

MARKET RESEARCH UPDATE

The Shifting Landscape Of Crypto:
AI, RWA And Market Dynamics

APRIL 2025

KEY TAKEAWAYS

- The AI Agent sector experienced significant volatility since our October 2024 report, with substantial drawdowns following the initial speculative frenzy, but developer activity remains robust in the DeFAI sector with potential for products that capture genuine use cases and revenue.
- The RWA (Real World Assets) sector continues to show steady growth in TVL and institutional adoption, despite the lack of a significant market rally, with notable developments like Coinbase stock becoming accessible on-chain through BackerFi and new trading infrastructure being explored on Hyperliquid.
- We are also bullish on the robotics space, and are exploring early opportunities within this sector that synergize well with blockchain.
- Liquidity fragmentation and capital flows toward base assets present both challenges and opportunities as the market matures toward more sustainable valuation models.

Q1 2025:

Market Flow and Positioning

The market this quarter has been deeply impacted by TradFi and global macro, and has endured a drawdown across the board in majors and many altcoins headed to range lows or below.

Market dynamics reveal a challenging environment for utility tokens, with even revenue-generating protocols experiencing drawdowns, suggesting a fundamental reassessment of value accrual mechanisms is needed.



THE RISE AND FALL OF THE AI AGENT SECTOR



December 2024
saw an
unprecedented
surge in AI Agent
tokens on Solana,
with projects like
GOAT, ZEREBRO
and ARC

reaching 9 figure or even billion-dollar valuations in a short timeframe. This speculative frenzy was characterized by autonomous AI agents with Twitter accounts garnering cult-like followings.

However, as anticipated by market veterans, this sector experienced a dramatic correction. The initial excitement around AI Agents failed to translate into sustainable adoption beyond pure speculation. Many tokens that reached 9-10 figure valuations have retreated significantly, following a pattern similar to previous hype cycles.

From our original report in October 2024, it came to pass that the original AI related GPU and infra plays did not perform as well, and certainly were outpaced by AI Agents by the end of the year and at the start of 2025.

We adapted well to rebalance our portfolios ahead of the curve, and were able to capitalize on the mania that was the AI Agent space for those few months. As the hype cycle has now been deflated, the sector will see significant changes where true PMF protocols will emerge.

DEVELOPER RESILIENCE AND FUTURE POTENTIAL

Despite the market correction,
developer activity in the AI Agent sector remains notably strong,

with a notable shift away from speculative launchpad agents toward more utility-focused applications:

1. DeFAI Emergence: The DeFAI (Decentralized Finance AI) sector has emerged as a particularly promising niche, with developers building sophisticated AI agents focused on financial analysis, risk assessment, on-chain arbitrage, and personalized portfolio management. These applications provide tangible utility beyond speculative token launches and have demonstrated initial product-market fit with traders and investors.
2. Content Creation and Verification: A growing ecosystem of AI agents designed for on-chain content creation, verification, and monetization is materializing, with potential to disrupt traditional creator economies through decentralized authentication and revenue distribution.
3. Governance Optimization: Several projects are developing specialized AI agents to enhance DAO governance processes, offering proposal analysis, impact assessment, and voting optimization tools that address traditional governance inefficiencies.
4. Supply Chain Verification: Enterprise-focused AI agents for supply chain verification and management have attracted attention from traditional businesses seeking blockchain integration without direct cryptocurrency exposure.
5. Cross-Chain Interoperability: While Solana initially dominated the AI Agent landscape, significant development is occurring on Base, Ethereum, and other chains, creating a more diverse ecosystem with specialized focus areas on each platform.

The fundamental thesis that **AI Agents will become significant users of crypto rails remains intact**. As AI capabilities advance, the need for autonomous financial transactions, data verification, and decentralized computation will likely increase, potentially validating the long-term value proposition of this sector.



Decentralized Compute: Market Rationalization

The decentralized compute sector, which formed the backbone of our October 2024 report, has undergone significant changes:

1. Revenue-to-Valuation Alignment:

Market participants are increasingly scrutinizing the relationship between actual protocol revenue and valuations, leading to price corrections for overvalued projects.

2. B2B Focus:

As anticipated, protocols focusing on enterprise clients (B2B) have generally outperformed those targeting individual users (B2C), though this has not insulated them entirely from market-wide corrections.

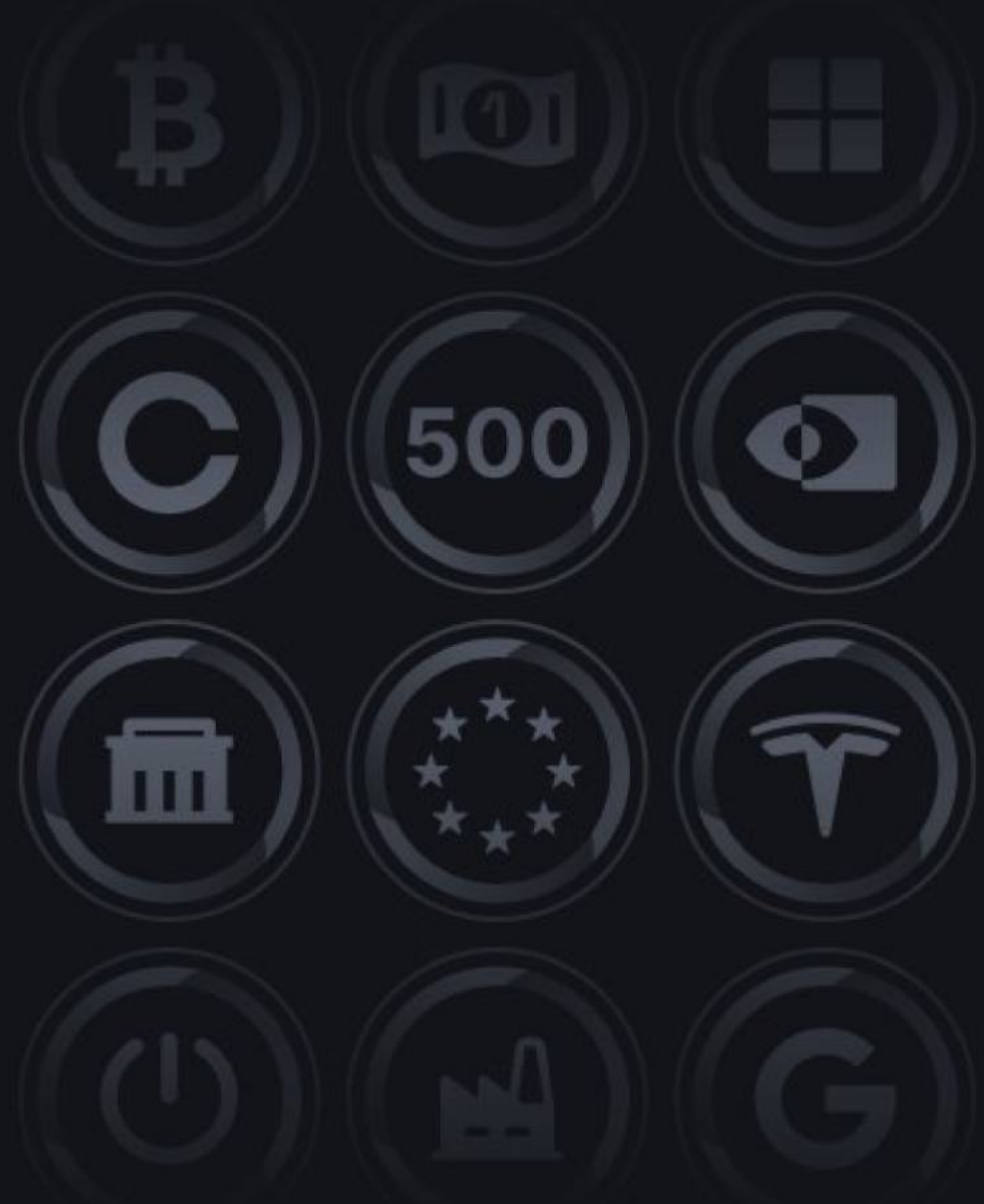
3. Emissions vs. Revenue:

The unsustainable emissions-to-revenue ratios highlighted in our previous report remain a concern, though some protocols have adjusted tokenomics to create more sustainable models.

4. Value-Added Services:

Protocols offering additional services beyond raw compute power (such as NetMind's Model as a Service) have demonstrated greater resilience, confirming our previous thesis that competing solely on price is not a viable long-term strategy.





Fully backed, tokenized stocks and ETFs.

RWA SECTOR: STEADY GROWTH AMID MARKET VOLATILITY

The Real World Assets (RWA) sector has demonstrated remarkable resilience and steady growth throughout the market's recent volatility. While not experiencing the dramatic price action seen in other sectors, RWA protocols continue to expand their Total Value Locked (TVL) and institutional adoption.

- 1. Institutional Adoption:** Major traditional finance entities have increased their participation in on-chain RWA, recognizing the efficiency and transparency benefits of blockchain-based asset representation.
- 2. Coinbase Stock Accessibility On-Chain:** In a significant development for the RWA ecosystem, Coinbase (COIN) stock has become accessible on-chain through BackedFi's infrastructure, with substantial liquidity deployed on Aerodrome.

This implementation doesn't involve moving the actual stock on-chain but instead creates a tokenized representation with proper backing and redemption mechanisms.

The liquidity pools on Aerodrome have provided traders with 24/7 access to COIN exposure, demonstrating the potential for traditional equities to gain blockchain representation without requiring fundamental changes to their underlying structure.

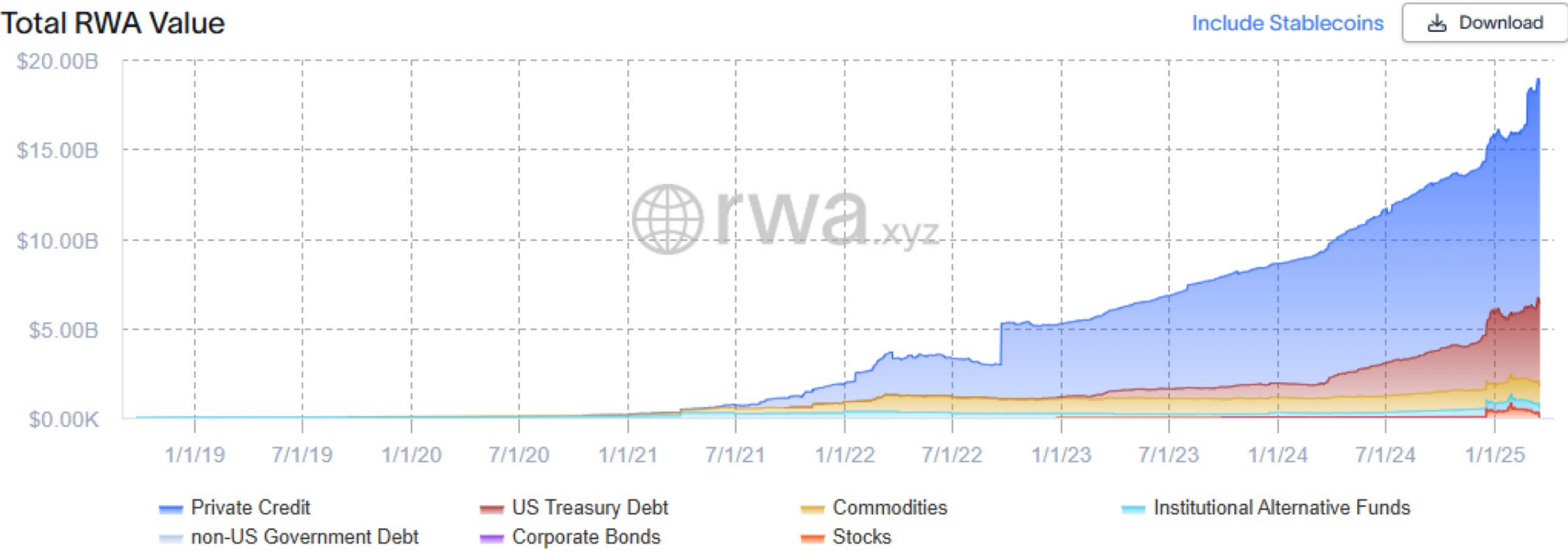
- 3. Hyperliquid Exploration:** While not yet implemented, exploration of stock trading functionality on Hyperliquid has been publicly discussed by several notable figures in the ecosystem.
- 4. Regulatory Clarity:** Improved regulatory frameworks in multiple jurisdictions have provided greater clarity for RWA protocols, reducing legal uncertainty that previously hampered adoption.
- 5. Stablecoin Integration:** Enhanced integration between RWA protocols and stablecoin ecosystems has improved liquidity and usability, creating more seamless connections between traditional and crypto markets.

Growth Metrics and Market Positioning

While the overall RWA token market has not seen dramatic price appreciation, the underlying fundamentals continue to strengthen:

- TVL Growth: Consistent increases in total value locked across major RWA protocols, even during broader market downturns.
- User Acquisition: Steady growth in both retail and institutional users, with lower volatility compared to other crypto sectors.
- Revenue Generation: Many RWA protocols are establishing consistent revenue streams through transaction fees, subscription models, and other monetization strategies.

The RWA sector appears positioned for sustainable long-term growth, particularly as traditional financial institutions continue exploring blockchain technology for efficiency gains and cost reduction.



Source: RWA.xyz (20/03/25)



MARKET DYNAMICS: THE BEAR CASE AND UTILITY TOKEN CHALLENGES

The Utility Token Conundrum

One of the most concerning trends in the current market is the persistent downward pressure on utility tokens, even those with demonstrable revenue and value accrual mechanisms. Projects like BANANA GUN, AAVE, HYPERLIQUID, and Houdini Swap, despite generating significant revenue and implementing token value accrual, have experienced substantial drawdowns.

This phenomenon raises fundamental questions about current token economic models and market valuation frameworks. Several factors may contribute to this disconnect:

- 1. Value Capture Mechanisms: Many protocols have not successfully designed token economics that translate protocol revenue into token holder value in ways the market perceives as sustainable.
- 2. Emissions Schedules: Aggressive token emission schedules continue to create sell pressure that overwhelms organic demand, even for protocols with significant revenue.
- 3. Market Composition: The dominant market participants remain speculative traders rather than fundamental investors, prioritizing short-term price action over long-term value accrual.
- 4. Capital Efficiency: In an environment where capital efficiency is paramount, holding utility tokens that don't consistently outperform base assets (BTC, ETH) becomes increasingly unattractive.

Chain Dynamics and Liquidity Fragmentation

The crypto landscape continues to experience significant fragmentation, with implications for liquidity and capital efficiency:

- 1. Solana's Speculative Focus: Solana has emerged primarily as a hub for speculative activity, with pump.fun and memecoin launches driving the majority of user engagement. While this has led to impressive on-chain activity metrics, it raises questions about sustainable ecosystem development.
- 2. Base's Growing Presence: Base continues to gain market share in key metrics, potentially emerging as a significant challenger to established L2s like Arbitrum.
- 3. Ethereum's Value Proposition: Despite high expectations, Ethereum has not produced the anticipated number of "unicorn" projects generating substantial on-chain value. This has led to questioning of its long-term positioning as the primary smart contract platform.
- 4. Liquidity Migration: Capital continues to flow back to base assets (primarily BTC), indicating a market-wide risk reassessment and preference for established stores of value over speculative utility tokens.

The Bear Case

Structural Challenges
The bear case for crypto in 2025 centers on several structural challenges:

- 1. Value Accrual Failure: The persistent inability of most protocols to translate on-chain activity and revenue into sustainable token value appreciation suggests fundamental flaws in current tokenomic models.
- 2. Liquidity Fragmentation: The proliferation of chains and L2s has fragmented liquidity, reducing capital efficiency and creating challenges for protocols seeking to bootstrap network effects.
- 3. Speculation Dominance: Market activity continues to be dominated by speculation rather than fundamental value creation, perpetuating boom-bust cycles that hinder sustainable growth.
- 4. Regulatory Uncertainty: Despite progress in some areas, regulatory frameworks remain incomplete and inconsistent across jurisdictions, creating ongoing uncertainty for builders and investors.
- 5. Institutional Hesitancy: While institutional adoption has increased, particularly in the BTC and RWA sectors, broader institutional engagement with DeFi and utility tokens remains limited, constraining potential capital inflows.



STRATEGIC OUTLOOK AND INVESTMENT IMPLICATIONS

Sector Positioning

Based on our analysis, we see the following strategic positioning for major crypto sectors:

- 1. **AI and Compute:** Selective opportunities exist in protocols with demonstrable B2B revenue and sustainable tokenomics. The speculative phase has largely passed, creating potential for value investments in fundamentally sound projects operating below market radar.
- 2. **RWA:** Continued steady growth is expected, with potential acceleration as regulatory clarity improves and traditional financial institutions increase their blockchain engagement.
- 3. **DeFi:** Established DeFi protocols with proven revenue models may present value opportunities following significant drawdowns, particularly those implementing effective token value accrual mechanisms.
- 4. **Base Assets:** BTC will likely continue attracting institutional capital as a store of value, while ETH faces more significant challenges in justifying its valuation without improved L1 performance and ecosystem value creation.

Investment Strategy Adjustments

In light of current market conditions, several strategic adjustments merit consideration:

- 1. **Revenue-to-Valuation Focus:** Prioritize protocols with demonstrable revenue relative to their market capitalization, with particular attention to those showing improving ratios over time.
- 2. **Emissions Analysis:** Carefully analyze token emission schedules and their relationship to protocol revenue, avoiding projects where emissions significantly outpace value creation.
- 3. **Value Accrual Mechanisms:** Favor protocols with clear, effective mechanisms for translating protocol revenue into token holder value, particularly those that have been battle-tested through market cycles.
- 4. **Sectoral Diversification:** Maintain appropriate exposure across sectors with differing market drivers, including AI, RWA, DeFi, and base assets.
- 5. **Long-Term Fundamental Analysis:** Resist the temptation of short-term speculative opportunities in favor of positions based on fundamental value creation potential.



FINAL THOUGHTS

The Crypto Market

continues its maturation process, with increasing emphasis on sustainable value creation rather than speculative narratives.

While the AI Agent sector experienced significant volatility, the underlying thesis of AI integration with blockchain remains compelling for the long term, particularly in the emerging DeFAI segment. The RWA sector demonstrates how steady fundamental growth can occur even without dramatic price action.

The challenges facing utility tokens, even those with significant revenue generation, highlight the need for innovation in token economic models to create more direct, sustainable connections between protocol success and token holder value. As the market evolves, we anticipate increased differentiation between protocols based on fundamental metrics rather than narrative-driven speculation.

In this environment, disciplined analysis of revenue, emissions, and value accrual mechanisms will be critical for identifying investments with sustainable appreciation potential. While speculative opportunities will continue to emerge, the path toward long-term value creation likely lies in protocols that effectively bridge the gap between on-chain activity and token holder returns.

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