

Is there a future for cryptocurrency?

Tara McConkey, CFA®, Director of Portfolio Management

Commerce Trust views investing in cryptocurrency as highly speculative and does not currently offer direct investment in cryptocurrency. The regulatory environment surrounding cryptocurrency is uncertain and this commentary is only intended to provide educational information about the medium of digital assets.

On Nov. 8, 2021, the price of Bitcoin — the first and most highly traded cryptocurrency — closed at \$67,566.83. Exactly one year later, on Nov. 8, 2022, FTX, the now-bankrupt cryptocurrency exchange at the heart of several criminal investigations, suspended customer withdrawals of digital assets. That same day, the price of Bitcoin closed at \$18,541.27.¹

Consider this: investors who first bought Bitcoin on Nov. 8, 2021, through the FTX exchange and held it for a year would have lost over 72% of their initial investments — and that’s if they managed to cash out.

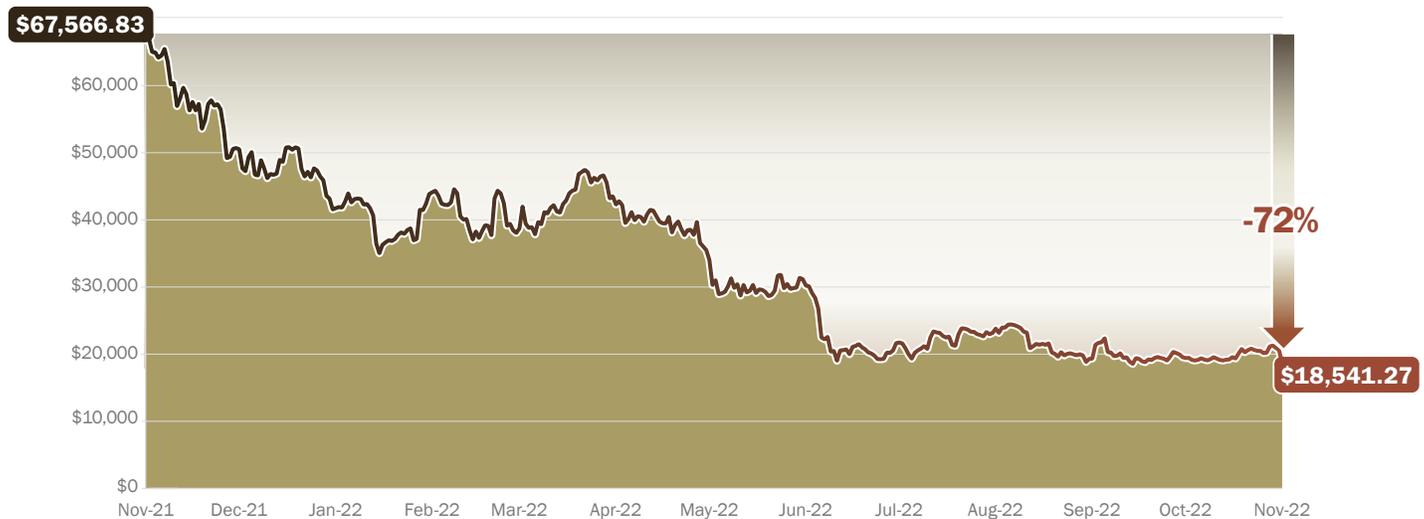
The FTX collapse and other setbacks experienced over the past 18 months have cast considerable doubt over the unregulated and difficult-to-understand world of cryptocurrency, or crypto, and digital assets. Critics

have questioned the industry’s value proposition and real-world applications since its inception, and the FTX fiasco seems to have magnified that skepticism.

Commerce Trust views investing in cryptocurrency as highly speculative. However, from a business viability perspective, cryptocurrency and digital assets may have a future provided companies in the crypto space establish more structured business practices and oversight for the industry is enacted.

In large part, that’s because the underlying blockchain infrastructure that enables the existence of digital assets has gained widespread business acceptance. As a refresher, blockchain technology is a decentralized ledger of transactions records across a peer-to-peer network.

BITCOIN’S TUMULTUOUS YEAR (Returns 11/08/2021–11/08/2022)



Source: Commerce Trust, Yahoo! Finance



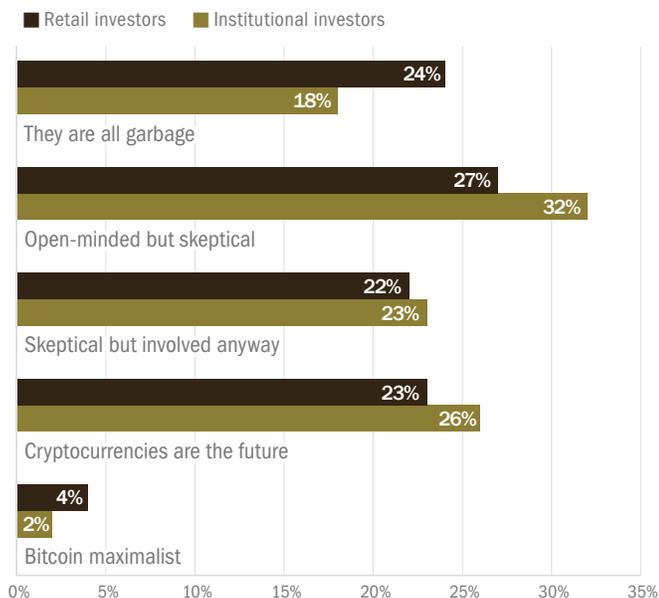
Commerce Trust
Banking | Investments | Planning™

A 2021 Deloitte global survey of more than 1,200 financial executives and practitioners found that 81% consider blockchain “broadly scalable” and already having achieved mainstream adoption. In addition, 78% of respondents said their companies’ leadership teams believe there is a compelling business case to use blockchain or digital assets within their organizations.²

Merchants also are looking at some form of digital currency payment for their locations. In a separate 2021 Deloitte survey of U.S. retail businesses, 85% of respondents said their companies believe digital currency payments will be ubiquitous in their industries in five years. Merchants also overwhelmingly agree (87%) that organizations accepting digital currencies have a competitive advantage in the market.³

INVESTORS’ ATTITUDES ABOUT CRYPTO

“In relation to cryptocurrencies, which best describes your attitude?” (% of respondents, July 2022)



Source: Bloomberg “MLIV Pulse” survey, July 2022

How “proof of stake” could revolutionize blockchain

The negative headlines crypto has generated over the past year overshadow the continued evolution of crypto’s underlying blockchain technology — including a key innovation that overcomes its main drawback and criticism.

At its core, blockchain enables users to record transactions and data. Since its inception, a blockchain network has relied on participants within the network to validate new transactions and add them to the network, literally as new “blocks” on the “chain.”

This intensive process requires a tremendous amount of electricity. Research shows that in 2020, the computer power needed in the global mining of Bitcoin, the most widely known cryptocurrency, consumed more energy than it took to power Austria or Portugal.⁴

However, an alternative process — proof of stake — now exists and it requires less than 1% of the energy required in traditional blockchain verification. Proof of stake negates the need for expensive computer systems and massive energy consumption, potentially allowing more simultaneous transactions and ease of use without compromising security.

Ethereum, the second-largest crypto token, recently implemented proof of stake across its blockchain network. Given proof-of-stake’s attractiveness, wider adoption appears likely to follow.



Commerce Trust
Banking | Investments | Planning™

While the outlook for crypto adoption appears rosy, “usage today remains far outside the mainstream. According to a 2022 Federal Reserve (Fed) report on the financial health of U.S. families, only 2% of adults said they had used crypto to buy something or make a payment in the previous 12 months, while 11% of respondents held it as an investment over the same period.⁵

Is oversight a lifeline for crypto?

Many market analysts believe the path forward for cryptocurrency and digital assets must include oversight or a regulatory framework like traditional finance. That appears underway. The Biden administration has

tasked several federal regulatory agencies to develop recommendations on ways to protect consumers, investors and businesses against possible malfeasance in the digital asset space.⁶ The Fed and U.S. Treasury also have called for meaningful digital asset regulation and oversight.

Unfavorable market conditions, lax industry standards and minimal regulatory oversight all characterized the crypto collapse of 2022. However, if what’s left of the industry re-emerges with more sound business practices and traditional marketplace oversight in place, many of the technological promises crypto has heralded for the past decade could remain within reach.

¹ Bitcoin USD historical prices, Yahoo! Finance

² Deloitte, 2021 Global Blockchain Survey, April 2021, page 4

³ Deloitte, Merchant Adoption of Digital Currency Payments Survey; December 2021, pages 5,6

⁴ CNBC, “How ethereum’s merge made crypto mining more sustainable,” October 22, 2022

⁵ U.S. Federal Reserve, Economic Well-Being of U.S. Households in 2021; May 2022, page 45

⁶ White House Fact Sheet, “White House releases first-ever comprehensive framework for responsible development of digital assets,” September, 16, 2022

The Chartered Financial Analyst® (CFA®) Charter is a designation granted by CFA Institute to individuals who have satisfied certain requirements, including completion of the CFA Program and required years of acceptable work experience. Registered marks are the property of CFA Institute.

Past performance is no guarantee of future results, and the opinions and other information in the commentary are provided as of January 9, 2023. This summary is intended to provide general information only and may be of value to the reader and audience.

Diversification does not guarantee a profit or protect against all risk. This material is not a recommendation of any particular investment or insurance strategy, is not based on any particular financial situation or need and is not intended to replace the advice of a qualified tax advisor or investment professional. While Commerce Trust may provide information or express opinions from time to time, such information or opinions are subject to change, are not offered as professional tax, insurance or legal advice, and may not be relied on as such.

Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.



Commerce Trust

Banking | Investments | Planning™

1-855-295-7821 | [commerctrustcompany.com](https://www.commerctrustcompany.com)



Tara C. McConkey, CFA[®]

Senior Vice President, Director of Portfolio Management

Tara is senior vice president and director of portfolio management for the East region of Commerce Trust. Upon gaining a thorough understanding of a client's needs and goals as well as assessing the client's entire financial situation, she works with our investment research team to construct a portfolio to help clients achieve their long-term goals. Tara comprehensively represents our research- and goals-based investment process, starting with the initial assessment and creation of an investment objective to ongoing evaluation and adjustments based on changing market and life circumstances. With a deep knowledge of the market and experience in investment management, she serves clients with thought leadership, insight, and consulting services.

With more than 30 years of experience, Tara also serves on the Investment Policy Committee at Commerce Trust. She received both her master of business administration and bachelor of science in business administration degrees from Saint Louis University. Tara holds the Chartered Financial Analyst[®] designation and is a member of the CFA Institute and the CFA St. Louis Society, for which she previously served as director of the CFA St. Louis Society.



Commerce Trust

Banking | Investments | Planning[™]

1-855-295-7821 | commercetrustcompany.com