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Forecasting Institutional Flows to Bitcoin in 2025/2026

Exploring the Game Theory of Hyperbitcoinization

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This report includes estimates of potential Bitcoin (BTC) inflows by financial institutions and nation-states, calculated based on a fixed Bitcoin price of \$100,000 for illustrative purposes. Readers should note that inflows of the magnitude projected (several million BTC) would likely result in significant upward pressure on Bitcoin prices, potentially exceeding the assumed \$100,000 price. UTXO Management does not provide price predictions in this report. Actual market dynamics may differ materially from our assumptions, with the result that, even if the dollar value of inflows matches our projections, actual Bitcoin inflows could be significantly lower than our calculations indicate.

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I

Introduction and Key Takeaways

Key Takeaways

Potential Institutional Bitcoin Adoption by End of 2026

Category	Current Key Players	Estimated Inflows (USD)	Estimated BTC Allocation (% of Supply) ¹
Nation-States	United States, El Salvador, Bhutan	\$161.7 Billion	1,617,000 (7.70%)
Wealth Management Platforms	Morgan Stanley, Goldman Sachs	\$120.0 Billion	1,200,00 (5.71%)
Public Companies	Strategy, Metaplanet	\$117.8 Billion	1,178,000 (5.61%)
U.S. States	Texas, Arizona, New Hampshire	\$19.6 Billion	196,000 (0.93%)
Sovereign Wealth Funds	Abu Dhabi, Norway	\$7.8 Billion	78,000 (0.37%)
Total		\$426.9 Billion	4,269,000 (20.32%)

Source: Newhedge, BitcoinTreasures.net, VanEck, Glassnode as of May 4, 2025.

- 1 We expect ~\$120 billion of institutional funds to flow into Bitcoin by the end of 2025 and ~\$300 billion in 2026, totalling over 4,200,000 BTC acquired by a heterogeneous group of investors, including public Bitcoin Treasury Companies, sovereign wealth funds, ETFs, and nation-states.
- 2 Publicly traded companies adopting Bitcoin as a treasury asset have emerged as a long-term source of buying pressure for Bitcoin, boosting its performance relative to other digital assets. We expect that over 1,000,000 BTC will be accumulated under this new accumulation paradigm by the end of 2026. For reference, a single Bitcoin public treasury company—Strategy, led by Michael Saylor—has managed to acquire over 570,000 BTC since its inception.² We also expect the number of Bitcoin Treasury Companies to more than double by EOY 2026.
- 3 The current pipeline of U.S. federal and state bills, plus the move to permanently hold existing government Bitcoin holdings, signals an inflection point: Bitcoin is transitioning from a tolerated seized asset to a formally recognized strategic reserve asset. Near-term odds of legislative passage are gaining momentum, which in turn is already influencing institutional asset-allocation models, portfolio hedging assumptions, and expected long-run supply distribution. If enacted, these bills could drive over \$19 billion in inflows.

(1) This scenario assumes a static Bitcoin price of \$100,000. In reality, inflows of this magnitude would likely drive the price significantly higher, meaning the actual amount of Bitcoin acquired would be lower due to market impact. Additionally, estimates assume linear growth and do not account for macroeconomic shifts, policy changes, or unforeseen institutional behavior.

(2) <https://www.strategy.com/purchases>

- 4 Exploring the game theory of sovereign Bitcoin adoption leads us to believe that at least four new nations and five U.S. states will adopt Bitcoin in a strategic reserve by the end of 2026. Furthermore, several untapped sources of Bitcoin demand will open up in the next 18 months as wealth management platforms open access to clients and sovereign wealth funds are expected to begin conservatively allocating to Bitcoin.
- 5 The institutional adoption of Bitcoin will lead to a search for yield among investors, in particular by Bitcoin Treasury Companies looking to differentiate and compete for the highest rate of Bitcoin balance sheet growth. With the help of clearer regulations and the legitimacy of the Bitcoin protocol compared to other blockchains, the space has fully opened for Bitcoin-based decentralized finance (“BTCfi”) to have its moment, and for BTC-native yield to become a dominant narrative by 2026.

Introduction

2025 will see major adoption of Bitcoin by institutions as it transitions from a speculative asset to a strategic imperative. For investors from retail to sovereign wealth funds, Bitcoin is no longer an asset that can be ignored. As adoption accelerates, being underexposed to Bitcoin could become a growing risk in a portfolio allocation strategy.

With the ongoing adoption of Bitcoin ETFs by wealth management firms, corporate treasury strategies integrating Bitcoin, and the shift away from USD reserves by sovereign nations, Bitcoin is gaining ground as a cornerstone financial asset.

This report first takes a close look at the major new engines of Bitcoin demand—institutions, corporations, and governments—to explore what is driving their allocation decisions, and projects the effects those allocations might have on Bitcoin inflows in 2025-26. The second part of the report then looks one step ahead: As more large entities purchase Bitcoin, there is a growing opportunity to adopt yield-generating strategies rather than simple “buy and hold” exposure. This topic is not yet understood or even discussed by most Bitcoin investors, so we examine some considerations and explore how this new opportunity might unfold in the short term.

We would like to thank Newhedge for providing access to their Advanced subscription; their data serves as the foundation for this analysis.

II

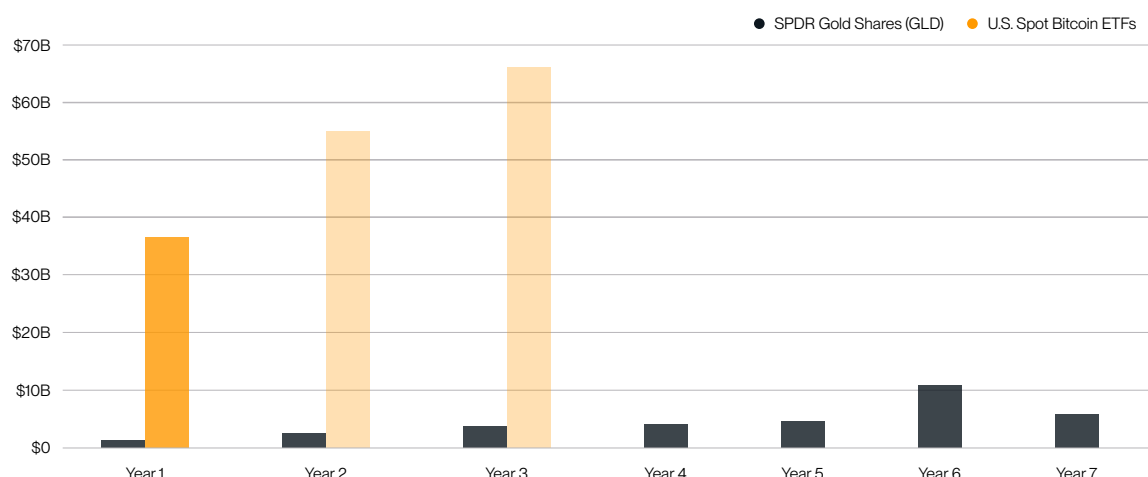
Engines of Bitcoin Demand

The Institutional Wave: A Story of Two ETFs

Spot Bitcoin ETFs broke records in their first year of trading, with **\$36.2 billion** in net inflows—a testament to the pent-up demand from both institutional and retail investors. This performance mirrors the early success of legacy commodity ETFs such as SPDR Gold Shares (GLD), which revolutionized gold investing, making it a mainstay allocation in traditional portfolios.

But Bitcoin isn't just mirroring GLD's success. According to Bitwise Asset Management, Bitcoin ETFs surpassed the AUM of gold ETFs in just 12 months, reaching \$125 billion in collective AUM twenty times faster than GLD did after launch.

GLD vs. U.S. Spot Bitcoin ETF Flows by Year



Source: Bitwise Asset Management and Newhedge.

Note: Bitcoin ETF figures for Year 2 and Year 3 are projections. U.S. Spot Bitcoin ETFs include: Bitwise Bitcoin ETF, iShares Bitcoin Trust, Fidelity Wise Origin Bitcoin Fund, Grayscale Bitcoin Trust, ARK 21Shares Bitcoin ETF, VanEck Bitcoin ETF, Invesco Galaxy Bitcoin ETF, Franklin Bitcoin ETF, WisdomTree Bitcoin Fund, Coinshares Valkyrie Bitcoin Fund, Hashdex Bitcoin ETF, Grayscale Bitcoin Mini Trust.

While Bitcoin ETF inflows are off to a slower start in Year 2, if they follow a similar pattern to GLD, net flows should triple by the fourth year. That would imply \$100 billion per year of net inflows into Bitcoin ETFs by 2027.

These ETFs are the first step in a much larger transformation of the financial landscape. With the first pro-crypto administration in the U.S. and new leadership at the SEC ready to embrace innovation, the market is primed for more crypto ETF products. In 2025, there is potential for a diverse range of new offerings:

- **Multi-Asset ETFs:** ETFs that combine crypto assets with TradFi instruments. Think of Bitcoin/Gold, Bonds/Stablecoins, Bitcoin/Tech Stocks.
- **Actively Managed Crypto ETFs:** Sophisticated active management strategies embedded in low-cost ETF wrappers. This could involve option strategies, long/short strategies, etc.

Bitcoin ETFs have unlocked a new gateway for retail and institutional adoption. However, one of the largest untapped markets remains the wealth management platforms of major financial institutions—including U.S. wirehouses like Morgan Stanley, Bank of America, Wells Fargo, JPMorgan, and Goldman Sachs—as well as global private banks, family offices, and RIAs.

Collectively, these institutions manage an estimated \$60 trillion in client assets, representing the segment of global financial wealth most likely to allocate to Bitcoin in the near term. For context, total global financial wealth stood at \$275 trillion as of 2023, according to the 2024 BCG Global Wealth Report.³

Below, we model Bitcoin allocations from the ~\$60 trillion in assets controlled by the world’s wealth platforms. We model allocations between 0.1% and 1% to reflect early-stage institutional adoption.

Wealth Management Platform Allocations to Bitcoin

Scenario	% of BTC Allocation	Estimated Inflows (USD)	Estimated BTC Allocation (% of Supply) ⁴
Bear	0.1%	\$60 Billion	600,000 (2.86%)
Base	0.5%	\$300 Billion	3,000,000 (14.29%)
Bull	1.0%	\$600 Billion	6,000,000 (28.57%)

Source: UTXO Management and Bitwise Asset Management with data from BCG Global Wealth Report as of July 2024.

In 2024, an estimated \$35 billion in Bitcoin demand remained sidelined due to the lack of accessibility for institutional investors.⁵ This capital has been constrained primarily by the risk-averse compliance policies of major wirehouses. These firms require products to demonstrate multi-year performance track records and extensive due diligence before approval. As spot Bitcoin ETFs continue to gain AUM and legitimacy, we expect these platforms to begin greenlighting access in 2025. This untapped demand is a significant opportunity for capital inflows into Bitcoin.

(3) BCG Global Wealth Report, July 2024.
(4) This scenario assumes a static Bitcoin price of \$100,000. In reality, inflows of this magnitude would likely drive the price significantly higher, meaning the actual amount of Bitcoin acquired would be lower due to market impact. Additionally, estimates assume linear growth and do not account for macroeconomic shifts, policy changes, or unforeseen institutional behavior.
(5) Estimate based on institutional AUM allocations, current approvals, and guidance from major wirehouses.

A Corporate Finance Revolution: Bitcoin Treasury Companies

At the end of 2024, publicly traded companies held **603,055 BTC** on their balance sheets. In 2025, more publicly traded companies plan to significantly increase their Bitcoin exposure, as Bitcoin shifts from a speculative asset to a strategic corporate treasury asset. This movement is fueled by three core catalysts: performance pressure, competitive signaling, and increasing regulatory clarity.

To take just one example of how the landscape has shifted, at the beginning of 2025 the Financial Accounting Standards Board (FASB) enacted a rule change that allowed companies to value their Bitcoin holdings at fair value for the first time. By allowing companies to “mark to market,” the rule removes an accounting penalty that blocked them from benefitting when their Bitcoin holdings appreciated, and, as a result, incentivizes further treasury adoption.

New entrants are reinforcing this trend with significant capital allocation. Twenty One, a newly launched Bitcoin-native public company led by Jack Mallers and backed by Tether, Bitfinex, and SoftBank, is expected to begin operations with over 42,000 BTC on its balance sheet, making it the third-largest corporate Bitcoin holder in the world. The firm’s capital structure and business model are explicitly denominated in Bitcoin, with novel KPIs like Bitcoin Per Share (BPS) and Bitcoin Return Rate (BRR). Their approach is long-term value accrual in Bitcoin terms rather than fiat.

GameStop (\$GME) also recently closed a \$1.5 billion capital raise with the sole intention of allocating a portion of its reserves into Bitcoin. Interest is also growing outside of the U.S.: Tokyo-listed Metaplanet, Hong Kong-listed Moon, The Blockchain Group in France, Oranje in Brazil, and Jetking in India are all examples of companies that have adopted a Bitcoin treasury strategy, citing Bitcoin’s role as a hedge against fiat currency depreciation and store of value. These moves highlight a global shift in corporate asset allocation strategies, particularly in jurisdictions concerned about long-term monetary debasement.

To estimate potential public company Bitcoin holdings by the end of 2026, we base our model on observed accumulation trends over the six-month period from November 15, 2024, to May 15, 2025. During this period, public companies increased their aggregate Bitcoin holdings from 394,131 BTC to 786,857 BTC. This is a net addition of 392,726 BTC, which is equivalent to 196,363 BTC acquired per quarter. We then extend this trend across the six remaining quarters through year-end 2026, modeling three distinct scenarios based on varying rates of adoption. In the bear case (0.5x), corporate adoption slows, with companies acquiring 98,181 BTC per quarter. In the base case (1x), adoption continues at the current rate of 196,363 BTC per quarter. In the bull case (2x), the pace accelerates to 392,726 BTC per quarter. For all scenarios, we assume a static price of \$100,000 for illustrative purposes, recognizing that actual market conditions would likely lead to significant upward price adjustments.

Public Company Allocations to Bitcoin

Adoption Tier	Growth Multiplier	Estimated Inflows (USD)	Estimated BTC Allocation (% of Supply) ⁶
Bear	0.5x	\$58.9 Billion	589,000 (2.80%)
Base	1x	\$117.8 Billion	1,178,000 (5.61%)
Bull	2x	\$235.6 Billion	2,356,000 (11.22%)

Source: Newhedge and BitcoinTreasuries.net.

Corporate Adoption Types

Type of Company	Example Firms	Motivation
High-Conviction Allocators	Strategy, Metaplanet, Twenty One, Semler Scientific	Long-term conviction, capital appreciation
Opportunistic Tech Firms	Coinbase, Tesla, Block	Synergy with crypto-native business units, emerging technologies
Risk Hedges	Aker ASA	Macro hedge, treasury diversification
Growth Market Firms	Moon Inc., Cango Inc.	Inflation protection, FX hedging

Source: UTXO Management with data from BitcoinTreasuries.net.

Collectively, these developments signal a new era of Bitcoin adoption in which public companies not only hold Bitcoin but design business models around it. Pioneered by Michael Saylor, the “Bitcoin Standard” corporate playbook of reorienting excess cash into Bitcoin purchases and using a company’s capital structure to fund additional Bitcoin acquisition is becoming a repeatable model. As more companies adopt the Bitcoin Standard, it reinforces Bitcoin’s role as a corporate treasury asset and educates equity investors on its utility—driving broader institutional acceptance.

Moreover, by demonstrating that debt- and equity-funded Bitcoin purchases can deliver superior returns, Strategy has paved the way for CFOs to explore innovative financing structures, such as convertible debt tied to Bitcoin price performance. We believe more firms will mimic this approach, bolstered by favorable accounting and growing investor appetite. As such, the corporate adoption of Bitcoin is set to accelerate, further cementing Bitcoin’s role as a mainstream treasury asset.

(6) This scenario assumes a static Bitcoin price of \$100,000. In reality, inflows of this magnitude would likely drive the price significantly higher, meaning the actual amount of Bitcoin acquired would be lower due to market impact. Additionally, estimates assume linear growth and do not account for macroeconomic shifts, policy changes, or unforeseen institutional behavior.

Sovereign Bitcoin Adoption: Hedging Against a Shifting World Order

The U.S. dollar still anchors global reserves, yet its share has slipped from ~71% in 2000 to 58% in 2024, as central banks seek assets beyond Treasuries amid sanctions risk and rising U.S. debt burdens.⁷ At the same time, the IMF notes that reserve managers are lengthening duration in gold and “other” assets—including digital assets—while the IMF’s World Economic Outlook for April 2025 projects emerging-market inflation to stay well above advanced-economy levels through 2026. Against this backdrop, Bitcoin’s neutrality, 24/7 liquidity and transportability give it a unique capacity as a reserve hedge that is neither another sovereign’s liability nor hostage to capital controls.

Country Inflation and Currency Dynamics

Country	State of Affairs
Turkey	Annual CPI still ~38% in April 2025 despite policy rate at 49%; the lira has lost 16% vs. USD since mid-2024.
Nigeria	Post-rebasing headline inflation slowed to 24% in March 2025 after a record 34% in 2024; the naira is down 71% since 2023 subsidy removal.
Argentina	Analysts expect 2025 CPI inflation near 23% even after aggressive monetary tightening and a crawling-peg peso.

Source: Reuters and Bloomberg.

Such chronic double-digit inflation erodes trust in fiat and accelerates local adoption of dollar substitutes—including Bitcoin. Chainalysis’ 2024 Global Crypto Adoption Index showed that six of the top ten countries by grassroots adoption were suffering >15% annual inflation. Furthermore, nation states are realizing that even a small Bitcoin allocation has the potential to meaningfully hedge risk. Given Bitcoin’s similar characteristics to gold as a store of value, governments are beginning to consider swapping some of their gold for Bitcoin as part of their reserves.

To model potential sovereign Bitcoin accumulation via gold reserve reallocation, we anchor our analysis in global central bank gold holdings, which totaled approximately 37,755 metric tons at the end of 2024—roughly 17% of all the gold ever mined.⁸ In this framework, we model hypothetical scenarios in which 1%, 5%, and 10% of sovereign gold reserves are reallocated into Bitcoin. Bitcoin inflows are calculated by converting the value of these allocations at a static Bitcoin price of \$100,000 and mapping them against Bitcoin’s fixed 21 million supply cap.

(7) Source: “IMF Data: Global Foreign Exchange Reserves Trends,” March 31, 2025. <https://data.imf.org/en/Dashboards/COFER%20Dashboard>
(8) Source: World Gold Council.

Nation-State Gold Reserve Reallocation to Bitcoin

Adoption Tier	% of Gold Reserves Swapped for BTC	Estimated Inflows (USD)	Estimated BTC Allocation (% of Supply) ⁹
Bear	1%	\$32.3 Billion	323,000 (1.54%)
Base	5%	\$161.7 Billion	1,617,000 (7.7%)
Bull	10%	\$323.4 Billion	3,234,000 (15.38%)

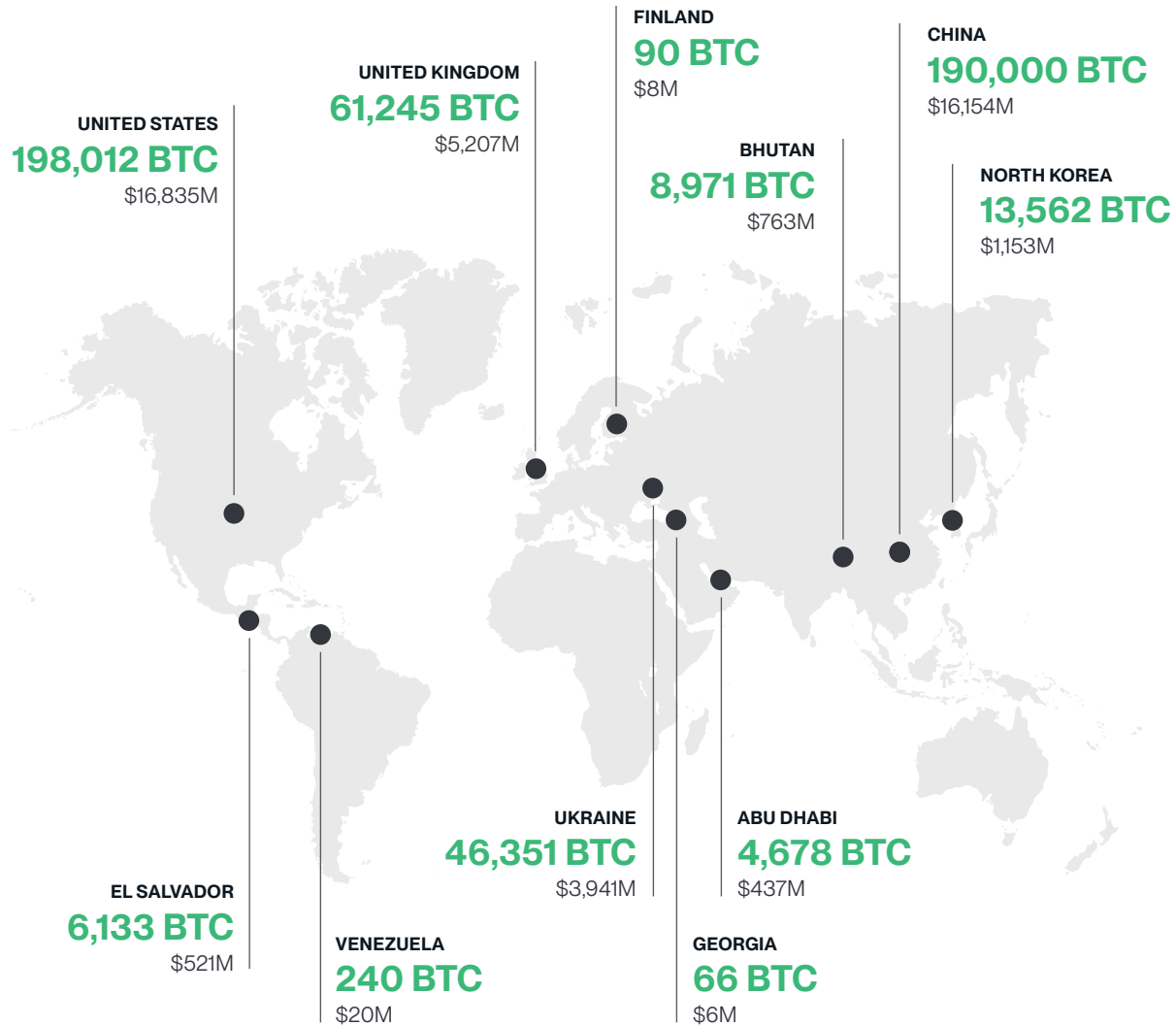
Source: Newhedge, Epoch

The U.S. is leading the world in nation-state Bitcoin adoption, having established a Strategic Bitcoin Reserve in March 2025. The Reserve will hold Bitcoin seized by the Treasury through asset forfeitures, and other agencies may also transfer their Bitcoin holdings into it. Importantly, the government will not sell any Bitcoin from this reserve—it is strictly held as a long-term asset. Treasury and Commerce Secretaries can develop budget-neutral strategies to acquire more Bitcoin, provided that those strategies impose no incremental costs on American taxpayers. Currently, the U.S. holds 198,012 BTC, more than any other country. Furthermore, Senator Cynthia Lummis (R-Wyo.) has proposed a bill that would require the government to purchase 200,000 BTC annually for five years, creating a 1,000,000 BTC reserve that would be held for at least two decades.¹⁰

(9) This scenario assumes a static Bitcoin price of \$100,000. In reality, inflows of this magnitude would likely drive the price significantly higher, meaning the actual amount of Bitcoin acquired would be lower due to market impact. Additionally, estimates assume linear growth and do not account for macroeconomic shifts, policy changes, or unforeseen institutional behavior.

(10) <https://www.lummis.senate.gov/wp-content/uploads/BITCOIN-Act-FINAL.pdf>

Bitcoin Holdings by Country



Source: Bitwise Asset Management with data from BitcoinTreasuries.net. Data as of April 1, 2025.

Note: Dollar figure represents the value of bitcoin holdings in USD. Abu Dhabi's bitcoin holdings are value based on 13F filings as of December 31, 2024.

To date, more than 20 U.S. states are exploring the viability of adding Bitcoin to state balance sheets, with New Hampshire and Arizona recently becoming the first to enact state-level Bitcoin reserves. The table below models hypothetical Bitcoin acquisition by U.S. states through the end of 2026, based on varying rates of proposals passed. We use ~50% of maximum Bitcoin allocations specified in the 13 active state-level proposals that include formal caps. Proposals without explicit ceilings are excluded from the model. Scenario tiers reflect projected passage rates of 10%, 30%, and 70%, respectively. A full breakdown of individual state initiatives and assumptions is provided in the appendix. Our base case assumes 30% of proposals become law by year-end 2026, implying an aggregate state-level allocation of \$19.6 billion.

U.S. State Bitcoin Reserve Adoption Scenarios

Adoption Tier	% of Proposals Passed	Estimated Inflows (USD)	Estimated BTC Allocation (% of Supply) ⁽¹⁾
Bear	10%	\$6.5 Billion	65,000 (0.31%)
Base	30%	\$19.6 Billion	196,000 (0.93%)
Bull	70%	\$45.8 Billion	458,000 (2.18%)

Source: State legislative bills as of May 2025.

Note: Across 13 active U.S. state-level proposals with defined ceilings. Bills without explicit caps are excluded.

Bitcoin is increasingly being viewed as a strategic reserve asset by government entities seeking insulation from dollar weaponization, inflationary fiat dilution, and geopolitical choke points. The optionality embedded in even a modest sovereign allocation can disproportionately alter Bitcoin’s demand-supply dynamics, introducing a structural bid. (This refers to persistent long-term buying pressure from non-speculative entities that are unlikely to sell.) For institutional investors monitoring the Bitcoin market, the ongoing or anticipated purchases by nation-states are emerging as a high-conviction alpha thesis for 2025 and 2026.

(1) This scenario assumes a static Bitcoin price of \$100,000. In reality, inflows of this magnitude would likely drive the price significantly higher, meaning the actual amount of Bitcoin acquired would be lower due to market impact. Additionally, estimates assume linear growth and do not account for macroeconomic shifts, policy changes, or unforeseen institutional behavior.

III

Bitcoin Yield: The \$100B Opportunity No One Is Talking About

Bitcoin Treasury Companies like Strategy and Metaplanet are increasingly adopting Bitcoin as a primary reserve asset to hedge against inflation and currency devaluation. To differentiate themselves and attract more capital, these companies will likely pursue Bitcoin-native yield strategies, such as lending, staking, or participating in decentralized finance protocols. By generating yield on their Bitcoin holdings, they can accelerate the growth of their Bitcoin balance sheets, outpacing competitors who rely solely on capital raises or operational profits. This competitive edge, in turn, will not only strengthen their financial position but also signal to investors a proactive approach to maximizing balance sheet growth, driving further capital inflows and justifying a higher ratio of market cap to underlying Bitcoin holdings (“mNAV”).

This sentiment is supported by a recent Twinstake survey that revealed a growing interest among institutions in Bitcoin yield-generation opportunities.¹² Although 80% of surveyed institutions hold Bitcoin and 43% are actively exploring yield potential, none have yet adopted Bitcoin yield strategies.

Furthermore, “BTCfi” (Bitcoin-based decentralized finance) and Bitcoin staking have proven to be the only narrative finding market fit this cycle, aside from memecoins and established protocols. The challenges that Ethereum is facing in its roadmap are also opening an opportunity for Bitcoin to capture market share. Assuming that Bitcoin remains above \$2 trillion in market capitalization in the short term, an implied utilization rate of around 5% would generate a \$100 billion market for BTCfi. (It is currently less than \$10 billion, according to DeFi Llama.)

When it comes to potential returns, a comparison of Bitcoin native yield opportunities reveals returns ranging from 2% to 20%, depending on the risks and trust assumptions involved. Average yield opportunities across the ecosystem are around 8%. For more sophisticated players, leveraging re-staking and point-farming opportunities can significantly increase returns, but comes at the cost of dealing with altcoins and their price volatility. Instead, we expect larger institutions to focus on native opportunities that will arise for liquidity provisioning or bridge operator services for Bitcoin rollups. For the three current bridge operator opportunities, yields can range from 4% to 14% based on various assumptions about volume and withdrawal fees.

However, despite the apparent asymmetric opportunity, several factors point to an ecosystem that is still nascent and prone to exploits and rug pulls. Previous DeFi experiments should serve as a cautionary tale for Bitcoin ecosystem builders, and investors should always favor non-custodial solutions. To manage these risks, several off-chain opportunities with delta-neutral strategies are available to investors. Products like QBTC leverage perps, spot, options, and basis trades to generate Bitcoin yield without taking on smart-contract risk. Yields range from 2% to 15% depending on the strategy, and carry performance and/or management fees.

(12) <https://www.reflexivityresearch.com/all-reports/core-overview>

BTCfi Protocols Are Growing Quickly

Bitcoin and its derivatives, often referred to as “Bitcoin wrappers,” have already demonstrated significant market acceptance even when not directly operating on the Bitcoin blockchain. This has been further validated by major players like Coinbase entering this space, signaling a shift towards Bitcoin-centric DeFi solutions.

Growth of Select Bitcoin Wrappers

Provider	Wrapper	Chain	YoY Growth
Coinbase	cbBTC	Ethereum	+32,026 BTC
Lombard	LBTC	Ethereum	+18,060 BTC
Babylon	Staked BTC	Babylon	+17,176 BTC

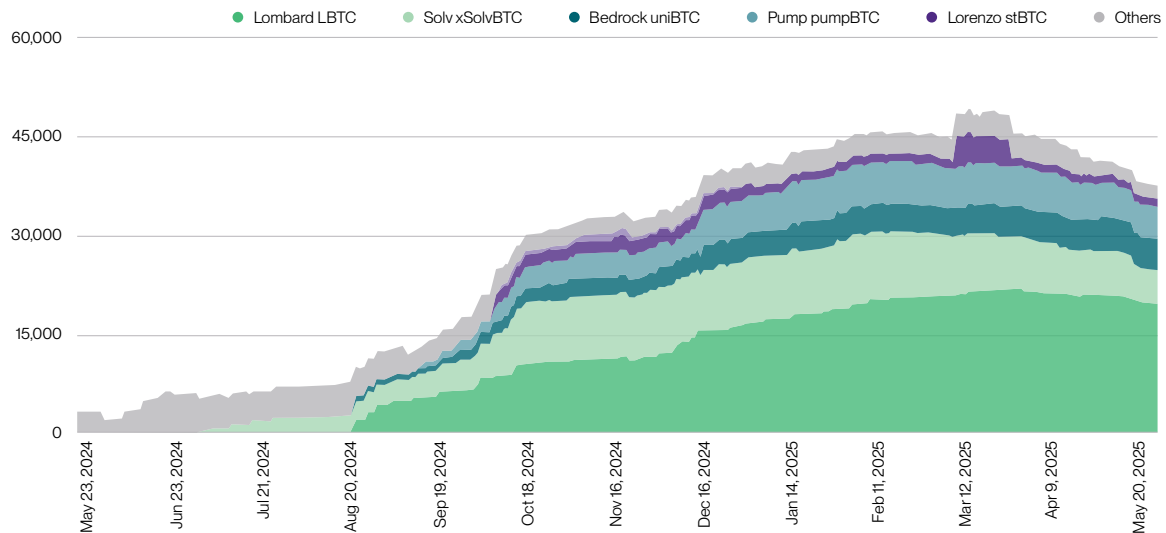
Source: BitcoinLayers.org. Data as of May 11, 2025.

The Total Value Locked (TVL) in BTCfi protocols has also shown remarkable growth. When compared with Ethereum-based counterparts, these protocols have often reached similar TVL levels much more quickly, suggesting a strong appetite for Bitcoin yield strategies. The narrative around staking has gained traction, emphasizing the importance of following the TVL rather than just “following the money,” as TVL is a more direct indicator of platform activity and investment.

Traditional investors, having grown familiar with Bitcoin through the popular ETFs, are primed to start rotating their investments into BTCfi. This shift is partly fueled by the democratization of the concept of “Bitcoin yield” by figures like Michael Saylor. At the same time, the crypto-native market has shown signs of fatigue towards memecoins, which lack sustainable buyer bases, pushing interest towards more sustainable and potentially rewarding investments like those in BTCfi.

The regulatory environment appears to be shifting in a way that may favor BTCfi. With potentially less stringent regulations than other crypto assets, there is an opportunity for innovative tokenomics in Bitcoin's DeFi space.

Total BTC Deposits in Liquid “Staking” BTC Protocols



Source: Bitwise Asset Management with data from BitcoinLayers.org. Data as of May 20, 2025.

Despite the promising growth of BTCfi, several headwinds could slow its adoption. First, the nascent nature of Bitcoin-based DeFi protocols introduces significant risks, including smart-contract vulnerabilities and potential exploits, as seen in past DeFi hacks. Regulatory uncertainty also looms, as evolving frameworks may impose stricter compliance requirements, deterring institutional participation. Additionally, the complexity of BTCfi strategies, such as bridge operations or liquidity provisioning, may overwhelm traditional investors accustomed to simpler Bitcoin ETF investments. Lastly, competition from established DeFi ecosystems like Ethereum and emerging chains could divert capital and attention.

BTCfi is poised to overcome these obstacles through innovation and its unique positioning in the institutional arena.











- Non-custodial solutions and robust auditing practices can mitigate smart-contract risks, building trust among users.
- Regulatory clarity, potentially more favorable for Bitcoin due to its commodity status, could attract institutions seeking compliance-friendly yield opportunities.
- Advances in Bitcoin Layer 2s, such as Lightning Network and rollups, are enhancing scalability, reducing costs, and improving transaction speeds. Moreover, BTCfi's alignment with Bitcoin's \$2+ trillion market cap and growing institutional adoption positions it to capture significant market share, outpacing competitors.

By addressing these challenges, BTCfi can solidify its role as a dominant force in DeFi, delivering sustainable yield opportunities.

Bitcoin native yield offers distinct advantages over stablecoin and fiat-based yields, positioning it as an attractive investment vehicle. Most significantly, Bitcoin native yield provides exposure to Bitcoin’s price appreciation alongside competitive returns. **As Bitcoin enters its hyperbitcoinization phase, it is poised to become the global hurdle rate for capital investment**, outpacing fiat-based assets eroded by inflation. Earning Bitcoin native yield ensures investors capture both steady income and Bitcoin’s long-term upside, unlike stablecoins or fiat, which lack growth potential and face devaluation risks in a Bitcoin-dominated financial future.

In summary, BTCfi is set to carve out a significant portion of the DeFi market this cycle due to its rapid adoption, institutional backing, and the evolving regulatory landscape, which together might just be the catalyst needed for Bitcoin to redefine yield in the DeFi ecosystem. The DeFi environment that this creates could be substantial. A recent report on Bitcoin L2s from Galaxy Digital Research projects that “over \$47 billion of BTC could be bridged into Bitcoin L2s by 2030.” While the current market share of Bitcoin deployed in Bitcoin L2s, locked in staking protocols, or wrapped for use in DeFi represents just 0.8% of Bitcoin in circulation, Galaxy estimates that, by 2030, “2.3% of BTC’s circulating supply will be bridged into Bitcoin L2s to interact with new Bitcoin DeFi ecosystems, fungible tokens, payment apps, and more.”¹³

Current BTC Supply Deployed on the Top 10 Bitcoin “L2s”

Name	Type	Unit of Account	BTC Supply
 Merlin	Alt. Rollup	WBTC	16,113
 Babylon	Hybrid Chain	BABY	5,481
 Bsquared Network	Alt. Rollup	WBTC	4,897
 Core	Alt. Chain	CORE	4,844
 Liquid	Sidechain	LBTC	3,980
 Bitlayer	Sidechain	WBTC	3,919
 Stacks	Anchor Chain	STX	3,224
 Rootstock	Sidechain	RBTC	3,049
 BOB	Alt. Rollup	ETH	1,913
 Internet Computer	Hybrid Chain	ICP	231

Source: BitcoinLayers.org as of May 21, 2025.

(13) Gabe Parker, “Bitcoin L2s: A Modular Future,” November 20, 2024. Available at <https://www.galaxy.com/insights/research/bitcoin-layer-2-modular-future/>

As the BTCfi space matures and native Bitcoin yield opportunities become more prevalent, we expect large Bitcoin holders, in particular Bitcoin Treasury Companies, to account for a significant portion of the incoming TVL to these protocols. In return, taking this innovative approach to increase balance sheet growth by non-dilutive means (at-the-money offerings are not sustainable as competition between companies heats up) will likely reward early-movers with higher yielding opportunities that should, in turn, impact stock prices to the upside relative to competitors.

IV

Conclusion

- **Bitcoin Standard playbook:** Against a macro backdrop of geopolitical instability, fiat devaluation, and inflationary pressures, corporations are increasingly adopting the Bitcoin Standard model as a means of diversifying treasury assets and boosting shareholder returns.
- **Wealth management faucet:** Wealth management platforms remain a large untapped market. As platforms green-light Bitcoin ETFs, and Bitcoin becomes a mainstay allocation in modern portfolios, a steady cascade of assets will flow.
- **Federal bid-side liquidity:** The BITCOIN Act's target of one million BTC equals ~5% of total supply. Sustained sovereign demand could deepen structural supply scarcity and support price floors, especially if purchases use DCA schedules to avoid slippage.
- **Seized-asset "supply sink":** Redirecting 198,000 BTC from regular USMS auctions into a no-sale strategic reserve removes \$19.8 billion of latent sell pressure (assuming \$100,000 per BTC). This reduces episodic auction-driven volatility by effectively tightening free float.
- **State-level competition:** Texas, North Carolina, and Ohio frame BTC as a treasury-hedging instrument akin to gold, each capping exposure at 5-10% of liquid reserves. Even conservative adoption (e.g., 2-3% real allocation across several large states) could absorb tens of thousands of Bitcoin, amplifying a "scramble for reserves" narrative.
- **Global game theory:** El Salvador's balance-sheet gains and U.S. policy shifts may embolden other nations to treat Bitcoin as a strategic asset. We may see a potential cascade of incremental sovereign demand, particularly among energy surplus nations that can vertically integrate mining.

The current pipeline of U.S. federal and state bills, plus the move to permanently hold existing government holdings, signals an inflection point: Bitcoin is transitioning from a tolerated seized asset to a formally recognized strategic reserve asset. Near-term odds of legislative passage are gaining momentum, which in turn is already influencing institutional asset-allocation models, portfolio hedging assumptions, and expected long-run supply distribution.

From a governmental allocation perspective, the path is clear:

1. Codification of Bitcoin as an acceptable reserve asset—first through executive action, then through legislation.
2. Jurisdictional arbitrage (states vs. federal, or U.S. vs. other nations) is likely to create staggered but reinforcing demand waves.
3. Transparency mandates (proof-of-reserve audits at Treasury, state biennial reports) will furnish investors with on-chain verifiability, a first for sovereign assets.

Meanwhile, corporate adoption is well underway, while institutional investment via wealth management platforms is just getting started. These converging forces are not merely advancing Bitcoin's role—they are creating game theory dynamics turbocharging our march toward a hyperbitcoinized future.

V

Appendix

United States — Federal Government Bitcoin Initiatives

Initiative	Scope and Mechanics	Amount of BTC Involved	Current Status
BITCOIN Act of 2025 (S. 954, Sen. Lummis)	<ul style="list-style-type: none"> Establishes a Strategic Bitcoin Reserve (SBR) inside Treasury. "Bitcoin Purchase Program" mandates Treasury to buy 200,000 BTC per year for five years (total 1,000,000 BTC). Funded via revaluation of Treasury gold certificates and the first \$6B/yr of Fed remittances. 	1,000,000 BTC (~\$100B)	Introduced March 11, 2025 in Senate Banking Committee. ¹⁴
Executive Order – Establishment of the Strategic Bitcoin Reserve & U.S. Digital Asset Stockpile	<ul style="list-style-type: none"> Directs Treasury to transfer every BTC forfeited through civil/criminal actions to the SBR. Prohibits sale of SBR coins; altcoins may be liquidated into BTC or USD. Creates "proof-of-reserve" public attestations. 	≈ 198,000 BTC already in federal custody (~\$19.8B) to be swept into SBR; no new purchases authorized.	Enacted March 6, 2025. ¹⁵
Exchange Stabilization Fund amendment (within S. 954)	<ul style="list-style-type: none"> Adds BTC to instruments the Emergency Support Functions (ESF) may hold and transact. 	Contingent on BITCOIN Act passage.	See BITCOIN Act above.

(14) <https://www.congress.gov/bill/119th-congress/senate-bill/954/text>

(15) <https://www.whitehouse.gov/presidential-actions/2025/03/establishment-of-the-strategic-bitcoin-reserve-and-united-states-digital-asset-stockpile/>

United States — State Bitcoin Initiatives

State	Bill/Act	Proposed Allocation	Max BTC Allocation ¹⁶	Current Status
South Carolina	HB 4256 — Strategic Digital Assets Reserve Act	≤ 10% per fund and absolute cap 1,000,000 BTC	1,000,000 BTC	House Ways and Means Committee
North Carolina	SB 327 — Bitcoin Reserve and Investment Act	≤ 10% of all public funds	127,000 BTC	Senate Finance Committee
Minnesota	HF 2946 — Minnesota Bitcoin Act	≤ 10% of State Board of Investment assets	98,000 BTC	House State Government Finance Committee
Texas	SB 21 — Texas Strategic Bitcoin Reserve Act	Comptroller may accumulate BTC from the ESF; no fixed percentage	27,100 BTC (if 10% ESF)	Passed Senate and House; Awaiting Governor's signature
New Mexico	SB 275 — Strategic Bitcoin Reserve Act	≤ 5% of Land-Grant and Severance-Tax funds	20,500 BTC	Senate Finance Committee
Ohio	HB 703 / SB 57 — Ohio Bitcoin Reserve Act	≤ 10% of GRF surplus and select funds	12,000 BTC	House and Senate Finance Committees
West Virginia	SB 465 — Inflation Protection Act	≤ 10% of public monies in BTC	8,000 BTC	Senate Banking and Insurance Committee
New Hampshire	HB 302 — Digital Asset and Precious-Metals Reserve Fund	≤ 5% of all state funds	7,500 BTC	Enacted May 5, 2025
Michigan	HB 4087 — adds §351a to Mgmt. and Budget Act	≤ 10% of General and Stabilization funds	4,500 BTC	House Comms and Tech Committee

(16) Max BTC Allocation converts any dollar or percentage caps to Bitcoin at \$100,000 per BTC and uses the latest publicly reported fund balances. "TBD" means the bill has no explicit numeric ceiling.

State	Bill/Act	Proposed Allocation	Max BTC Allocation ¹⁷	Current Status
Massachusetts	SD-422 / S.1967 — Bitcoin Strategic Reserve	≤ 5% of Stabilization Fund	4,100 BTC	Joint Committee on Revenue
Alabama	HB 482 / SB 283 — Strategic Bitcoin Reserve	≤ 10% of public funds; ≥ 5-yr hold	3,000 BTC	Pending in Finance Committees
Georgia	SB 228 — State Depository Board Bitcoin Investment Act	≤ 5% of Revenue Shortfall Reserve	2,800 BTC	Senate Banking and Finance Committee
Rhode Island	HB 6007 — Digital Asset Retention Act	≤ 10% of uncommitted funds	~550 BTC	House Finance Committee
Arizona	HB 2749 — Bitcoin and Digital Assets Reserve Fund	Funded only by unclaimed digital assets, staking rewards and airdrops transferred after 3 yrs; no taxpayer-funded purchases	TBD	Enacted May 7, 2025
Illinois	HB 1844 — Strategic Bitcoin Reserve Act	Bitcoin-only fund; no percentage cap	TBD	House Revenue and Finance Committee
Kentucky	HB 376 — Inflation Protection Act	BTC across state accounts; no cap specified	TBD	House Banking and Insurance Committee
Maryland	HB 1389 — Strategic Bitcoin Reserve Act	Reserve seeded by enforcement proceeds; no ceiling	TBD	Hearing June 11, 2025
Missouri	HB 1217 — Bitcoin Strategic Reserve Fund	Donation-friendly fund; ≥ 5-yr hold; no cap	TBD	Awaiting committee vote

(17) Max BTC Allocation converts any dollar or percentage caps to Bitcoin at \$100,000 per BTC and uses the latest publicly reported fund balances. "TBD" means the bill has no explicit numeric ceiling.

United States — Bitcoin Holdings by Federal Agencies & Semipublic Institutions

Agency	BTC Held/Affected	Notes
Department of Justice / U.S. Marshals Service	~198,000 BTC seized over multiple cases (Silk Road, Bitfinex hack, etc.).	EO now blocks disposals and mandates transfer into the Strategic Bitcoin Reserve. ¹⁸
Federal Reserve	No direct BTC holdings; remittances earmarked (up to \$6B/yr) to fund the 1M BTC purchase schedule in S. 954. ¹⁹	≤ 10% of all public funds
General Services Administration	Historically auctioned DOJ-assigned BTC; auctions paused pending SBR implementation. ²⁰	

(18) <https://www.coindesk.com/markets/2025/03/07/market-experts-weigh-in-on-trump-s-strategic-bitcoin-reserve-that-takes-out-usd17b-in-potential-selling-from-btc>
(19) <https://www.congress.gov/bill/119th-congress/senate-bill/954/text>
(20) <https://www.coindesk.com/policy/2025/02/20/u-s-marshals-service-managing-seized-assets-can-t-say-how-much-crypto-it-holds>

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No Advice on Investment; Risk of Loss: Prior to making any investment decision, each investor must undertake its own independent examination and investigation, including the merits and risks involved in an investment, and must base its investment decision—including a determination whether the investment would be a suitable investment for the investor—on such examination and investigation.

Crypto assets are digital representations of value that function as a medium of exchange, a unit of account, or a store of value, but they do not have legal tender status. Crypto assets are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not currently backed nor supported by any government or central bank. Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional currencies, stocks, or bonds.

Trading in crypto assets comes with significant risks, including volatile market price swings or flash crashes, market manipulation, and cybersecurity risks and risk of losing principal or all of your investment. In addition, crypto asset markets and exchanges are not regulated with the same controls or customer protections available in equity, option, futures, or foreign exchange investing.

Crypto asset trading requires knowledge of crypto asset markets. In attempting to profit through crypto asset trading, you must compete with traders worldwide. You should have appropriate knowledge and experience before engaging in substantial crypto asset trading. Crypto asset trading can lead to large and immediate financial losses. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price.

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