



No golden opportunity

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Cryptoassets have delivered extraordinary returns over the past five years: an average annual rate of more than 60%, in several cases. But this alone shouldn't be a reason to invest – rarely has the old warning “the value of investments can go down as well as up” been more salient.

Our analysis of the key drivers behind how cryptoasset prices behave – and why – makes us highly sceptical about their value to most of our clients as investments.

In a nutshell, we don't see a stable source of demand for cryptoassets. We also think claims don't hold up that they protect against economic risks such as inflation. Without that stability, we think they'll always be highly volatile assets that no one can rely on to protect and steadily build their wealth.

Means of exchange?

One reason for the existence of traditional currencies, such as the pound or dollar, is as a means of exchange: a way of selling or buying something without having to exchange goats or cows centuries ago or sourdough bread today.

But we don't think cryptoassets are likely to play a big role in day-to-day mainstream financial transactions. (In contrast, stablecoins do stand a fair chance of wider use in day-to-day transactions. Companies such as Walmart and Amazon are developing their own versions, which may in principle be able to offer faster and cheaper settlement than the traditional banking system.) Bitcoin, the cryptoasset with the greatest total value, has existed for sixteen years since its mysterious invention by person or persons unknown, under the Japanese pseudonym Satoshi Nakamoto. But there's still no clear evidence of regular usage of bitcoin in day-to-day transactions, beyond the niche and ill-fated example of El Salvador.

This Central American country adopted bitcoin in 2021 as legal tender but most people stuck to the US dollar, the country's other legal currency. In 2024, the government announced that businesses would no longer be obliged to accept bitcoin.

The language of crypto

Cryptocurrencies are digital currencies that run on decentralised 'blockchain' technology. Our focus in this piece is their appeal – or otherwise – as investments, rather than the detail of how this underlying technology works.

When discussing cryptocurrencies in an investment context, we distinguish between:

- Cryptocurrencies whose value fluctuates, such as bitcoin. We'll call these cryptoassets.
- Cryptocurrencies whose values are tied to a conventional currency, such as the dollar. These are called stablecoins – the clue is in the name. The largest of these, called Tether, tracks the US dollar.

Only cryptoassets are affected by the regulatory changes from the UK's Financial Conduct Authority (FCA), so we'll focus on them. The FCA, which previously banned the sale of crypto products to retail investors, will from 8 October 2025 allow them to access some cryptoassets, including bitcoin, via exchange-traded notes listed on the London Stock Exchange.

Unstable store of value

We think the argument often made by advocates of cryptoassets, that they protect against economic hazards such as inflation or bond defaults, doesn't stand up. For example, the price of bitcoin fell more than 70% in late 2021 and early 2022, when inflation in developed markets rose sharply. In other words, cryptoassets performed worst just as inflation took off (figure 1). Moreover, there's no obvious relationship between cryptoasset prices and various gauges of inflation expectations, such as those in central bank surveys of the public.

There's some evidence that people have shown somewhat more interest in cryptoassets in emerging markets whose government bonds are at very high risk of default. But several studies show this isn't the key motivator for holders of cryptoassets in developed markets.¹

There are also no grounds for the claim that states are widely adopting cryptoassets as reserve assets, aside from El Salvador. The Strategic Bitcoin Reserve, established in March 2025 by the US, isn't an example of this – it will only hold bitcoin assets seized by law enforcement agencies, with no commitment to buy bitcoin.

Speculative asset

If cryptoassets aren't true stores of value and have only niche appeal as a means of exchange, why have their prices risen so far recently?

We think the cause is sociological, a reflection of broader changes in US society. Cryptoassets are vehicles for speculation, or gambling. In this respect we're referring not to their practical use in illegal gambling, but to the use of cryptoassets themselves as the items whose prices are being gambled on.

In the US, online gambling has exploded in popularity since the 2018 legalisation of online sports betting, followed soon after by the pandemic. Even after several years of very strong growth, US online gambling revenue increased by 32% year-on-year in the second quarter of 2025.²

The rise in the buying and selling of cryptoassets is part of this broader social phenomenon. Just as for online gambling, the average American has found it much easier to access cryptoassets, particularly since the launch of the first bitcoin exchange-traded funds in 2021. This ready availability has helped fuel the rise of cryptoasset trading. Several studies show that cryptoasset traders are also more likely to be gamblers than the average person.³

Reflecting the motive of speculation/gambling, individual holders typically cite high expected returns as their key reason for participating, rather than fear of inflation or distrust of the financial system.⁴ Two separate surveys of hundreds of institutional investors, one by EY and the other by Fidelity, show that their most common justification for holding cryptoassets is also high expected returns. Several large institutions list the prospect of "increased institutional adoption" as their key reason for optimism about the outlook for cryptoasset prices. That's a concerningly circular argument.

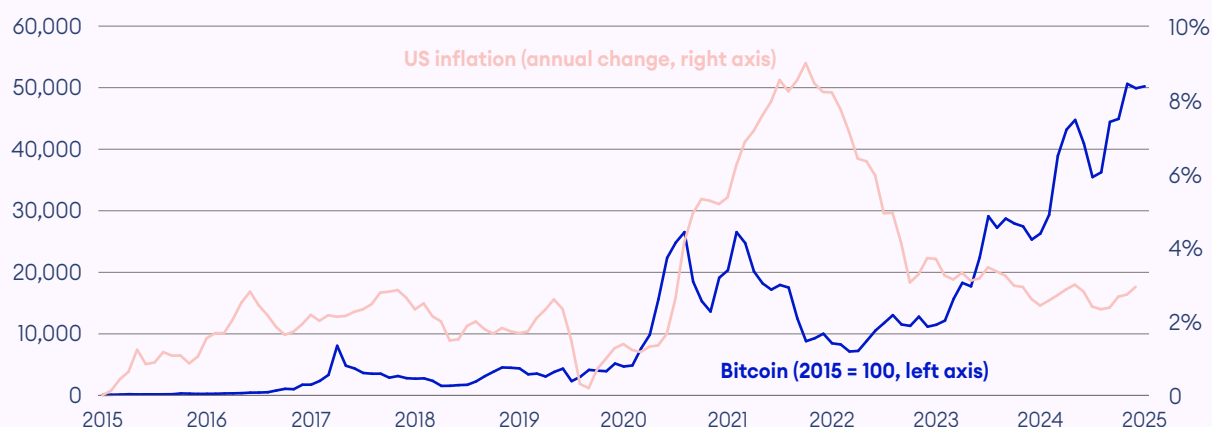
Performance anxiety

If the primary motive for owning cryptoassets is speculation, it's not surprising that, in performance terms, they've behaved like more extreme versions of speculative stocks. That includes positive correlations to equities: they're more likely than not to follow stocks in the same direction. It also includes periodic huge drawdowns – cumulative falls from peaks.

The crucial motive of speculation in trading cryptoassets helps explain their price behaviour – both why they've performed very well in recent years and why they don't provide useful diversification for investors. It makes sense that an asset driven primarily by speculation would be significantly positively correlated with equity prices, but many times more volatile, as cryptoassets have been. (Figures 2, 3 and 4 illustrate the scale of this volatility, compared with equity indices, gold and individual stocks.) The biggest recent drawdown in cryptoasset prices, beginning in late 2021, coincided with the end of a couple of speculative phenomena in the US. One was the mania

Figure 1: When inflation surged, bitcoin sank

Prices fell more than 70% from late 2021 to early 2022, just as US inflation rose sharply.



Source: LSEG, Rathbones

Figure 2: Crypto follows equities down

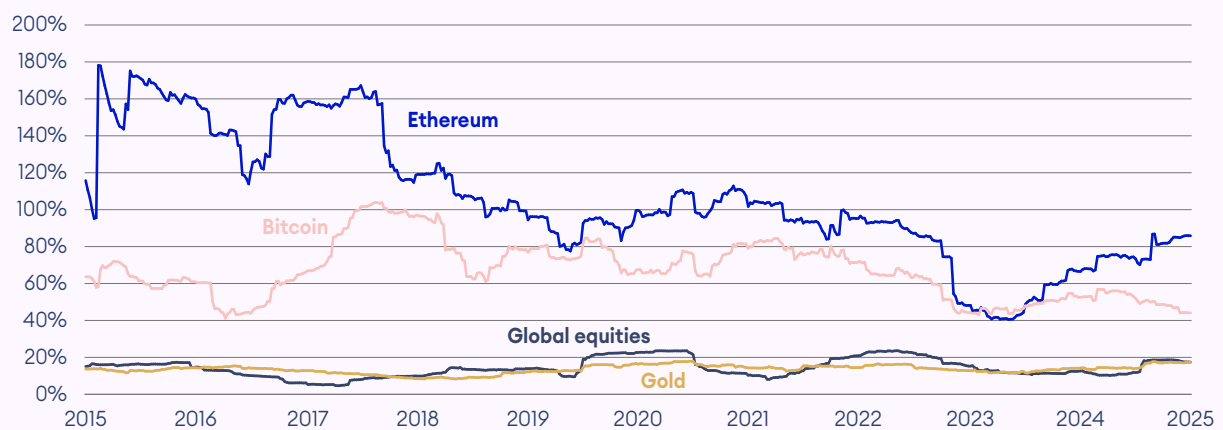
Weekly return data over the past five years shows strong correlations with stocks and even steeper drawdowns.

	Bitcoin	Ethereum	Gold	Global equities
Annualised return	60.6%	63.5%	13.3%	14.6%
Annualised volatility of weekly returns	59.9%	78.6%	14.4%	15.0%
Correlation of weekly returns with global equities	0.34	0.42	0.23	–
Max drawdown	-74.6%	-78.5%	-18.5%	-24.5%
Average performance in worst 10% of weeks	-12.3%	-15.5%	-3.6%	-3.6%

Source: LSEG, Rathbones

Figure 3: Crypto's wild ride

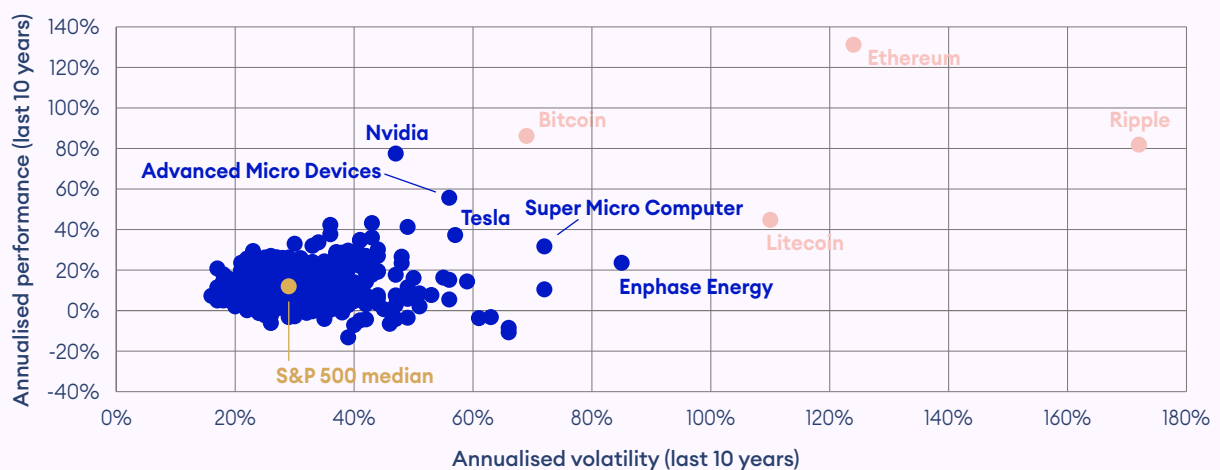
Annualised volatility over 52 weeks is much higher for cryptoassets than for stocks or gold.



Source: LSEG, Rathbones

Figure 4: Crypto tops the risk league

10-year data on annualised return and volatility shows cryptoassets exceed nearly all large US equities for volatility.



Source: LSEG, Rathbones

in ‘meme stocks’ – stocks that enjoy sudden surges in popularity among household investors through social media. The other was the boom in special-purpose acquisition companies (Spacs): stocks created in order to buy other companies.

Figure 2 shows the correlation between cryptoassets and equities as positive – and those correlations have been higher when equities are falling. Note the contrast to gold, which we hold as a diversifier. Its correlation with equities has been lower over the past few years, and it’s been far less volatile than cryptoassets. Its price also rose in the period when inflation took off and the speculative bubble in meme stocks and Spacs was ending. And unlike for cryptoassets, there’s clear evidence that central banks are planning to keep increasing their gold holdings.

To put the behaviour of cryptoassets into context, it can be helpful to look at how a balanced portfolio would have performed with and without them. To illustrate this, we consider a portfolio with the same strategic asset allocation as our standard Risk Level 4, allowing it to rebalance monthly. We consider the effect of switching 10% of the portfolio from stocks to either bitcoin or ethereum (the next largest cryptoasset) over the past five years.

Returns would have been stronger, because returns from cryptoassets have been much greater than those from stocks in that time. But annualised volatility would have increased significantly, from 8.3% to 11.8% with the addition of bitcoin and 14.3% with ethereum. Staying the course would have been difficult, because the biggest drawdown experienced by the portfolio would have been much larger too, from -9.6% to -15.2% with bitcoin added and -15.6% with ethereum. In a similar vein, average returns in the worst 5% of months would have been significantly lower with cryptoassets: from -4.3% without them to -5.2% with bitcoin and -5.9% with ethereum.

Adding cryptoassets to replace assets other than equities, such as fixed income, would have made these risk statistics even worse. And the picture doesn’t change significantly if we look at shorter or longer time periods than the past five years.

This all matters because we can have more confidence in the volatility of cryptoassets remaining very high than in their returns remaining as strong as they’ve been recently. This reflects the role that speculation has played in driving those returns. The outlook for prices is highly uncertain: we can’t rule out the possibility that they continue to rise rapidly, but neither can we be very confident about it.

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Crypto crime

A final factor contributing to this uncertainty is the fact that demand for cryptoassets has probably also been supported by their use in illegal activity. The relative anonymity which cryptoassets provide allows bad actors to circumvent the rules, including ‘know your customer’ requirements designed to prevent the conventional financial system facilitating crime. By its nature, such activity is extremely hard to measure. But the most comprehensive study we’re aware of found that, between 2009 and 2017, 26% of bitcoin users and 46% of transactions were associated with illegal activity.⁵

Admittedly, the market has changed a lot in the years since then. And other analysis based on more up-to-date data by TRM Labs, a US company specialising in fighting financial crime, finds a far lower share of cryptocurrency transactions connected to illegal activity: under 1%. But it only aims to track a much narrower set of illegal activity. For example, it omits from its count transfers within illicit entities used to launder crypto proceeds, and the proceeds of crime originally conducted in conventional currency before being converted into cryptocurrency. It regards its estimate as a floor on the volume of illegal activity, and expects this estimate to rise substantially over time as more data become available.

Even with those limitations, TRM Labs’ analysis highlights an important point. Its data show a direct link between billions of dollars of cryptoasset transactions and sanctions evasion. This link may be another factor helping to explain why the prices of cryptoassets have risen so far in recent years. US and EU member states’ use of sanctions has surged following Russia’s full-blown invasion of Ukraine, and to a lesser extent as geopolitical competition with China has intensified. This has greatly increased the number of people and entities cut off from the dollar and euro-based financial systems.⁶

Ongoing geopolitical fragmentation might further support cryptoasset prices, but it's hard to predict how that will evolve. In any case, stablecoins could supplant cryptoassets' role. TRM Labs' data suggest they're often the preferred option in this context. This makes sense, for people using cryptoassets not for financial speculation but simply to circumvent rules.

Taking the broader view, the importance of opaque demand trends from the less seemingly side of the global economy is another reason why the outlook for cryptoassets is highly uncertain.

Drawdown drawback

Since as early as 2017, we've argued that the technology which underpins cryptocurrencies, blockchain, is an important innovation with the potential to disrupt global payment systems. That's the key reason why we think that *stablecoins* have the potential to become a much larger part of the global financial system. But it doesn't follow that *cryptoassets* such as bitcoin make good investments. Returns have undeniably been spectacular recently, but they're built on unstable foundations. We made the case in our 2021 report on bitcoin that it's neither a safe haven nor an effective source of diversification in a portfolio. As we've shown here, that remains true today – and holding cryptoassets adds significantly to volatility and the possibility of deep drawdowns. In the year after our 2021 report was published, the price of bitcoin more than halved. The continued importance of speculative demand to its price means that steep drawdowns remain a significant risk today.

Sources and further reading

¹ *Do you even crypto bro? Cryptocurrencies in household finance* by Michael Weber, Bernardo Candia, Olivier Coibion and Yuriy Gorodnichenko (2023); *Who adopts cryptoassets in Japan? Evidence from a 2019 financial literacy survey* by Hiroshi Fujiki (2020); *Does sovereign default risk explain cryptocurrency adoption? International evidence from mobile apps* by Rashad Ahmed, Stephen A. Karolyi and Leili Pour Rostami (2024); *Inflation expectation and cryptocurrency investment* by Lin William Cong, Pulak Ghosh, Jiasun Li and Qihong Ruan (2024)

² American Gaming Association's Commercial Gaming Revenue Tracker

³ *Cryptocurrency trading and its associations with gambling and mental health: a scoping review* by Benjamin Johnson, Steven Co, Tianze Sun, Carmen C W Lim, Daniel Stjepanović, Janni Leung, John B Saunders and Gary C K Chan (2023)

⁴ *Do you even crypto bro? Cryptocurrencies in household finance* by Michael Weber, Bernardo Candia, Olivier Coibion and Yuriy Gorodnichenko (2023); *"All are investing in Crypto, I fear of being missed out": examining the influence of herding, loss aversion, and overconfidence in the cryptocurrency market with the mediating effect of FOMO* by Manpreet Kaur, Jinesh Jain and Kirti Sood (2023)

⁵ *Sanctions by the numbers: 2024 year in review* by Center for New American Security (2025)

⁶ *Sex, drugs and bitcoin: how much illegal activity is financed through cryptocurrencies?* by Sean Foley, Jonathan Karlsen and Talis Putnins (2018)

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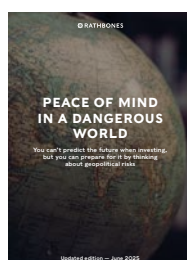
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