SMITH AFFILIATED CAPITAL

RESEARCH COMMENTARY

June 17, 2026

GENIUS Act, One Year Later: *Stablecoins and The Treasury Market*

An Update on the Genius and Clarity Acts

One year ago, we examined how the GENIUS Act could affect the short end of the U.S. Treasury market. Our central observation was that requiring dollar-backed stablecoin issuers to hold highly liquid reserves could create a new source of demand for Treasury bills.

That thesis is beginning to develop, although more gradually than initially anticipated.

Signed into law on July 18, 2025, the GENIUS Act established the first comprehensive federal framework for payment stablecoins. Permitted issuers must maintain reserves at least equal to their outstanding stablecoins. Eligible assets generally include cash, insured deposits, Treasury securities with remaining maturities of 93 days or less, Treasury-backed repurchase agreements and government money market funds holding comparable assets.

The Act therefore introduced a potentially important new class of Treasury buyers. Unlike traditional investors, stablecoin issuers purchase reserve assets primarily because of issuance growth, liquidity requirements and regulatory compliance—not because of a particular interest-rate outlook.

The Treasury-Demand Thesis Is Taking Shape

The global stablecoin market has grown from approximately $250 billion when the Act was passed to more than $300 billion. USDC alone had approximately $73 billion outstanding in early July 2026. As circulation grows, issuers must acquire additional reserve assets, much of which ultimately flows into Treasury bills, Treasury-backed repo and government money market funds.

The Treasury Borrowing Advisory Committee recently reported that Treasury bills represented approximately 53% of the assets held by Tether and Circle. Their combined bill holdings had increased by roughly $70 billion since 2022.

This is meaningful demand, particularly because it is concentrated in maturities of three months or less. It supports our original view that stablecoin issuers are becoming more permanent participants at the front end of the Treasury curve.

The effect should not be overstated, however. Stablecoin issuers still hold less than 1% of total Treasury securities outstanding. Their demand is growing, but it is not yet large enough to overpower Federal Reserve policy, Treasury issuance, money market fund flows or broader liquidity conditions.

For now, stablecoin demand is best viewed as a structural and incremental influence on the front end—not a new primary determinant of short-term rates.

Regulation Remains a Work in Progress

Implementation has taken longer than the initial enthusiasm surrounding the Act suggested. Federal agencies have proposed rules addressing reserves, capital, liquidity, redemption, custody, licensing, customer identification and anti-money-laundering requirements. However, much of the framework remains in proposed rather than final form.

The Act generally becomes effective on the earlier of January 18, 2027, or 120 days after federal regulators issue final implementing rules. The next six months will therefore be important in determining how quickly the industry can expand under a fully operational federal framework.

Where the CLARITY Act Fits

The CLARITY Act is the next major component of the digital-asset framework. While the GENIUS Act regulates payment stablecoins and the assets supporting them, CLARITY is intended to define the broader market structure in which digital assets are issued, traded and held.

Among other provisions, it seeks to clarify when a digital asset falls under SEC or CFTC jurisdiction and to establish requirements for exchanges, brokers, dealers and custodians. The House passed the legislation in July 2025, and the Senate Banking Committee advanced an amended version in May 2026. It is now awaiting consideration by the full Senate and is not yet law.

CLARITY does not directly require additional Treasury purchases. Its effect would be indirect but potentially significant. A clearer regulatory framework could encourage banks, asset managers, payment companies and other institutions to participate more broadly in digital-asset markets. Because stablecoins serve as a principal source of liquidity and settlement in those markets, greater institutional adoption could increase stablecoin circulation—and therefore the demand for eligible Treasury reserves.

Together, the two bills address different parts of the same financial architecture: GENIUS regulates the digital dollar and its reserves, while CLARITY regulates much of the market in which that digital dollar may circulate.

Implications for Fixed Income Investors

For fixed income investors, the important development is not cryptocurrency itself. It is the emergence of a regulated reserve-management ecosystem that increasingly overlaps with traditional cash management.

Persistent demand for securities maturing within 93 days could modestly compress yields in that portion of the curve and create relative-value opportunities in nearby Treasury notes, agency securities, floating-rate instruments and high-quality corporate obligations. Stablecoin growth can support Treasury demand, but redemptions could also reverse those flows during periods of market stress.

One year after the GENIUS Act, stablecoins remain a relatively small part of the overall Treasury market. Nevertheless, the direction is clear: as regulated digital-dollar activity expands, stablecoin reserves are likely to become a larger and more consistent source of demand for Treasury bills.

For active fixed income managers, the opportunity will be to identify where this compliance-driven demand changes relative value—and where investors can earn better compensation outside the most heavily purchased portion of the curve.