State Street LIVE – "Insights into Crypto" Panel Summary

Friday, October 28, 2022

- Michael Metcalfe, Global Head of Macro Strategy at State Street
- Nitin Gaur, Managing Director of Digital Asset and Technology Design at State Street
- Introduction by Nadine Chakar, Head of State Street Digital

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—Nitin Gaur, Managing Director of Digital Asset and Technology Design at State Street

Executive Summary

What will cryptocurrency be in the future? And how will the ecosystem that supports decentralized finance continue to evolve? Nadine Chakar provided an overview of how, since its launch in July 2021, State Street Digital has helped move the industry forward through innovations that include:

- Using distributed ledger technology (DLT) to tokenize a mutual fund and ETF;
- Together with Vanguard and Symbiont, completing the first live trade for foreign exchange forward contracts using blockchain technology and smart contracts; and
- As a founding member of Fnality International, building a payment solution that provides a digital cash asset backed by 1:1 central bank deposits—which has been recognized as a U.K. Sterling payment system—the first currency to achieve this.

During the panel portion of the session, Michael delved into lessons learnt from our recent season of crypto cold—many of which might at first seem counterintuitive—including how crypto might be in a better place today than at the beginning of the year as it is now appears to in "safer hands." Though investors recently suffered through a terrible "crypto winter," over its 14-year-young life, crypto has actually demonstrated some resiliency, and recent volatility has only helped make clearer what crypto is and is not. Indeed, a recent survey from Fidelity found that fully 35% of institutional investors believe crypto to be an asset class of its own.

Lessons learned from recent crypto volatility include: being mindful of the asset class's extraordinary sensitivity to negative media coverage; growing recognition that many with interest in crypto are *momentum* investors compared to investors of more traditional assets; how *“volume alone does not solve for volatility”*; how *“being a disruptor does not always guarantee diversification”*; and how scarce supply of crypto does not necessarily mark crypto as a hedge against inflation.

Nitin made a powerful case for crypto as a category onto itself—a unique asset class that is disrupting not only financial services, but *all* industries—as well as creating new industries that have never existed before. *“A lot of metrics we have historically used for asset classes and risk simply do not apply to crypto. . . What the Internet did for exchanging information, blockchain will do for value.”* If Web 3.0 is all about the Internet of Value, digital finance helps to bring that notion of ownership to life, allowing users to monetize personal data from NFTs to health care records.

CONCLUSION: While questions remain about the need to decouple crypto from our traditional financial structure, Central Bank acceptance of digital assets, and whether the digital finance world needs to coalesce behind one form of crypto in order for the asset class to thrive, crypto is here to stay. Despite recent volatility, significant drawdowns, and investor concerns, the promise digital finance holds to do things better, faster, cheaper—and its expansive philanthropic applications and potential to better democratize the investing process—very much remains.