TAPCAP CONSULTING LLC

Digital Assets & Blockchain

Industry Research Report

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DeFi Summer & The Yield Farming Era

The DeFi Summer of 2020–2021 marked one of the most transformative — and ultimately unsustainable — periods in blockchain history. Decentralized finance protocols, particularly those built around lending, borrowing, and automated market-making, flooded the market with governance tokens as incentives. Users could deposit assets and earn boosted yields subsidized by protocol treasuries, a practice that became known as "yield farming."

The mechanics were self-reinforcing but fragile. As yields on one protocol normalized, liquidity migrated to the next, creating a carousel of capital that chased short-term returns. Foundational protocols like AAVE, Compound, and Curve became the infrastructure layer on which hundreds of derivative products were built — each adding leverage to the system.

The congestion on Ethereum's base layer during this period became severe. Gas fees soared, making small transactions economically unviable. This pressure accelerated two important structural shifts: the growth of Layer-2 networks offering lower fees and higher throughput, and Ethereum's long-anticipated transition from Proof of Work to Proof of Stake ("The Merge"). Both developments were genuine improvements to network capacity.

The NFT wave that followed added further volume pressure. And by 2022, the market reckoning arrived — protocols lacking fundamental economic value saw TVL collapse, leverage unwound rapidly, and interest rates globally suppressed risk appetite. The lesson: incentive-driven liquidity is not the same as organic demand.

Key Takeaway: DeFi's infrastructure — the protocols, AMMs, and Layer-2 networks built during this era — survived and matured. The speculative excess did not. Investors and builders who distinguished between the two came out ahead.

On-Chain Activity & Real-World Use Cases

Beyond speculation, blockchain technology offers a compelling value proposition for industries that rely on trust, record integrity, and secure transfer of sensitive information. The core attributes — transparency, immutability, and permissionless access — address long-standing inefficiencies across multiple sectors.

Document & Record Management

Industries that depend on tamper-proof records — real estate title and deed tracking, healthcare records, supply chain provenance, and legal documentation — are natural candidates for blockchain adoption. Companies such as UPS have explored blockchain-based package tracking, while governments have piloted land registry systems on public chains. The value is clear: documents stored on-chain can be verified independently, transferred without intermediaries, and accessed by the rightful owner anywhere in the world.

Real-World Assets (RWAs)

RWAs represent one of the most significant convergence points between traditional finance and blockchain. By tokenizing physical or financial assets — real estate, private credit, commodities, or treasury bills — these assets can be fractionalized, traded continuously, and used as collateral within DeFi protocols. Major asset managers including BlackRock have entered this space, and the RWA sector's total value locked has grown substantially as a result. The ability to represent ownership on-chain without relying on a custodian is a genuinely new capability.

Stablecoins as Financial Infrastructure

Stablecoins have quietly become critical infrastructure for the global digital economy. Backed primarily by U.S. Treasuries, major stablecoin issuers — Circle (USDC), Tether (USDT), PayPal (PYUSD), and Gemini (GUSD) — collectively hold an estimated $182 billion in Treasury securities, a figure projected to grow to $1.5–4 trillion by 2030. This makes stablecoin issuers significant actors in the U.S. debt market. Western Union and other traditional financial intermediaries have begun exploring their own stablecoin programs, signaling that this segment is entering a competitive, mainstream phase.

TapCap View: Stablecoins are no longer a crypto-native curiosity — they are becoming a preferred settlement layer for global commerce. The companies that control stablecoin issuance will hold meaningful influence over the future of digital payments.

The Multi-Chain Ecosystem

A common misconception is that one blockchain will "win" and all others will become irrelevant. In practice, different networks are optimized for different functions, and a multi-chain world is increasingly the reality that developers, institutions, and users must navigate.

Bitcoin — The Reserve Asset

Bitcoin is the oldest, most decentralized, and most battle-tested blockchain. It is slow and intentionally simple by design. Its primary use case is as a store of value and a reserve asset, not as a programmable platform. The introduction of Bitcoin ETFs by BlackRock, Fidelity, and others has brought this narrative into the mainstream institutional conversation, with net inflows exceeding $35 billion in the first year of trading.

Ethereum & Layer-2s — The Building Layer

Ethereum is the primary platform for smart contracts, DeFi protocols, NFTs, tokenized assets, and decentralized applications. Its Layer-2 ecosystem — including Arbitrum, Optimism, Base, and zkSync — dramatically reduces costs and increases throughput while inheriting Ethereum's security. This is where most meaningful blockchain-based financial innovation is occurring today.

Payment Networks — Ripple & Stellar

Networks like Ripple (XRP Ledger) and Stellar are purpose-built for high-throughput, low-cost cross-border payments and stablecoin settlement. They are less about programmability and more about replacing the slow, fee-heavy correspondent banking system. Their architecture supports thousands of transactions per second at fractions of a cent — practical for micropayments, remittances, and instant settlement at scale.

Solana — Speed with Trade-offs

Solana has emerged as a high-performance alternative to Ethereum, offering fast transaction speeds and low fees. It has attracted significant developer activity, particularly in consumer applications and meme-coin trading. However, critics point to its more centralized validator set and history of network outages as fundamental concerns about its long-term reliability for institutional use cases.

Institutional Adoption

The institutional wave in digital assets has moved from speculation to structural integration. The mechanisms of adoption are diverse and represent genuinely different investment and operational theses.

The ETF Gateway

Bitcoin ETFs launched in January 2024 represent the most significant institutional access point yet created. For the first time, pension funds, endowments, registered investment advisors, and retail investors can gain Bitcoin exposure through the same account they use for equities — with no custody keys, no cold storage, and full regulatory compliance. This dramatically lowered the operational barrier for a new class of capital. Ethereum ETFs followed later in 2024. The combined AUM of these products exceeded $100 billion within the first year.

Payments Integration

Traditional payments giants are no longer observers. PayPal launched PYUSD. Stripe re-entered crypto payments after a years-long hiatus, acquiring stablecoin infrastructure company Bridge. Visa is piloting stablecoin settlement on its network. The thesis: blockchain-based settlement can reduce interchange fees (currently ~2–3% per transaction), increase settlement speed, and reduce fraud. For merchants, this translates directly to margin improvement.

Tokenized Securities & Money Market Funds

BlackRock's BUIDL fund — a tokenized money market fund on Ethereum — crossed $500 million in AUM faster than any ETF in history. Franklin Templeton, Fidelity, and others have followed. Tokenized securities allow 24/7 trading, programmable compliance, automated dividend distribution, and the use of fund shares as on-chain collateral. Robinhood has announced plans to bring tokenized equities to European markets, signaling that this is not a distant future — it is happening now.

Traditional Exchange Expansion

Platforms including Morgan Stanley, Fidelity, Schwab, and others have either launched or announced plans to offer crypto trading directly to clients. Cash App, Venmo, and PayPal have provided retail access for years. The integration of crypto assets into existing brokerage relationships normalizes the asset class and reduces the friction of entry for millions of investors who already have accounts with these platforms.

Key Takeaway: Institutional adoption is no longer a question of "if" — it's a question of pace and form. Each access vector (ETF, tokenization, payments integration, direct exchange listing) brings different capital pools and different risk profiles into the ecosystem.

Institutional Lending & Crypto-Backed Credit

One of the most compelling emerging opportunities in digital assets is crypto-backed institutional lending. JPMorgan has announced it would consider offering loans backed by clients' crypto holdings — a significant signal from the world's largest bank. The structural appeal is clear: crypto assets are liquid, price-discoverable, and easily over-collateralized, making them theoretically superior collateral to many traditional assets.

The yield premium over traditional fixed income products, combined with the over-collateralization typical of crypto loans, creates an attractive risk-adjusted return profile for lenders willing to build or partner with the necessary custody and risk infrastructure. For borrowers, crypto-backed loans allow capital to be deployed without triggering taxable liquidation events.

This space is evolving rapidly. Custodians, prime brokers, and fintech lenders are competing to build the infrastructure. Firms entering this space can either build in-house or partner with specialist platforms such as Anchorage Digital, BitGo, or Coinbase Prime. The opportunity is to act as a liquidity provider to the ecosystem while earning enhanced yield — a role that sophisticated financial institutions are uniquely positioned to play.

TapCap View: Firms that build institutional lending capabilities now will have a significant first-mover advantage as regulatory clarity improves and borrower demand scales with the broader institutional adoption curve.

Emerging Theme: AI & Blockchain Convergence

The intersection of artificial intelligence and blockchain is producing a new category of infrastructure and applications that deserves attention. While early narratives were often speculative, genuine use cases are beginning to emerge with real economic substance.

Decentralized AI Compute

Projects like Akash Network, Render Network, and others are building decentralized marketplaces for GPU compute — allowing AI developers to access computing power without relying solely on AWS, Google Cloud, or Microsoft Azure. As AI compute demand has exploded post-GPT-4, the cost and availability of GPUs has become a strategic constraint. Decentralized networks offer an alternative supply source that can theoretically lower costs and increase redundancy.

Verifiable AI Outputs

One of the core trust problems with AI-generated content — how do you know it wasn't manipulated? — can theoretically be addressed through cryptographic proofs recorded on-chain. Zero-knowledge proofs (ZKPs) allow a party to prove that a computation was performed correctly without revealing the underlying data. Applied to AI, this enables verifiable, tamper-proof records of what a model produced and when. For regulated industries — healthcare, legal, financial services — this has significant compliance value.

AI-Driven On-Chain Agents

Autonomous AI agents that interact with smart contracts and DeFi protocols are beginning to emerge. These agents can execute trades, manage positions, and interact with protocols on behalf of users — operating 24/7 without human intervention. While still early, the combination of on-chain execution rails and increasingly capable AI models creates a new primitive for automated financial management.

Regulatory Landscape & Policy Developments

The regulatory environment for digital assets has shifted meaningfully in the United States following the 2024 election cycle. The current administration has signaled a more constructive posture toward crypto policy, and the SEC has withdrawn or settled several high-profile enforcement actions that had created significant legal uncertainty for the industry.

Key Regulatory Developments

- SAB 121 Reversal: The SEC's Staff Accounting Bulletin 121, which required banks to hold customer crypto assets on their balance sheets as a liability (making custody economically unviable), was reversed. This opens the door for major banks to offer crypto custody services at scale.

- Stablecoin Legislation: Congressional bills targeting stablecoin regulation are advancing, which would provide issuers with a clear federal framework. This is expected to accelerate institutional stablecoin adoption and new entrants to the market.
- Bitcoin Strategic Reserve Discussion: The U.S. government has engaged in discussions around the potential establishment of a Bitcoin strategic reserve — analogous to gold reserves. While the practical execution remains uncertain, the political conversation itself represents a legitimization milestone.
- Global Regulatory Divergence: The EU's MiCA (Markets in Crypto-Assets) regulation has come into force, providing a comprehensive framework for digital assets in European markets. The UK's FCA has expanded its crypto registration regime. Asia, particularly Singapore and Hong Kong, continues to position itself as a regulated crypto hub.

For institutions and investors, regulatory clarity — even imperfect clarity — reduces the compliance risk premium that has historically discouraged participation. The direction of travel in most major jurisdictions is toward structured engagement rather than broad prohibition.

Treasury Companies: Hype vs. Fundamentals

A candid assessment is warranted on the category of "corporate treasury" companies — firms that have raised capital with the primary purpose of holding Bitcoin or other crypto assets on their balance sheets, with MicroStrategy (now "Strategy") as the most prominent example.

These companies have used convertible notes, preferred equity, and other financial instruments to acquire crypto assets, often trading at significant premiums to their net asset value (NAV). The theoretical justification is that leverage and a focused mandate can deliver outperformance versus simply holding the underlying asset. The empirical evidence supporting this claim over a full cycle is limited.

The premium to NAV is partially explained by the fact that many institutional mandates permit stock ownership but not direct crypto ownership — treasury companies effectively offer a wrapper. However, this is also precisely why the ETF was such a disrupting force: it provides a cleaner, more cost-efficient, and more liquid alternative wrapper for the same underlying exposure.

As Bitcoin ETFs have matured and direct custody options have improved, the structural rationale for a NAV premium on treasury companies has weakened. Investors should scrutinize these vehicles carefully — the financial engineering can obscure the simplicity (or lack thereof) of the underlying thesis.

TapCap View: We are cautious on treasury companies trading at significant NAV premiums. The access argument was more compelling before spot ETFs existed. Fundamentals-focused investors should compare total cost of ownership versus ETF alternatives before committing to these structures.

Key Themes to Monitor: 2026

As the market continues to mature, the following themes are likely to define the next phase of digital asset development:

- Stablecoin Competition: New entrants from Western Union, banks, and fintech platforms will fragment the market currently dominated by USDT and USDC. Watch for stablecoin wars — on yield, on regulatory compliance, and on distribution reach.

- RWA Scale: The tokenized asset market is expected to exceed $10 trillion within a decade. Near-term catalysts include tokenized government bonds, private credit, and real estate. BlackRock's BUIDL fund is the opening move; expect hundreds of products to follow.
- Layer-2 Maturation: Ethereum's L2 ecosystem is fragmenting, which creates both opportunity and UX complexity. The protocols and wallets that successfully abstract away multi-chain complexity will capture significant user value.
- Crypto-Backed Lending at Scale: As JPMorgan and other banks build out crypto lending infrastructure, expect a rapid formalization of lending standards, collateral haircuts, and credit frameworks specific to digital assets.
- AI-Native Financial Agents: Autonomous on-chain agents will begin managing treasury functions, liquidity positions, and portfolio rebalancing for DAOs and DeFi protocols. This is a 2–3 year horizon but the infrastructure is being built now.
- Regulatory Arbitrage Compression: As the U.S. regulatory framework clarifies, the structural advantage of offshore entities will compress. Capital currently parked in regulatory-friendly jurisdictions may return to domestic platforms.
