If you were trying to doom a newly invented currency to irrelevance, naming it “cryptocurrency”¹ would have been a crafty first step. “Crypto” means hidden or secret, and often describes a target of popular suspicion and fear, as in crypto-fascist or crypto-communist. But now, despite the jitters natural in a global pandemic, cryptocurrencies are rapidly gaining popular support as alternatives to gold (a store of value) and the dollar (as a means of payment).

The most widely circulated cryptocurrency, Bitcoin, is trading above $35,000, around 10 times its early 2020 low.² To some investors, this is a bubble. To others, including us, it is a sign that Bitcoin is following the natural path of new inventions, in which investor interest comes first from venture capital, then from hedge funds, and finally — about 10 years on — from traditional Wall Street players. Bitcoin first launched in 2009, and the resistance of traditionalists is waning as digital services of all kinds boom during the pandemic.

We see fundamental reasons to believe that — regardless of where the price of Bitcoin goes next — cryptocurrencies are here to stay as a serious asset class. One is growing distrust in fiat currencies, thanks to massive money printing by central banks. Another is generational: younger people hear the “crypto” in cryptocurrency as new and improved, an exciting digital advance over metal coins. The worst knock on cryptocurrency as a store of value is its volatility, but unflinching demand from millennials has helped lower the volatility of Bitcoin, even during the pandemic.

¹ Cryptocurrency (notably, Bitcoin) operates as a decentralized, peer-to-peer financial exchange and value storage that is used like money. It is not backed by any government. Federal, state or foreign governments may restrict the use and exchange of cryptocurrency. Cryptocurrency may experience very high volatility. The Global Emerging Markets strategies do not invest in cryptocurrency.

² Bloomberg. Intra-day trading low occurred on 3/12/20.
To this under-40 set, who grew up with digital tech, the open-source software behind Bitcoin makes it more transparent, transferrable and trustworthy than paper money printed by governments. Not less. And this crypto-confidence may reach even deeper in emerging markets, where distrust in centralized authority runs high.

Governments have been slow to recognize this evolution. When the pandemic hit, the dollar ruled the world as the favored medium of international trade, the anchor against which other nations value their currencies, and the “reserve currency” most central banks hold as savings. Before the United States, only five great powers had enjoyed the coveted “reserve currency” status, going back to the mid-1400s: Portugal, then Spain, the Netherlands, France and Britain. Those reigns lasted 94 years on average. At the start of 2020 the dollar’s run had endured 100 years, which was reason enough to question how much longer it could continue.

The dollar enjoyed one key bulwark that its predecessors did not: no challengers. Europe had hopes for the euro, but it was young, and burdened by doubts about Europe’s multistate government. China had aspirations for the renminbi, which have been stymied by suspicions of the country’s one-party state.

Moreover, led by the Fed, every major central bank has been printing money madly to keep economies afloat during the pandemic, undermining confidence in all national currencies. Twenty percent of all dollars in circulation were printed in 2020, and that binge was a huge boost to the appeal of Bitcoin, which was designed with a gradual process for “mining” new coins and a limited supply. In effect, central banks conspired unintentionally to fuel the rush into cryptocurrencies, which have long been pitched as decentralized, democratic options to dollar dominance.

That is not to say that Bitcoin is poised to topple the dollar any time soon, only that traditionalists continue to dismiss the seriousness of the crypto challenge at their own risk. In 2019, after mounting for decades, U.S. debts to the rest of the world surpassed 50 percent of the nation’s economic output—a threshold that often signals a coming crisis. In 2020, heavy government borrowing pushed those liabilities up to 67 percent of output, deep in the warning zone. Dollar dominance is likely to end when the rest of the world loses confidence that the U.S. can pay its bills.

Bitcoin was not only the hottest investment of 2020, it was the hottest investment of the decade ending in 2020, up more than 200 percent a year on average. The Bitcoin market now totals around $690 billion, and represents a growing share of the $1.1 trillion cryptocurrency market. But it is still tiny compared to a more traditional inflation hedge like gold, which is a $12 trillion global market. That leaves plenty of room to grow.

Bitcoin is still volatile, with average annual price swings of 69 percent, compared to 27 percent for silver, 13 percent for gold, and around 20 percent for stocks. But the volatility of gold and silver has barely changed in decades. Since the launch of Bitcoin, its volatility has come down from an annual average of more than 400 percent, so the volatility gap between Bitcoin and the traditional hedges is narrowing. The risk-adjusted returns of Bitcoin are now in the same range as global or U.S. stocks.

The remaining skeptics tend to be older investors who are more inclined to distrust the stateless “peer-to-peer” network that underpins Bitcoin. This is

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DISPLAY 1

**Cryptocurrency: Surprisingly Advanced in Emerging Countries**

*The 2020 Global Crypto Adoption Index*

View the map here: [Morgan Stanley Investment Management](https://www.morganstanley.com/)


Methodology: 154 countries are ranked on 4 cryptocurrency (CC) metrics (1 On-chain CC value received, weighted by purchasing power parity (PPP) per capita (PC); 2 On-chain retail value transferred, weighted by PPP PC; 3 Number of on-chain CC deposits, weighted by number of internet users (IU); 4 Peer-to-peer exchange trade volume, weighted by PPP PC and IU.) The geometric mean of each country’s ranking in all four is then normalized for a final ranking on a scale from 0 to 1. The closer the country’s final score is to 1, the higher the country’s adoption of cryptocurrencies relative to the other ranked countries.

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3 J.P. Morgan, HKMA, Erste Group.
4 Federal Reserve Board
5 IMF: External Liabilities and Crises
6 MSIM, IMF, Haver.
8 CoinMarketCap data as of 2/3/21.
9 Galaxy Fund Management.
11 MSIM, Bloomberg, FactSet, Haver. Based on 3-year rolling monthly volatility annualized from 7/31/11 to 2/3/21.
12 Based on the 3-year trailing Sharpe ratio for Bitcoin, which is 0.80, compared to 0.47 for MSCI ACWI, and 0.77 for the S&P 500. This is a modified Sharpe ratio with the risk-free rate set at zero, given the low rates regime. Data from 1/31/16 to 2/3/21.
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13 Forbes, July 2020.
15 Citi, ICO Analytics, Google Trends.
16 World Bank
17 World Bank, TransferWise
18 Assets under management as of December 31, 2020. Morgan Stanley Investment Management ("MSIM") is the asset management business of Morgan Stanley. Assets are managed by teams representing different MSIM legal entities; portfolio management teams are primarily located in New York, Philadelphia, London, Amsterdam, Hong Kong, Singapore, Tokyo and Mumbai offices. Figure represents Morgan Stanley Investment Management's total assets under management/supervision.
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