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CryptoFOMO: Are digital assets becoming more like a risk-off asset?

From the Field

Key Insights

- Digital currencies, most notably Bitcoin, have had several "near death" experiences over the years but have come back stronger on each occasion.
- Despite their durability, digital currencies continue to exhibit price volatility that is dramatically higher than that of traditional assets.
- If this volatility dampens and digital assets decorrelate from other assets, they may transition to being regarded as a mainstream asset class.

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In 1999, I owned a Dublin-listed stock called Fyffes, a strong brand trading primarily in bananas (subsequently acquired by Japan's Sumitomo). The frenzy then around the limitless potential of the internet was such that Fyffes announced the creation of a virtual fruit market called World of Fruit dot-com. The mere act of announcing this sent the stock up 40% in one day.

In November 2024, a cryptocurrency entrepreneur paid USD 6.2 million for an artwork featuring a real banana duct-taped to a wall. He then proceeded to eat the banana in front of dozens of journalists and influencers after giving a speech hailing the work as "iconic" and drawing parallels between conceptual art and cryptocurrency. The investment connection between these two stories? Both have a whiff of alchemy and transience—that wealth can be created and destroyed from fumes.

Reports of crypto's death have frequently been exaggerated

I was a skeptical, vanilla equity investment manager of many years when I first started paying close attention to cryptocurrencies. As such, I found it noteworthy that, despite several near-death experiences (Bitcoin alone has undergone four 70%+ drawdowns), neither the asset class nor the concept of digital currencies showed any signs of going away.

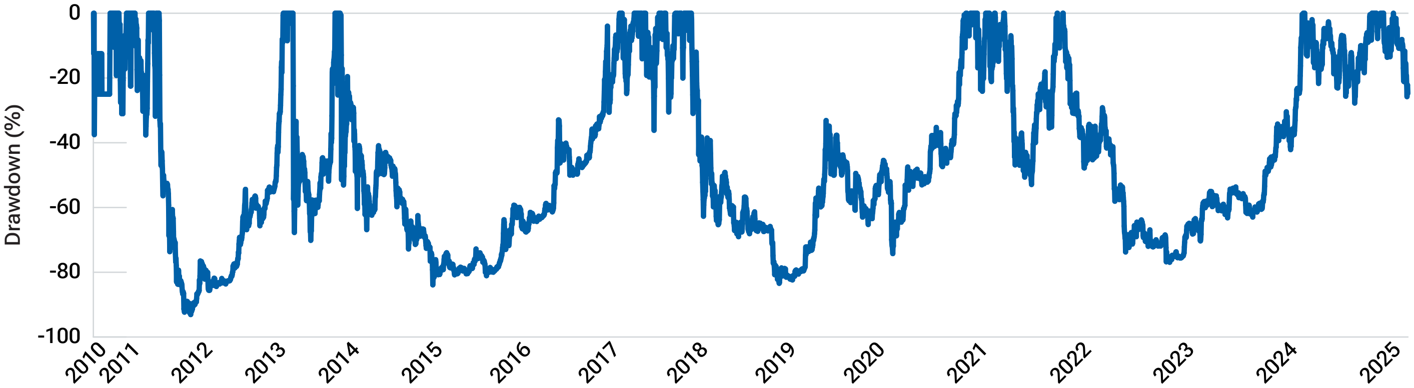
I was intrigued. If this was a nascent asset class that, unlike any other, could not be viewed through the lens of an orthodox investment manager, I needed to un-bias my approach and learn more. As Blue Macellari, our in-house crypto specialist says, "If you don't start out as a crypto skeptic, there's something wrong with you."

My aim is to separate the ephemeral from the permanent, the froth from the substance, Ponzi from probity, the diamond from the rock or, in this case, the fruit from the peel. Given the generational divide on how crypto is perceived, time and demographics are tailwinds on the journey to becoming an established asset class.

The neophyte's instinct in grasping a new concept is to draw comparisons with other asset classes. Crypto's increasing credibility as a store of value has led some to label it "digital gold," and while the

Bitcoin has been regularly hit by drawdowns

(Fig. 1) BTC price drawdowns from prior peak



As of March 13, 2025.

Past performance is not a guarantee or a reliable indicator of future results.

A zero number indicates the day's ending price is a new historical high. A negative number indicates the percentage by which the day's ending price is below the greatest prior peak.

Source: Bloomberg Finance L.P., with analysis by T. Rowe Price.

crypto-elite cringe at the analogy, I find it useful. Neither crypto nor gold are income generating (there are certain exceptions to this in crypto), and therefore, both bear a cost of carry.[1] To the traditionalist, any asset is worth the sum of its future discounted cash flows. Both are finite (in gold's case, there is a physical limit; in the case of crypto, the limit is algorithmic). Therefore, both have scarcity value. Some see this as the genius in Bitcoin.

The number of Bitcoin tokens that can be "mined" halves every four years. This "halving" algorithm means that there will be no new tokens created in 2140. The sum of all Bitcoin tokens in that year will be 21 million, finite and quantifiable. This distinguishes it from fiat money, which is printed by central banks without theoretical limits but has no intrinsic value other than the trust and inflation credibility of the issuing government.

The potential path from "risk-on" to "risk-off"[2]

Logically, Bitcoin should be immune to the effects of persistent government budget deficits, rising debt, and higher inflation eroding the value of sovereign currencies. For Bitcoin miners, the complexity of the puzzle that needs to be solved to create the token increases over time, albeit in a nonlinear way. Requiring vast and increasing computational power, this is a highly energy-intensive exercise. The intrinsic value of each coin could therefore be equated to the marginal cost of energy (with gas prices as a proxy).

Price volatility in crypto remains dramatically higher than that of traditional asset classes, with price swings of 5%–10% in a single day not uncommon. It has at times correlated with high-growth equities, although there is no fundamental reason why this should be the case. This means that crypto sits in the "risk on" bucket—for good reason. A positive evolution from here would be a dampening down of that volatility and decorrelation with other risk assets. A transition from "risk on" to "risk off" would be very much part of the legitimization process: toys transposed into a serious asset class.

As I contemplate the extent of my own ignorance, I am finding this quote from

> "My aim is to separate the ephemeral from the permanent....

software engineer Jameson Lopp helpful: "First step to understanding crypto: admitting you don't understand crypto. Final step: realizing that 'understanding' is a moving target."

To be continued.

With thanks to Matt Howell, Blue Macellari, Stefan Hubrich, and Tom Baxter.

[1] Cost of carry is the cost associated with holding an asset over a period of time.

[2] "Risk-on risk-off" is an investment paradigm in which asset prices reflect changes in investor risk tolerance. Risk-on environments occur when the economic outlook is positive. Negative or uncertain forecasts for the economy tend to bring on a risk-off mentality.

For definitions of financial terms refer to: https://www.troweprice.com/en/us/glossary

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