WHY ETHEREUM NOW?

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FUND MANAGEMENT

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Bitcoin may be the first and best-known digital asset. But the second-largest digital asset, Ether (commonly called Ethereum), also merits serious consideration by forward-thinking investors. The Ethereum blockchain has grown into the world's most actively used blockchain, with open-source rails that allow for decentralized applications to tap into its smart contract capabilities. As Ethereum (ETH) continues its ascent, here are five tailwinds that we believe indicate the asset has more room to run.

INCREASING ENGAGEMENT WITH THE ETHEREUM NETWORK

Usage of the Ethereum network continues to grow and, as demonstrated by the number of active wallets, some experts claim Ethereum usage is outpacing that of bitcoin.

Ethereum has a remarkably robust developer community, spanning both ETH core developers and developers who build decentralized applications on top of Ethereum. Experts are calling the Ethereum blockchain a sponge for strong developer talent. Ethereum network utilization is at 97.87%, compared to a long-term average of 60.06%.[1] In addition, Ethereum is the most widely used collateral base in decentralized finance (DeFi). Outside of DeFi, other communities are being built on top of Ethereum, including NFTs, stablecoins, and other applications. Therefore, as developer engagement with the Ethereum network increases, we expect the asset to strengthen.

ONGOING ETHEREUM BLOCKCHAIN IMPROVEMENTS

Two upcoming Ethereum upgrades will make the blockchain more scalable, secure, and sustainable: ETH 2.0 and EIP-1559. The two in conjunction are important because of the synergistic benefit achieved when you combine a Proof of Stake model (ETH 2.0) with a deflationary supply asset (Ethereum after EIP-1559).

Ethereum 2.0 is the initiative to increase the scalability of the Ethereum blockchain and switch from Proof of Work to Proof of Stake. This transition provides several benefits:

- Proof of Stake is inherently faster and more efficient than Proof of Work because validators only have to verify transactions/blocks. They no longer have to solve a mathematical "proof of work." In addition, Proof of Stake will make it possible for Ethereum to implement "sharding", which is the process of splitting a blockchain into multiple interconnected blockchains that can all work to independently process transactions. This will allow Ethereum to achieve a level of scale and transaction throughput that is orders of magnitude higher than what is currently possible.
- Proof of Stake requires less energy consumption than Proof of Work, an important consideration as the digital asset industry moves towards climate-focused and "green" initiatives.
- Proof of Stake aligns the operators upholding the network with the network/asset itself. Under a Proof of Stake system, the validator has to hold and stake the chain's native asset. So validators, by definition, hold a substantial amount of Ethereum and have a vested interest in seeing its value rise.

1) Source: ycharts, as of 6/17/2021.

Slated to go live in July, EIP-1559 will significantly change Ethereum's transaction fee model by implementing a "base fee" that is algorithmically determined based on the congestion of the network. This will work to reduce the volatility of gas fees on Ethereum by making them more predictable and stable. In addition, under EIP-1559, the base fee will be burned by the network and removed from the circulating supply, introducing a deflationary supply model for Ethereum. EIP-1559 carries the potential magnitude for impact on ETH's price comparable to a bitcoin halving event.[2]

The combination of Ethereum 2.0 and EIP-1559 will lead to more people using Ethereum, creating a more secure network and enticing the number of people using Ethereum to increase – thus, further fortifying the network. The projected result of this is a deflationary asset increasing in both security and user activity.

ETHEREUM IS A NATURAL NEXT STEP FOR BITCOIN HOLDERS

In the past few years, bitcoin has received outsized attention as a first mover and the largest digital asset. As bitcoin investors' comfort with crypto increases, their research and comfort often progresses to Ethereum. Investors then discover more palpable aspects of the network in terms of how they use the asset and what it means. Bitcoin was the breakout crypto asset; its lane focuses on its store of value properties, signifying bitcoin as digital gold. Ethereum, on the other hand, offers an entirely different use case, often referred to as Web 3.0. While bitcoin focuses on securely validating transactions (A to B), Ethereum is more of a mesh fabric offering greater flexibility as a network and allowing for more interoperability.

Ethereum benefits from the enthusiasm, curiosity, and familiarity that bitcoin has already forged on the investor's trail into cryptocurrency. We see continued interest in the exploration of Ethereum from an institutional perspective, an investment perspective, and a development perspective.

INVESTORS WARMING TO THE POTENTIAL OF DECENTRALIZED FINANCE

Decentralized finance (DeFi) is a global, open alternative to traditional financial services. Substantially all of the DeFi ecosystem is being built on the Ethereum network. Advancements in blockchain technology empower DeFi developers to recreate the architecture of legacy financial systems with a code-based digital infrastructure of DeFi apps. These apps replicate traditional financial functions such as borrowing, lending, and exchanging assets, and they do so in a permissionless manner without relying on traditional financial intermediaries.

For financial professionals considering investing in the crypto sphere, DeFi is a more tactile, palpable adaptation. DeFi developers are using their familiarity with the way finance works now and looking at potentially better methods via more advanced technology. And while there is still a debate around exactly what bitcoin is, people are focusing more on the utility of the Ethereum network.

INCREASED INSTITUTIONAL ADOPTION AND EASE OF ACCESS

Institutional adoption of Ethereum is gaining steam following Bitcoin's playbook in maturing as an institutional asset. Institutions and companies like the European Investment Bank and Visa have validated the Ethereum blockchain by announcing issuance and settlement use cases, respectively. Ethereum is gaining recognition from custodians as well.

In February 2021, CME Group launched Ethereum futures, which have 3K+ in open interest and 1K+ in volume as of mid-June. Additionally, in April 2021, four Ethereum ETFs launched on the Toronto Stock Exchange, making it easy for institutions to gain access as demand for crypto exposure broadens beyond bitcoin.

Ethereum's last bull run was mainly tied to bitcoin's concurrent run. Three years later, Ethereum now stands on its own with clear, real-life use cases. The Ethereum blockchain will continue to mature as the base layer technology for smart contracts and decentralized applications. And Ethereum will stand to benefit as the next iterations of the internet and finance evolves.

2) Source: Arca, May 2021

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