

Final chapter of the current cycle?

24 Nov 2025

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After a constructive major part of the year, the fourth quarter has posed serious challenges for risk assets in general and crypto in particular.



Final chapter of the current cycle?

Sygnum CIO Briefing

The evidence suggests otherwise

The sell-off has more than erased the positive interim YTD performance of Bitcoin and pushed the broad ecosystem into negative territory. Is this the final chapter of the current cycle? We believe the evidence suggests otherwise. Despite battered sentiment and heightened volatility, both macro and crypto-specific drivers continue to point to powerful tailwinds — implying that the recent correction is excessive rather than structural.

“The shift in narrative was triggered less by fundamentals and more by a sudden re-pricing of risks at a time when investors were already debating whether the Four-Year Cycle had peaked.”

That context amplified the impact of negative headlines. Q4 has delivered plenty of them. To summarize key elements highlighted by traditional finance news platforms and/ or crypto-specific platforms:

- Macro shocks: the US-China trade war escalation; the US government shutdown limiting macro visibility; and stronger-than-expected labour data reducing immediate prospects of a December rate cut.
- Market-structure stress: the historic liquidation cascade triggered by excessive leverage and immature price-oracles; rumours about key market-makers; and false speculation regarding institutional selling.
- Liquidity pressure: the US Treasury’s build-up of its cash account, volatility in private credit markets and exhausted Digital Asset Treasury buying power.

The reaction has been disproportionately negative. We observe a significant deleveraging across venues: CME open interest has decreased, funding rates for example on Binance have temporarily turned negative (although mainly recovered in the meantime), the fear and greed indicator as published by CoinMarketCap reached lows, RSIs even on crypto blue chips extended into oversold zone as indicated on TradingView, and Glassnode data indicating that short-term ETF buyers have exited positions at losses. These signals reflect sentiment capitulation rather than long-term deterioration in fundamentals.

Missing sentiment

From a cycle perspective, we see a maturing phase rather than an ending one. Volatility and drawdowns could indeed become more pronounced — but the macro environment remains supportive and may help reduce uncertainty once data publications resume orderly frequencies again. Business cycle indicators point to an acceleration, driven by services, while manufacturing remains muted for now. Improving business cycle momentum correlates with higher risk appetite and is supportive of increased DeFi activity.

Inflation remains sticky based on latest CPI numbers but continues to undershoot tariff-related fears. With long-term expectations firmly anchored as evidenced by 5-year break even inflation expectations for example, the market still prices multiple rate cuts throughout 2026 based on Fed Fund futures, creating a constructive backdrop for liquidity-sensitive assets such as crypto and tech. Liquidity conditions should also improve again as the US government cash build normalises, the Fed ends quantitative tightening in December, and a potential reduction of the Supplementary Leverage Ratio in early 2026 may unlock additional balance-sheet capacity in the banking sector.

Sentiment is the key missing ingredient: while TradFi investors remain broadly constructive based on the AAI sentiment survey, crypto-native sentiment has flipped to maximum fear. Historically, such extremes tend to coincide with seller exhaustion and deleveraging — making them contrarian rather than confirming.

A broader look at Bitcoin ETF AuM and on-chain fundamentals as provided for example by DefiLlama, TheBlock and Messari, support this view. Active addresses, contract deployments, transaction counts and TVL metrics across major altcoins have improved meaningfully throughout 2025. The Ethereum Foundation confirmed that the upcoming Fusaka upgrade is set to further advance scalability and reduce execution costs, accelerating user and developer adoption over the mid- to long-term.

Modest spot Bitcoin outflows

Meanwhile, the impact on the recent spot Bitcoin outflows on total on-chain holdings has been modest relative to Bitcoin's price performance according to TheBlock, with aggregate AuM holdings having declined only slightly over the past month, and BlackRock's IBIT decreasing less than 5 percent in terms of BTC amounts. Much of the outflow activity is driven by short-term sellers but also arbitrage unwinds, which tend to spike during periods of high volatility.

Another interesting observation is provided by CryptoQuant, namely that the number of addresses that consistently accumulate Bitcoin (wallets that have not sold) has nearly doubled since the October liquidation event and exchange reserves balances for both Bitcoin and Ethereum continue to decline to new lows.

Regulatory momentum remains underappreciated. The US shutdown has delayed the legislative work on the CLARITY Act, but bipartisan negotiations continue and expectations remain constructive, despite some uncertainty around the precise timing of final passage. Together with

- (a) the store-of-value validation of Bitcoin by the US Treasury, Luxembourg and several US states, and
- (b) the Genius Act supporting Bitcoin as a means of payment, the passage of the Clarity Act would
- (c) provide a landmark framework for crypto as next-generation decentralised application infrastructure.

In such a scenario, smart-contract platforms and DeFi applications stand to benefit disproportionately

Additional policy developments are also worth mentioning. The SEC and CFTC have adopted a more pro-crypto stance in their joint approach to bring regulatory clarity to the market. A new bill was introduced before Congress that would allow federal tax obligations to be settled in Bitcoin and routed into a strategic reserve. The Treasury and IRS have authorised institutional staking for crypto ETFs, allowing eligible funds to earn and distribute staking rewards.

To conclude, Q4 has delivered a painful correction and sentiment reset — but the medium-term drivers of this cycle (macro momentum, liquidity, on-chain fundamentals and regulation) remain intact. The current environment is uncomfortable in the short term, but historically it has offered attractive entry points for investors with a mid-to long-term horizon, rather than cycle endings.



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