SYGNUM

FF23

FUTURE FINANCE 2023
INSTITUTIONAL CRYPTO MARKET REPORT

Charting the progress of the
trusted gateway to Future Finance
for institutional investors

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Message from the Group CEO

2023 was an eventful year for crypto and the broader digital asset ecosystem. It was characterised by a prolonged bear market through to the end of Q3, a positive sentiment shift in Q4, continued complex macroeconomic and geopolitical environment, a banking crisis and further US enforcement actions against major crypto players.

However, overall the market demonstrated remarkable resilience. This was marked by major technological developments – for example around layer 2 protocols and scalability – and ultimately a revival in crypto sector activity. This was also supported by the growing commitment and endorsement by major institutions and regulators, alongside the heightened interest from investors anticipating a new bull cycle.

The crypto sector is a complex yet thrilling domain that continues to merge with traditional finance, broadening access to new investor groups and opening up new avenues for investment opportunities and growth.

As investor demand continues to grow, understanding their needs and concerns is critical. Their insights will help us maintain our role as a trusted global market leader, providing our clients and prospects with the quality and confidence needed to embark on their crypto journeys with complete trust.

We are excited at what lies ahead!

M Imbach

Mathias Imbach
Sygnum Co-Founder and Group CEO

Methodology

Institutional, invitation-only focus

Sygnum's Future Finance 2023 report is dedicated to measuring and analysing the core interests, market sentiment and behaviour of institutional and professional investors active in the crypto market.

To conduct this research, Sygnum created a quantitative investor survey divided into five key segments: crypto asset allocation, investment strategy, product and service interest, and market outlook. The survey was carried out at the beginning of Q4 2023, shortly before the commencement of the crypto market rally.

The 150+ survey respondents, possessing an average 10+ years' investment experience, included Sygnum's institutional client base and equity investors as well as a diverse set of investment professionals from banks, hedge funds, multi and single-family offices, DLT foundations, funds and asset managers.

This survey was anonymous, invitation-only, securely encrypted and not open to retail investors or the public.

Our survey distribution partners

We thank our partners for distributing the Sygnum Future Finance 23 survey to their institutional investor networks and supporting us to chart the growth of institutional crypto adoption and the journey towards Future Finance.

MAMA Multichain Asset Managers Association

ASSET MANAGEMENT ASSOCIATION

Research editor's introduction

The trusted gateway between the traditional finance (TradFi) and crypto worlds that we call "Future Finance" is rapidly transforming the global financial landscape.

Blockchain technology is making today's financial industries, capital markets and payment systems more efficient – and also opening up new avenues for innovation and economic growth. This is challenging traditional industry structures, especially the role of intermediaries, and creating a period of evolutionary change. Given our mission to empower everyone, everywhere, to own digital assets with complete trust, we are deeply committed to understanding – and shaping – this dynamic.

One of the primary purposes of this research is to empirically chart the key dimensions of institutional adoption. These dimensions range from market size and growth, increasing incorporation of crypto into traditional portfolios, engagement in a broader range of asset types and importantly, a deeper knowledge of blockchain technology and its transformative capacity. Alongside new use-cases with broad economic potential, secure infrastructure and increasing regulatory clarity, these are the raw ingredients for trust and crypto market maturity.

A second driver for this study is to formulate a broad set of institutional crypto market benchmarks that enable the tracking and analysing of institutional trends over time. The crypto market moves at an extreme pace compared to most, and the ability to pull back and analyse the direction of key trends will be critical to anticipate future market needs.

The last reason for conducting this research is perhaps the most fundamental; the need to understand the contours of the future financial industry as it evolves. We believe this is best achieved by seeing it through the eyes of the traditional investors who have already adopted crypto. How they think, invest – and most importantly what they believe – will provide the clearest possible picture of the future industry and its participants.

Historically, traditional investors have been wary of crypto, and not without good reason. Their participation was, and continues to be, governed by strict investment mandates and regulatory and liquidity requirements. Over recent years, fully regulated banks and financial institutions, as well as major players like BlackRock and Fidelity, being more active in the space has provided a trusted gateway for them and others to enter the market with complete trust.

It is clear that the conversation on crypto has now moved on in a positive way, a perspective clearly demonstrated throughout this report. The asset class has all too often been seen through the lens of the past. This report tells the story of how crypto is fast becoming a trusted gateway to Future Finance.

I warmly welcome any thoughts, comments or suggestions on this research from you the reader, and can be contacted at media@sygnum.com anytime.

I trust you enjoy the read!

Lucas Schweiger
Sygnum Digital Asset Research Manager

Executive summary

Investors are looking past macro challenges and holding a bullish mid-term outlook for the crypto market.

The findings from this report indicate that, despite the current macro and geopolitical challenges and associated risks, traditional investors maintain an optimistic mid-to-long-term outlook for the crypto market. They show a strong inclination to invest and believe crypto assets and blockchain will both play a significant role in shaping the future global financial industry. The report's key findings include:

Being exposed to the crypto megatrend is the principal motive for investing

With the expectation of higher future returns, most investors see crypto assets as an opportunity to participate in the market's future upside potential. Additionally, nearly half invest in crypto assets to diversify their portfolios and as a safe haven / macro hedge.

Plans to increase crypto allocations remain high on the agenda

Although nearly a quarter of investors remain undecided about when to increase their crypto allocations due to short-term risks, over half are planning to increase their allocations within the next year. Also, over half of respondents who do not hold crypto assets intend to start investing within the same timeframe.

Tokenised real estate is a potential new trend in the making

Although nearly half of the respondents showed interest in tokenised venture capital and art and collectibles, the majority see the greatest potential in tokenised real estate. This hints at a major potential new trend if projects and protocols effectively capitalise on this opportunity.

Regulatory, trust and security concerns continue to challenge the crypto investment

Even in advanced markets like Switzerland and Singapore, the majority of respondents agree that regulatory uncertainty is the primary barrier to entry, with nearly half also highlighting trust issues, security concerns, and a lack of understanding as other obstacles to investing.

Short-term caution, mid-term optimism and long-term confidence

Most respondents remained neutral at the start of Q4 2023, likely as they were awaiting more definitive market signals like BlackRock's spot ETF. This was countered by the general macroeconomic uncertainty. However, sentiment aggressively flips bullish next year. This may have been accelerated by the recent market rally.

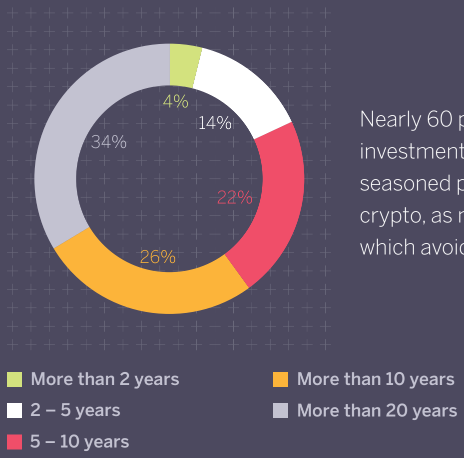
Crypto assets and blockchain technology both have a significant role to play in Future Finance

Most respondents see a bright future for crypto, slightly more for its underlying blockchain technology, This may indicate a higher value placed on operational and cost-effective efficiencies in current systems over the decentralisation ethos inherent in cryptocurrencies.

Respondents

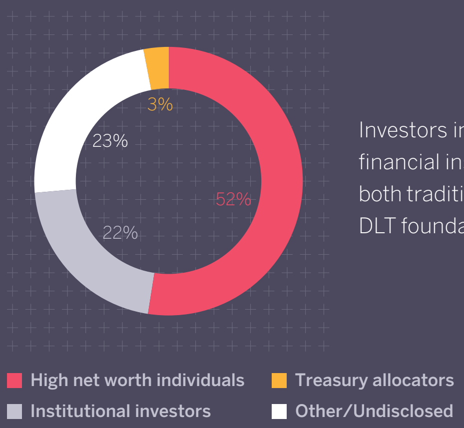
60%
HAVE OVER A DECADE OF INVESTMENT EXPERIENCE

YEARS OF GENERAL INVESTMENT EXPERIENCE



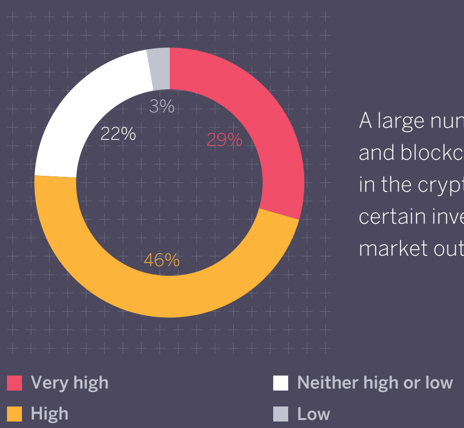
Nearly 60 percent of respondents have over a decade of institutional investment experience, with a third having more than 20 years. This seasoned perspective is crucial in understanding traditional views on crypto, as most of their experience is rooted in traditional markets which avoids a purely native crypto bias in the research.

INVESTOR TYPE



Investors in this survey are drawn from a variety of traditional financial institutions and companies. This also offers rich insights into both traditional investors as well as those working for professional DLT foundations.

KNOWLEDGE OF CRYPTO AND BLOCKCHAIN

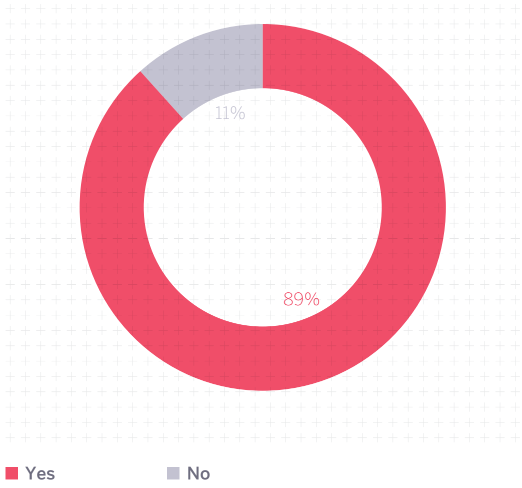


A large number of respondents possess high levels of technical crypto and blockchain knowledge, primarily due to their active involvement in the crypto market. This enhanced understanding may influence certain investment strategies, product interests, risk appetites and market outlooks.

Crypto asset allocation

QUESTION

Do you currently invest in crypto assets?

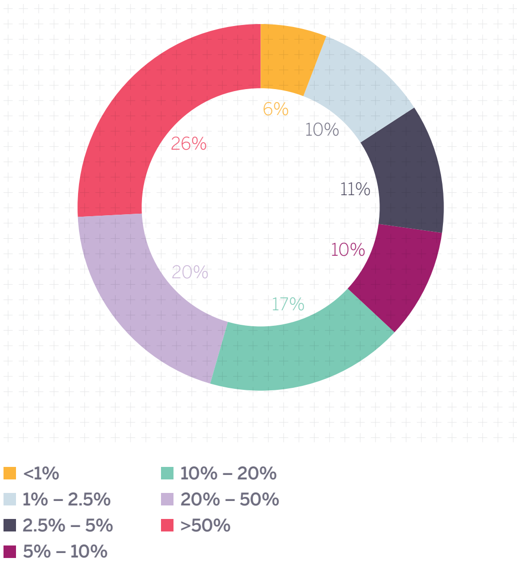


89%
CRYPTO ACTIVATED

89 percent of respondents are "crypto activated". This report primarily captures the sentiment, challenges and outlook of experienced traditional institutional investors who have chosen to allocate portfolio capital to crypto assets.

QUESTION

What percentage of your portfolio is currently allocated to crypto assets?



63%
OF PORTFOLIOS ALLOCATED MORE THAN 10%

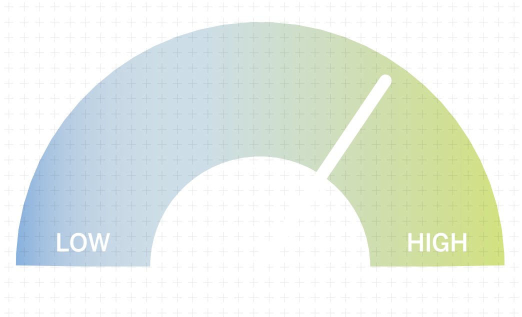
Crypto allocation percentages vary significantly based on two factors: investor type and portfolio compositions. Institutional investors have more conservative holdings in contrast to High Net Worth Individuals (HNWI) or Distributed Ledger Technology (DLT) and crypto foundations.

Investment strategy

Investors remain confident in crypto's long-term growth trajectory

QUESTION

How would you describe your crypto asset risk appetite?



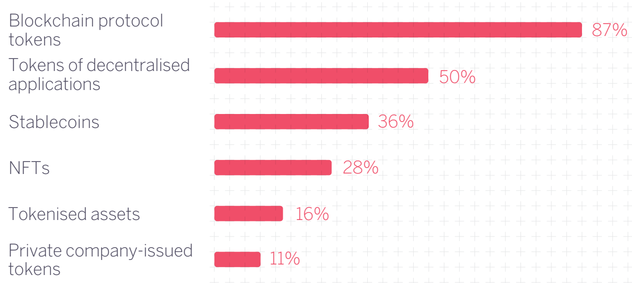
60%

HAVE A HIGH RISK APPETITE

- 60 percent of respondents exhibit a high risk appetite towards crypto assets. This indicates that the 89 percent of "crypto activated" respondents are generally more comfortable with its high-risk nature. Yet, a notable 30 percent have a neutral risk tolerance, suggesting a level of caution even among crypto activated investors.
- Respondents not currently investing in crypto assets (11 percent) lean towards caution, with most indicating a neutral to low risk tolerance. This suggests a conservative approach to the crypto market's risks or a possible lower level of understanding or current engagement.

QUESTION

What type of crypto assets do you currently invest in?



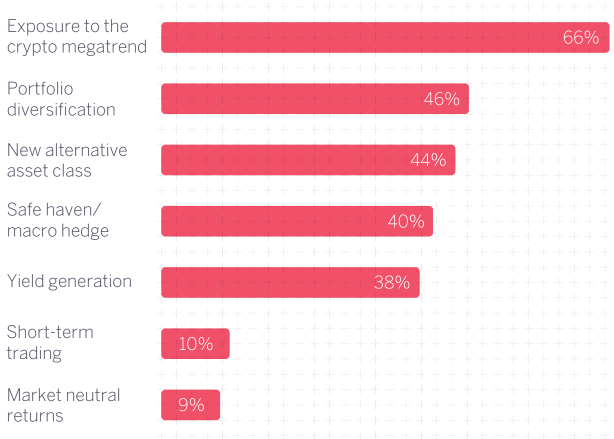
87%

INVEST IN LAYER 1 PROTOCOLS

- 87 percent of respondents invest in blockchain protocol tokens like Bitcoin, Ethereum and Solana (Layer 1 protocols). This reflects a strong preference for well-established crypto assets which are perceived to be less volatile. This also signals a strong interest in smart contract platforms which form the infrastructure for blockchain-based ecosystems and applications.
- This research indicates the use of a diverse range of portfolio compositions and investment strategies. For example, more than half invest in decentralised application (dApp) tokens, over a third in stablecoins and a quarter in NFTs. Additionally, only 20 percent of respondents invest solely in blockchain protocol tokens.
- The dominance of protocol tokens, and to a lesser extent dApp tokens, is driven by their name recognition, accessibility and yield opportunities such as staking on Proof of Stake (PoS) chains.
- Stablecoins remain relatively popular (36 percent) due to their non-volatility and use as a hedge and an on-and-off ramp.
- Tokenised assets and private company-issued tokens reflect low current liquidity but could potentially increase as the number of use-cases and issuances grows.

QUESTION

Why do you invest in crypto assets?



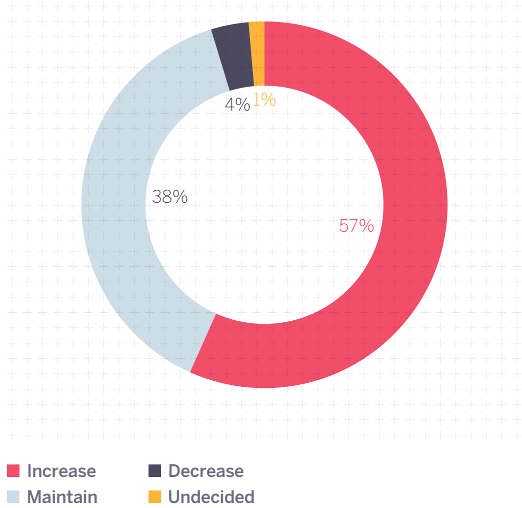
66%

WANT EXPOSURE TO THE CRYPTO MEGATREND

- 66 percent of respondents invest in crypto to gain exposure to the crypto megatrend, indicating a preference to capitalise on long-term value over short-term trading.
- 46 percent cited portfolio diversification as an investment driver. This illustrates ongoing institutional adoption and growth of hybrid traditional-crypto portfolios, as well as a deepening knowledge of blockchain technologies.
- The research reflects Bitcoin's narrative as a safe haven asset and macro hedge. Current high levels of economic uncertainty may be reinforcing this trend.
- Despite the return of high interest rates, 38 percent of respondents view yield generation as a value driver for crypto asset investment.

QUESTION

What are your future crypto allocation plans?



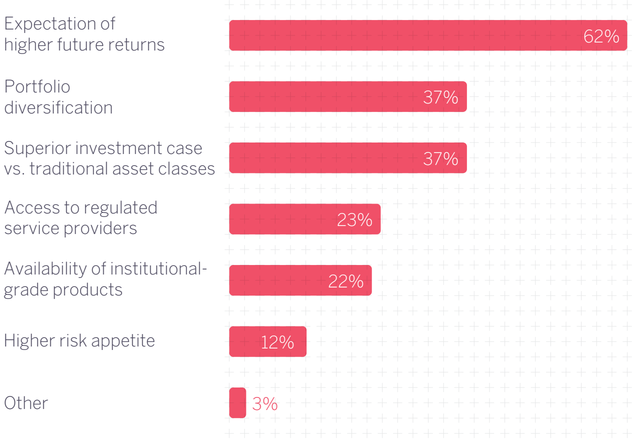
57%

INTEND TO INCREASE ALLOCATION

- 57 percent of respondents plan to increase their crypto asset allocation in the future. This illustrates positive long-term sentiment and pent-up buying pressure - despite notable CeFi drawbacks and macroeconomic and regulatory uncertainty.
- The 38 percent who plan to maintain their allocation may be waiting for further market confirmation or optimal timing to make increased allocations. Irrespective of their strategy or market conditions, related research datapoints show that over 50 percent of these respondents are expected to shift from neutral to bullish by next year, indicating that sentiment may change rapidly as market conditions improve.

QUESTION FOR THOSE WITH NO CRYPTO ASSETS

Why do you plan to make a crypto asset allocation?

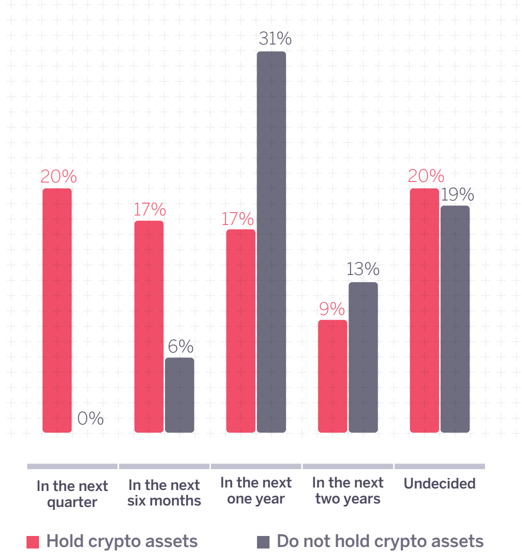


62%
EXPECT HIGHER RETURNS

- Among respondents who plan to maintain or increase their crypto asset allocations, 62 percent expect higher future returns, indicating the strength and resilience of the "crypto megatrend" narrative.
- 37 percent of investors consider crypto a superior investment than traditional assets, demonstrating its attractiveness as a traditional-market hedge. This strategy is supported by Bitcoin's outperformance over the past decade, its negative correlations with stocks and its store-of-value properties, the latter which may have been heightened during COVID. Industry developments that drove user-growth, network activity and protocol upgrades have added further proof-points.

QUESTION

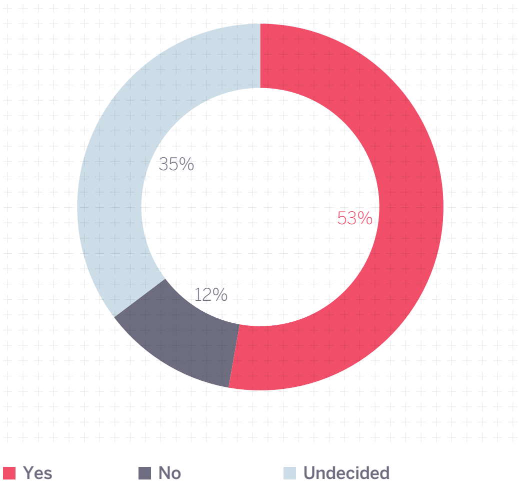
When do you plan to increase your crypto asset allocation, or start investing?



- 20 percent of investors with existing crypto holdings intend to increase their allocations in the next quarter (Q4 2023 per questionnaire date). This may be influenced by the anticipated Bitcoin spot ETF approvals and the protocol's perception as a safe haven asset. Meanwhile, the recent surge in Bitcoin and Ether prices might have driven additional inflows into crypto investment products.
- 40 percent plan to increase their allocations within the next six months, and 60 percent within the next year, further confirming the trend towards institutional adoption.
- However, a large proportion of respondents remain undecided when to increase their allocation. This may reflect broader macroeconomic concerns and the regulatory scrutiny faced by major crypto exchanges, including Binance and Coinbase that manage the majority of crypto traded volumes. This however could change at any time.
- The smaller subset of respondents who do not hold crypto assets might provide insight into the broader, possibly the largest, segment of traditional investors yet to enter the market. Representing potential new money, the data suggests their entry into the market within the next six months less likely.

QUESTION FOR THOSE WITH NO CRYPTO ASSETS

Do you plan to make a crypto asset allocation?



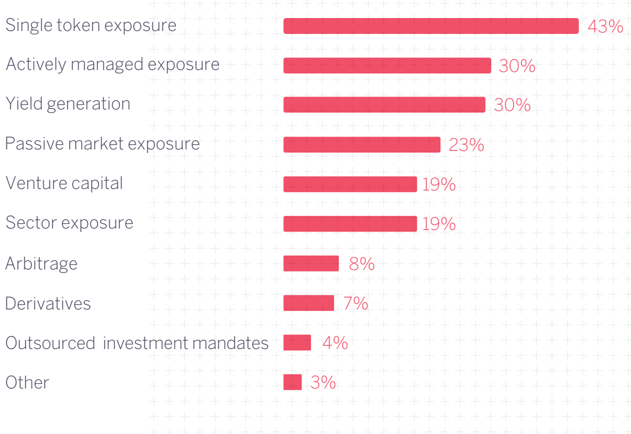
53%

INTEND TO INVEST IN CRYPTO ASSETS

- Over half of the investors (53 percent) who do not currently invest in crypto assets intend to make an allocation in the future. This is almost five-times the number with no current plans to enter the market.
- Among those planning to invest, the primary motivations include a monetary safe haven and macro hedge, portfolio diversification, and the belief that crypto offers a superior investment case compared to traditional asset classes.
- Interestingly, among the 35 percent who remain undecided about investing, 75 percent still consider crypto assets as a superior investment versus traditional assets.

QUESTION

What best describes your crypto asset investment strategy?



43%

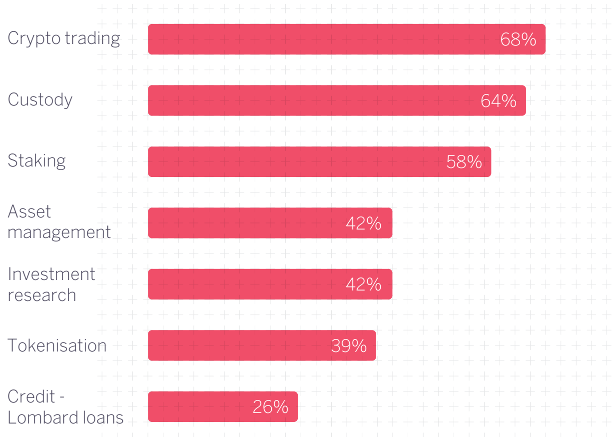
HAVE SINGLE TOKEN EXPOSURE

- Single token exposure (43 percent) is the most preferred investment strategy. This indicates a strong conviction in the potential to generate alpha from specific tokens, likely driven by the established market presence of major assets such as Bitcoin and Ethereum.
- Actively managed exposure (30 percent) may provide more market flexibility and outperformance potential, while yield generation (30 percent) shows interest in passive income streams for those putting large amounts of idle capital to work via staking and structured products.
- However, the data suggests a relatively diverse spread of strategies, that includes passive market exposure (23 percent), sector exposure (19 percent) and venture capital (19 percent). These strategies could be employed by distinct investor types with different allocation amounts, hence warranting further analysis.

Products and services

QUESTION

Which products and services are of interest?



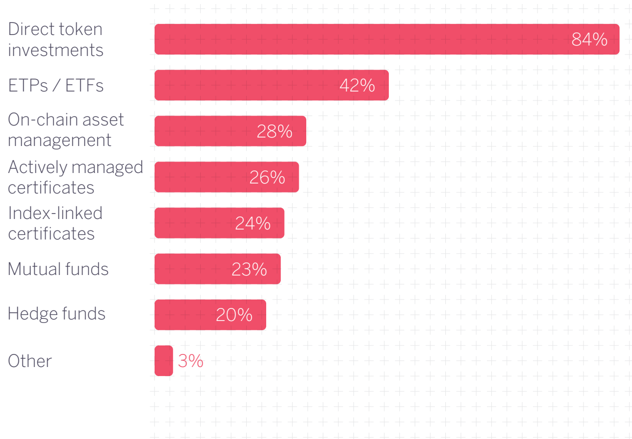
68%

INTERESTED IN CRYPTO TRADING

- The high interest in crypto trading (68 percent) reflects the strong focus on direct token investments, although this could be distinct to investor type. Custody services (64 percent) and staking (58 percent) indicate a strong priority for crypto asset security and earning passive income – the latter aligning with yield generation as a popular investment strategy.
- Meanwhile, 42 percent show interest in asset management and investment research, indicating the demand for discretionary expertise and market analysis for investment decision-making.
- The majority of respondents are interested in three or more services (73 percent). This indicates broad and active engagement of a diverse set of investor types, allocation sizes and mandates.
- Lower current interest in tokenisation (39 percent) may be attributed to liquidity concerns in the current emerging market stage. Although lower in interest relative to other product types, it is still significant.

QUESTION

What crypto asset investment products are you most interested in?



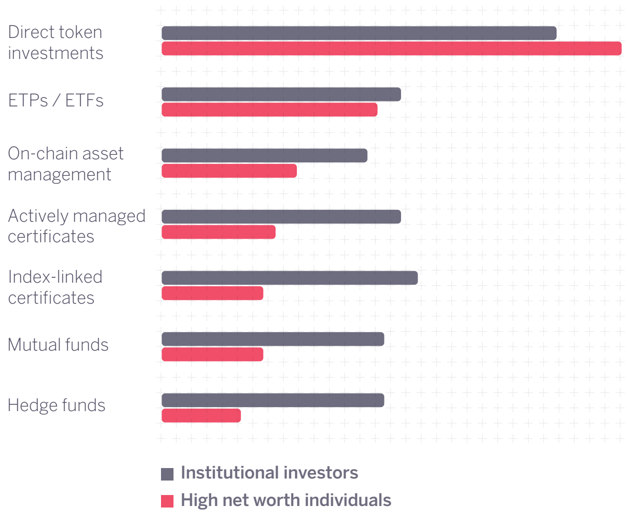
84%

HAVE DIRECT TOKEN INVESTMENTS

- Direct token investments are the most preferred crypto investment product. This indicates a preference for custodised crypto asset ownership over indirect ownership.
- Only 27 percent expressed interest exclusively in direct token investments, while 73 percent were interested in multiple investment products.
- ETPs/ETFs ranked as the second most popular at 42 percent, largely due to their familiarity to traditional investors with on-chain asset management being third (28 percent).
- Despite passive products typically attracting far more AuM in crypto and TradFi, the strong interest in direct token investments in this research is likely because most survey respondents are already "crypto activated".

ANALYSIS

Institutional vs. HNWIs investment product preferences



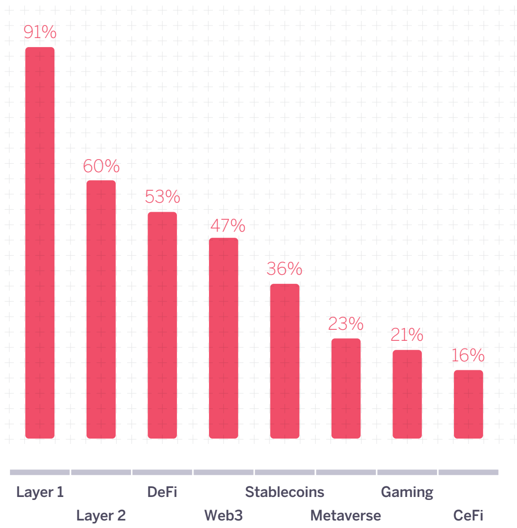
2X

INSTITUTIONS PREFER INDIRECT INVESTMENTS

- The data suggests a distinct split in product preferences between institutional investors and HNWIs. Institutions show a stronger inclination towards structured, professionally managed products, including ETPs/ ETFs, AMCs, index-linked certificates and mutual funds. By contrast, only 20 percent of HNWIs are interested in index-linked certificates, compared to 50 percent of institutional investors.
- Direct token investments remain the top choice for all respondents, indicating a clear preference for investment via direct ownership of tokens and generating yields through staking. This preference might shift as financial products continue to evolve and diversify.

QUESTION

Which crypto asset sectors are of interest?



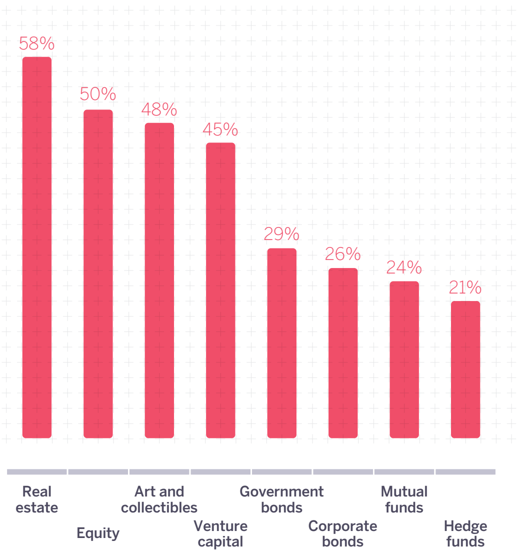
91%

INTERESTED IN LAYER 1

- 91 percent of respondents have a core interest in Layer 1 (L1) protocols, driven by the appeal of well-established assets like Bitcoin and Ethereum. However, maturing protocols like XRP and Solana are also gaining a reputation as more established alternatives to the more recently launched, innovative protocols which are also drawing attention to this sector.
- However, there is a sizeable interest in Layer 2 (L2) scaling solutions given their advancements and growth in 2023. DeFi, despite its underperformance, continues to attract investors owing to emerging trends such as real-world asset (RWA) tokenisation.
- It is encouraging to see interest in a variety of crypto sectors, particularly in Web3 which typically scores lower in investor surveys, indicating a growing support for innovative sectors.

QUESTION

What type of traditional assets when tokenised have the greatest potential?



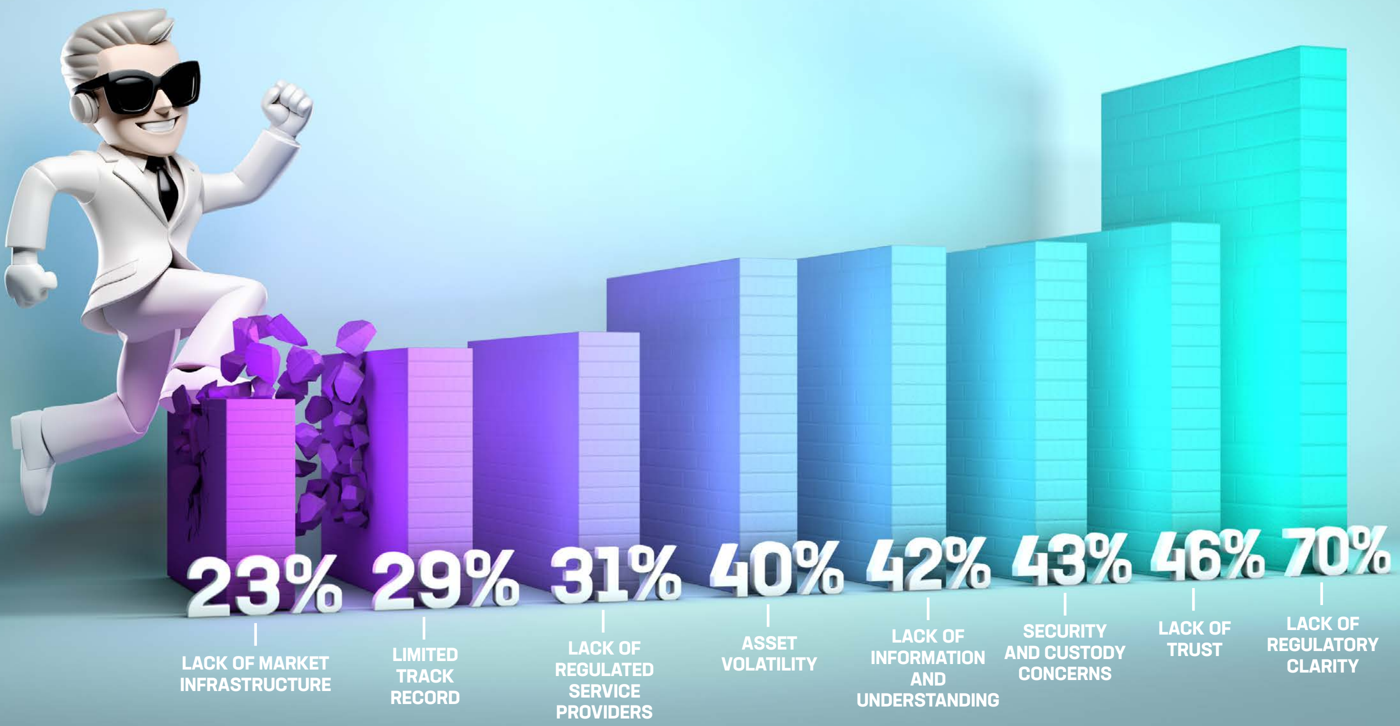
58%

FAVOUR TOKENISED REAL ESTATE

- 58 percent of respondents believe that tokenised real estate holds the greatest potential, followed by equity (50 percent) and art and collectibles (48 percent).
- While the integration of blockchain and real estate is still in its early stages, successful projects and protocols in this area could attract significant demand and catalyse this new trend.
- Tokenisation's potential to improve liquidity, simplify participation through asset tokens and produce new yield generating opportunities is significant. This trend is supported by a growing number of protocols bringing real-world assets on-chain, many of which are now outperforming other protocols. This will be a key area to monitor moving forward.
- The benefits of fractional ownership have also garnered interest in arts and collectibles, as well as venture capital, creating new and unique investment opportunities.

Barriers to investment

Lack of regulatory clarity remains institutional investors' biggest barrier to crypto investment



QUESTION

What are the biggest barriers to investing in crypto assets?

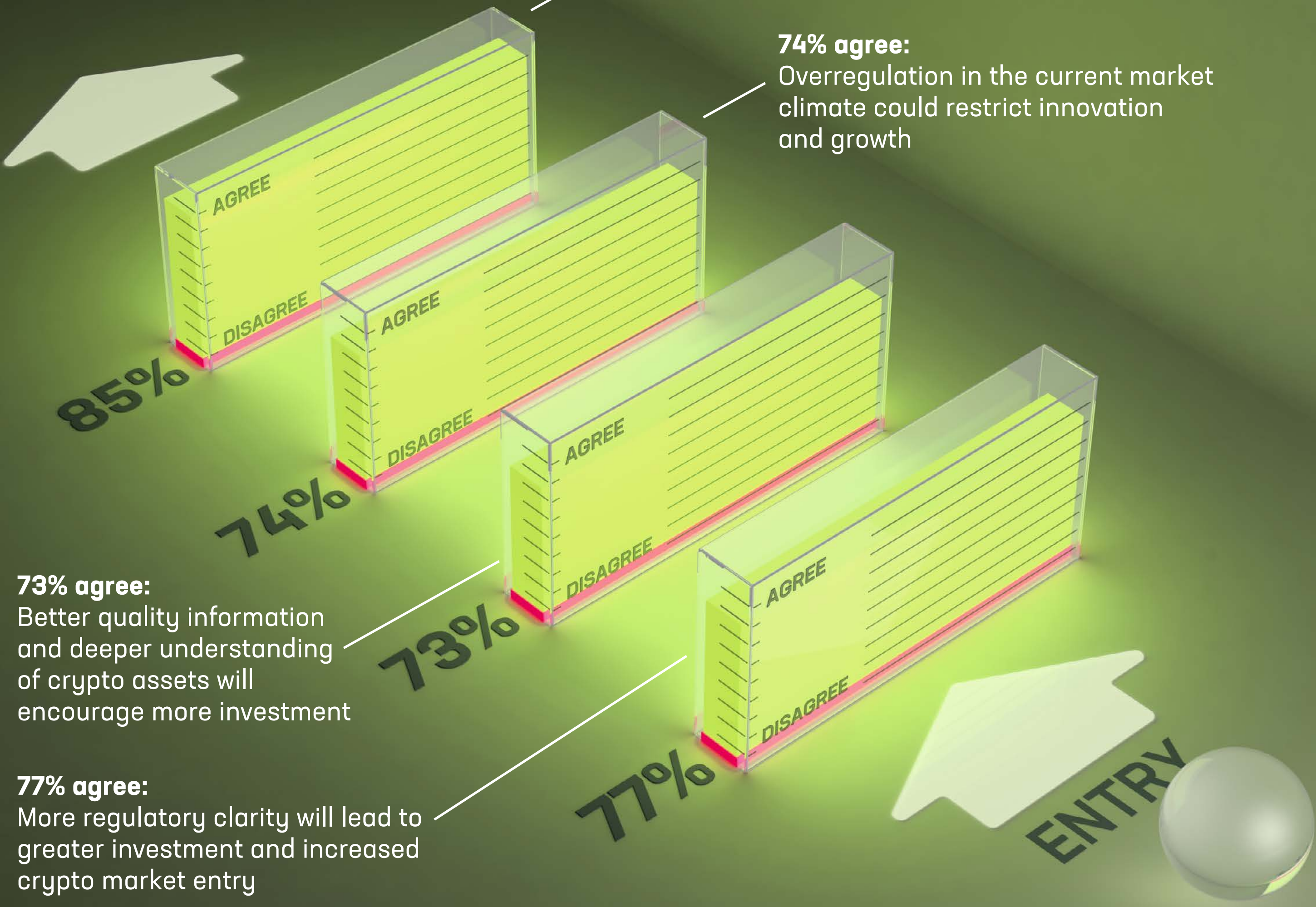
While many respondents view their countries as crypto-friendly, the majority cite the lack of regulatory clarity as the primary barrier to crypto investing. Nearly half express a lack of trust in crypto assets - even in jurisdictions like Switzerland and Singapore with advanced, progressive regulatory frameworks.

Almost half of the respondents highlight security and custody concerns as a barrier to market entry. This is likely due to various high profile centralised finance (CeFi) collapses with co-mingled funds, as well as its inherent technical nature and the relative newness of the asset class.

Investor viewpoints

85% agree:
Regulated counterparties are essential to building trust in the crypto market

74% agree:
Overregulation in the current market climate could restrict innovation and growth



73% agree:
Better quality information and deeper understanding of crypto assets will encourage more investment

77% agree:
More regulatory clarity will lead to greater investment and increased crypto market entry

Despite only 31 percent of investors seeing a lack of regulated service providers as a barrier to investment, an overwhelming 85 percent acknowledge they are essential to building trust in the crypto market.

73 percent agree that better quality information and a deeper understanding of crypto assets will encourage them to invest more. This is attributed to the complexities of protocols and tokenomics, which often lead to a knowledge gap, potentially hindering investors from identifying key value drivers and emerging trends.

Interestingly, 74 percent agree that overregulation could restrict crypto innovation and growth. This underlines the preference to avoid regulation by enforcement and the importance of establishing regulation that accommodates crypto's unique characteristics - or to adapt current legislation in an appropriate manner.

Market outlook

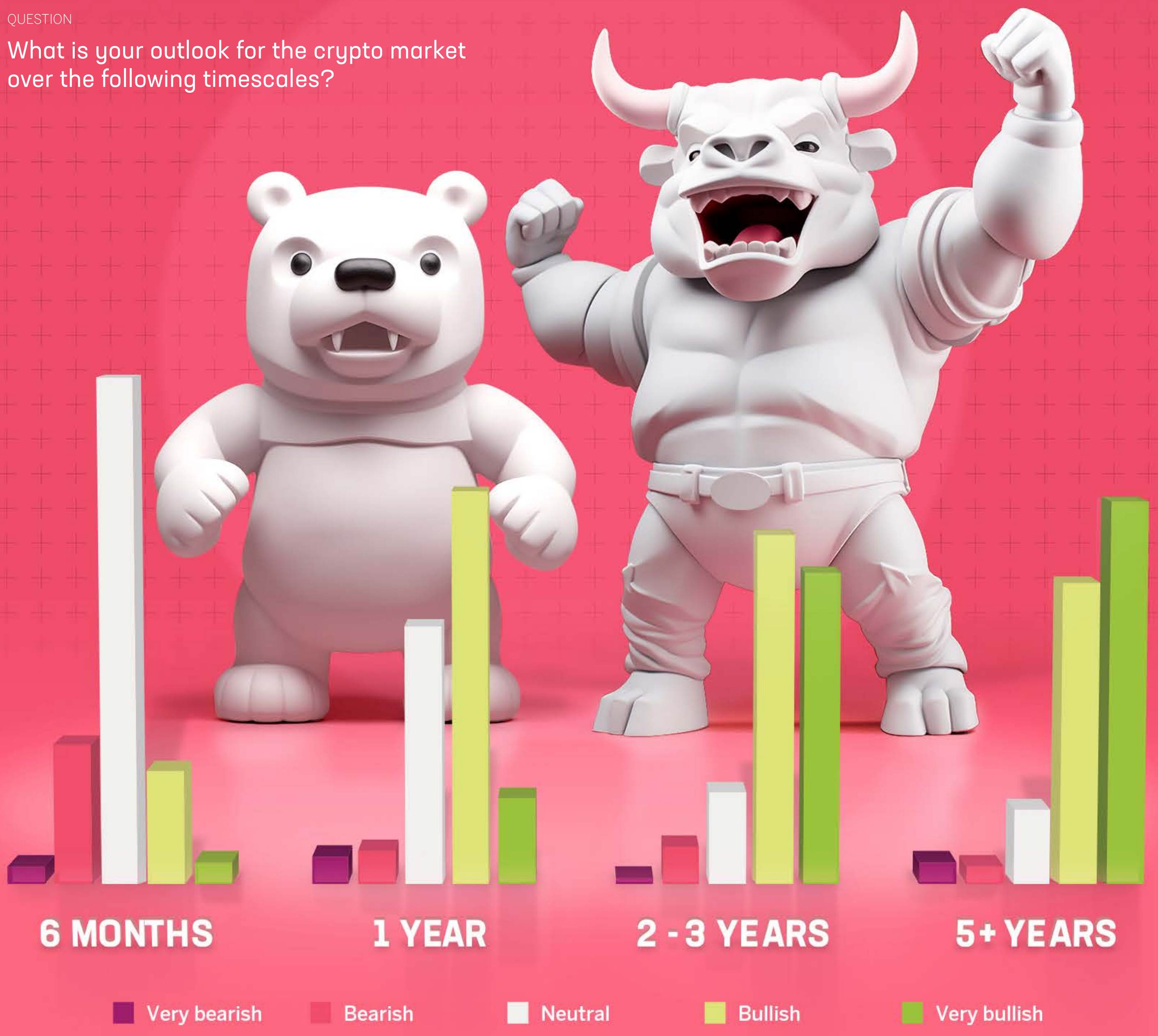
Short-term caution, mid-term optimism and bullish long-term confidence

64 percent of respondents expressed a neutral outlook on the market for the next 6 months (Q4 2023 – Q1 2024). This sentiment was likely influenced by the increased regulatory scrutiny on major centralised exchanges, the SEC's Bitcoin spot ETF delays as well as general macroeconomic concerns.

Looking ahead, sentiment shifts significantly, with the majority flipping bullish for the following year and beyond. This indicates strong confidence in the market's long-term growth potential and expectations of a more favourable macro environment. The crypto market's Q4 performance may have influenced the market sentiment results observed in this study, particularly in the study's 6-month and 1-year timescales.

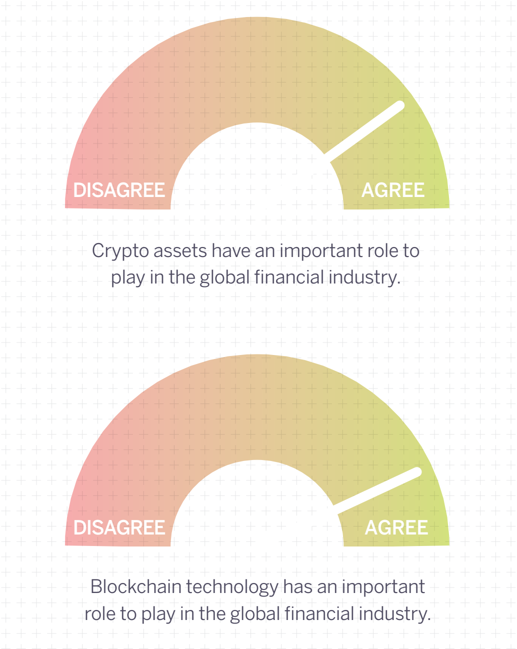
QUESTION

What is your outlook for the crypto market over the following timescales?



QUESTION

Blockchain vs. crypto assets



90%

BELIEVE IN BLOCKCHAIN'S ROLE IN THE FUTURE GLOBAL FINANCE INDUSTRY

- Nearly 90 percent of respondents strongly believe that blockchain has an important role to play in the global financial industry, compared to 81 percent for crypto assets.
- The slight preference of blockchain technology (DLT) over crypto assets may indicate a higher value placed on operational efficiencies and cost-saving advantages offered by the technology. For instance, traditional investors may show greater interest in things like tokenised financial instruments and automated trading capabilities, rather than aligning with the decentralised ethos inherent in cryptocurrencies.
- However, this does not undermine the consensus on the importance of crypto assets, as a strong majority agree on their importance. This is supported by a large proportion of respondents who view crypto as a safe haven and macro hedge.

Market comment

The view from Singapore

Price fluctuations in any asset class are to be expected. The past 18 months, however, have shown the crypto fraternity, as well as the wider financial industry, that the need for trust neither falters nor meanders. Increasingly, investors are demanding greater transparency, governance and counterparty risk management.

Following a volatile year for the industry in 2022, this year has shown encouraging signs of resilience and maturity. Signs of recovery began to emerge in Q4 2023, marked by new trends, sector growth and increased market activity. In the APAC region, the outlook seems to be veering more towards the positive as we move into the new year. Of the institutional investors from the region who currently invest in crypto assets in this research, none plan to decrease their crypto asset allocation.

With the growing anticipation of the approval of the first Bitcoin spot ETF with Blackrock, strengthening fundamentals and a strong, late-year rally, the market can expect a fresh injection of opportunities and capital in the coming year. Singapore and the APAC region, an already highly crypto activated location, is set to benefit from this increasingly favourable climate. Thanks to its status as a pioneer in crypto regulations, 61 percent of investors in Singapore view the country as crypto-friendly.

According to this research, 75 percent of respondents in Singapore intend to increase their crypto allocations within the next year. The expectation of higher returns is a key driver behind this decision for over 66 percent of institutional investors in the republic.

Sygnum Singapore holds a Major Payment Institution Licence (MPIL) authorised by the Monetary Authority of Singapore. We are confident that our wide range of regulated services – including our regulated Digital Payment Token (digital asset) brokerage, custody, asset management and corporate finance advisory services – is well positioned to capitalise on the trend towards fully regulated players as the market develops.

We are committed to evolving our systems and technology to meet these expectations, ensuring Sygnum emerges as a frontrunner in the digital asset ecosystem.

Gerald Goh
Sygnum Co-Founder and CEO Singapore

Market comment

Innovation and blockchain is a strategic focus for us

The currently running Bitcoin ETF projects of several major asset managers will very likely open crypto even more as an asset class for institutional clients. At the Asset Management Association Switzerland (AMAS) we observe a rising institutional interest in crypto and digital assets since 2020.

Lately the AMAS was joined by several institutions active in the crypto space. AMAS's strategic focus lies on use cases of blockchain technology and especially on fund tokenisation. Here we distinguish between the tokenisation of assets and the tokenisation of collective investment schemes themselves (and the combination of both). However, we still observe regulatory uncertainties and technological hurdles for many business ideas.

At AMAS we see the potential of tokenisation in the huge investment fund market and we will accompany the progress in the interests of the asset management industry.

Markus Dinkelmann
Asset Management Association
Switzerland (AMAS)

ASSET MANAGEMENT ASSOCIATION

A year of transformation lies ahead

It's encouraging to see that active strategies, investment management mandates and access to crypto yield opportunities are a major need for our clients. At Sygnum, our suite of active and passive investment products is tailored to help our clients capitalise on growth, trends, and excess return opportunities in the crypto asset market.

We remain dedicated to supporting our clients, providing them with the necessary tools and insights to fine-tune their investment strategies. Observing the wide range of asset interests, investment products and services, we are confident in our ability to cater to these needs with excellence.

The market outlook aligns closely with the feedback we have gathered from our conversations with clients and prospects. It is an exciting time, and we're looking forward to observing the market's transformation as we approach the end of the year and the start of a new one.

Fabian Dori
Sygnum Chief Asset Management
Officer and Deputy Group CEO

Summary

Growing acceptance of crypto and Future Finance

The survey results indicate a positive stance on the crypto market among seasoned professionals. Not only does this demonstrate the acceptance of crypto assets and blockchain in general, but it also highlights investors' firm belief in the industry's future growth potential and unique value drivers. This makes the investment case for crypto assets more compelling and the asset class fast becoming a valuable part of many traditional investment portfolios.

The strong consensus that crypto and blockchain will play a significant role in Future Finance contrasts heavily with the scepticism of many traditional institutions and investors just a few years ago. This broad-based shift in mindset has been hastened by the success of established blue-chip protocols, the rise of regulated crypto service providers, and the commitment of major institutions and government bodies.

However, it is rather the fundamental value drivers of crypto assets, both as a unique asset class and a technology, that make them particularly appealing investment opportunities with high utility. This is only bolstered by the rising demand in sectors like Layer 2, DeFi, Web3, as well as use cases like the tokenisation of Real-World Assets (RWA) which have demonstrated remarkable growth, user activity and market adoption throughout 2023.

Conviction in the market's long-term growth trajectory

The primary motive for investing in crypto is to gain exposure to the crypto megatrend, underlining institutional investors' strong conviction in the market's potential future upside.

Interestingly, a significant number of investors now regard crypto assets as a superior investment case to traditional assets. This is understandable, given Bitcoin's diminishing correlation with traditional stocks, its consistent outperformance in the past decade, and crypto's strengthening reputation as a safe haven / macro hedge during times of economic instability.

Unlike the regularly changing sentiments of retail investors and narratives from the mainstream media, institutional and professional investors are taking a more measured, strategic approach as the crypto winter appeared to be nearing its end.

At the beginning of Q4 2023, although many adopted a neutral outlook in the short-term, a large proportion of investors plan to increase their crypto allocations in Q1 2024 – likely in anticipation of a post-BlackRock spot ETF bull market. This could also explain why over 1 in 5 investors are eager to increase their crypto allocations but remain undecided about the timing.

Despite this, the overall risk appetite for crypto remains positively high. Many holding a neutral sentiment appear to have already changed their position during Q4 2023's strong rally, which is ongoing as this report is being published.

Trust issues remain high but do not hinder risk appetite

Bullish or not, half of the investors express concerns about trust, security, and custody, emphasising the need for reliable counterparties in an industry still seeking global regulatory standardisation. However, continued investments in crypto assets indicate a strong inclination to capitalise on the markets high-return potential, despite the perceived and real security risks. This stance can be in part credited to the robust risk management, governance and investor protections offered by the fully regulated digital asset specialists that institutional investors credit for building trust in the crypto market.

Notwithstanding, a lack knowledge and understanding remain significant barriers given the complexities of blockchain, tokenomics and crypto's limited track record. This drives investors to seek discretionary expertise and adopt active management strategies to ensure market flexibility and informed decision-making in a volatile market.

Institutional investors: from sceptics to evangelists

Bitcoin was invented just 15 years ago and introduced with little fanfare to a small cryptography email group. Since then, it has rapidly evolved into a thriving and diverse global market full of innovative ecosystems, reliable protocols, institutional-grade crypto products and progressive regulatory frameworks.

We could argue that crypto sector's rapid transition towards maturity has transformed an initially sceptical TradFi outlook into one of acceptance and endorsement – and in many cases into evangelism.

Key report takeaways:

Institutional investors plan to increase allocations

A substantial majority of investors plan to increase their crypto allocations, including those currently maintaining their positions and those yet to invest. This is anchored in a strong conviction that crypto assets will yield higher future returns, with an even greater interest in gaining exposure to the crypto megatrend.

Institutional investors will move in the next quarter

Respondents already active in crypto market indicated their intention to boost their crypto allocations in Q4 2023. Intentions clearly turned into action in the November-December rally. The market upswing itself may accelerate bullish sentiment, prompting others to reassess their crypto allocation strategies.

Engagement beyond Bitcoin and Ethereum

While Layer 1 tokens like Bitcoin and Ethereum continue to capture investors' attention, the emergence of competitor chains as new "blue-chip" tokens hints at expanding interest within the sector. Moreover, advancements in Layer 2, DeFi, and Web3, though sometimes overshadowed in the broader market, are drawing investor interest, signalling a shift towards token sector diversification within crypto portfolios.

Single token exposure is preferred over structured products

Investment strategies vary, but there is a clear preference for single token exposure, reflecting a higher risk appetite and strong conviction in specific tokens like Bitcoin and Ethereum. Respondents also showed a keen interest in direct token investments over structured and professionally managed products.

Long-term outlook is accelerating Future Finance

A long-term bullish outlook, a strategic intent to capitalise on the crypto megatrend and a strong conviction in the future significance of crypto and blockchain in global finance, suggests a positive consensus on the sector's substantial growth potential and technological success.

Further research

We acknowledge that the majority of survey respondents are already active in the crypto market, which might skew their interests away from the broader traditional investor outlook. This could be attributed to some having substantial crypto allocations or even being crypto-native, possibly explaining the preference for active over passive products, despite the latter drawing significantly larger AuM in both the crypto and TradFi markets.

Respondents not currently invested in crypto might be a truer reflection of the broader subset of traditional investors. While their interests align in many ways, they show a lower risk appetite and more conservative investment timelines. Investigating further into this group will be an important area to focus on, as they also represent potential new money entering the market.

Disclaimer

About Sygnum

Sygnum is a global digital asset banking group, founded on Swiss and Singapore heritage. We empower professional and institutional investors, banks, corporates and DLT foundations to invest in digital assets with complete trust. Our team enables this through our institutional-grade security, expert personal service and portfolio of regulated digital asset banking, asset management, tokenisation and B2B services.

In Switzerland, Sygnum holds a banking licence and has CMS and Major Payment Institution Licences in Singapore. The group is also regulated in the established global financial hubs of Abu Dhabi and Luxembourg.

We believe that the future has heritage. Our crypto-native team of banking, investment and digital asset technology professionals are building a trusted gateway between the traditional and digital asset economies that we call Future Finance. To learn more about how Sygnum's mission and values are shaping this digital asset ecosystem, please visit **www.sygnum.com**

SYGNUM

Sygnum Bank AG
Uetlibergstrasse 134 A
8045 Zurich
Switzerland
Tel: +41 58 508 2000

Sygnum Pte. Ltd.
3 Fraser Street #04-22
DUO Tower
Singapore 189352
Tel: +65 6015 8808

Sygnum Bank Middle East
Al Sarab Tower, Office 303, Floor 11
ADGM Square, Al Maryah Island
Abu Dhabi, UAE
Tel: +971 2 812 4171

sygnum.com/contact
@sygnumofficial
Sygnum

sygnum.com