

Beyond Bitcoin: Why Ethereum is Gaining Institutional Ground

Introduction: Why Asset Managers Care

At Smith Affiliated Capital, our focus has always been on managing high-quality fixed income portfolios, complemented by allocations to precious metals and select equities. Digital assets are not a direct part of our investment mandate, but the market forces shaping them increasingly intersect with the tools and markets we use every day. The GENIUS Act, passed in July 2025, was a clear example: legislation aimed at regulating stablecoins now has significant implications for Treasury demand, liquidity, and curve dynamics.

Ethereum—the blockchain behind much of the stablecoin ecosystem—represents another dimension of this same trend. While we do not recommend Ethereum or any cryptocurrency as a core investment for our clients, understanding its growing role helps us anticipate changes in demand for short-term Treasuries, the evolution of tokenized securities, and even the way income streams may be generated in a digital-first economy. For our clients, education on these developments is not about speculation; it's about contextualizing structural change that will ripple into the markets where we invest.

From Bitcoin to Ethereum: A Shift in Narrative

Bitcoin remains the most recognized digital asset, widely viewed as “digital gold” with its finite supply and appeal as a store of value. But unlike Bitcoin, Ethereum is not designed simply as a currency substitute. Instead, it serves as a **blockchain platform** for decentralized applications, smart contracts, and financial infrastructure. Its native cryptocurrency, **Ether (ETH)**, is the token used to pay for transactions and secure the network, but the two are not the same. Ethereum refers to the broader **network and ecosystem**, while Ether is the **tradable asset** within it. In that sense, Ethereum's value proposition is more utilitarian—supporting a range of innovations including decentralized finance (DeFi), tokenized assets, and non-fungible tokens (NFTs).

This difference matters for institutional investors. Where Bitcoin's fortunes rise and fall on adoption as a currency or inflation hedge, Ethereum's trajectory is tied to its network effects—its ability to attract developers, users, and capital into applications that rely on its blockchain. That is a very different type of growth driver, and one that is beginning to draw serious attention from global financial institutions.

A Critical Inflection: Ethereum's Transition to Proof-of-Stake

Ethereum's role as a credible market infrastructure was reinforced by its 2022 transition from proof-of-work (PoW) to proof-of-stake (PoS). This move significantly reduced the network's energy consumption—by some estimates more than 99%—and aligned Ethereum with global priorities around sustainability. More importantly, the PoS system introduced a mechanism where participants can earn rewards by validating transactions, creating a built-in yield profile.

For investors accustomed to the concept of interest-bearing instruments, this transition was pivotal. It positioned Ethereum not only as a technology platform but also as a yield-generating asset class—something institutions understand and can model into familiar frameworks.

Institutional Recognition of Ethereum

Ethereum has crossed a threshold from being viewed as a speculative “altcoin” to being treated as critical market infrastructure. The list of institutions now highlighting Ethereum’s importance is broad and growing:

- *JPMorgan*: Positions Ether as the most direct way to gain exposure to stablecoin growth, given that most are issued on its network.
- *BlackRock*: Frames Ethereum as central to tokenization, stablecoin adoption, and decentralized financing.
- *Fidelity*: Emphasizes Ethereum’s role as the backbone of technological innovation due to its dominant network effects.
- *Fundstrat*: Calls Ether “arguably the biggest macro trade for the next 10–15 years” as tokenization converges with AI and blockchain.

This is not fringe advocacy—it is the language of mainstream finance aligning with the adoption curve.

Stablecoins, Treasuries, and Ethereum’s Role

The GENIUS Act mandated that dollar-pegged stablecoins be backed by high-quality liquid assets such as Treasury bills and overnight reverse repos. Since most stablecoins are built on Ethereum, the network indirectly acts as the ledger for assets that now represent a permanent demand source for short-term U.S. government debt.

Stablecoin transfer volumes reached \$27.6 trillion in 2024, surpassing Visa and Mastercard combined. With institutional products like BlackRock’s BUIDL fund and Franklin Templeton’s BENJI money market token now issued on Ethereum, the connection between digital tokens and traditional Treasury markets is only deepening. For fixed income managers, this creates both risks—compressed yields at the short end of the curve—and opportunities, particularly for those who actively manage across maturities and sectors.

Ethereum ETFs and Treasury-Like Flows

Another parallel to fixed income markets is the emergence of Ethereum exchange-traded funds (ETFs). Net inflows into Ethereum ETFs have topped \$12.7 billion, with assets under management surpassing \$29 billion. These flows, much like demand for Treasury ETFs or bond mutual funds, represent sticky institutional capital that now treats Ethereum as investable infrastructure.

The prospect of staking within ETFs—a process where Ether is pledged to validate transactions in exchange for yield—introduces a bond-like dimension. Current Ethereum staking yields hover near 2%, conceptually similar to short-term rates but tied to network activity rather than central bank policy. While we do not view staking as a substitute for traditional fixed income, the mechanics echo familiar market principles of income, liquidity, and risk-adjusted return.

Risks and Competitive Pressures

Balanced analysis requires acknowledging risks. Ethereum’s dominance is not unchallenged. Competing blockchains such as Solana and Avalanche offer faster transaction speeds and lower fees. While they have yet to replicate Ethereum’s scale or network effects, their rise serves as a reminder that technology shifts quickly, and incumbency is not guaranteed.

Moreover, Ethereum’s complexity—both technically and operationally—creates ongoing risks around scalability, security, and regulation. Just as in fixed income markets, where liquidity mismatches or credit shocks can disrupt pricing, blockchain networks must constantly evolve to handle rising transaction volumes while maintaining security and decentralization.

For investors, the implication is clear: Ethereum’s trajectory is promising, but not without uncertainty.

The Broader Landscape: Regulation and Confidence

The regulatory landscape has also shifted in Ethereum's favor. The SEC's approval of spot Ether ETFs in 2024 marked a turning point. More recently, the Federal Reserve ended its "Novel Activities Supervision Program," signaling greater confidence that traditional oversight can now encompass crypto-related activity.

These developments reduce uncertainty for institutions considering exposure, further embedding Ethereum into the financial system. For investors like our clients, this underscores why it is essential to monitor—not ignore—digital assets: the boundary between "crypto" and "capital markets" is becoming increasingly porous.

What This Means for Clients

For Smith Affiliated Capital, the growing relevance of Ethereum is not a call to add crypto allocations to portfolios. Instead, it is about recognizing structural linkages that affect the markets where we do invest:

Treasury Market Dynamics – Ethereum-hosted stablecoins will remain a major buyer of T-bills, influencing yields and liquidity at the short end of the curve.

Institutional Innovation – Tokenized money market funds and digital securities may reshape how liquidity and collateral are managed, creating second-order effects for traditional credit markets.

Income Parallels – Ethereum's staking mechanism offers a new form of yield, not unlike bond coupons, which may influence investor preferences across asset classes.

Macro Significance – As leading asset managers, banks, and regulators embrace Ethereum, its growth trajectory becomes part of the broader financial story we must account for in our analysis.

Conclusion

Ethereum's rise is not a speculative footnote—it is a structural development with real implications for fixed income markets, liquidity, and the way institutional capital allocates in the years ahead. Just as the GENIUS Act reshaped Treasury demand through stablecoins, Ethereum is emerging as the infrastructure layer powering that transformation.

For our clients, the takeaway is simple: we remain focused on fixed income and capital preservation, but we monitor digital asset innovation because it directly informs the environment in which we operate. By understanding Ethereum's growing role, we stay ahead of shifts that could alter yield curves, liquidity, and risk dynamics in the markets most central to your portfolios.

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