(UBS)

What do I need to know about stablecoins?

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The total market capitalization of stablecoins has increased substantially, recently surpassing USD 200 billion, according to data collected by DefiLlama. But what are they? And what does the landscape look like for them going forward?

Stablecoins are digital assets designed to maintain a stable value versus a reference asset or rate—typically the US dollar. They play a crucial role in the digital assets space, providing liquidity for trading and enabling value transfers on blockchain networks. Most stablecoins are pegged to the US dollar, though they can be linked to other currencies or assets.

Demand for stablecoins increased steadily over the past year as the crypto market rebounded from recent lows, with a significant surge following Donald Trump's US election victory.

Stablecoins serve as a bridge between cryptos and fiat money, and also enjoy growing popularity in developing countries. In countries with unstable currencies and less developed banking systems, stablecoins can potentially serve as a safe-haven asset and an accessible, low-cost payment method.

Technically, most stablecoins are utility tokens built on blockchains, with Ethereum still the dominant platform. However, because of high fees on Ethereum and growing competition from other blockchains, many stablecoins have migrated to other platforms such as Tron. Ethereum and Tron remain the dominant hosts; in terms of market capitalization, 54% of stablecoins are on Ethereum and 28% on Tron, according to data collected by DeFiLama.

While there are hundreds of different stablecoins, we find it useful to look at five distinct categories:

1. **Fiat-pegged stablecoins**—by far the most frequently used type—are tied to the value of a fiat currency, such as the US dollar or the euro. Their stability versus the reference asset is derived through a reserve collateral held in the same currency. Examples include USDT and USDC.
2. **Commodity-backed stablecoins** are linked to the value of a commodity such as gold or silver. Probably the most prominent example is PAX Gold (PAXG), which is backed by gold reserves. Each token represents one troy ounce of gold.
3. **Crypto-backed stablecoins** use cryptos as collateral. Dai (DAI) is the most prominent example in this category.
4. **US treasury-backed stablecoins**, such as Ondo's USDY and Hashnote's USYC, are comparable to fiat-backed stablecoins, but offer interest income earned from investing reserve assets into US treasuries and related instruments. As such, they resemble a tokenized version of a money market fund or deposit account.
5. **Algorithmic stablecoins** represent the most innovative but also complex form of stablecoins, in our view. They aim to maintain their value through a programmed mechanism that adjusts supply based on demand, without relying on a collateral.

Which relevant use cases and catalysts may lead to a further increase in demand?
Stablecoins have shifted from being primarily used for trading and borrowing within crypto markets to also serving broader, more traditional finance functions. Especially in developing countries, they are increasingly seen as digital dollars, used for savings, transactions, and remittances. In countries with less-developed banking systems, stablecoins can be viewed as a "safer-haven" asset and an accessible, low-cost payment method. Moreover, the lower risk of government interference might be another reason for consumers shifting to stablecoins in such jurisdictions.

Established fintech platforms like PayPal are integrating stablecoins into their platforms, which may see other financial service providers follow suit. Future adoption could benefit from banks, payment service providers, large tech companies, retailers, and governments integrating stablecoins into their payment systems and programs.

What's next?
The pro-crypto stance of the new US administration and its regulatory overhaul—highlighted by the SEC's new crypto framework under Paul Atkins—could result in greater regulatory clarity and oversight, leading to more mainstream adoption and greater involvement from major (US) banks. In 2024, the European Union introduced the MiCA regulation, which may lead to greater stablecoin adoption.

Who will lead this competition and which solutions will prevail remains highly uncertain, in our view. Regulators will play a significant role, with a current focus on the US where the Trump administration seems willing to review the status quo. There are also a number of risks, such as fraud, liquidity, regulation and de-pegging that are just being explored.

However, we expect more product innovation and greater regulatory clarity to lead to a continued rise in demand for stablecoins in the near term.

To learn more, see the **Education Note - Digital Assets 101: Stablecoins**, published 5 February, 2025.

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