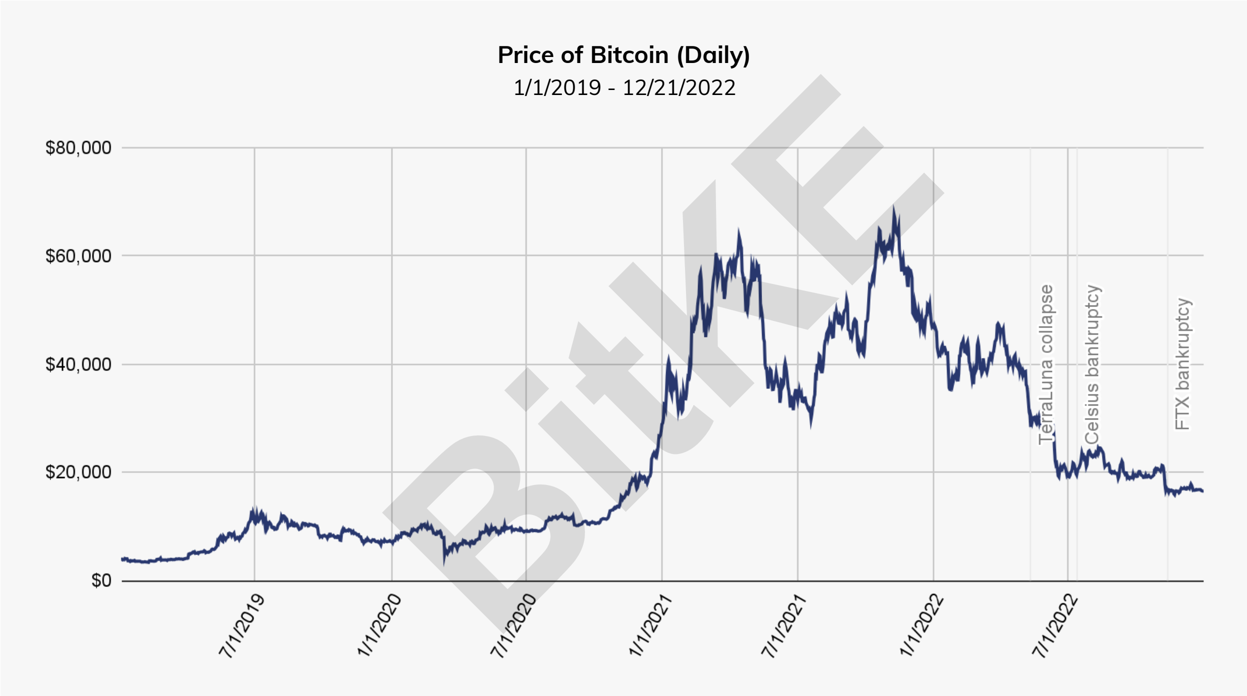
In our Crypto Spring report, we explore the forces shaping the evolution of the crypto industry at large and examine the new use cases and innovations paving the way for an on-chain future.

A crypto winter's tale

Crypto winter is an informal term used to describe sustained periods of cryptocurrency market downturn. Historically, periods of intense market lull have followed the collapse of significant trends or entities — and along with them, prices of crypto assets — such as the 2018 crash after the 2017 initial coin offering (ICO) bubble.

The collapse of TerraLUNA, Celsius, and FTX in 2022 sent shockwaves through the industry, exposing systemic vulnerabilities and challenging the stability and reputability of the ecosystem at large. The failure of investor-backed entities once seen as legitimate raised questions about the accountability and transparency of centralized platforms and the vetting mechanisms in place.

Using the price of Bitcoin as a benchmark, we can see the market impact of these collapses.

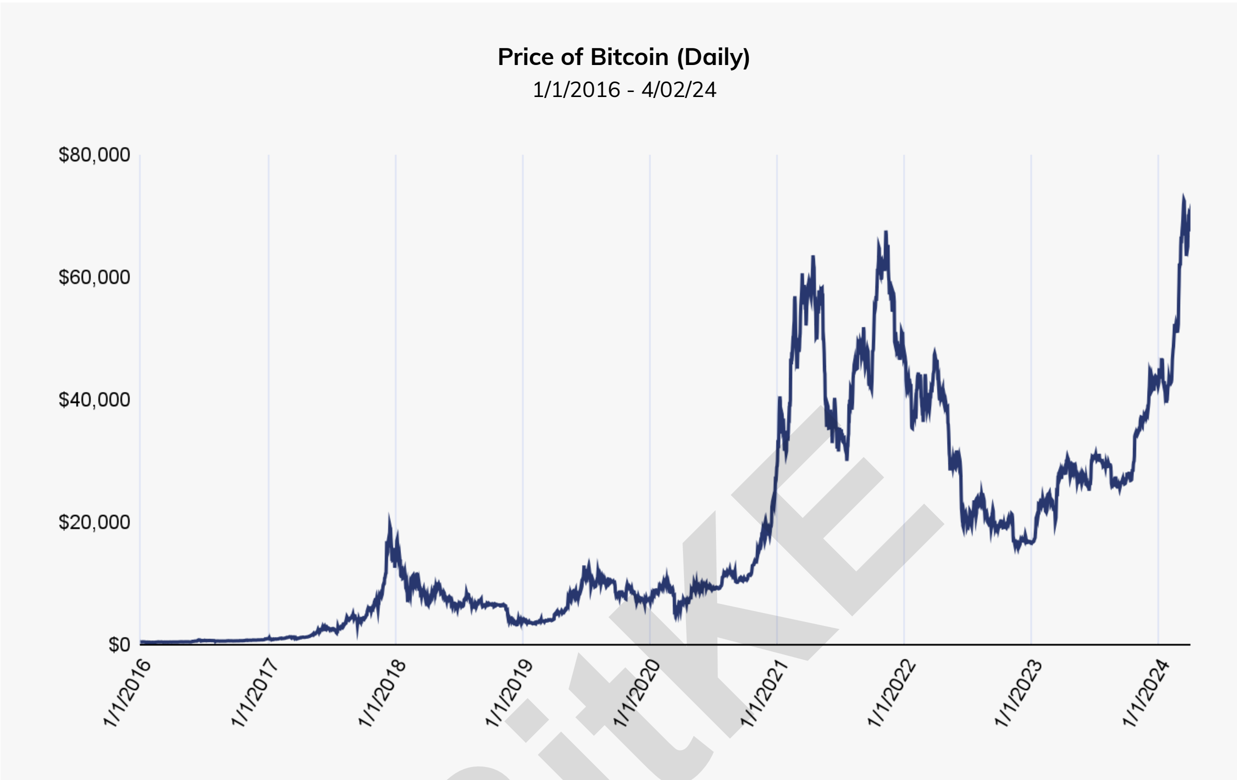


Source: CCData

Despite immediate devastation, major shakeouts in the crypto market prompted a reassessment of risk, transparency, and foundational structures on which the industry is built, paving the way for innovations better aligned with security, decentralization, and protection of participants.

Market snapshot: Is crypto winter over?

As crypto asset prices surge and Bitcoin climbs past previous all-time highs, the prevailing sentiment is that crypto winter has ended.

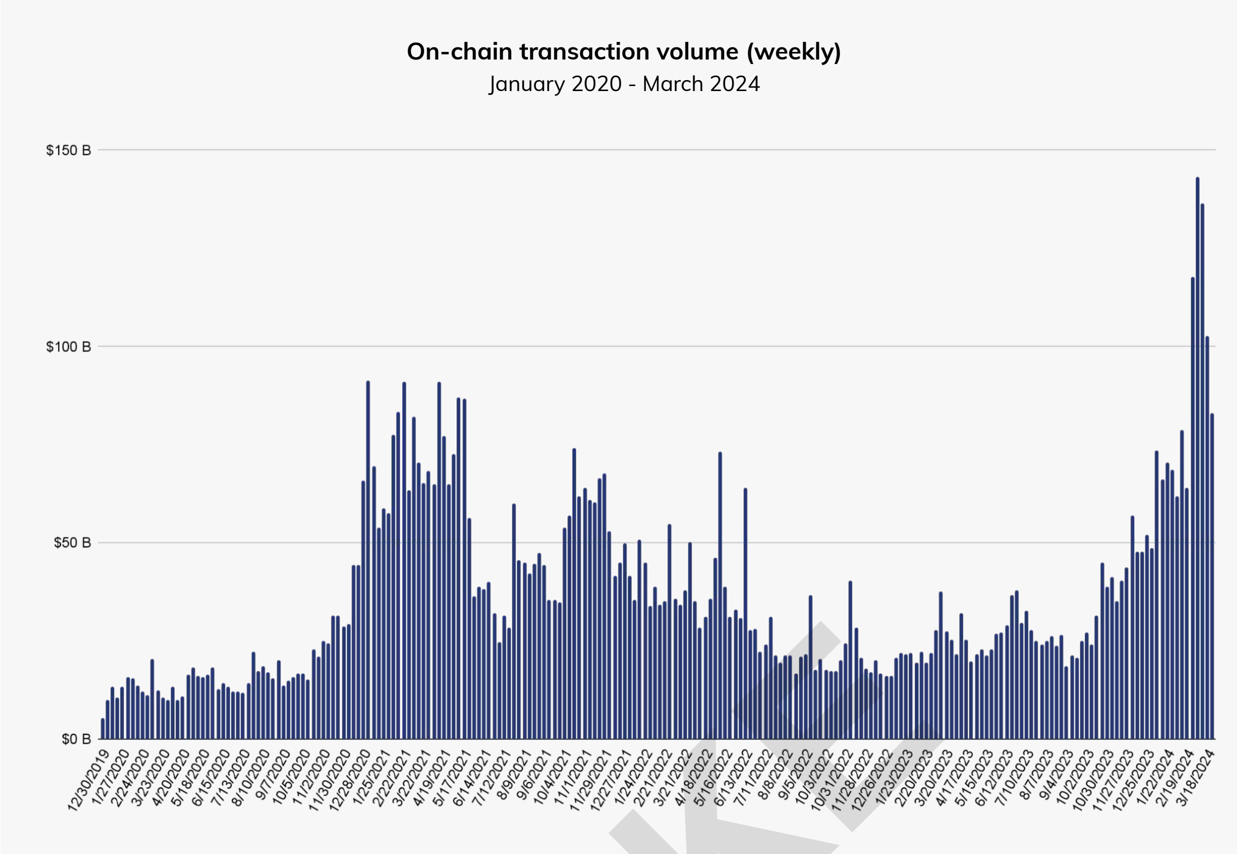


After plummeting to a low of $15,882.92 in November 2022 around the time of the FTX bankruptcy — a 76.49% drop from its November 2021 peak — Bitcoin began its upward ascent in late 2023, signaling an end to this bearish phase, and eventually surpassing its previous all-time high on March 5, 2024.

Ether, the second-most popular cryptocurrency, has also seen a sizable price runup of late, but has yet to exceed previous record highs.

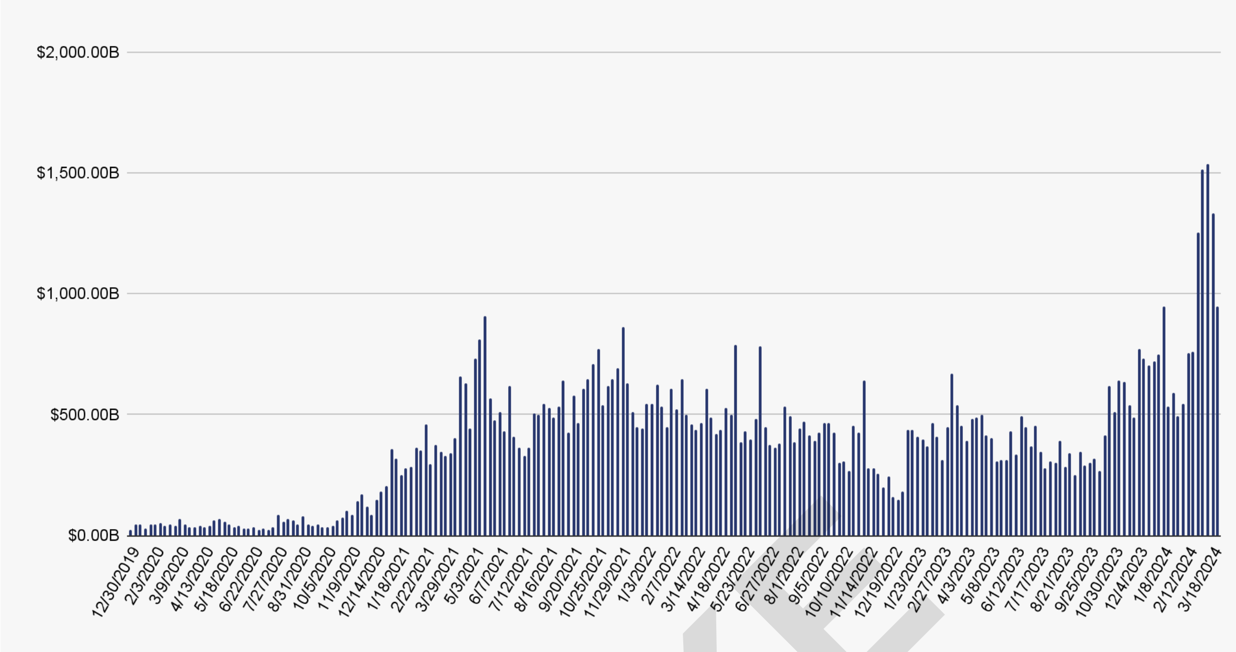
And as we'll explore later, scaling solutions on the horizon for the Ethereum blockchain could foster more productive economic activity, potentially impacting Ether's market activity.

Current asset prices are not the only metric suggesting a recovery. Over the last few weeks, we've seen on-chain transaction volume surpass previous highs established during the last bull market in 2021.



Similarly, crypto futures markets are also seeing historic highs of trading volume on exchanges. Futures allow investors to speculate on a given asset's future price movements without holding the asset.

Crypto futures trading volume across exchanges (weekly)
January 2022 - March 2024



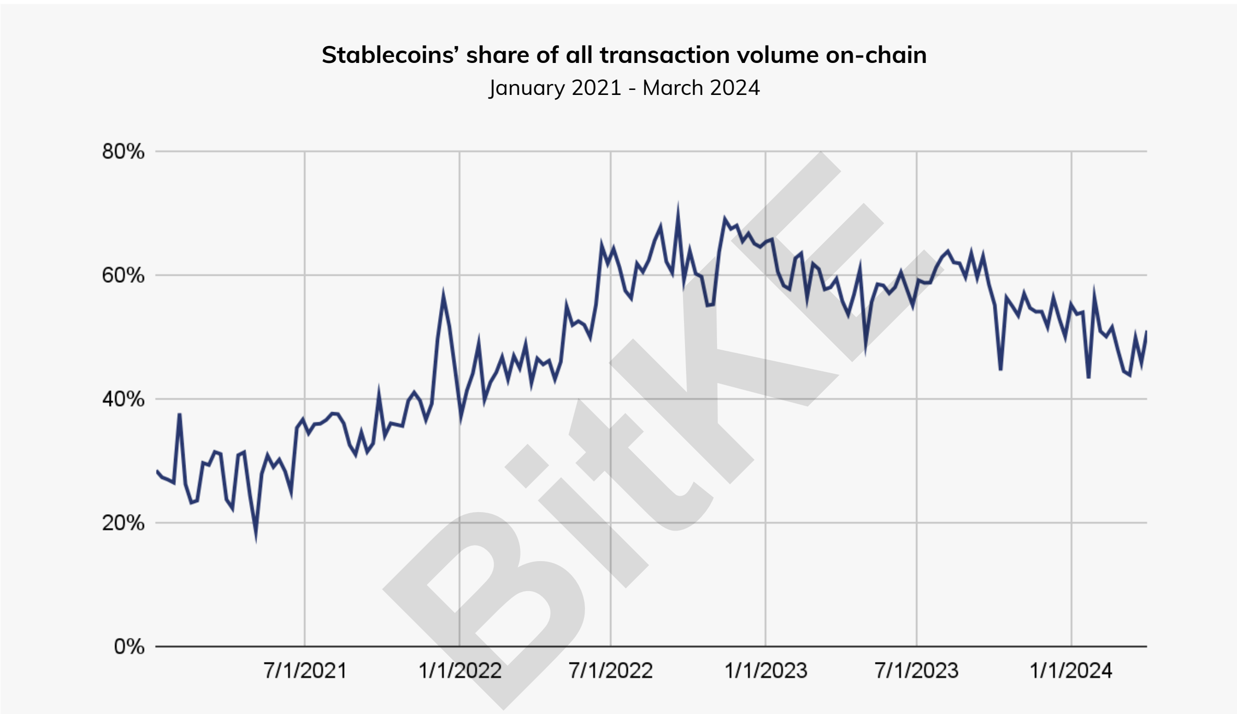
Source: CCData

Crypto futures trading is a consistently active market, as we can see above, with trading volumes on exchanges typically exceeding on-chain transaction volume. Beginning in late 2023, there's a clear upwards trend in trading volume, coinciding with increased speculation surrounding crypto derivatives in anticipation of the U.S. Securities and Exchange Commission's (SEC) decision on Bitcoin ETFs.

As we'll explore later, segments like DeFi that were heavily impacted by the downturn are approaching previous levels of market activity. This resurgence is not only a testament to the resilience and adaptability of these sectors but also demonstrates potential for long-term viability and continued innovation. Similarly, a resurgence of interest from traditional finance, capital influx into key spheres like stablecoins and crypto derivatives markets, as well as the emergence of promising services catering to new use cases, suggest an overall broader acceptance and integration into the economic climate of the world at large.

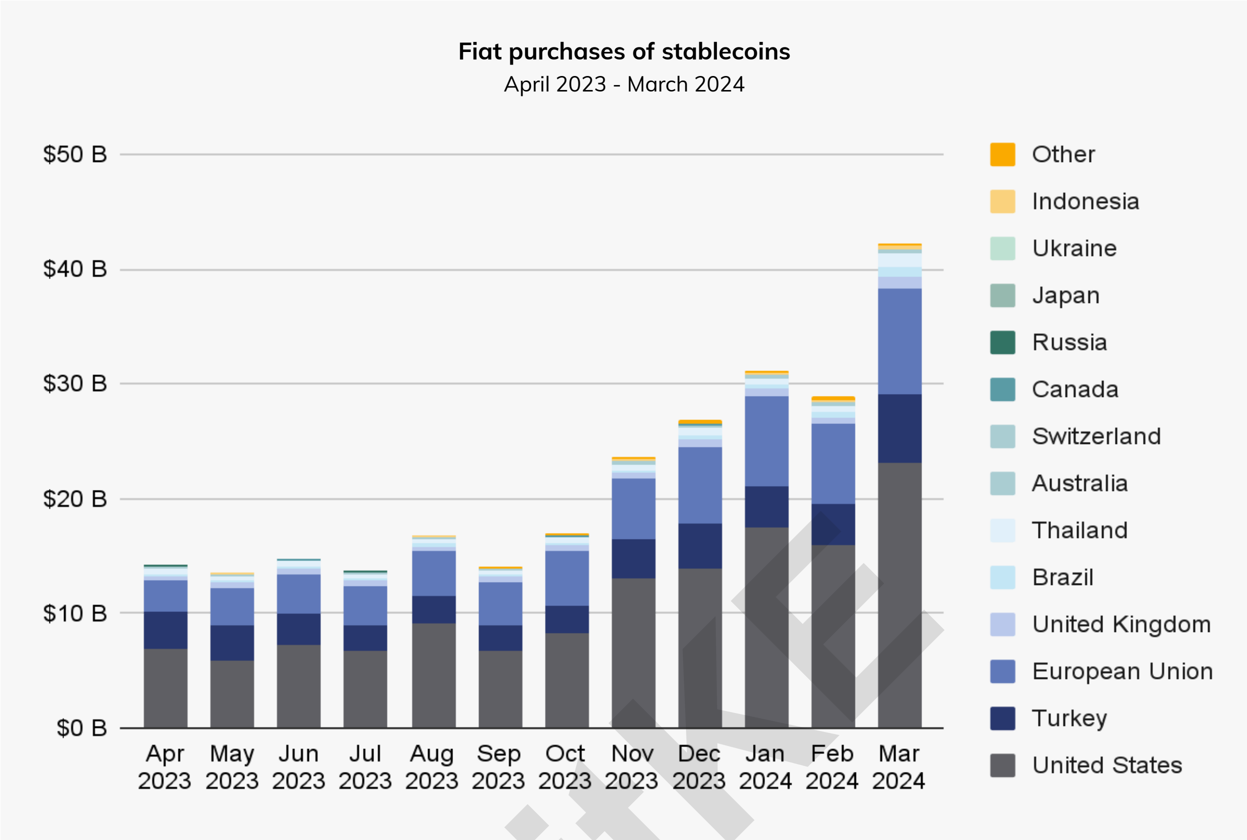
Global utility powers the rise of stablecoins

Stablecoins, typically pegged 1:1 to the U.S. dollar, afford the efficiency, security, and transparency of cryptocurrency without exposure to volatility we see in other crypto markets. By giving anyone in the world with an internet connection access to the stability of the U.S. dollar, stablecoins are a crucial solution for residents of countries facing currency volatility, both for preserving savings and even facilitating commerce. Many are also intrigued by stablecoins' potential to increase financial inclusion, in particular, by providing a convenient store of value for the unbanked and underbanked. While major cryptocurrencies like Bitcoin and Ether tend to dominate the headlines and offer gains that stablecoins lack, stablecoins have surpassed all other types of cryptocurrencies in usage, representing over half of all transaction volume in recent months.



The persistent growing prominence of stablecoins in overall transaction activity show the high levels of utility this asset class has achieved with crypto users. Stablecoins have played a pivotal role in the broader adoption of cryptocurrency for everyday transactions outside of trading.

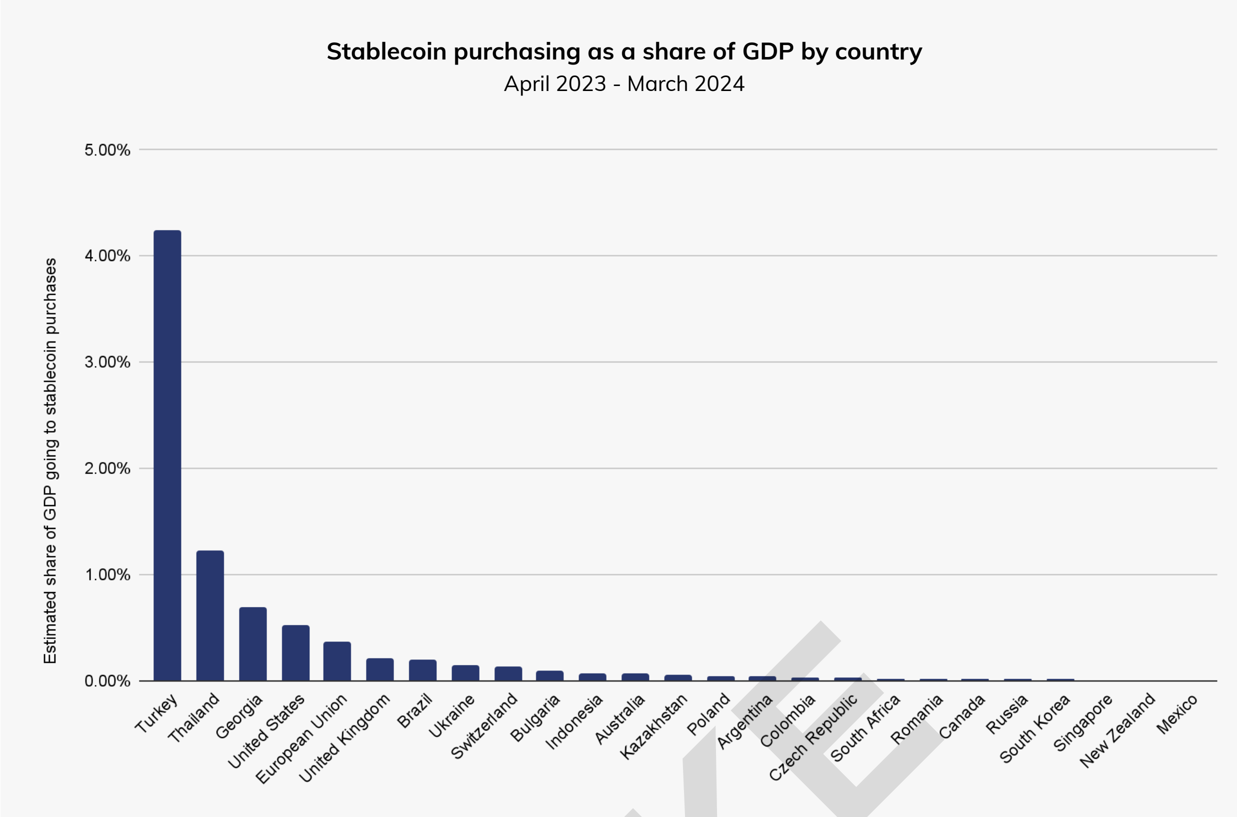
The chart below, which looks at stablecoin purchasing in fiat by country, suggests that stablecoins are becoming a true global asset.



Source: CCData

While the United States consistently accounts for the lion's share of stablecoin purchases, global demand is increasing, with a diverse representation of nations and regions contributing to over $40 billion in purchases in March 2024 alone.

We can also look at stablecoin purchasing as a share of each country's GDP to get a better sense of how stablecoins fit into each country's overall economic activity.



Source: CCData

Through this lens, we see that while the United States and the EU are still well-represented, emerging markets like Turkey, Thailand, and Brazil are leading the way in stablecoin purchasing as a share of national GDP — especially Turkey.

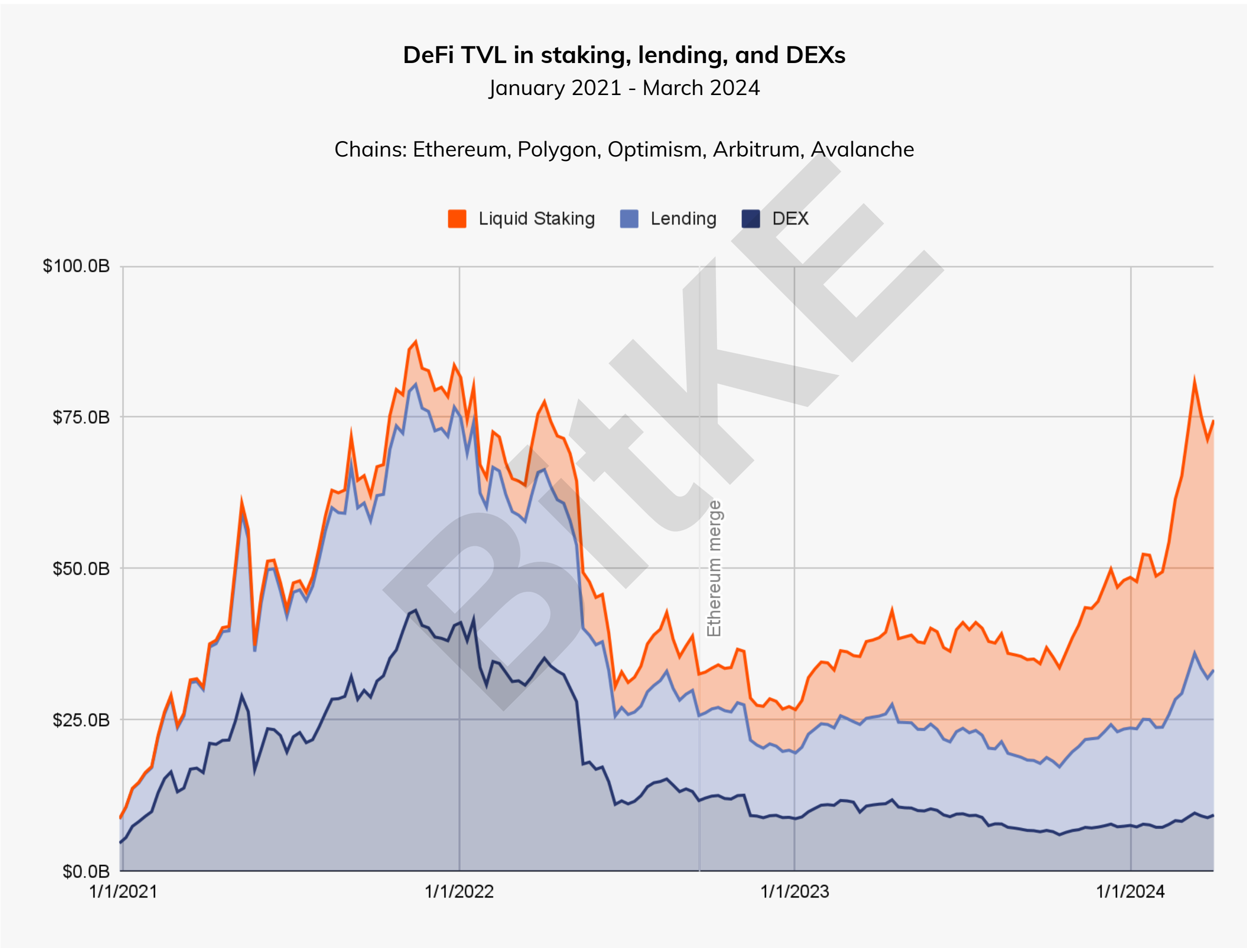
International interest reflects a broad and growing reliance on USDT across various regions of the world. Notably, nations that have struggled with local currency volatility and devaluation, like Turkey and Georgia, are well represented in purchases of USDT. As we've discussed previously in our annual Geography of Cryptocurrency Report, industry experts in these countries tell us that residents frequently turn to stablecoins like USDT to preserve their savings when the local currency loses value.

With the rise of the global digital economy, growing international adoption of stablecoins like USDT demonstrates their essential role in enabling financial inclusion and facilitating entry into the global market for the unbanked or underbanked. Stablecoins can not only grant access to essential financial services and enable economic participation, but also offer a consistent store of value, particularly for regions with economic instability and local currency devaluation.

DeFi persists

Decentralized Finance (DeFi) platforms have undergone substantial growth, offering alternatives to traditional finance by servicing markets that are typically underserved. The total value locked (TVL) in decentralized exchanges (DEXs), lending, and liquidity staking — a key measure of use and growth in DeFi — surged to highs of $75 billion in late 2021 and early 2022, only to experience an extreme decline during impacts where it lost over 69% of value, shedding approximately $60.74 billion. Additionally, as conventional financial instruments offer compelling interest rates, there tends to be a shift away from areas perceived as higher risk, like DeFi.

Beginning in late 2023, DeFi has begun to show signs of recovery along with the broader market.



TVL in DEXs, staking, and lending has recovered from the lows of the latest spell of crypto winter and is now approaching previous all-time highs.

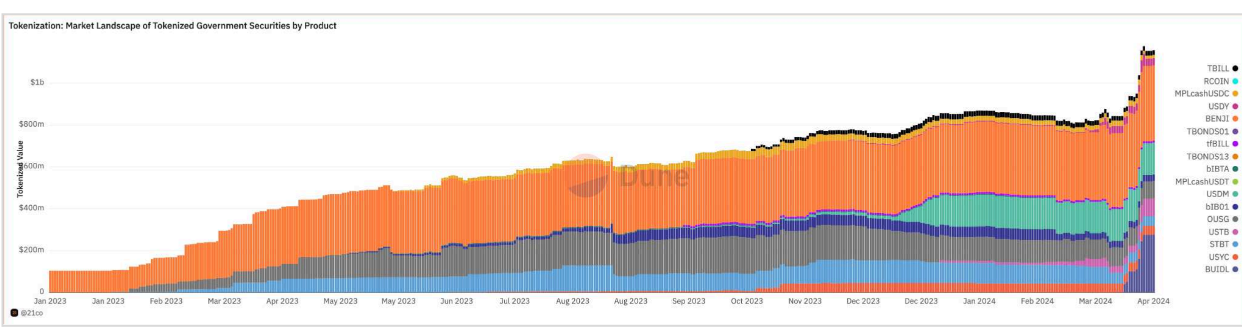
Liquid staking in particular has emerged as a key driver of DeFi TVL momentum. Proof-of-Stake blockchains validate transactions and secure the network through a consensus mechanism where validators are chosen to create new blocks based on the number of tokens they lock up or "stake" as collateral. In contrast to traditional Proof-of-Stake (PoS) staking, liquid staking is a process in the PoS ecosystem that allows token holders to participate in network validation and earn staking rewards without locking up their assets or giving up liquidity. Instead of locking tokens in a traditional staking contract, users receive a representative token in exchange for the staked asset which can then be used in other parts of the DeFi ecosystem, allowing investors to maintain the native yield offered by PoS blockchains, while still maintaining liquidity within that blockchain's ecosystem. On the chart above, we can see that liquid staking TVL rose sharply following the [Ethereum merge](#) in September 2022, which saw the Ethereum blockchain switch from a Proof-of-Work to a Proof-of-Stake consensus mechanism.

Furthermore, while DEX trading, lending, and staking still dominate the DeFi landscape, there are several emerging use cases supported by new cutting edge DeFi protocol categories like real-word assets (RWAs) and decentralized physical infrastructure (DePin). While many of these DeFi sectors are still in their infancy, they show signs of growth, and have the potential to bring more and more of the world's economic value and transaction activity on to blockchains.

Emerging trend: Real-world assets (RWAs) and asset tokenization

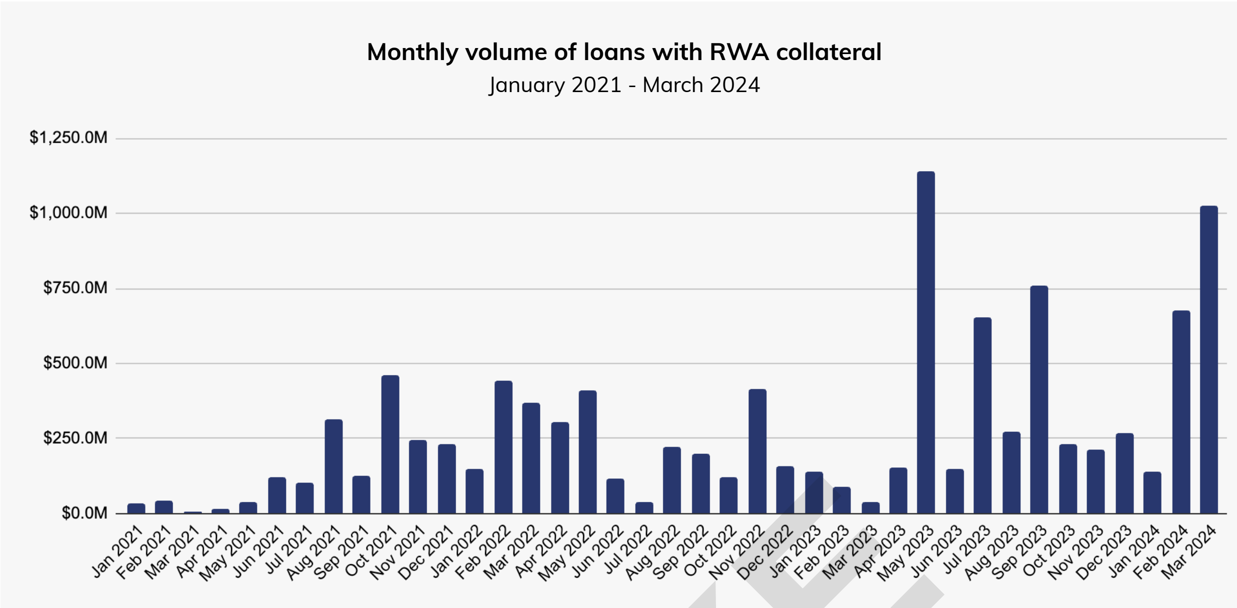
The excitement surrounding real-word assets (RWAs) moving on-chain through mass tokenization is quietly changing the landscape of asset management and investment. Real-world assets (RWAs) refers to any asset — tangible or intangible — that derives its value from outside of the blockchain. Asset tokenization refers to the process of converting rights to a non-blockchain native asset into a digital token on a blockchain. Various types of assets, both tangible like real estate and art, as well as intangible ones such as intellectual property rights, can be represented as tokens. This transition not only simplifies the process of buying, selling, and trading these assets but also enhances their accessibility to a broader audience, contributing to a more liquid and efficient market. RWAs also promise to enhance the transparency of investment markets, since all transactions are recorded on-chain.

Currently, most RWA projects are focused on tokenizing relatively simple and stable financial instruments, like U.S. treasury bills. According to data compiled by asset management firm 21.co, as of March 26, 2024, more than $1 billion worth of U.S. treasury bonds are now tokenized on public blockchains.



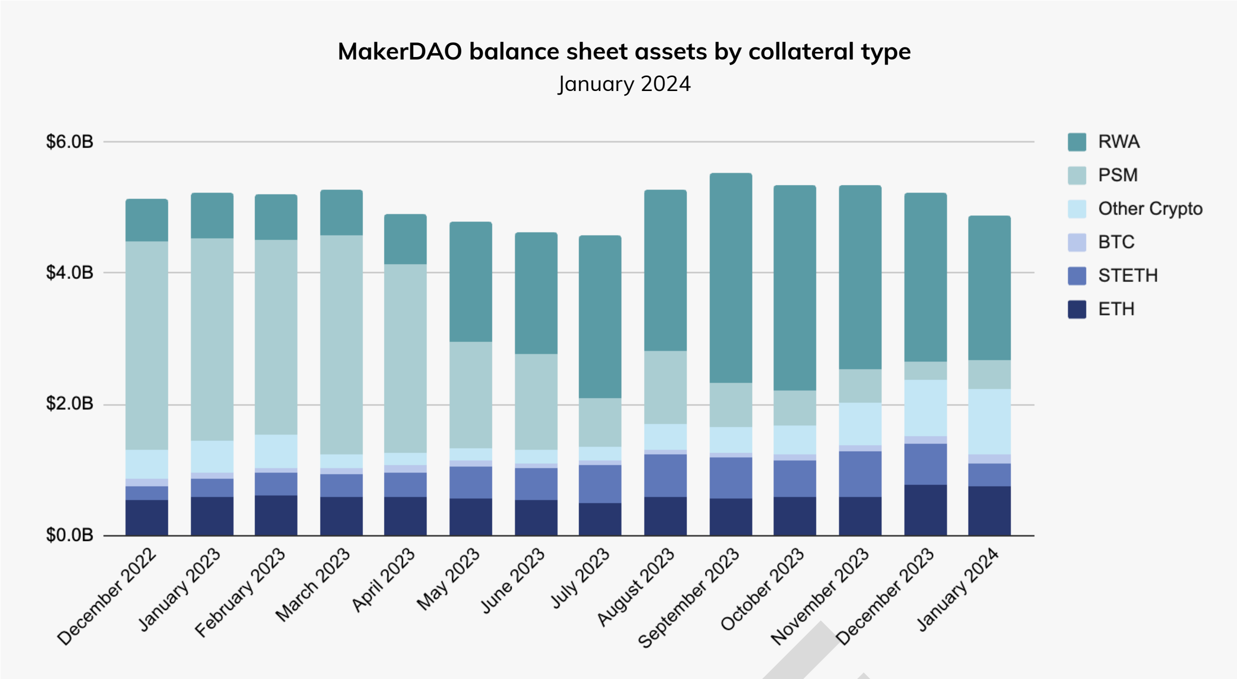
Source: @21.co, Dune Analytics

Looking at on-chain data, another area of growth we see is in the issuance of loans collateralized by tokenized RWAs on platforms like TrueFi, Maple, MakerDAO, Goldfinch, Clearpool, and Centrifuge, which represent a large portion of the overall RWA market.



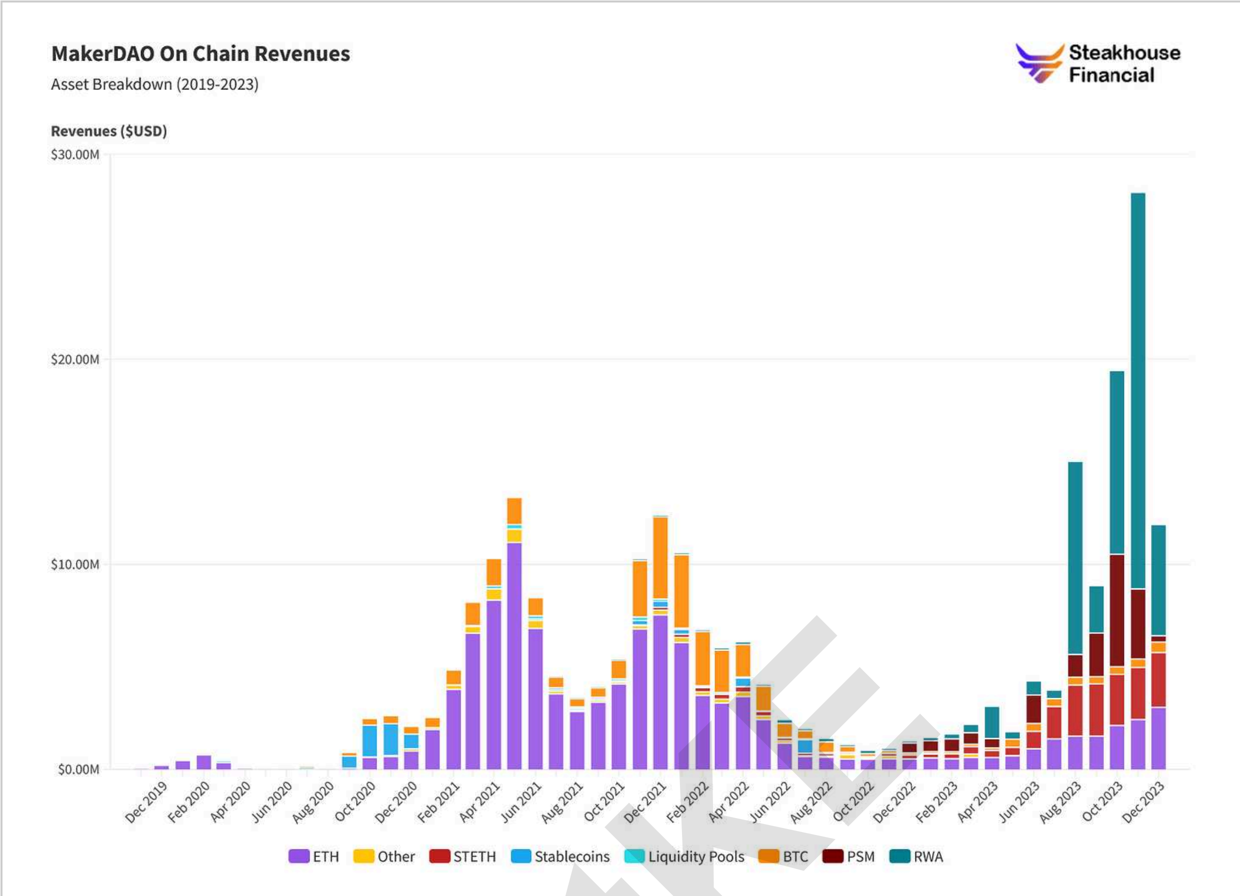
These loan issuances began picking up steam in mid-2023.

MakerDAO, one of the largest DeFi protocols by TVL, has led the charge, becoming heavily involved in the RWA space. Over the last year, RWA-based loans have contributed a growing share of MakerDAO's balance sheet assets – more than half in many months, [according to a January 2024 report] from MakerDAO and its accounting firm, Steakhouse Financial.



Source: MakerDAO, Steakhouse Financial

In a 2023 retrospective, MakerDAO noted that their RWA program supported more than 2.5 billion DAI and generated over $75 million in stability fees for the protocol in 2023. Other reports have noted that RWAs have driven as much as 80% of MakerDAO's revenue at times.



Source: MakerDAO, Steakhouse Financial

The emerging relevance of RWAs is a significant step toward a future where the majority of value transfer occurs on the blockchain, creating a unified, open, and less frictional global market. This not only stands to democratize investment across borders but also paves the way for innovative financial products and investment strategies that were previously inconceivable in traditional markets.

Emerging trend: Decentralized physical infrastructure (DePIN)

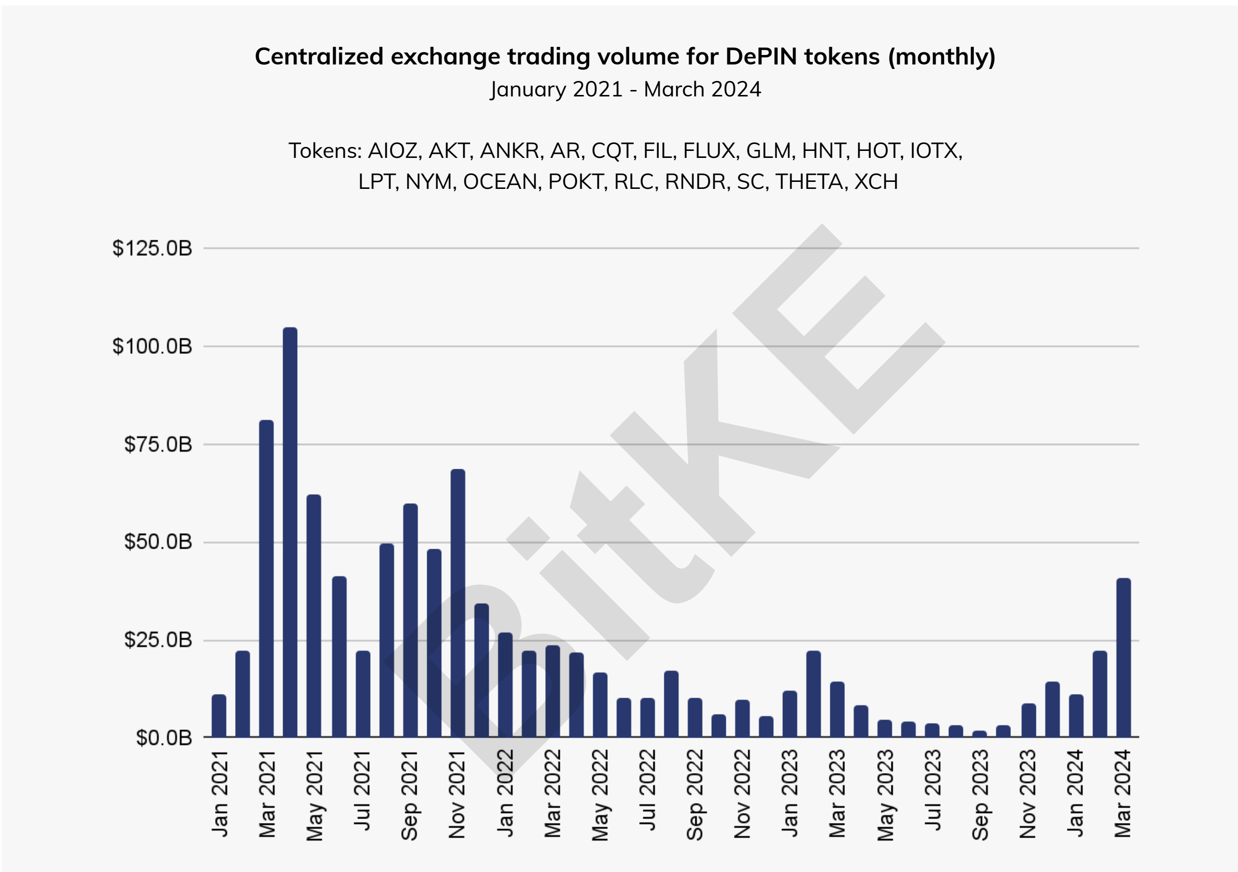
Decentralized Physical Infrastructure (DePIN) is a novel approach to managing and operating physical assets and resources through blockchain. While the intersection of blockchain and physical infrastructure has lagged behind other areas of development, some exciting projects are picking up steam.

- Helium aims to disrupt wireless connectivity by enabling individuals to build a decentralized network with Hotspots in pursuit of wider and more accessible internet coverage especially in underserved areas. Participants earn crypto rewards as incentives.
- BitTensor and Akash Network are working to merge AI and blockchain technology. BitTensor is focused on AI training and operations, while Akash Network is creating a marketplace for underutilized computing and storage resources.

- [Filecoin](#) is developing a decentralized storage solution, allowing users to rent out their surplus storage space. It uses blockchain to ensure the integrity and security of data, catering to the growing demand for data storage.

- [DIMO](#) is focused on integrating vehicles into the digital world by developing a decentralized network where individual car data is shared securely to improve maintenance, safety, and the overall driving experience.

Overall, trade volume associated with DePIN project tokens on centralized exchanges is still well below the levels seen during the last bull market, though the first few months of 2024 show signs of recovery.



Source: CCData

Still, the promise of this emerging crypto sector has attracted significant funding from venture capital firms, with DePIN projects having raised just under $1 billion as of today, according to PitchBook.

DePIN development is not without challenges. The developing nature of blockchain technology, regulatory hurdles, and concerns over data security and privacy may present significant obstacles. The vision of a future where physical infrastructure is managed and owned with greater efficiency, transparency, and inclusivity marks a critical transformation in how blockchain technology is integrated into the world. DePIN stands as one of the most notable new developments in the ecosystem at large.

Institutional adoption by the numbers

Institutional adoption of blockchain and cryptocurrency is not just a trend but a core shift in the financial and operational paradigms of businesses. Cryptocurrency is more than just a new asset class: it represents a fundamental change in how assets are managed and verified. Blockchain technology has made verifiable digital ownership a reality, a feat that was unattainable before its inception.

Key institutional developments

Despite the extended bear market, the last few years have been marked not only by significant regulatory and technological shifts in the crypto industry, but also remarkable institutional developments, underscoring the deepening integration of cryptocurrencies within the traditional financial ecosystem.

EDX Markets Launch **September 2022**
The launch of a new crypto exchange by major players like Citadel Securities, Fidelity Digital Assets, Charles Schwab Corporation, Virtu Financial, and Sequoia marked a significant moment in the crypto industry, bringing together traditional financial giants and crypto.

Coinbase and Circle Partnership **November 2022**
Coinbase's acquisition of a significant stake in Circle, coupled with the expansion of USDC to new blockchains, underscored the growing institutional interest in stablecoins and their critical role in the broader ecosystem of digital finance.

VISA's Blockchain Initiatives **January 2023**
VISA's announcement of using their cards for on-chain gas fees demonstrates the company's commitment to integrating traditional financial services with blockchain technology, and showcases how established payment networks are evolving to embrace the crypto space.

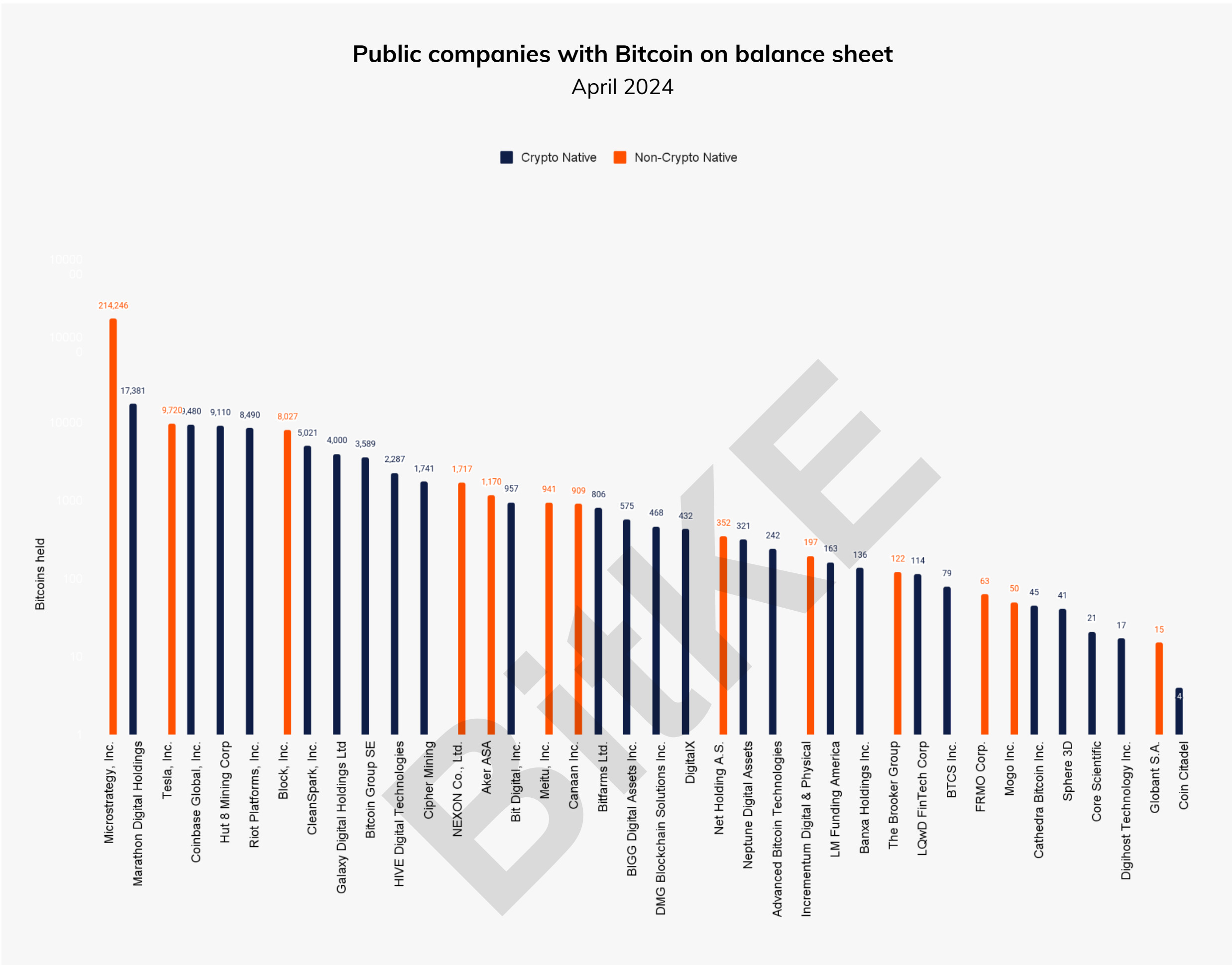
Coinbase's Crypto Futures **March 2023**
In March 2023, Coinbase received regulatory approval to offer crypto futures, marking a historic first for a crypto-native company and opening up regulated crypto derivatives markets in the United States, a move that could significantly influence the landscape of crypto trading and investment in the country.

Greyscale ETF Victory **July 2023**
Greyscale won regulatory approval to convert its Bitcoin trust into an ETF, a significant milestone in the integration of cryptocurrency with traditional financial products and a pivotal moment for institutional adoption of digital assets.

BTC ETF Approval **January 2024**
The SEC approves spot Bitcoin ETFs, allowing investors exposure to Bitcoin without holding the asset. Most of the funds flowing to BTC ETFs have been institutional-size transfers.

Public companies with Bitcoin on balance sheet

The recent [IPO filing](#) by internet forum giant Reddit revealed holdings of BTC, ETH, and MATIC, underscoring the growing trend of public companies incorporating crypto assets into their balance sheets. This move is not remarkably novel, as an increasing number of companies are recognizing the value and potential of cryptocurrency as part of their financial strategies.



Source: Public disclosures, press releases, SEC filings

Business intelligence company Microstrategy leads with 214,246 Bitcoin, according to recent reports. Total disclosed Bitcoin held by public companies stands at 303,049 BTC. Crypto native companies, such as mining companies, are well represented, holding 65,519 BTC collectively, while non-crypto native companies hold 237,529 BTC collectively, with Microstrategy's holdings constituting the majority of that number. Microstrategy now holds about 1% of the total finite supply of Bitcoin.[1]

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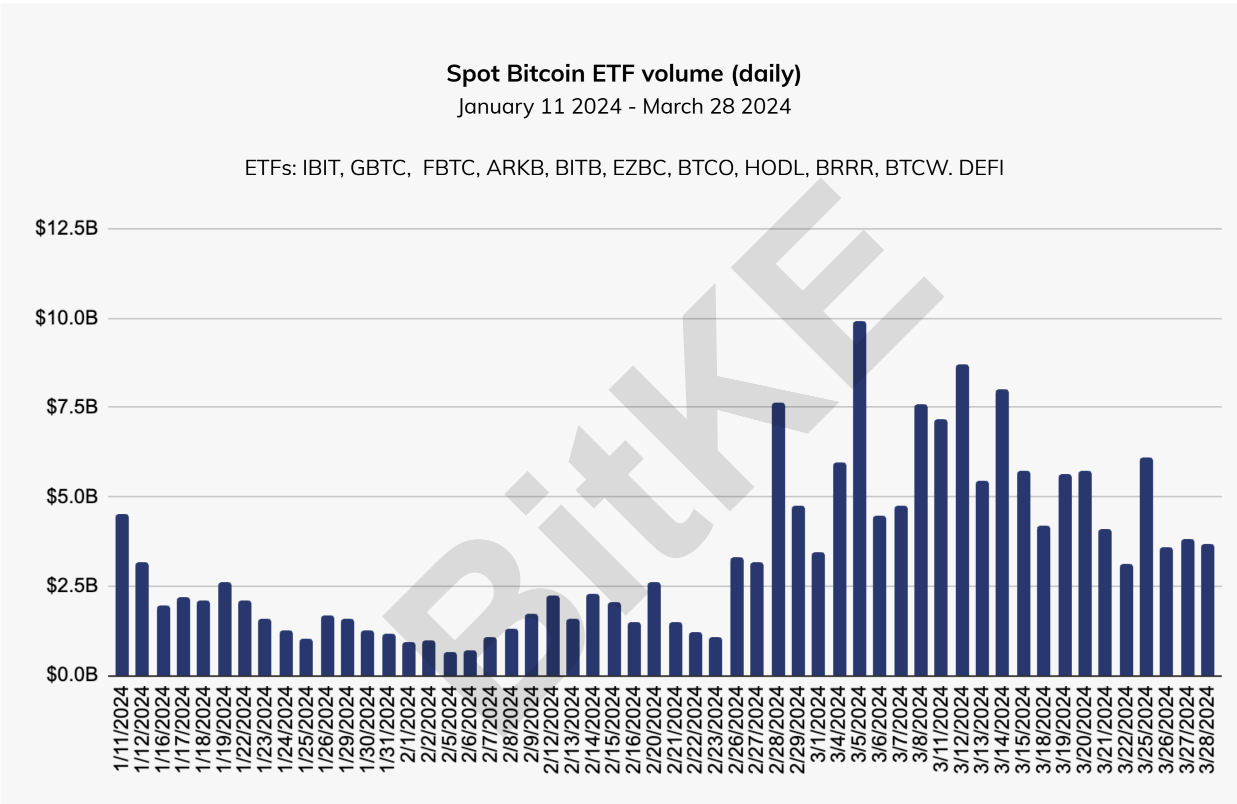
[1] Note that there are public companies who have disclosed that they hold Bitcoin but are not included in the above totals since the specific amount has not yet been revealed, such as Reddit and R8 Capital Investments PLC, formerly Mode Global Holdings which previously disclosed holdings of 85 Bitcoin. These totals are based on information found publicly and are not meant to be comprehensive given the lack of standardized reporting.

Such disclosures not only reflect the widening acceptance and legitimization of cryptocurrency in the corporate world, but also signal a positive outlook for the market at large. When prominent companies publicly commit to holding cryptocurrencies, it can stimulate investor confidence and interest, potentially leading to increased growth in the space.

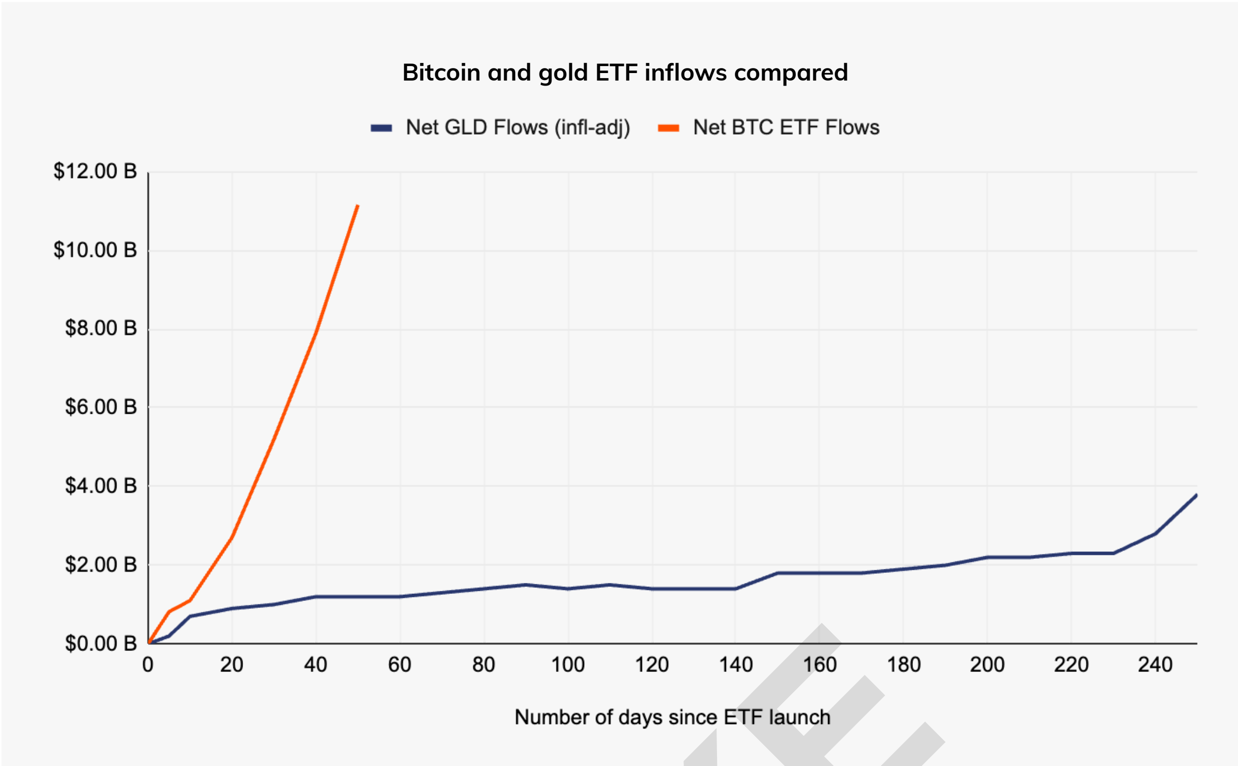
Bitcoin ETFs

The broader market has seen rallies likely driven by the introduction of crypto ETFs, as these funds provide a regulated, mainstream investment vehicle to gain exposure to cryptocurrencies, often appealing to those who may be hesitant to directly navigate the complexity and security concerns of traditional crypto trading platforms.



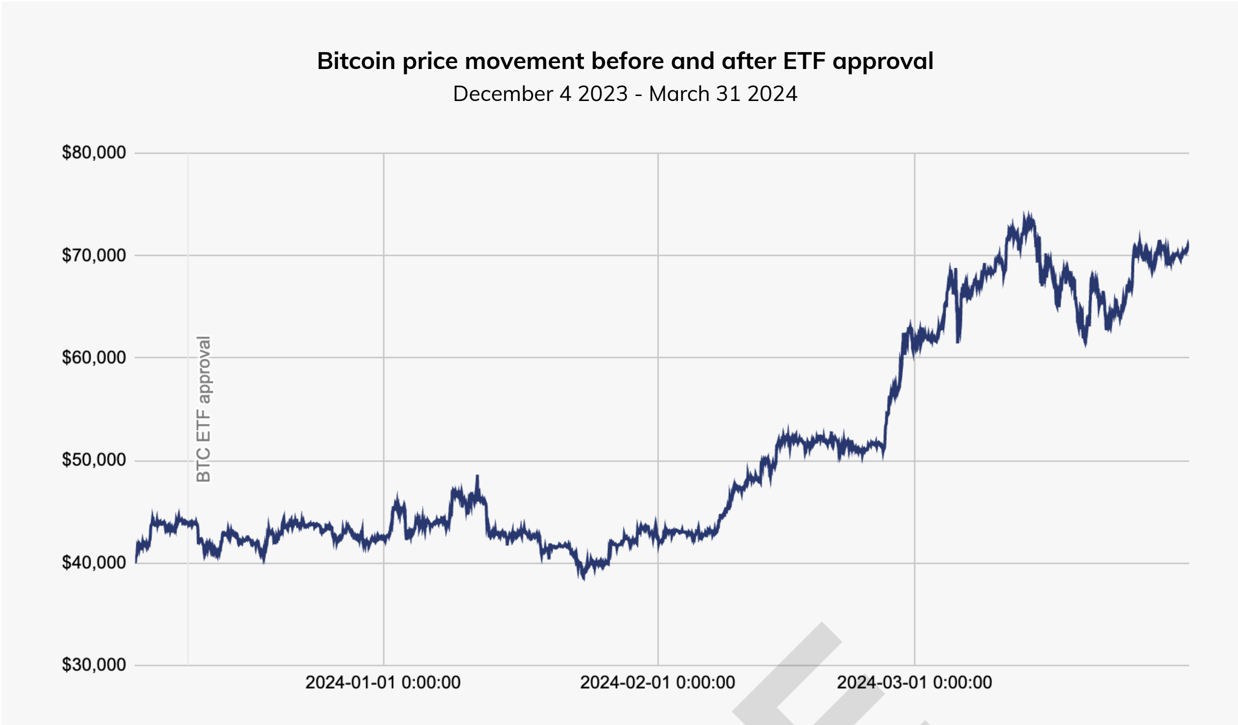
Source: Yahoo Finance

Daily ETF volumes have surged, approaching nearly $10 billion in daily volume in March.

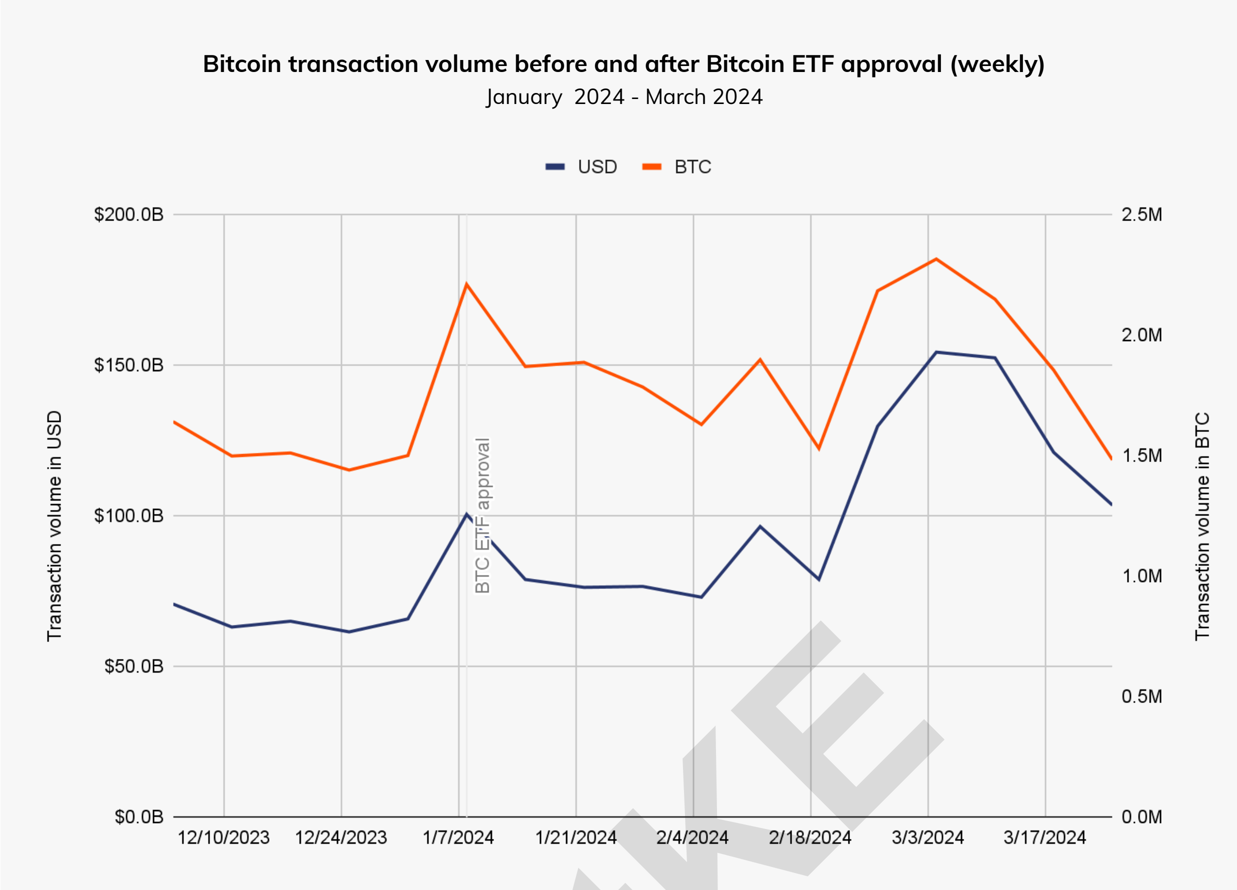


BTC ETF flows are also outpacing that of the first net gold ETF (inflation-adjusted) from its 2005 launch.

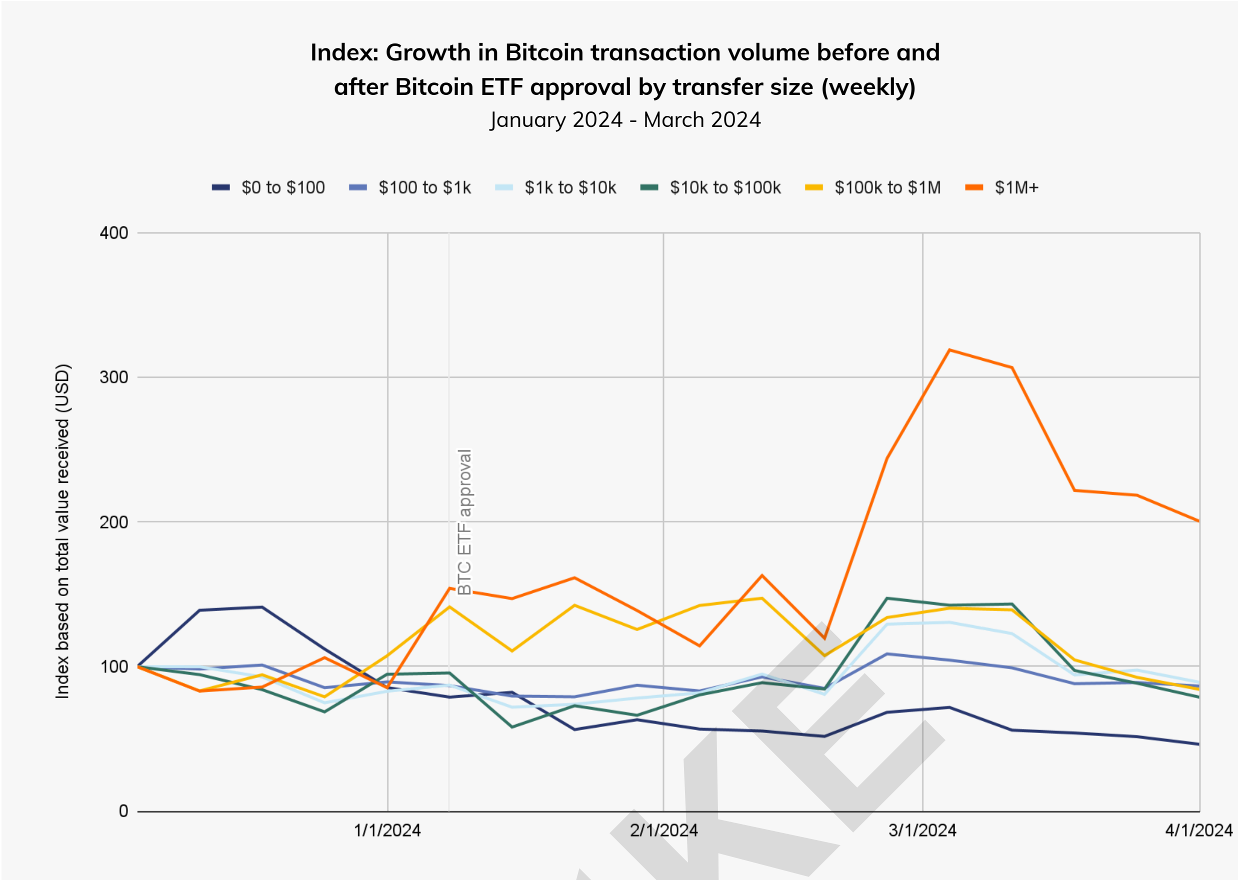
The price of Bitcoin began an upward ascent soon after news of the Bitcoin ETF approval broke on January 10, 2024 and trading commenced soon after.



Concurrently, there was a substantial spike in Bitcoin transfer volumes during the week of the ETF's approval.



A closer look suggests that professional and institutional investors drove much of this activity. The chart below shows how transaction volumes increased at different transfer size levels.

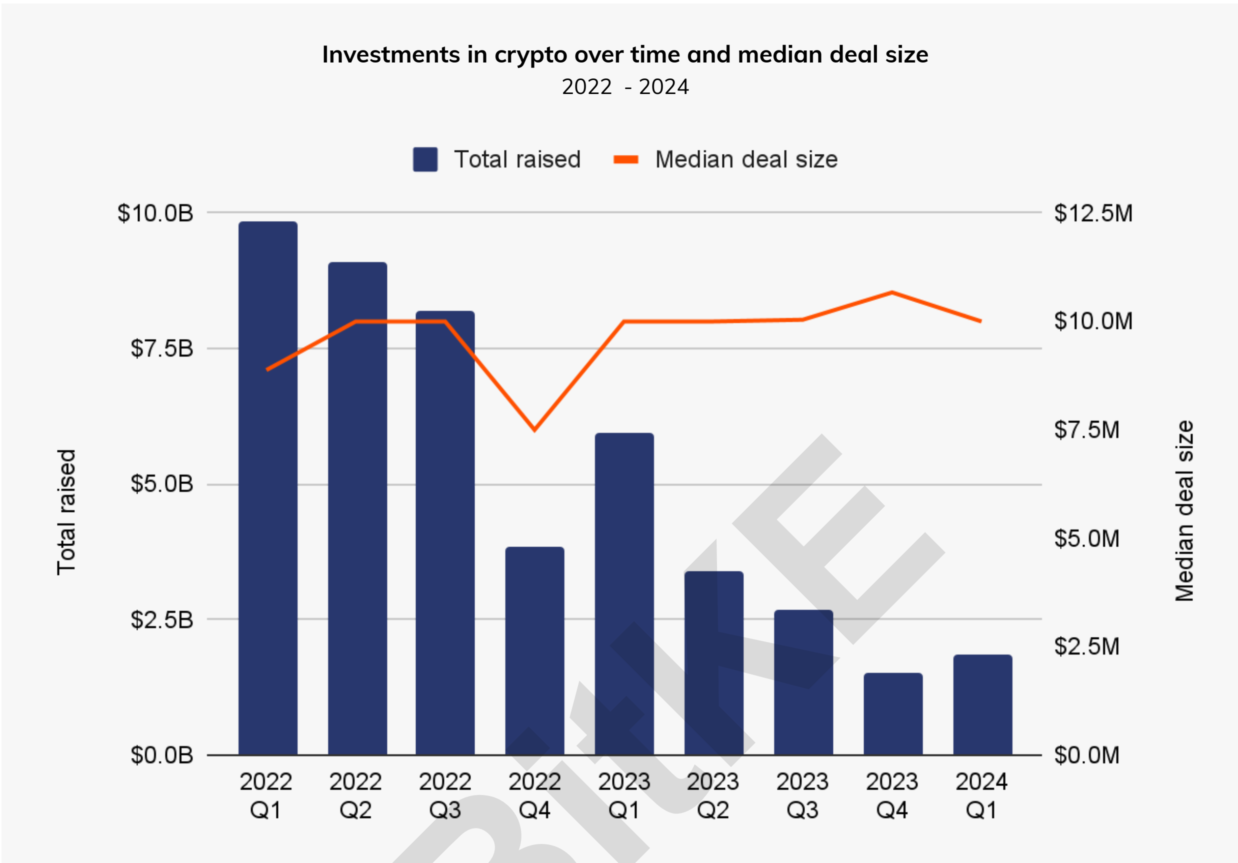


Volumes of transfers that are larger than $1 million have increased the most. This infusion of institutional capital not only underscores the substantial investor interest but also indicates a shift towards larger, more strategic crypto investments. The second largest increase was seen in $100,000 to $1 million size transfers until February, with professional and retail investors joining the rally shortly thereafter.

By allowing easier access to cryptocurrencies through conventional trading platforms, ETFs can unlock new sources of demand for the underlying assets, which appears to have been a big driver of recent upwards price action for Bitcoin. The same could happen for other assets like Ether, which many believe will be the next crypto asset to have an ETF approved by regulators.

The state of crypto funding

Venture capital is the predominant source of funding for companies in the crypto space, with a small portion of funding coming from private equity and other sources.



Source: PitchBook Data, Inc.

Overall, 2023 saw a sharp decline in capital raised by crypto companies, in line with broader market conditions. However, there are recent signs of recovery.

Though crypto funding lulled during the extended bear market, Q1 2024 was the first-quarter over-quarter increase of crypto investment since Q1 2023, which may signal a shift in the investment landscape. Median deal size has also recovered since a sharp decline in Q4 2022, consistently hovering around the $10 million mark. Additionally, Bloomberg has recently reported that crypto venture capital fund Paradigm is in talks to raise between $750 and $850 million, which would be the crypto industry's largest raise for a VC fund since the market downturn in 2022.

Notable crypto venture capital deals in Q3 2023 and Q1 2024

Though venture capital activity in crypto declined overall in 2023, a number of major deals over $100 million, including early stage deals, occurred in Q3 2023 and into Q1 2024, signifying that investor optimism remained.

Swan Bitcoin - $165 million	**Category: Asset management and taxes**
Blockchain.com - $100 million	**Category: Exchange**
Wormhole - $225 million	**Category: Bridges and interoperability**
Totter - $101 million	**Category: Open source cloud storage**
together.ai - $225 million, $2.5 billion valuation	**Category: DePIN**
EigenLayer - $100 million	**Category: Ethereum protocol**

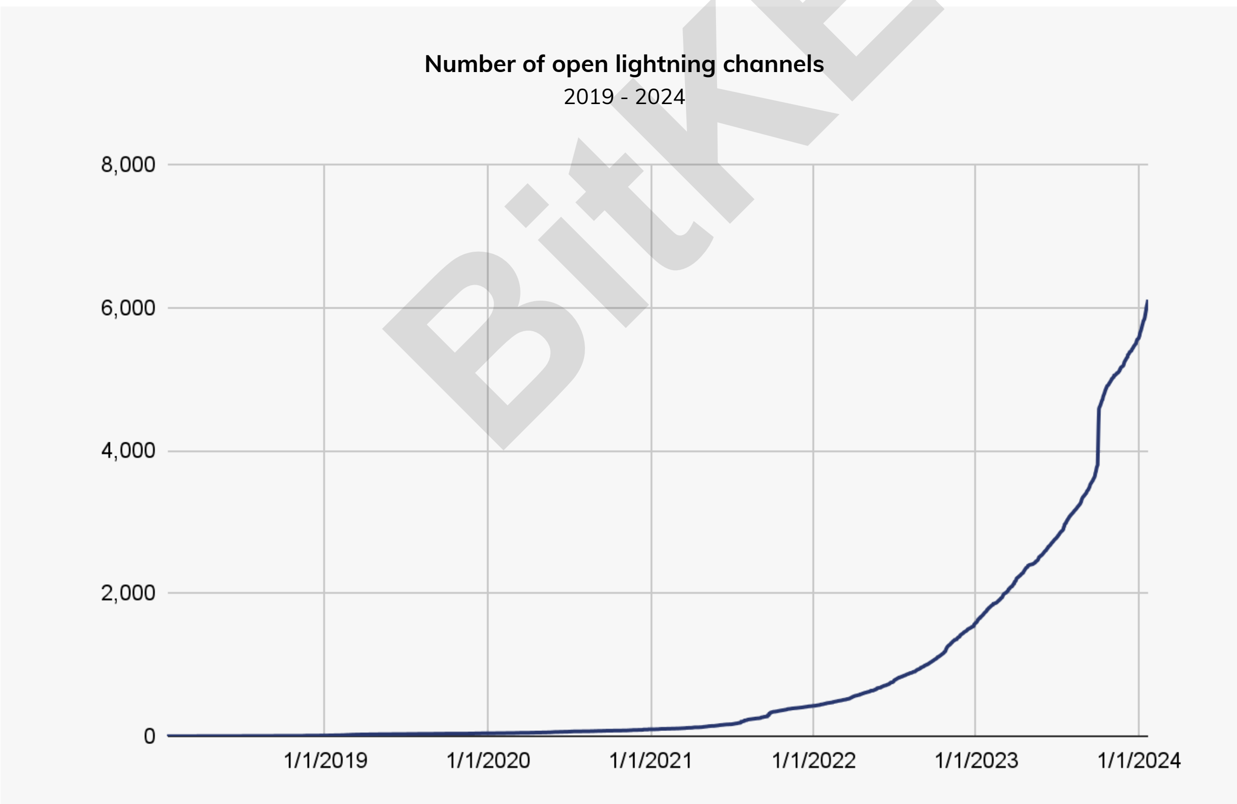
Blockchain ecosystem: Scaling continues

During this spell of crypto winter, development and innovation continued, laying the groundwork for the market's current recovery. Despite challenging conditions, developers persisted in their efforts to build, refine, and introduce new technologies. As the market shows signs of recovery, the effects of these developments are becoming increasingly visible.

Key scaling developments: Bitcoin Lightning Network

Scalability is one of the major concerns when it comes to mass adoption of crypto. The Bitcoin blockchain can process a limited number of transactions per block, with a new block added approximately every ten minutes. In periods of heavy traffic, this can lead to issues with delays and high fees, particularly when it comes to smaller transactions which might be deprioritized.

The Bitcoin Lightning Network is a layer-2 scaling solution (L2) that addresses these concerns by facilitating fast, scalable, and low-cost transactions through off-chain payment channels, only settling the final results on the blockchain upon channel closure. This significantly reduces the load on the blockchain and enhances transaction throughput, addressing Bitcoin's scalability limitations.



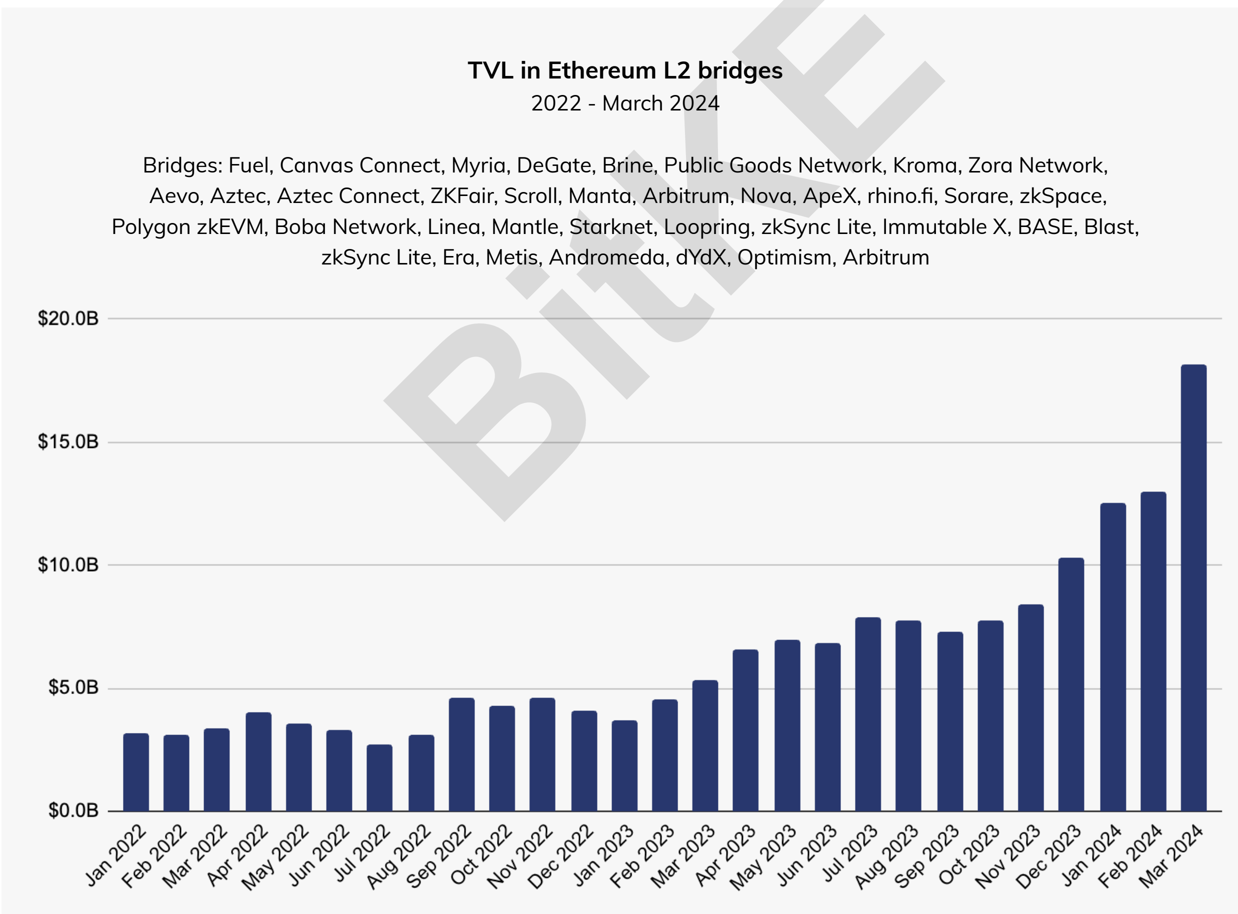
The Lightning network has made substantial progress, with growth in open channels climbing in 2023 into 2024.

Key scaling developments: Ethereum L2s

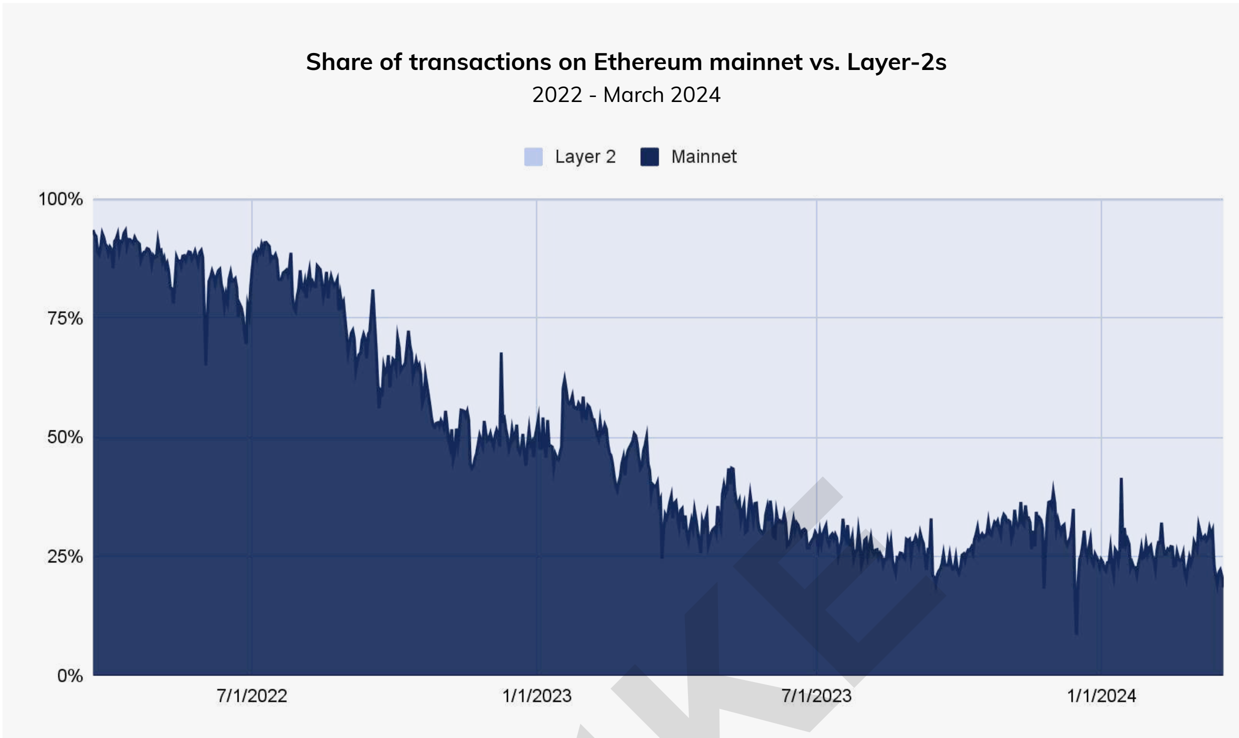
Similar to Bitcoin, Ethereum has faced its own scaling challenges, leading to delays and high fees on mainnet. Ethereum has a robust community of developers, entrepreneurs, and users committed to addressing scaling challenges through various mechanisms.

Layer-2 scaling solutions have seen substantial growth over the last few years on Ethereum. L2s enhance the network's ability to handle transaction load without compromising decentralization. They also enable new use cases, such as microtransactions and complex smart contract interactions that would be prohibitively expensive or slow on mainnet due to gas costs and latency.

Users typically move funds from the Ethereum blockchain to L2s through a bridge protocol, similar to how they move funds between layer 1 blockchains. As of March 2024, TVL in Ethereum-to-L2 bridges is higher than ever at $18.1 billion.



L2s have also surpassed the Ethereum mainnet in daily transactions, suggesting that they are indeed fulfilling their promise of providing Ethereum users economical options for smaller, more frequent transactions.

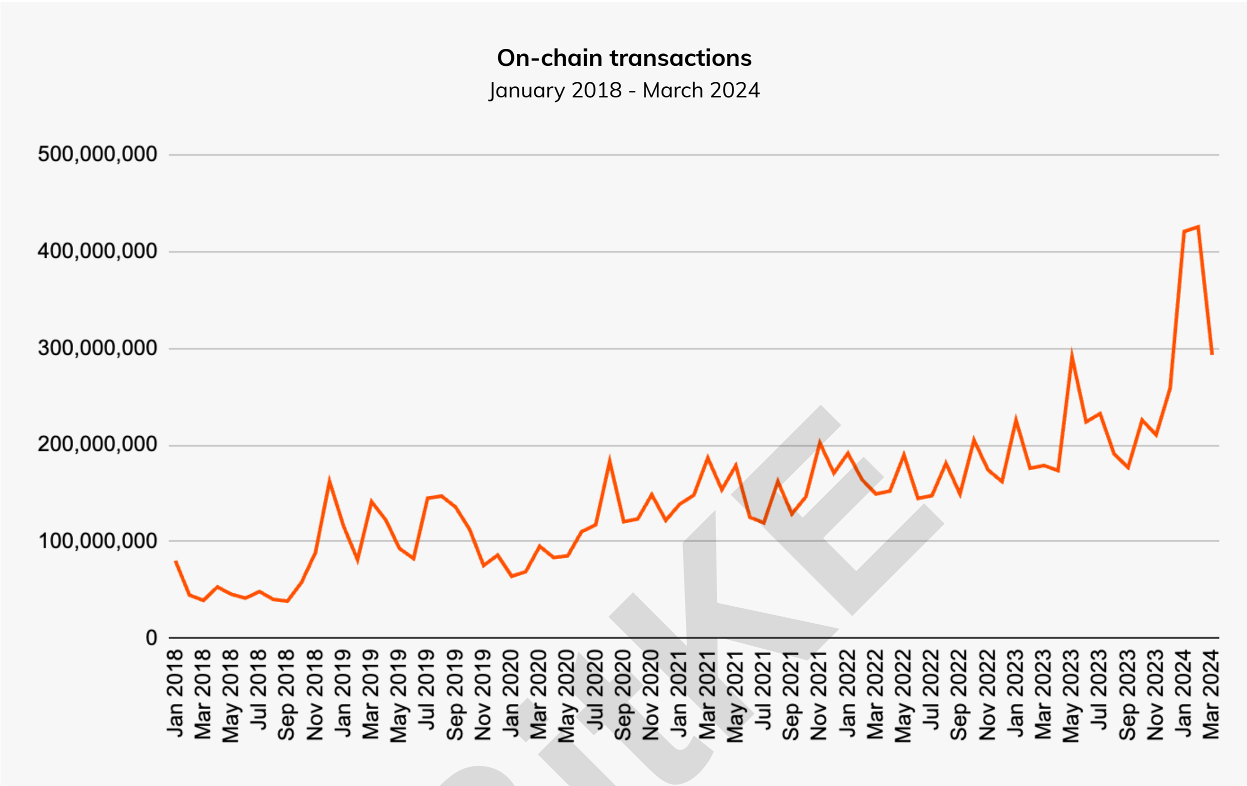


Source: @kabat, Dune Analytics

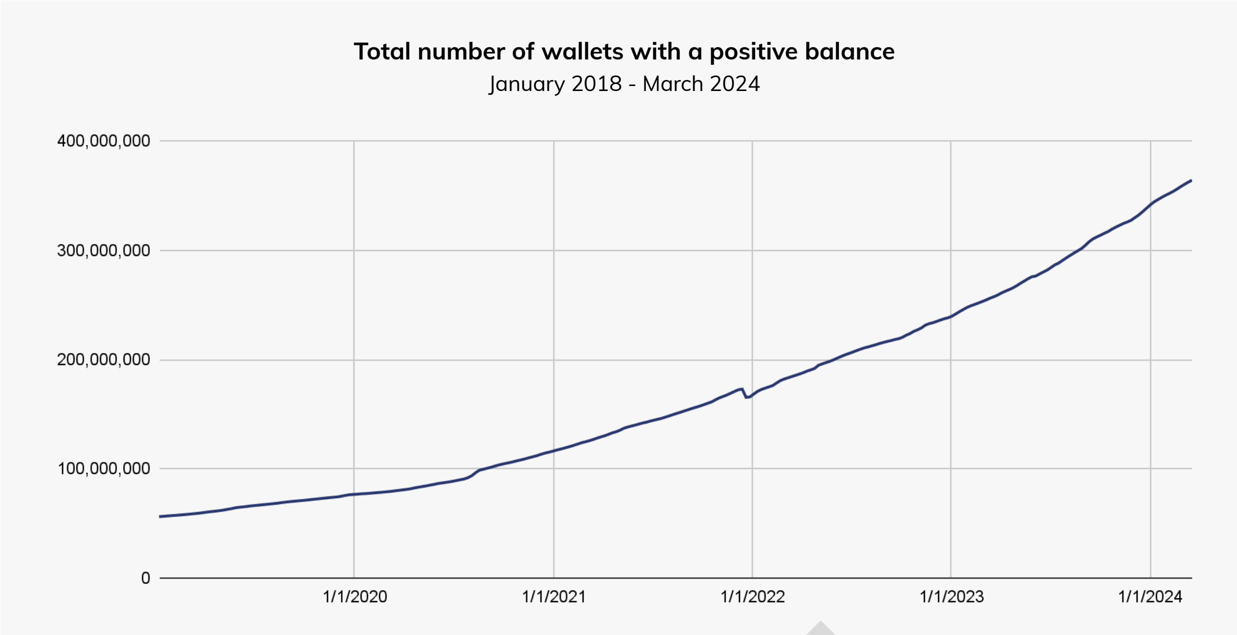
Scalability improvements brought by L2s not only significantly reduce transaction fees, making it feasible for more users to participate in decentralized applications (DApps), but also enable new innovation and complex DeFi protocols, which is critical to the overall growth and success of the DeFi ecosystem.

Springing forward

As we look at the progression of the crypto ecosystem, particularly through the lens of wallet activity and ownership, it is clear that we're experiencing a seismic shift in both perception and usage of crypto.



Transfer activity in the recent market surge has eclipsed the previous highs seen in late 2020 and 2021, indicating that this market cycle has been significantly more active than the last bull run. The accelerated growth pace compared to past cycles may denote increased market confidence.



Although the cryptocurrency market is volatile with extended bear cycles, the growth of wallets with a positive balance remains linear and upwards, with over 400 million wallets actively holding cryptocurrency. Though one wallet does not imply one user, as institutions and individuals can have multiple wallets, the volume of growth suggests that cryptocurrency use is growing.

As crypto adoption continues on an upward trajectory, identifying and capitalizing on every opportunity within the ecosystem is essential. Chainalysis equips business growth teams with deep insights into on-chain user activity, delivering a comprehensive view of wallet interactions, both on platform and across the broader blockchain. Armed with this data, teams discover meaningful patterns and gauge user engagement through detailed analysis, identifying areas for expansion. This enables engagement of users with strategic, data-driven initiatives designed to boost interaction and retention, precisely tailored to align with the evolving needs and preferences of the community. Additionally, marketing campaigns are optimized by leveraging actionable insights to enhance ROI and continuously refine outreach strategies. Chainalysis Web3 Growth Solution helps organizations navigate the complexities of the blockchain with confidence, driving sustained user growth to maintain a competitive edge in the dynamic crypto market.

It is important to weigh what success looks like in this new paradigm. For organizations, adapting to an on-chain reality involves more than just keeping pace with technological advancements — it requires a thorough reassessment of operational models to leverage the unique opportunities afforded by blockchain. This transition is especially pertinent for financial institutions, both decentralized and centralized, who stand at the forefront of integrating crypto into the mainstream. Our crypto risk and growth solutions enable institutions to scale with confidence, navigating the unique risks and complexities of this domain.

For government agencies and the public sector, the mainstreaming of crypto introduces both challenges and opportunities. As the utility of crypto expands, so does its potential misuse by bad actors. With comprehensive data and intelligence tools, Chainalysis empowers law enforcement to stay a step ahead, helping maintain the integrity and security of the ecosystem at large. Our commitment to pioneering advancements in investigations and risk management positions our clients — not only to contend with — but thrive in this new reality.

The transition from winter to spring is not just a revival of fortunes but a significant step towards a future where blockchain technology and crypto assets are integral to our financial and operational landscapes. The journey ahead is filled with both obstacles and possibilities, but with an approach that marries cautious optimism with a commitment to innovation, the financial infrastructure of the world has never been more ripe for disruption.

Building trust in blockchains

About Chainalysis

Chainalysis, the leader in blockchain intelligence, makes it easy to connect the movement of digital assets to real-world services. Organizations can track illicit activity, manage risk exposure, and develop innovative market solutions with intelligent customer insights. Our mission is to build trust in blockchains, blending safety and security with an unwavering commitment to growth and innovation. For more information, visit www.chainalysis.com.

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