Twinstake

Thought Leadership

The Institutionalisation of Crypto

Why This Market Cycle Looks Different

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Why This Market Cycle Looks Different

Executive Summary

At the time of writing, crypto markets are once again exhibiting declining prices and cautious sentiment. To many this may appear indistinguishable from previous downturns; another unwinding following speculative periods of excessively hyped narrative. Yet this interpretation conflates short-term price weakness with long-term structural regression. The current drawdown is occurring against a markedly different backdrop to the pull backs observed in 2022 and 2024. The current turbulence is being defined less by retail leverage and narrative momentum, and more by regulatory transition, institutional positioning, and slow-moving capital rotation. The global political and macro-economics are similarly diverting funds from perceived high risk assets such as crypto into ‘safe’ assets such as gold and silver.

Unlike the formative years of crypto where narrative and hype dominated sentiment, institutional capital does not respond to superficial factors; it responds to long term theses and changes in market structure. Its deployment is governed by regulatory clarity, internal governance, and risk approval cycles that unfold over quarters and years rather than weeks. The present market environment therefore reflects consolidation rather than capitulation, a transitional phase in which crypto is being reshaped to meet the requirements of regulated financial systems. The industry’s evolution away from its early premises, even at the cost of near-term price pressure, represents a necessary and constructive step in its maturation.

To understand why this transition matters, it is necessary to return to crypto’s origins.

Evolution of Crypto’s Adoption

Satoshi Nakamoto’s vision for a decentralised monetary system introduced more than an alternative form of money. Bitcoin proposed a new paradigm: a trustless, permissionless mechanism for transferring value, secured by cryptography rather than institutions. In doing so, it laid the foundations for blockchain technology as both a decentralised compute layer and a distributed ledger capable of tracking and transferring value without central oversight.

Since those early days, crypto has evolved into a complex and expansive ecosystem, one that now attracts the world’s largest and most conservative financial institutions. BlackRock, Morgan Stanley, Goldman Sachs, and

JPMorgan are no longer observers; they are active participants. Yet the path from 2009 to institutional legitimacy has been anything but linear. The industry's first fifteen years were characterised by ideological experimentation, rapid technical innovation, and speculative investment, fraught with repeated failures to achieve genuine product–market fit.

The turbulence of recent years is better understood as part of an evolutionary process rather than an aberration. Earlier cycles were driven by retail speculation, isolated shocks, and insider dynamics, resulting in sharp volatility but little in the way of durable foundations.

A common example is the long-held belief that Bitcoin follows a four-year cycle tied to its halving events, when the rate of new supply is mechanically reduced. While this framing has been useful historically, it reflects the behaviour of an immature market. In established financial markets, events with fixed timing and known mechanics are largely 'priced in' well in advance. Derivatives markets, options pricing, and broadly efficient market structures tend to absorb predictable supply changes over time, limiting the scope for discrete step-changes in valuation driven by widely anticipated events.

By contrast, today's market transition increasingly reflects institutional capital flows, regulatory alignment, and structural liquidity shifts. This is a decisive break from crypto's formative era and the emergence of a more credible financial asset class.

An Industry Built on Ideals, Not Institutions

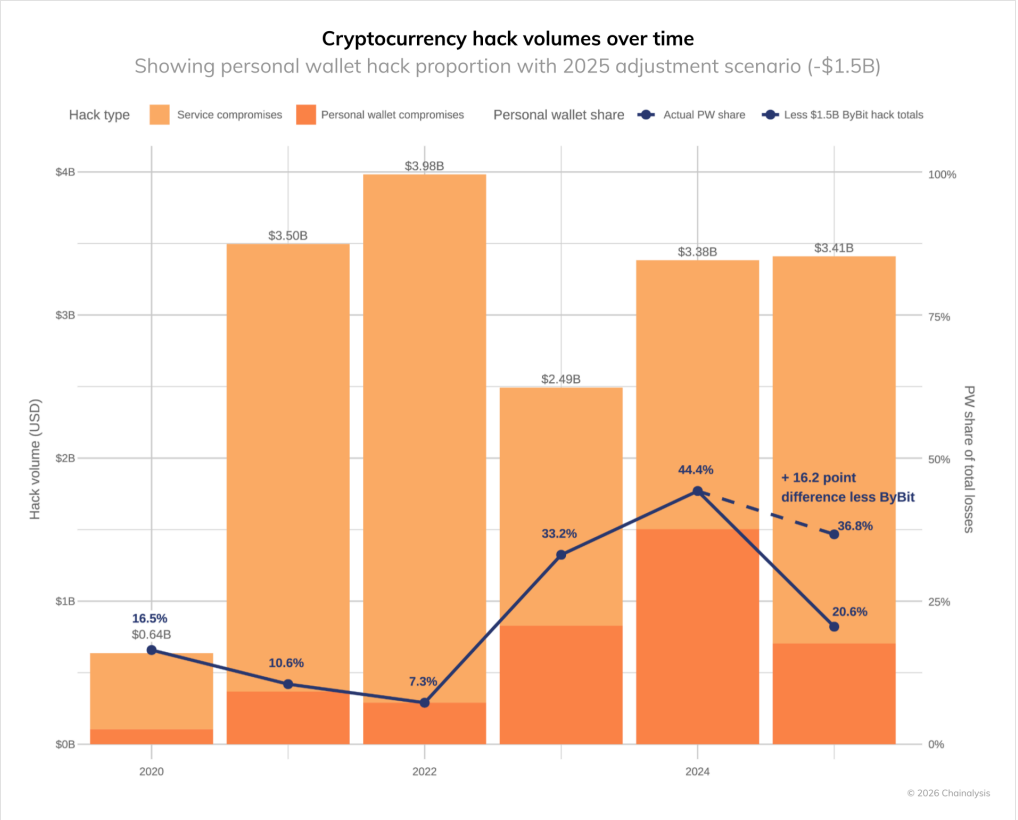
In its formative years, crypto was shaped primarily by early adopters motivated by ideology rather than utility. Bitcoin appealed to libertarians, technologists, and investors disillusioned with government control over monetary systems. Decentralisation, lack of regulation, censorship resistance, and permissionless access were not features, they were the product itself. For many, Bitcoin represented a hedge against institutional finance rather than a complement to it.

These characteristics, while foundational to crypto's early growth, also made the asset class fundamentally incompatible with institutional capital. Permissionless systems with opaque governance, weak compliance guarantees, and limited recourse mechanisms are ill-suited to pension funds, banks, and regulated asset managers. Worse still, the same features that attracted idealists made crypto an attractive conduit for illicit financial activity, including use by sanctioned states and terrorist organisations to launder funds

and evade international sanctions. Sanctioned states and terrorist organisations such as North Korea [1], Russia [2], Iran [3], Houthi's[4] and Hamas [5] have utilized crypto at scale for these purposes.

Compound these concerns with an industry fraught with a series of high-profile security breaches, including the recent Bybit hack resulting in losses of approximately $1.5 billion [6], and it becomes clear why the world's largest financial institutions have remained slow-moving, deliberate, and highly selective in their approach to crypto adoption.

Crypto Hacks over the past 5 years have shown consistency and little sign of slowing down [7]



Technology in Search of a Use Case

Despite these challenges, the underlying promise of distributed ledger technology (DLT) became increasingly difficult to ignore. The idea that value, ownership, and state could be natively represented and transferred on a shared ledger captured the imagination of technologists and venture capitalists alike.

Bitcoin, however, was not designed for programmability. Its intentionally limited scripting language made it difficult to build automated workflows or complex applications. Attention soon turned to alternatives that preserved

decentralisation while enabling richer functionality. Ethereum, launched in 2015, embodied this shift. Its introduction of a Turing-complete virtual machine (EVM- Ethereum Virtual Machine) reframed blockchains not merely as monetary rails, but as application platforms. While institutional allocators ultimately require robust monetary infrastructure, they equally depend on an application layer capable of supporting the complex systems, workflows, and controls demanded by modern financial institutions.

What followed was a prolonged period of experimentation. Venture capital poured into new Layer 1s, Layer 2s, and middleware projects, each promising to unlock a "killer use case" for blockchain technology. Each project or venture presented its own nuance. Teams built world-class infrastructure: high-throughput chains, novel consensus mechanisms, sophisticated cryptography, and increasingly modular architectures.

Yet even among the most well-capitalised and technically sophisticated segments of the ecosystem, adoption often lagged ambition. Restaking protocols such as EigenLayer introduced an elegant mechanism to reuse Ethereum's economic security, but early demand was driven primarily by yield incentives rather than by a clear, externally derived need for new security services.

Similarly, zero-knowledge platforms including zkSync, StarkNet, and Aztec delivered genuine cryptographic breakthroughs, yet their adoption remained concentrated in infrastructure and specialist applications, as broadly applicable and economically compelling use cases had yet to emerge. (Privacy is actually a theme to watch out for in 2026 with several exciting projects seeming to find genuine adoption)

A comparable pattern appeared across middleware layers. Cross-chain messaging protocols such as LayerZero and oracle networks like Chainlink expanded what could be built on-chain, but often did so in advance of clear demand, resulting in sophisticated tooling searching for problems to solve. In each case, the limiting factor was not technical capability, but the absence of a well-defined and widely demanded use case. As these use cases mature and regulatory frameworks evolve in parallel, many of these technologies may yet find durable and valuable roles within the ecosystem.

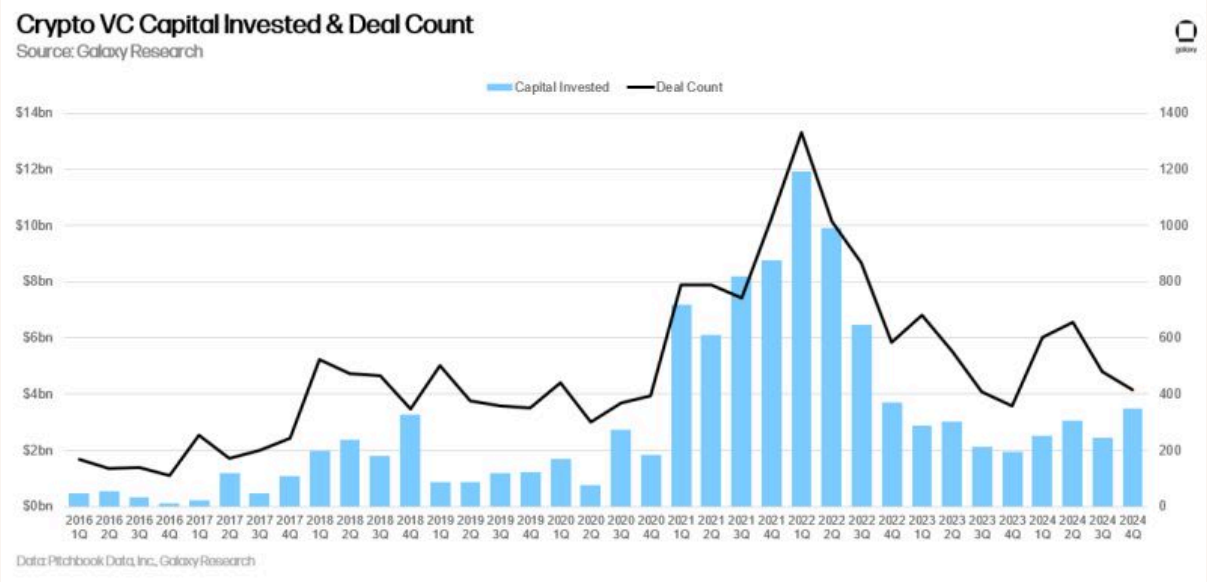
Yet for all the technical progress, meaningful adoption remains elusive.

Overcapitalised, Underregulated, and Misunderstood

By the early 2020s, crypto had become a textbook case of overinvestment without product–market fit. Venture capital investment into blockchain-related

themes surged throughout the late 2010s and peaked in 2022 before collapsing sharply, a level from which it has yet to recover. Venture investors were drawn by genuine technological innovation and the perceived potential for widespread adoption. However, many projects ultimately failed to translate technical sophistication into sustained economic utility, most often due to the absence of clear and defensible use cases.

Crypto VC investment peaked in 2022 and hasn't recovered [8].



As returns from early-stage investments deteriorated, a structural shift emerged within crypto venture capital itself. Many funds increasingly resembled liquid token holders rather than long-term company builders, managing large inventories of locked or illiquid tokens while awaiting unlock schedules. In response, some venture-backed projects and funds contributed these assets into Digital Asset Treasuries (DATs), effectively converting token exposure into public equity vehicles that transferred risk to retail investors while providing a partial exit path for early stakeholders.

Retail participation during this period surged, driven more by narrative momentum than underlying fundamentals. Altcoin markets experienced extreme and often unpredictable volatility, with rapid price appreciation frequently followed by sharp collapses. Complexity, asymmetric information, and opaque token economics created fertile conditions for insider enrichment at the expense of less sophisticated participant

Between 2021 and 2024, the total altcoin market capitalisation swung dramatically, driven by new chain launches, speculative hype cycles, token unlock events, hacks, and periodic market manipulation *[9]*.

At the same time, repeated security breaches, protocol failures, and high-profile collapses eroded consumer confidence. The industry's resistance to regulation, often framed as ideological purity, left users exposed and institutions sidelined. For policymakers and traditional finance, crypto increasingly appeared less like a transformative technology and more like a systemic risk.

The collapse of FTX in 2022 [10] marked one of the most significant structural shocks in crypto's history. A trusted, systemically important market participant was found to have misappropriated client assets, resulting in an approximately $8 billion shortfall. Unlike earlier failures, this collapse occurred at the core of market infrastructure relied upon by both retail participants and institutional counterparties.

While prior frauds such as the OneCoin scandal in 2017 [11] were largely viewed as isolated schemes, the FTX failure exposed institutional-scale governance breakdowns and the absence of basic investor protections. It crystallised the need for regulatory oversight and meaningful safeguards, particularly for retail participants.

These events precipitated a prolonged downturn. Venture capital inflows declined sharply (see here), further compounded by the rapid rise of artificial intelligence as a competing investment theme offering clearer commercial pathways and fewer perceived regulatory uncertainties (AI has only recently attracted the attention of global regulation surrounding privacy and ESG considerations). By comparison, blockchain technology remained early in its development, burdened by scandals and struggling to articulate widely adopted, everyday use cases. By 2022–2023, institutional engagement with crypto was cautious and limited, and market sentiment remained decisively bearish.

The 2024 Inflection Point

The period spanning 2024 and 2025 marks a structural break from this earlier phase. The shift was not driven by technology alone, but by politics, regulation, and institutional endorsement.

The re-emergence of explicitly pro-crypto rhetoric from the Trump administration and, more importantly, the introduction of concrete regulatory frameworks, fundamentally altered the risk calculus for large institutions. For the first time, crypto began transitioning from an adversarial asset class to one that could be integrated into the regulated financial system.

To early adopters, this shift has felt like a betrayal of Satoshi's ideals. Greater regulatory oversight, institutional custody, and compliance requirements appear antithetical to the permissionless ethos that defined crypto's origins. But this tension reflects a necessary evolution rather than a failure of vision.

If crypto is to survive, let alone achieve mass adoption, it must interface and entrench itself with the institutions that underpin global finance.

Regulation as a Catalyst, Not a Constraint

Historically, crypto suffered from the worst of both worlds: excessive capital chasing speculative narratives, combined with insufficient regulatory clarity to protect users or attract long-term institutional commitment. The post-2024 environment has begun to reverse this dynamic.

Regulation provides the scaffolding required for trust. It enables risk committees to sign off, compliance teams to engage, and boards to allocate

capital with confidence. Institutional control is not the enemy of adoption; it is its prerequisite.

This transition has been supported by the gradual development of regulatory frameworks across key jurisdictions, beginning to address the uncertainty that long constrained institutional participation. In the United States, proposals such as the GENIUS Act [11] and the Clarity for Payment Stablecoins Act set out initial standards around reserve backing, asset segregation, and issuer oversight, signalling a move toward treating on-chain money within existing financial norms. In Europe, MiCA [12] has established a foundational regime for crypto issuance and service provision, while the UK FCA [13] has advanced a phased approach focused on custody and market conduct. Jurisdictions such as VARA and ADGM have complemented these efforts with comprehensive licensing frameworks. Collectively, these initiatives do not yet constitute a mature regulatory environment, but they mark the beginning of a shift toward a structure institutions can increasingly assess, govern, and engage with over time.

This is evident in the nature of today's institutional engagement. BlackRock's endorsement of crypto ETFs is not a speculative bet, it is a validation of the underlying technology as a durable component of modern capital markets. Crypto ETFs have shown significant inflows since their inception, with Blackrock's Bitcoin ETF setting the record as the best ever ETF debutant ever, according to Bloomberg analysts [14]. JPMorgan's commitment to developing its own stablecoin [15] signals that programmable money is no longer a fringe concept, but a strategic priority for global banks.

Crypto ETFs have gained significant traction since their inception [16]

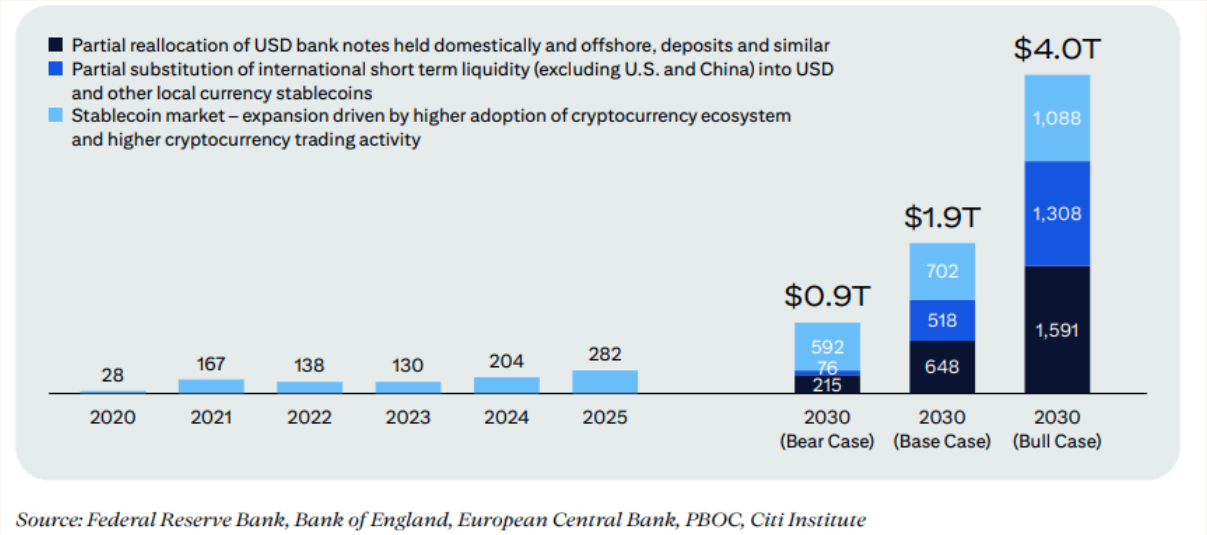
Ticker	Fund Name	Price	Volume	AUM
IBIT BTC	iShares Bitcoin Trust	$50.51	$2.23B	$69.6B
FBTC BTC	Fidelity Wise Origin Bitcoin Fund	$77.55	$320.47M	$17.68B
GBTC BTC	Grayscale Bitcoin Trust ETF	$69.46	$346.89M	$14.33B
ETHA ETH	iShares Ethereum Trust ETF	$22.74	$618.74M	$10.27B
BTC BTC	Grayscale Bitcoin Mini Trust ETF	$39.4	$71.52M	$4.34B
ETHE ETH	Grayscale Ethereum Staking ETF Shares	$24.59	$139.19M	$3.46B

These developments matter not because of their symbolic value, but because of what they unlock - institutional grade access vehicles to the crypto asset class.

Regulation is the Precursor to Product Market Fit

Only within a regulated, institutionally supported framework can crypto finally achieve product–market fit. Stablecoins, long discussed, often misused and rarely trusted, are now gaining genuine traction as settlement assets, liquidity primitives, and on-chain representations of fiat money. Their growth is not ideological; it is utilitarian.

Stablecoins have grown rapidly since 2022, doubling their market cap, with institutions such as Citi Bank predicting massive growth over the next 4 years [17].



Source: Federal Reserve Bank, Bank of England, European Central Bank, PBOC, Citi Institute

Similarly, crypto ETFs have seen record-breaking inflows precisely because they translate a novel asset class into a familiar, compliant wrapper. They allow exposure without operational risk, custody concerns, or regulatory ambiguity.

Perhaps most telling is the response from traditional banks. Institutions renowned for their conservatism and inertia can no longer ignore digital assets. Every major bank now maintains a dedicated digital asset division including Blackrock, Morgan Stanley, BNY, Citi Bank, Barclays, Goldman, JP Morgan. These players' entry to the market acts as a recognition that blockchain-based infrastructure will become an essential contributor to future financial systems.

The Current Market Downturn is Different

Despite persistent scepticism and the perceived departure from crypto's original raison d'être, the industry's current trajectory is a testament to how far it has matured. Reduced volatility, clearer regulatory frameworks, and the gradual integration of institutional capital signal not a dilution of crypto's potential, but its transition from ideological experiment to durable financial infrastructure.

Regulation has proven to be the catalyst for this evolution, not an impediment to it. It is the prerequisite for trust, scale, and ultimately for identifying genuine, sustainable use cases. Historical precedent across financial innovation is unambiguous: without long-term institutional capital, product–market fit remains elusive, regardless of the sophistication of the underlying technology. In its absence, retail participants are repeatedly exposed to excess risk, while information asymmetries continue to reward insiders at the expense of less informed market participants.

The emergence of long-duration ETF capital, the opening of crypto access through regulated banking and wealth platforms, and the construction of compliant market infrastructure mark the foundation of crypto's next growth phase. These developments shift crypto from speculative periphery to institutional core, embedding it within the systems that govern global capital flows.

Crypto is unlikely to replace the financial establishment. But once risk committees can confidently approve its safety, custody, and compliance, it no longer needs to. Instead, it becomes a foundational asset class and an enabling technology, one through which traditional finance can evolve, efficiency can be unlocked, and access to financial infrastructure can be meaningfully expanded.

About Twinstake

Twinstake is an institutional-grade, non-custodial staking provider, designed and built in collaboration with leaders in both traditional finance and the digital assets space. We support a range of institutions including the largest crypto ETFs, VCs, asset managers and exchanges, helping them design and implement their staking strategies.

Get in touch with our team to hear more about how Twinstake can support your institutional staking.

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