January 2024 Month in Review: U.S. Spot Bitcoin ETFs approved!

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Spot Bitcoin ETFs Likely to Expand the Investor Base

Ten years after the first spot Bitcoin exchange-traded fund application was filed in the U.S., the Securities and Exchange Commission (SEC) finally approved spot Bitcoin ETFs on January 10, 2024.

While the European markets have been offering crypto exchange-traded products (ETPs) since 2019, this is the first time U.S. investors can access the spot price of Bitcoin in a brokerage account via a familiar ETF structure. We believe this approval will help to expand the investor base for bitcoin in the U.S. and encourage regulators in other countries to reconsider their position in digital assets.

The most obvious target market for spot bitcoin ETFs is the U.S. wealth management client assets, which would be approximately $44 trillion in size.1 Many of these investors were not able or willing to set up procedures to hold bitcoin directly.

Increasing Demand for Bitcoin Facing a Cut in New Supply

When Bitcoin was created in 2009 partly as a response to the global financial crisis, continuous money printing and devaluation of fiat currencies, the creators of the bitcoin blockchain wanted to limit the supply of bitcoin to 21 million. This supply limit is hard-coded into the bitcoin cryptocurrency. More than 94% of these bitcoins have already been mined.2 Some bitcoin has been lost forever, but it is difficult to estimate the exact number, as there must be some early investors who have not transacted on their bitcoin for several years.

In roughly the April/May 2024 timeframe, the issuance of new bitcoin, in the form of Bitcoin block rewards awarded to miners, will be cut in half, and miners will receive 3.1 Bitcoin every 10 minutes or so.3 Normally, bitcoin miners need to sell part of their Bitcoin in the market to cover some of their operational expenses, such as energy costs and computing equipment upgrades. As miners will have less Bitcoin to sell in the market, this could mean a lower supply of Bitcoin in the market overall.

Chart 1: Bitcoin “Halving,” Estimated April/May 2024

Event	Date	Block	Block Reward	Mined in Period	% Mined
Launch	January 2009		50.00	10,500,000	
Halving 1	November 2012	210,000	25.00	5,250,000	75%
Halving 2	July 2016	420,000	12.50	2,625,000	87.50%
Halving 3	May 2020	630,000	6.25	1,312,500	93.75%
Halving 4	Estimated April/May 2024	840,000	3.13	656,250	96.88%
Halving 5	Estimated 2028	1,050,000	1.56	328,125	98.44%
Halving 6	Estimated 2032	1,260,000	0.78	164,063	99.22%

Sources: Capital.com, Zenledger.io, as of December 2023.

Historically, this “halving” event has led to an initial increase in the price, and although the price increase multiple has declined over time, this time around, there is an additional factor—a U.S. spot bitcoin ETF available in the U.S. In normal circumstances, when the demand increases while the supply declines or stays the same, the price should move upward.

We see within chart 2:

- The original bitcoin price on the day of each halving is represented by “1.0x.” If the price was originally $1,000 and then you see in the vertical axis it goes to “2.0x,” this would mean it went from $1,000 to $2,000. The entire chart can be read analogously.
- The first halving occurred the earliest in bitcoin’s historical trajectory. In a relative sense, at earlier points in bitcoin’s history, there was greater risk and greater price volatility. The third halving is the most recent. Over time, bitcoin has become known by more and more people, the market capitalization has largely been increasing, and the price volatility has been trending lower rather than higher, even if it is still high relative to other asset classes. This doesn’t mean that this trend will persist—it just relates to chart 2 in the sense that roughly 990 days after the third halving, the price had gone from 1.0x to somewhere between 2.0x and 4.0x. In comparison, 990 days after the first halving, the price had gone from 1.0x to about 16.0x.

Chart 2: Bitcoin’s Price Performance Post Historical Halving Events



Sources: Glassnode, WisdomTree, as of December 2023. Rebased to 1 from halving date. Historical performance is not an indication of future performance, and any investment may go down in value. Bitcoin is highly speculative and involves a high degree of risk, including the potential loss of the entire investment. An investment in bitcoin involves significant risks (including the potential for quick, large losses) and may not be suitable for all investors.

Long-Term Store of Value Emerging as the Most Prominent Use Case for Bitcoin

While the use case of Bitcoin as digital money, a potential digital payment layer for the internet, could materialize in the future, for the moment, our view is that the most accepted use case for Bitcoin is a form of digital gold, a long-term store of value that acts as a hedge against the debasement of currencies and geopolitical uncertainty. We specifically say "long-term" in recognition of the historically high price volatility that bitcoin has exhibited. A longer period could allow for:

- More use cases to emerge, particularly in the payments space.
- More time to analyze global central banks and note if they continue to print money, increasing future inflationary risks.
- No technology is "immediately adopted"—many users will not develop much interest the first or second time they hear about it. Continuing to hear about bitcoin in a more and more diversified array of contexts will naturally inject it into the public's consciousness and give people more comfort that all sorts of things have happened, but it is still there.

1 Source: Euart et al., "US Wealth Management: Amid market turbulence, an industry converges," *McKinsey*, 1/24. Year-end U.S. wealth manager client assets for 2022, includes retail assets with wealth intermediaries. Excludes directly held securities and institutional assets.
2 Bitcoin mining = a way new bitcoins are entering circulation; a process via which bitcoin transactions are verified on the bitcoin blockchain. New bitcoin is issued to bitcoin miners as a reward for validating transactions. Actual "mining" uses software and hardware to solve complex mathematical puzzles and

guess a cryptographic number that matches a set criterion.

3 Source: John Stec, “Why 2024 Will be Bitcoin’s Year,” Coindesk, 1/17/24.

Important Risks Related to this Article

Crypto assets, such as bitcoin and ether, are complex, generally exhibit extreme price volatility and unpredictability, and should be viewed as highly speculative assets. Crypto assets are frequently referred to as crypto “currencies,” but they typically operate without central authority or banks, are not backed by any government or issuing entity (i.e., no right of recourse), have no government or insurance protections, are not legal tender and have limited or no usability as compared to fiat currencies. Federal, state or foreign governments may restrict the use, transfer, exchange and value of crypto assets, and regulation in the U.S. and worldwide is still developing.

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Extreme volatility of trading prices that many digital assets, including bitcoin, have experienced in recent periods and may continue to experience, could have a material adverse effect on the value of the Shares and the Shares could lose all or substantially all of their value. The value of the Shares is dependent on the acceptance of digital assets, such as bitcoin, which represent a new and rapidly evolving industry. Digital assets such as bitcoin were only introduced within the past two decades, and the medium-to-long term value of the Shares is subject to a number of factors relating to the capabilities and development of blockchain technologies and to the fundamental investment characteristics of digital assets. Regulatory changes or actions may affect the value of the Shares or restrict the use of Bitcoin, mining activity or the operation of the Bitcoin Network or the Digital Asset Markets in a manner that adversely affects the value of the Shares. Digital Asset Markets may experience fraud, business failures, security failures or operational problems, which may adversely affect the value of Bitcoin and, consequently, the value of the Shares.

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