Web3:
Sentiment is Low, but the Stage is Set

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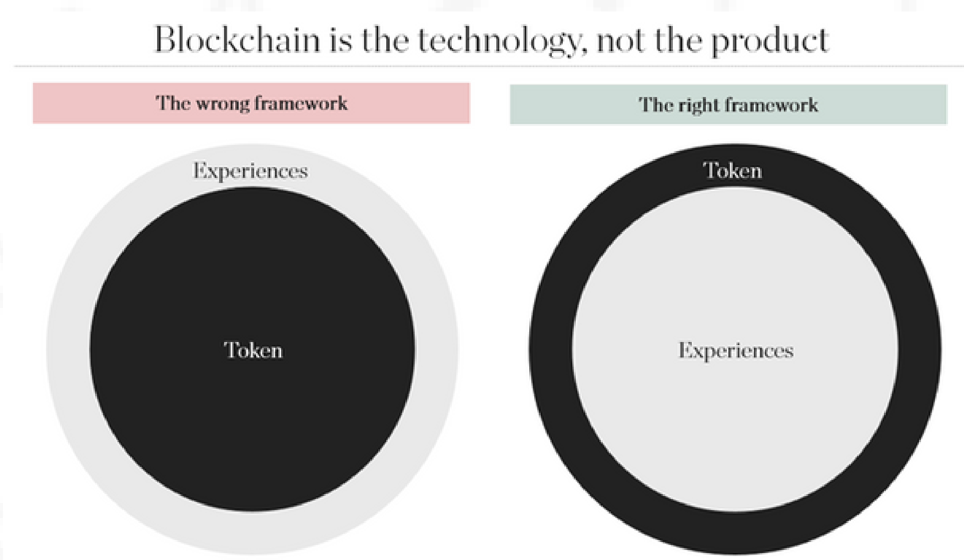
It's important to separate crypto asset prices from the broader blockchain and Web3 ecosystem development. Asset values in crypto have been highly cyclical throughout its short history. While we've seen 70%+ declines over the past 12 months across the largest assets, let's not forget that crypto has experienced three separate 80%+ drawdowns within a 12-month period previously, most recently in 2018. And the biggest news in crypto this year: the collapse of FTX collapse in November broke the back of trust in the ecosystem, and the aftershock will take months to play out. Being "trustless" works both ways.

Without tried-and-true methods for precise asset valuation, the market tends to move based on narratives. Our January 2022 prediction of Bitcoin's year-end price of $20,000 was contrarian (and conservative), and while we won't publish next year's estimate, we will instead point to the fact that ~215 tokens are still trading at a value greater than $100 million (and as high as $430 million in May).

So yes, the volatility in the ecosystem is substantial--but so is the underlying adoption. Which brings us to the more interesting topic of ecosystem development. If you take a step back, we are at an exciting inflection point. NFTs have shown us that we can now digitally represent ownership of unique assets across gaming, identity, and physical items. DeFi has been resilient in enabling sophisticated financial transactions like borrowing and lending frictionlessly with no intermediaries. Amidst all of the volatility, block after block continues to be added to the blockchain. Sentiment may be unsteady, but the rails have been built and the stage is set.

For Web3 to be used in everyday settings, companies should think about blockchain and tokenization as an enabling technology as opposed to the product itself. Blockchain is at its best when it is abstracted from the user and powers experiences behind the scenes. Ultimately, the core consumer experience needs to be engaging, as opposed to financial speculation of the underlying tokens. Tokens – both fungible and NFTs –are simply the software primitive to express value and ownership



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Scaled industry leaders should and will embrace Web3 to bring every day uses cases to their customers. We have seen early signs from companies like Nike and Starbucks, but the opportunity for Web3 is broad. The ultimate Web3 on-boarders will in many cases be incumbents across the telecommunications, transportation and logistics, medical, and legal industries, to name a few.

Bringing Real World Assets (RWAs) on chain is a new opportunity for Web3 coming into focus. We have proven that DeFi works – $40 billion of value is currently locked in these protocols after all – but the ecosystem is currently circular. Yield in DeFi is generated by earning new speculative tokens, which in turn flow back into the ecosystem. What is missing are fundamentally cash-flow-producing assets from the real world – like real estate or investment funds – that can be brought on-chain, providing them liquidity and a platform to leverage DeFi protocols. Imagine tokenizing a home rental property and being able to sell a portion of it, or even borrow against it, immediately with no intermediary. That is the potential of RWAs on-chain.

As we look to next year, a regulatory framework that addresses bad actors will be enacted. One that we hope includes the right level of oversight while providing a fertile environment for companies to operate. Given the capital environment and state of the crypto market, we will surely see consolidation at play across the industry as certain companies struggle to find supportive capital. At the same time, we are seeing more and more high-quality founders and startups than ever before rethinking, retooling, and optimizing for the future of Web3.

The arc of time is bending in the direction of digital assets. The ongoing trend towards digital environments and goods, combined with the momentum of company building in the space to address to most pressing issues around usability, are both positive tailwinds. 2023 will be a year for Web3 and blockchain to deliver on their promise.