PitchBook

PitchBook Data, Inc.

Nizar Tarhuni Executive Vice President of Research and Market Intelligence

Paul Condra Global Head of Private Markets Research

Institutional Research Group

Analysis

Robert Le
Senior Analyst, Emerging Technology
robert.le@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Chloe Ladwig**

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EMERGING TECH RESEARCH

Stablecoins

The evolving landscape of fiat-backed stablecoins

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- The market for fiat-backed stablecoins has reached over $220 billion in total circulating supply, with Tether's USDT holding roughly 65% and Circle's USDC another 25%.[1] Although these two dominate today, we expect their combined 90% share to deteriorate over time as more issuers—including PayPal, major banks, and even large asset managers—enter the fray. Competition is poised to intensify as newcomers leverage strong brand recognition, regulatory clarity, and yield to encourage adoption, gradually chipping away at the incumbents' lead.

- Stablecoins' appeal stems from lower fees, near-instant settlements, and the ability to handle trillions in annual volume—over $5.6 trillion in 2024 alone, according to on-chain data.[2] These figures are encroaching on the volumes of some traditional card networks and, in certain cross-border segments, can enable global payroll and remittance solutions that bypass conventional intermediaries. For merchants, accepting stablecoins can slash the 1% to 10% fees these intermediaries charge, making stablecoins an increasingly attractive alternative to outdated, delay-prone systems.

- Trust has become paramount in an environment where stablecoins may need to prove the quality of their reserves daily. Circle's USDC, for instance, maintains an SEC-registered money market fund overseen by BlackRock, amplifying user confidence. Meanwhile, Tether has amassed over $113 billion in US Treasury holdings,[3] underscoring its scale yet raising concerns about systemic impact should those Treasurys ever need to be liquidated rapidly. This tension between transparency and sheer size will remain a focal point for investors.

- Regulatory developments across jurisdictions are expected to reshape stablecoin economics. In the US, pending legislation similar to the various stablecoin bills and frameworks such as MiCA in the EU may force issuers to adhere to strict reserve requirements, provide detailed disclosures, and follow rigorous auditing standards. While this could boost mainstream trust and adoption, it may also compress margins. We expect issuers reliant on "free float" interest income—historically a lucrative revenue stream—will be compelled to share yields with holders or risk losing market share.

1: "Stablecoins," RWA.xyz, n.d., accessed February 20, 2025.
2: "Stablecoin Transaction Volume," Allium, n.d., accessed February 22, 2025.
3: "Q4 2024 Attestation Report," Tether, January 31, 2025.

- We anticipate further fragmentation in stablecoin usage as specialized products cater to distinct sectors, from real-time payroll solutions and DeFi yield platforms to tokenized capital markets. The number of active wallets surpassed 32 million in January 2025,[4] more than doubling in two years, signaling broadening adoption. Yet even this growth comes with operational and concentration risks: If a leading issuer faces a severe de-peg, the liquidity shock could replicate the turmoil of Terra's collapse—only on a potentially larger scale.

Overview

Stablecoins are digital assets that aim to maintain a stable price relative to a reference asset or basket of assets. This stability makes them particularly attractive to individuals and institutions seeking to harness blockchain technology's benefits—efficient, borderless, and programmable transactions—without taking on the price volatility typically associated with cryptocurrencies such as bitcoin or ether. Although there are several categories of stablecoins, this note will focus primarily on fiat-backed stablecoins, which account for the overwhelming majority of stablecoin circulation and usage.

Among the different types of stablecoins—fiat collateralized, asset collateralized (backed by commodities or crypto), and algorithmic or strategy-based designs—fiat-backed stablecoins remain the most widely used. Fiat-backed stablecoins hold reserves in traditional bank accounts or highly liquid short-term instruments such as US Treasurys. Users find this model more intuitive because each digital token ostensibly corresponds to a unit of fiat currency (usually $1). Data shows that about 95% of stablecoins in circulation today fall under the fiat-backed model.[5] Tether's USDT and Circle's USDC command around 90% of that subset, making them the two largest players in the space. In addition, over 97% of fiat-backed stablecoins on the market are denominated in US dollars.[6]

Fiat-backed stablecoins are also viewed as easier to place within existing legal frameworks because they, in principle, function like digital representations of widely recognized fiat currencies. As regulators worldwide catch up, many have begun codifying rules explicitly addressing fiat-backed models first, and some have explicitly banned other collateralized models.

While strategy- or other collateral-backed stablecoins could experience future growth—especially in decentralized finance (DeFi) or in regions with specific regulatory or economic conditions—fiat-backed stablecoins remain the most relevant for near-term wide-scale adoption, particularly for payments, institutional usage, and corporate treasury applications.

4: "Stablecoins," Artemis, n.d., accessed February 1, 2025.
5: "Top Stablecoins of 2024," Trust Wallet, October 4, 2024.
6: "Stablecoins: The Emerging Market Story," Castle Island Ventures, September 12, 2024.

How do fiat-backed stablecoins work?

Fiat-backed stablecoins have a straightforward premise: Every digital token minted is backed 1-to-1 by an equivalent value of fiat currency or near-cash instruments held in reserve. For example, when a user purchases 10,000 USDC by sending $10,000 to Circle's designated bank account, Circle mints 10,000 USDC tokens on the requested blockchain, such as Ethereum, Solana, or Base, and credits them to the user's wallet. Conversely, if the user redeems those 10,000 USDC tokens, Circle "burns" the tokens and wires $10,000 from its reserve to the user's bank account.

In principle, these reserves are supposed to ensure that a stablecoin consistently trades at or near its fiat peg. When market participants can freely redeem stablecoins for actual dollars, any substantial deviation from $1.00 presents an arbitrage opportunity. If, for instance, USDC trades at $0.98 on a crypto exchange, arbitrageurs can buy it there, redeem it with Circle for $1.00, and net the difference. This dynamic incentivizes traders to stabilize the token's market price around $1.00.

The core challenge in this system is transparency and trust. If users doubt the quality or sufficiency of the underlying reserves, the stablecoin's peg can become fragile, as seen in various crypto crises since 2018. Reputable fiat-backed stablecoins typically undergo third-party attestations or audits, publish regular transparency reports, and comply with local and international financial regulations to bolster user confidence.

Stablecoins' potential to disrupt today's traditional payment landscape

To grasp stablecoins' disruptive potential, it helps to first understand the pain points within traditional payment systems. These range from payment card networks such as Visa and Mastercard, to bank-based rails such as Automated Clearing House (ACH) transfers and wires, to emerging real-time payment systems such as The Clearing House's Real-Time Payments (RTP) and the US government's FedNow.

From a merchant perspective, payment acceptance can be costly and riddled with inefficiencies. Interchange fees for credit and debit card transactions typically hover around 1% to 3%. Although very large retailers, such as Costco or Walmart, may be able to negotiate much lower processing fees due to their massive transaction volume, smaller merchants often lack such leverage. Moreover, settlement times can lag by days, creating working-capital headaches. International sales add another layer of complexity, involving cross-border fees, currency conversions, and sometimes multiple intermediaries.

End users also face inconveniences in the current payment landscape. International wires remain expensive and can take days, with each bank or payment processor adding fees. Even domestic US wire transfers can be pricey and subject to cutoff times. While consumer-facing apps such as PayPal, Venmo, and Cash App have streamlined peer-to-peer (P2P) transfers, these services often remain siloed: A user cannot seamlessly move even a few dollars from Venmo to PayPal (which are both owned by the same parent company) without first withdrawing to a bank and

Traditional payment rails versus stablecoins

Payment rail	Cost	Settlement time	Reliability	Convenience
Credit cards	1%-3.5% + $0.10-$0.50	1-3 business days	High, but network can have scheduled downtimes	Very high acceptance; easy to use for consumers
Debit cards	Regulated: 0.05% + $0.20 Exempt: 0.5%-2%	Instant to 1 day	Generally high, but subject to bank hours	Moderately convenient; user-friendly only in certain platforms
ACH transfers	Flat fees ($0.20–$1.50) or % fee	1-3 business days	Generally high, but subject to bank hours	Moderately convenient; user-friendly only in certain platforms
Wire transfers	$15-$50 per transfer	Same-day (domestic) or multiday (international)	Bank-level reliability, but subject to cutoff times	Low convenience; mostly used for large sums; manual
Mobile wallets (such as Venmo)	Free (P2P) 1%-3% (merchants)	Instant within wallet; 1–3 days to withdraw to bank	High, but reliant on central servers	High convenience, but only within the same ecosystem
Fiat-backed stablecoins	<$0.01 (on high-throughput blockchains)	Near-instant to a few minutes (on high-throughput blockchains)	High; decentralized networks rarely fully "down" but can be congested	High convenience if user-friendly UI/UX is available

Source: PitchBook • Geography: Global • As of March 4, 2025

waiting out settlement delays. The limitations become even more obvious in cross-border contexts, where high remittance fees and slow processing remain common.

In most instances, stablecoin transactions cost significantly less than traditional payment methods, especially at scale. They also settle within minutes, regardless of time zone or bank holidays, which stands in stark contrast to the delay-laden traditional rails. While network congestion or high on-chain fees can happen during peak usage, ongoing advancements—such as Layer 2 scaling solutions on Ethereum and newer high-throughput blockchains like Solana and Base—have made stablecoin transfers cheaper and faster overall.

Stablecoins can disrupt traditional payment networks in at least three major ways: by lowering transaction costs for merchants, streamlining cross-border transactions, and enabling real-time treasury management for institutions. In the future, a merchant could directly accept stablecoins in an online storefront, bypassing the interchange fees charged by card networks, and receive funds within minutes. Firms operating internationally could manage global payroll or supplier payments much more fluidly by using stablecoins rather than navigating multiple bank intermediaries. For example, in December 2024, the HR platform Remote announced a partnership with Stripe to let its US-based customers pay contractors in 69 countries in stablecoins (starting with USDC on Coinbase's Base network) to allow near-instant, compliant global payouts through a single payroll platform.[7]

Despite these advantages, stablecoins face hurdles such as regulatory uncertainty, technological literacy among end users, and occasional blockchain congestion. Yet these challenges do not undermine the technology's fundamental promise: near-instant, borderless, programmable transactions at a reduced cost. As stablecoins evolve—particularly those managed by established brands and under robust regulatory frameworks—they will likely garner greater trust and adoption, further encroaching on traditional rails.

7: "Remote Teams With Stripe to Introduce Easy, Compliant Stablecoin Payouts for Contractors Worldwide," Business Wire, Remote, December 17, 2024.

One of the most powerful yet often underdiscussed aspects of stablecoins is their interoperability across platforms and protocols.

Interoperability is a defining yet underrated feature

One of the most powerful yet often underdiscussed aspects of stablecoins is their interoperability across platforms and protocols. A fiat-backed stablecoin such as USDC can travel seamlessly between different wallets, decentralized exchanges, lending protocols, and payment processors without a user needing to exit to fiat in between. By contrast, in the traditional financial world, moving a single dollar from Venmo to PayPal to a credit card balance can involve multiple intermediaries, waiting periods, and sometimes fees.

This open interoperability paves the way for programmability, or "money Legos," in payments. Users and developers can create automated processes—such as recurring subscriptions, escrow payments, and yield-distribution contracts—that execute in real time according to predefined smart-contract logic. Traditional payment rails offer some automation (ACH debits, for example), but these are often restricted by business days, bank cutoffs, and siloed systems.

Trust is an essential ingredient for stablecoin adoption

Moreover, the question of brand trust plays an increasingly pivotal role. Just as consumers trust Visa and Mastercard due to their lengthy track records and near-ubiquitous acceptance, stablecoin issuers that can cultivate a strong reputation, regulatory clarity, and user-friendly infrastructure stand the best chance of becoming household names. Financial services giants such as PayPal or major banks that issue their own stablecoins may enjoy a head start in brand recognition and trust, but this is not guaranteed to displace incumbent leaders such as Circle and Tether without competitive fee structures, interoperability, and consistent regulatory compliance.

USDT and USDC dominate the stablecoin market

The current stablecoin market is both concentrated and diverse. Concentration is evident in the top two fiat-backed stablecoins, USDT and USDC, which together capture roughly 90% of the fiat-backed category. Diversity, however, emerges from the multitude of smaller issuers, each with different transparency standards, governance structures, and market niches. At a high level, the market can be segmented into four categories: leading fiat-backed stablecoins, other fiat-backed entrants, asset-collateralized stablecoins, and strategy-backed stablecoins.

Tether

USDT remains the largest stablecoin by market capitalization, holding approximately 65% of the total stablecoin supply.[8] Its journey from an obscure crypto trading pair to the dominant stablecoin underscores the robust demand for a dollar-pegged token. Tether's dominance is closely tied to its heavy usage in markets with historically limited or expensive direct banking channels for crypto trading, including parts of Asia, Latin America, and Eastern Europe.

8: "Stablecoins," RWA.xyz, n.d., accessed February 20, 2025.

However, Tether has faced persistent scrutiny regarding the composition and transparency of its reserves. While Tether claims a 1-to-1 backing with dollars and other cash-equivalent assets, it has historically lagged in providing timely or detailed audits. The issuer has also been reported to have holdings in short-term commercial paper, potential related-party loans, and fines and settlements with regulatory bodies that have led to repeated debates about Tether's solvency. Critics warn that Tether's outsized share in the stablecoin market presents a systemic risk: Should Tether fail or de-peg, the impact on crypto trading volumes and liquidity could be catastrophic, possibly worse than the Terra/Luna meltdown that rattled markets in 2022. Still, Tether's trading volume, acceptance on major exchanges, and extensive liquidity pools attest to its entrenched network effect. Many traders and platforms rely on Tether out of habit, convenience, or local liquidity availability.

Tether reported record-breaking 2024 results, with net profits exceeding $13 billion and group equity surpassing $20 billion.[9] Its US Treasury holdings hit $113 billion, making Tether one of the largest nonsovereign holders globally, surpassing some nondomestic central banks. A forced sell-off of its Treasurys could signal instability in global stablecoin reserves, raising concerns among other Treasury investors. The company expanded beyond stablecoins in 2024, investing in AI, bitcoin mining, and telecom. While Tether's growing reserves enhance its stability, its deep reliance on US Treasurys and increasing financial influence raise systemic and regulatory questions. As Tether expands its footprint, we expect scrutiny over its market impact and investment strategies to intensify.

Circle

Circle, the issuer of USDC, is widely viewed as Tether's principal competitor and the second-largest fiat-backed stablecoin with about 25% of the total market.[10] Circle's strategy hinges on public transparency, regulatory engagement, and robust institutional partnerships. USDC reserves are managed within the Circle Reserve Fund. Registered with the Securities and Exchange Commission (SEC), this government money market fund provides heightened regulatory oversight, daily disclosures of the underlying instruments, and a well-known custodian relationship with BlackRock. These measures present a credible alternative for financial institutions, corporate treasuries, and regulated fintech players seeking a stablecoin they can trust.

This emphasis on transparency and compliance has made USDC a favorite among financial institutions, fintech companies, and DeFi projects that value a lower counterparty risk profile than that of Tether. Circle has also forged collaborations with major fintech companies such as Stripe and banks such as BBVA, integrating USDC seamlessly into various payment and lending services. In 2024, Circle submitted a confidential S-1 filing for a potential IPO, which we expect to occur later this year. These regulatory and operational choices are strategic moves designed to make USDC the stablecoin of choice for mainstream finance.

9: "Q4 2024 Attestation Report," Tether, January 31, 2025.
10: "Stablecoins," RWA.xyz, n.d., accessed February 20, 2025.

In the long run, Circle's institutional credibility may help it close the gap with Tether.

Despite Circle's relatively smaller market share, it boasts a strong brand and well-publicized partnerships. In the long run, Circle's institutional credibility may help it close the gap with Tether. However, the biggest near-term question for Circle is whether heightened competition—from both new entrants such as PayPal and large asset managers offering tokenized money market funds—will force it to evolve its existing business model. For instance, Circle benefits significantly from the interest income generated on its reserves. If competing on-chain funds pass more of that yield back to token holders, Circle may need to share yields more generously to maintain a competitive edge.

Other fiat-backed stablecoins

Beyond Tether and Circle, numerous other fiat-backed stablecoins exist, though each commands a relatively small slice of the market. Examples include Binance USD (BUSD), though it has faced regulatory headwinds; Pax Dollar (USDP); and emerging entrants such as Agora. Agora, backed by VanEck's oversight of reserves, stands out for having a reserve composition similar to Circle's—primarily US Treasurys and cash equivalents. However, Agora has not publicly disclosed a regulated structure akin to Circle's SEC-registered government fund. This lack of standardized, transparent frameworks can be a sticking point for institutional players that might otherwise seek alternatives to USDC. While Agora's reserves could be perfectly sound, the absence of robust regulatory framing and daily disclosures places it at a disadvantage relative to Circle, especially for risk-averse counterparties.

In many respects, these smaller issuers emphasize distinct market niches—some focus on particular regional corridors, others on compliance with specific local regulations, and still others on specialized DeFi integrations. However, none has achieved the scale or brand trust of USDT or USDC.

Surpassing $1 billion in assets generally requires a combination of high-volume exchange listings, user confidence in the reserve backing, and integrations with popular DeFi protocols. Above all, stablecoins need consistent liquidity and daily usage—factors often fueled by exchange incentives or partnerships with wallet providers and payment processors. Another crucial aspect is brand perception: Stablecoins that earn a reputation for reliability, regulatory compliance, and timely redemptions can more easily attract large-scale holders. Even with these factors in place, climbing past the billion-dollar mark takes time unless a major platform—such as a top-tier exchange or a well-established fintech—directly drives adoption through incentives or integrated payments.

Asset-backed stablecoins

Although this note focuses on fiat-backed coins, it is worth acknowledging the existence and continued evolution of stablecoins backed by other assets, such as gold, real estate, or baskets of crypto. Popular crypto-backed stablecoins such as USDS (which uses ether and other crypto assets as collateral) gained attention during the DeFi boom for offering decentralization and censorship resistance.[11] Yet they face their own complexities, including overcollateralization and susceptibility to sharp market downturns in underlying crypto assets.

11: USDS is the recent rebrand of the DAI stablecoin from MakerDAO, which itself is now Sky.

Commodity-backed stablecoins, sometimes referencing gold, maintain a niche appeal. The impetus is often to provide an on-chain representation of a tangible asset that many users consider a store of value. However, verifying the physical asset custody and building robust redemption mechanisms remain significant challenges. Such projects also do not directly compete with the "digital dollar" narrative that has proven so compelling in payments and DeFi contexts.

Strategy-backed stablecoins

Strategy-backed stablecoins rely on active hedging strategies, often using derivatives, to maintain a stable price against a target currency. Unlike purely algorithmic stablecoins such as the failed TerraUSD stablecoin—where supply expansion or contraction is the primary mechanism—strategy-backed models hold or rotate collateral and systematically adjust positions based on market conditions. This dynamic hedging approach can be more resilient during volatility.

Ethena is the most prominent strategy-backed stablecoin; it pegs to the US dollar through on-chain derivatives that hedge price risk. Rather than depending on an algorithmic mint-and-burn function, Ethena's portfolio constantly adapts to market moves, offsetting potential losses with gains from other positions. While effective hedging can strengthen stability, it also introduces complexity and demands robust liquidity. If strategies are poorly structured, a sudden market shift can undermine the peg. We expect strategy-backed stablecoins to continue to evolve with more sophisticated underwriting and better on-chain transparency, but they must overcome both technological hurdles and reputational association with algorithmic stablecoins.

Recent market developments have set the stage for stablecoin adoption

The Clearing House's RTP network and the Federal Reserve's FedNow system represent a push by US banks to modernize domestic wire and ACH transfers. In February 2025, BNY and The Clearing House processed a $10 million instant payment over the RTP network, claiming it to be the largest instantaneous transaction in history.[12] While significant, such incremental improvements pale in comparison to the volumes already transacted via stablecoins. On February 20, 2025, on-chain data from Etherscan showed over 228,000 transactions of $10 million or more in USDC alone.[13]

Although increasing RTP limits to $10 million or more undoubtedly provides value for businesses seeking immediate settlement in a bank-based environment, stablecoins still offer key advantages: borderless transfers, global liquidity, programmability, and 24/7 availability (in contrast with traditional banking hours).

Furthermore, stablecoins eliminate certain forms of counterparty risk tied to banks themselves. These distinctions underscore how the continued modernization of traditional finance does not necessarily negate the core benefits of stablecoins.

12: "BNY Sends Largest Instant Payment in US History, $10 Million, Following Transaction Limit Increase," BNY, February 10, 2025.
13: "Transactions," Etherscan, n.d., accessed February 20, 2025.

Instead, the payments landscape appears poised for fragmentation, with parallel systems serving overlapping but distinct needs and potential future interoperability bridging the gap between bank-based RTP rails and on-chain ecosystems.

Over the past year, multiple global banks have signaled plans to issue or explore stablecoins, including BBVA and Standard Chartered. Their motivation often stems from a desire to modernize cross-border payments, streamline on-chain settlement for institutional clients, and position themselves competitively in anticipation of expanded digital-asset regulation. Meanwhile, large fintech players have already made major developments in this market. PayPal's launch of a USD stablecoin, PYUSD, in 2023 was a major validation for the technology. Despite initial skepticism of PYUSD, PayPal's vast user base hints at the potential for stablecoins to reach mainstream consumers in a more intuitive format than many DeFi-centric offerings. As of March 4, 2025, there was over $760 million in circulating PYUSD.[14]

If such tokens become sufficiently flexible and widely accepted, they could erode the market share of existing stablecoin issuers by offering not just price stability but also a higher yield passed on to holders.

Asset managers, including BlackRock, Franklin Templeton, and Fidelity, have also begun rolling out or announcing tokenized money market funds using public blockchains such as Ethereum, Polygon, and Stellar. These funds tokenize shares in a money market portfolio that holds short-term government bonds or other cash equivalents. In doing so, they potentially create a "stablecoin-like" instrument that might one day compete directly with USDC, USDT, or other established fiat-backed coins. For example, Franklin Templeton's BENJI token already allows P2P transfers on public blockchains. If such tokens become sufficiently flexible and widely accepted, they could erode the market share of existing stablecoin issuers by offering not just price stability but also a higher yield passed on to holders, effectively compressing the advantage incumbents gain by retaining interest on reserves.

Visa is developing its Visa Tokenized Asset Platform (VTAP), expected to go live this year, to enable banks and financial institutions to issue and manage stablecoins on public blockchains. This platform aims to preserve Visa's role as a trusted transaction facilitator, bridging the gap between bank-grade compliance and open blockchain networks. If successful, VTAP could rapidly expand stablecoin issuance among hundreds of banks worldwide, driving adoption in a more regulated, integrated environment than the current patchwork of stablecoin issuers. However, competition among these bank-issued tokens might eventually revolve around a yield payment, branding, user experience, transaction fees, and integration with established card networks. Banks might also face pressure to share yield or other benefits with token holders to remain competitive.

Stablecoin use cases continue to proliferate

Stablecoins solve different problems for different users, ranging from simple on-ramp solutions for crypto exchanges to sophisticated global payment flows.

14: "PayPal USD," CoinGecko, n.d., accessed March 4, 2025.

Access to the US dollar

In countries with unstable currencies or high inflation, holding US dollars is a store-of-value strategy. However, individuals often face capital controls and limited access to dollar bank accounts. Stablecoins such as USDT or USDC allow anyone with an internet connection to hold a dollar proxy without the need for physical cash or a US bank. While these holders typically earn zero interest in stablecoin wallets, that forgone interest might be negligible compared with the benefits of protecting against local currency devaluation. In high-inflation markets, stablecoins thus become a form of digital dollarization, circumventing currency controls and empowering individuals who might otherwise be stuck with rapidly depreciating local fiat.

Payments in US dollars

Even in developed economies, stablecoins can streamline e-commerce or freelancer payments. When Stripe introduced a USDC payment option in 2024, it provided an alternative for merchants that make or receive payments internationally. Stripe's integration drastically simplified cross-border settlement, reducing reliance on correspondent banking networks and offering near-instant clearance. For freelancers in emerging markets, receiving USDC through Stripe can be faster and cheaper than traditional wire transfers, especially if local banks are not well connected to the global financial system.

Cross-border transfers

One of the most compelling use cases for stablecoins is cross-border remittances. Traditional remittance channels from the US to many developing countries can cost between 5% and 7%, and the transaction can take multiple days. By contrast, stablecoin transfers on popular blockchains can happen within minutes, and fees can be below 1%. For example, the average cost of transferring $200 from the US to Vietnam recently hovered around 4.5% to 5.5% when factoring in fees and currency exchange markups.[15] Some traditional remittance providers charge as high as 6% or more, while certain digital-focused services may offer rates closer to 3%, depending on speed and delivery methods.

Traditional remittance corridors often involve layered fees—money transfer operator charges, currency conversion markups, and local cash-out fees. Stablecoins can bypass many of these intermediaries. If, for instance, a user onboards dollars to a crypto exchange in the US, buys USDC, and sends it to a family member in Vietnam who can liquidate it locally or hold it in a wallet, the cost and time savings could be dramatic. While local on- and off-ramps are still developing, the gap between stablecoin and bank-based fees remains wide.

15: "Sending Money From United States to Vietnam," The World Bank, September 3, 2024.

Capital markets

A more underappreciated area where stablecoins could drive innovation is in capital markets. Corporates or financial institutions could use stablecoins for rapid settlement of bonds, equities, or money market instruments. This potentially reduces settlement risk and shortens settlement cycles from T+2 or T+3 to near-instant settlement. Tokenizing real-world assets, from real estate to government bonds, amplifies the benefits. Once tokenized, these assets can be transacted via stablecoins in global, 24/7 markets, opening the door to fractional ownership and greater liquidity. While regulatory frameworks for these tokenized structures remain nascent, the trend toward on-chain capital markets—partly fueled by stablecoin infrastructure—is accelerating. In the future, financial instruments and stablecoin-based settlement could become interwoven into a more efficient, disintermediated capital markets ecosystem.

Strong stablecoin growth across investments, circulating supply, and more

Stablecoin usage has grown at a staggering pace, attracting venture capital, spawning major corporate deals, and reshaping market structures in both crypto and traditional finance. Our data indicates that in 2024 alone, approximately $912 billion was invested globally in stablecoin-related businesses, including issuers, infrastructure providers, wallet solutions, and service providers. We anticipate continued investor interest, particularly in projects that can enhance stablecoin compliance, cross-border integrations, or yield-sharing mechanisms. We expect two major deals in the stablecoin space to be the bellwether for more investments to come:

- **Circle's IPO:** In early 2024, Circle signaled its intent for an IPO by filing a confidential S-1 registration with the SEC. We expect the IPO to occur this year, potentially making Circle the first major pure-play stablecoin issuer to list on a US stock exchange. An IPO could grant Circle significant capital to scale operations, accelerate product development, and cement partnerships—potentially boosting USDC's profile further.

- **Stripe's acquisition of Bridge for $1.1 billion:** Stripe acquired stablecoin infrastructure platform Bridge in one of the largest crypto-related M&A deals ever. The acquisition underscores Stripe's belief that stablecoin-based payments have a bright future, enabling the company to integrate stablecoin rails more seamlessly into its existing products. The acquisition's price tag hints that even established fintech incumbents are willing to spend heavily to bolster their capabilities in issuing, managing, and settling digital currency transactions.

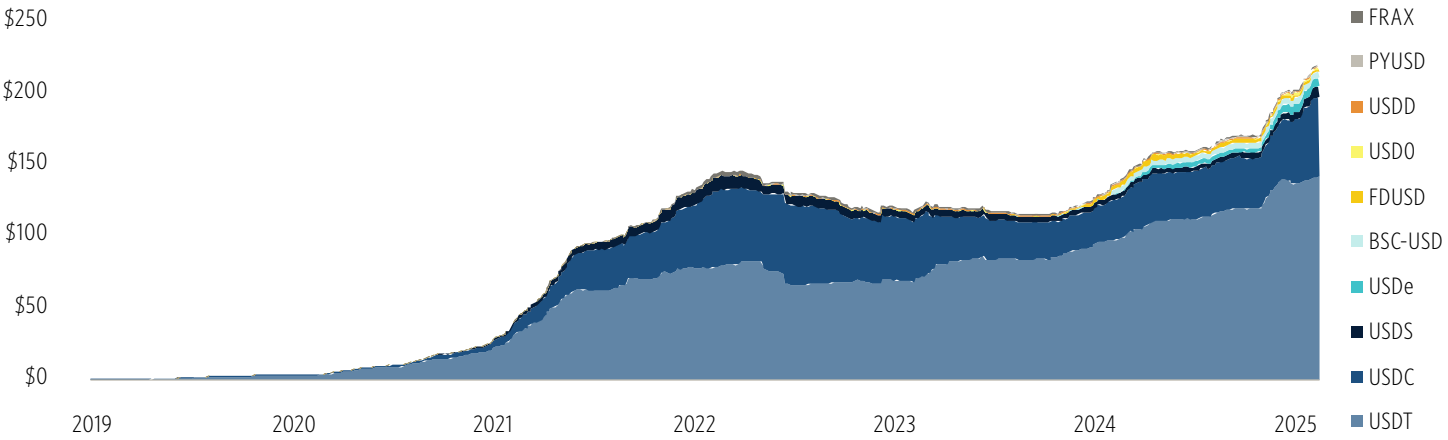
The top 10 stablecoins collectively sport a market capitalization of approximately $220 billion today, up from less than $120 billion two years prior.[16] Tether alone holds roughly 65% of the total, while USDC accounts for another 25%. The combined market share of fiat-backed stablecoins remains over 95%, making non-fiat collateralized or algorithmic stablecoins relatively small players by comparison.

16: "Stablecoins," RWA.xyz, n.d., accessed February 20, 2025.

The steep growth in market cap shows that stablecoins are not merely a niche instrument for crypto traders. Corporates, institutional investors, and retail users in emerging markets increasingly hold stablecoins for transactions, hedging, and short-term savings. While bull and bear cycles in the broader crypto market can influence stablecoin metrics—often with stablecoin supply rising during volatile periods—there is a noticeable secular trend toward stablecoin adoption, even outside purely speculative contexts.

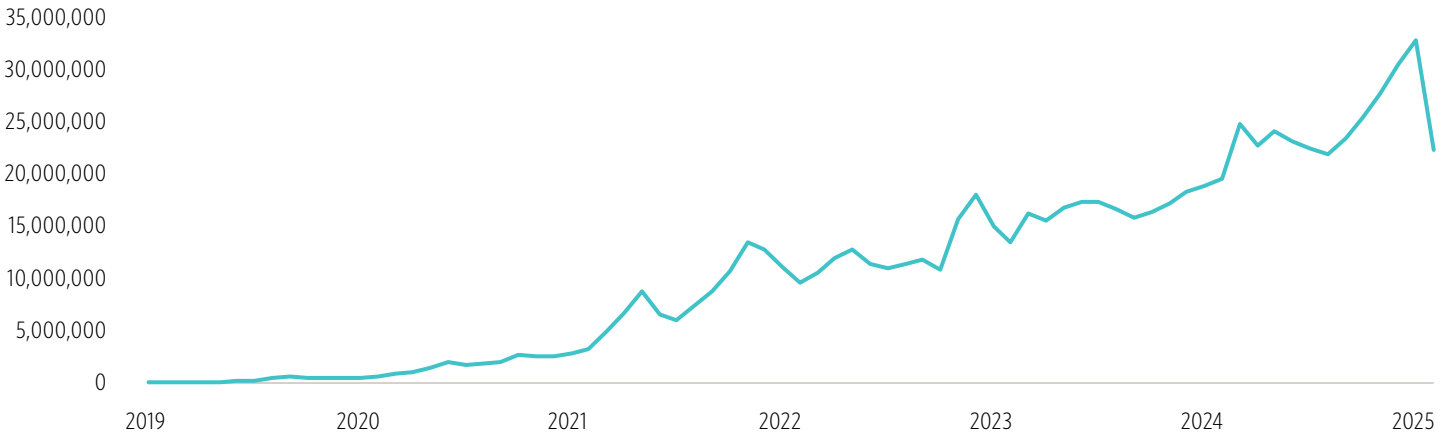
The number of active unique wallets holding stablecoins peaked at over 32 million in January 2025, more than double the 15 million reported two years earlier.[17] This sharp uptick parallels broader crypto adoption but also reveals new user cohorts. Some are traditional retail investors seeking digital dollars in regions with inflationary pressures. Others are DeFi users employing stablecoins for yield generation, liquidity pooling, or derivatives trading. Institutional custodial solutions have also contributed to user growth by making it easier for businesses and high-net-worth individuals to store stablecoins securely.

Market capitalization ($B) of top 10 stablecoins



Source: RWA.xyz • Geography: Global • As of February 20, 2025

Average daily unique addresses that interact with stablecoins

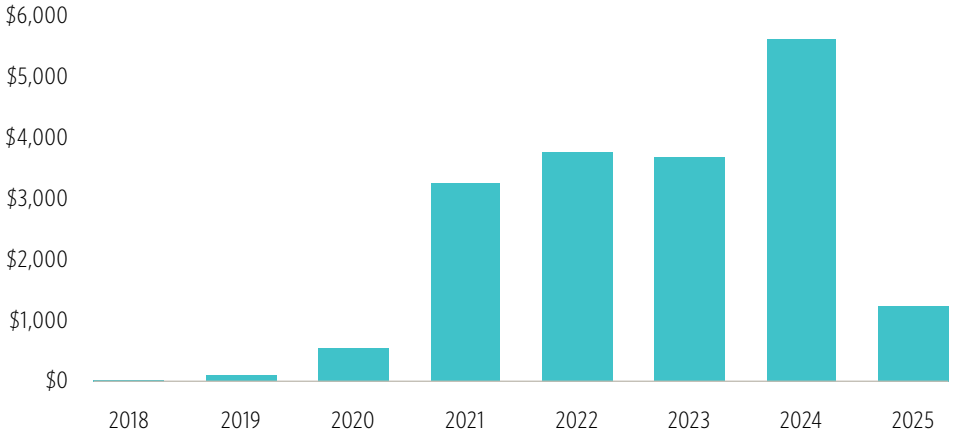


Source: Artemis • Geography: Global • As of February 1, 2025

17: "Stablecoins," Artemis, n.d., accessed February 1, 2025.

Transaction volume has also grown significantly in recent years, from a mere $3.8 billion in 2018 to multitrillion levels by 2021 and 2022.[18] The expansion is attributable partly to crypto exchange usage, but an increasingly large share comes from institutional flows and mainstream financial applications. In 2024, there was a record of over $5.6 trillion in transaction volume, adjusted lower due to bot activity.[19] Still, this represents more than 40% of Visa's 2024 total payments volume of $13.2 trillion.[20]

Adjusted stablecoin transaction volume ($B)



Source: Allium • Geography: Global • As of February 22, 2025

Fiat-backed stablecoin business model benefits from elevated interest rates

While fiat-backed stablecoin issuers are sometimes likened to banks, they function under different regulatory and market expectations. Most fiat-backed stablecoin issuers have a few primary revenue streams:

1. **Interest earned on reserves:** When users deposit fiat to mint stablecoins, that money is held in bank accounts, short-term government bonds (such as US Treasurys), or equivalent money market instruments. As interest rates rise, the earnings on these assets can be substantial. Currently, many stablecoin issuers retain a significant portion of this yield rather than passing it on to token holders.

2. **Transaction fees:** Some issuers charge fees for large-scale redemptions, institutional integrations, or specialized treasury services. Per-transaction fees on retail user transfers are less common but may appear in certain contexts (such as off-chain redemption or high-frequency minting).

3. **Redemption and minting fees:** While not always common, some issuers impose a small fee for redeeming or creating new stablecoins, particularly for large institutions that move significant amounts of capital.

18: "Stablecoin Transaction Volume," Allium, n.d., accessed February 22, 2025.
19: Ibid.
20: "Annual Report 2024," Visa, November 13, 2024.

4. **Institutional partnerships:** Partnerships with fintech companies, e-commerce platforms, or banks can generate additional revenue. For instance, an issuer might share in the interest or transaction-related revenues gleaned through an integration deal, or it might offer advanced APIs and compliance services at a premium.

Revenue streams of fiat-backed stablecoin issuers

Revenue stream	Description	Potential scale
Interest on reserves	Earn 4% to 5% on short-term Treasury bills if rates are high	Substantial if user deposits are in the billions
Transaction fees	Minor fees on large-scale transactions or enterprise usage	Moderate; depends on partnerships
Redemption and minting fees	Small percentage or fixed fee for bulk conversions	Can be relevant for corporate treasury movements
Institutional partnerships	Revenue-sharing or licensing deals with banks and fintech companies	Potentially large, especially if stablecoin usage grows

Source: PitchBook • Geography: Global • As of March 4, 2025

Issuing a stablecoin also incurs various costs, which can include:

- **Banking and custody costs:** Maintaining large fiat reserves in multiple jurisdictions may involve significant banking fees, collateral requirements, and administrative overhead.

- **Compliance and regulatory costs:** Stablecoin issuers must navigate a rapidly evolving legal environment. Costs for legal counsel, audits, and know-your-customer/anti-money-laundering compliance can be high.

- **Operational expenses:** These cover everything from blockchain node operations and smart-contract security audits to marketing, user support, and software development.

As stablecoin adoption grows and regulatory scrutiny intensifies, these costs could rise substantially. In certain jurisdictions, issuers might be required to obtain banking licenses or comply with equivalent capital requirements, raising operating expenses and forcing further consolidation among issuers. A critical question for investors and regulators alike is how stablecoins stack up against traditional instruments such as money market funds, bank deposits, or direct holdings in short-term Treasurys. Each offers a different risk/reward profile and regulatory framework:

- **Money market funds:** These typically invest in short-term, high-quality debt instruments and aim to maintain a stable net asset value of around $1.00 per share. However, money market fund holders often expect some yield, which is not always the case for stablecoin holders. Tokenized money market funds (such as those from Franklin Templeton or BlackRock) are beginning to blur this distinction by offering on-chain redemption and digital wallet compatibility.

- **Bank deposits:** Holding fiat in a bank account can earn minimal interest (though it can increase as interest rates rise) but enjoys federal insurance (such as FDIC insurance in the US) up to certain limits. Stablecoins generally do not carry deposit insurance, though they claim 1-to-1 backing in real-world assets.

- **Short-term Treasurys:** Directly investing in Treasury bills yields the base risk-free rate. Individuals or institutions forgoing stablecoins can invest in these instruments themselves. The advantages stablecoins offer are liquidity on a global scale, 24/7 markets, and programmability—none of which Treasury bills can match in their traditional form.

If tokenized money market funds begin passing virtually all of the underlying yield to their token holders, stablecoin incumbents that retain most of the reserve interest may be forced to adapt. They could either share more yield to remain competitive or focus on value-added services such as compliance, specialized treasury solutions, and user-friendly payment integrations. Over time, the arbitrage of "free yield" retained by stablecoin issuers could narrow significantly.

Stablecoins continue to face market, regulatory, and other risks

The stablecoin market sits at a crossroads of potential regulatory shifts, new technology deployments, and shifting user expectations. As stablecoins continue to permeate traditional finance, they could encounter strong competition from bank-issued coins, tokenized money market funds, and upgraded real-time payment networks. However, their core advantages—global accessibility, near-instant settlement, and programmability—suggest that stablecoins will remain a major force in digital finance.

One notable risk is the current market concentration, which we view as a major concern. Tether alone accounts for around 65% of stablecoin supply, and USDC adds another 25%. Combined, they exceed 90% of the fiat-backed segment. If Tether were to fail or significantly de-peg, it would likely trigger a liquidity crisis across global crypto markets, which would likely far surpass the damage brought on by Terra's collapse in 2022. Tether's usage in many exchanges and decentralized liquidity pools amplifies the potential for systemic contagion.

Another major risk is centralization, in which a single entity such as Tether or Circle controls the minting and burning of tokens, raising concerns about decision-making and conflict of interest. An issuer might halt redemptions or freeze funds under regulator pressure, hurting legitimate holders. Where external custodians or banking partners manage reserves, stablecoin users effectively rely on those counterparties' stability and solvency. A sudden bank failure, liquidity freeze, or change in relationships could disrupt redemption processes. This risk partly played out in 2023 when Circle temporarily faced uncertainty over a portion of its reserves held at a troubled US bank. Reports surfaced that approximately $3.3 billion of USDC's fiat backing was parked in Silicon Valley Bank, which went into receivership. Although Circle eventually regained full access to its funds, the incident caused USDC to drop below its $1 peg for several days, underscoring how

dependent a stablecoin issuer can be on the health of its banking partners. Even fully collateralized reserves offer no immunity if a key bank custodian suddenly fails or experiences liquidity issues. Users, spooked by potential exposure, rushed to redeem USDC, amplifying the de-peg until clearer assurances emerged.

In the US, stablecoin issuers still operate in a gray zone, with no federal statute specifically designed for them. Enforcement actions by agencies such as the SEC or Commodities Futures Trading Commission can create legal uncertainty, undermining market confidence. Meanwhile, the fear of a "bank run" scenario—where too many holders redeem their stablecoins at once—looms large, especially if the underlying reserves are not fully liquid or if redemptions become operationally constrained. In recent years, regulators around the world have moved toward stablecoin-specific rules. In the US, ongoing debates around potential federal legislation—including three stablecoins bills under discussion in the current congressional session—could codify reserve requirements, audits, and redemption rights. Should stablecoin issuers come under full federal purview, they may face capital requirements comparable to those for banks or money market funds, which could raise costs and reduce profitability.

Internationally, the Markets in Crypto-Assets (MiCA) framework in the EU went into effect in June 2024, imposing stricter oversight on stablecoin issuers offering services to European customers. In Hong Kong, a stablecoin bill introduced in December 2024 aims to clarify issuance and distribution requirements for stablecoin operators seeking to serve the Hong Kong market. Japan's approved measures in February 2025 emphasize user protection and licensing for issuers. Collectively, these regulatory frameworks can create a patchwork of compliance obligations, but they also legitimize stablecoins for a broader array of institutional and retail uses. Over the next few years, well-regulated stablecoin issuers might find a competitive edge as institutional capital flows seek regulatory certainty.

What we expect looking forward

Fiat-backed stablecoins have evolved from a niche crypto trading utility into a central pillar of the digital-asset economy, boasting hundreds of billions of dollars in circulation, trillions in annual transaction volume, and a rapidly widening user base. The appeal is clear: Stablecoins offer near-instant, borderless, and programmable payments without the volatility of traditional cryptocurrencies.

We believe a stablecoin-specific bill will pass through both houses of Congress and become law in the US, bringing a new era of clarity where stablecoin issuers must meet bank-like reserve requirements and provide rigorous disclosures. We expect regulated issuers such as Circle and PayPal to benefit most from these new laws, while offshore stablecoins such as Tether may be forced into compliance or exit the US market. The ban on rehypothecation in many of the proposed bills could also lower DeFi yields, making stablecoins less attractive for on-chain lending. However, institutional adoption is expected to increase, with banks and fintech firms integrating stablecoins into payments, remittances, settlements, and loans.

We also believe that yield compression is inevitable. Historically, issuers earned substantial revenue by capturing interest on reserves with minimal distribution to

holders. As on-chain money market funds from established asset managers become more widely accessible—and begin passing the lion's share of yield directly to users—we expect the competitive advantage of "free float" to diminish. Stablecoin issuers will likely respond by either sharing yields more generously or adding value through compliance, treasury solutions, cross-chain interoperability, and other payment services.

We further expect that every major financial platform or fintech app will seek to launch its own stablecoin, hoping to lock users into seamless payment ecosystems. However, we believe only a handful of trusted issuers—those with regulatory greenlights, recognized brands, and proven technological reliability—will ultimately capture the majority of market share. Successful stablecoins will not only boast 1-to-1 backing but also integrate deeply into diverse on-chain applications, from decentralized lending protocols to tokenized capital markets. As a result, we believe that both scale and trust will be paramount, reinforcing a cycle where the most established issuers continue to dominate.

Finally, we anticipate an ongoing interplay between technological evolution and user demands for convenience. Stablecoins, already recognized for near-instant settlement and global reach, will continue to benefit from advances in blockchain scalability and interoperability. At the same time, we expect heightened regulatory scrutiny—and the occasional market stress event—to periodically test the resilience of even the strongest stablecoin issuers. Taken as a whole, we believe these forces will steer the industry toward a more mature and transparent ecosystem, ultimately reinforcing the role of stablecoins as a key pillar of the digital financial landscape.