

STABLECOINS: REVOLUTIONISING PAYMENTS

- Stablecoins are rapidly moving from niche crypto tools to mainstream financial infrastructure, with 2025 marking a turning point in their adoption. The approval of the GENIUS Act by the Senate in June 2025 has triggered a rally in stablecoin-related stocks. Circle, the issuer of the USD Coin (USDC) is up by 482% since its IPO in June 2025 while Coinbase, an exchange where the USDC can be traded, rose by 32% over the month.

What are Stablecoins?

- Stablecoins are digital tokens designed to maintain a 1:1 peg to fiat currencies like the US dollar. Holders can swap a stablecoin for the asset it is pegged to. For example, if a user cashes out 1 USDC, the issuer redeems \$1 from its reserves and sends it to the person's bank account.
- Unlike volatile cryptocurrencies such as Bitcoin or Ethereum, stablecoins are built to prevent price swings. They can be transferred globally and instantaneously, on a 24/7 basis, and with very low fees. This makes them popular for cross-border payments, trading and as a digital alternative to cash.
- Their stability and speed make them ideal for settlements, remittances and increasingly, for yield generation. In 2024, stablecoins facilitated over \$6Trn worth of transactions.

The 2025 Catalyst

- Stablecoins have existed since 2014, but several key developments in 2025 accelerated their recent rise:
 - **The GENIUS Act:** Passed by the U.S. Senate in June 2025, this landmark legislation creates the first clear legal framework for stablecoins. It requires issuers to hold full reserves (mostly cash and Treasuries) separate from their own assets, mandates regular audits and enforces anti-money laundering compliance.
 - **Institutional adoption:** Major banks such as JPMorgan, Bank of America and Morgan Stanley are piloting or planning their own stablecoins, focusing on payments and investment products. Payment giants such as Visa are integrating stablecoin infrastructure to enable faster and cheaper settlements.
 - **Monetary tailwinds:** Rising real interest rates and renewed demand for yield have led stablecoin issuers to offer yield-backed tokens linked to

Treasury returns, attracting investors seeking safe digital yield.

Key Players

- Stablecoin issuers (e.g., Circle, Tether) earn fees on issuance and redemption, while investing reserves in Treasuries to capture interest margins.
- Banks issue their own stablecoins, facilitate payments, custody assets and offer investment products.
- Payment Networks like Visa and PayPal charge transaction fees and enable stablecoin payments on their platforms.
- Exchanges such as Coinbase and Binance facilitate trading, custody, and lending services, earning fees and commissions.

Implications for investors



- Stablecoin issuers have become major buyers of U.S. Treasuries, holding approximately \$200Bn in Treasury bonds, placing them among the top 20 holders globally, ahead of countries such as Germany. A report by Citi estimates that by 2030, stablecoins will hold more US Treasuries than any foreign country.
- It has introduced a new, non-traditional, global buyer base for U.S. debt at a time when the Treasury market is reportedly preparing for up to \$1Trn in additional supply by year-end to finance the U.S. fiscal deficit. This should put downward pressure on yields going forward.
- Stablecoins will also reshape banking: as users shift deposits into stablecoins, traditional banks may see deposit outflows. In order to retain customers, banks will likely issue their own stablecoins. However, banks holding stablecoin reserves will be limited to low-yield Treasuries instead of higher-yield loans, thus compressing banks' profitability.

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- Stablecoins enable low-cost, near-instant cross-border settlements via blockchain, posing a direct challenge to traditional payment networks like Visa and Mastercard. Although these networks have begun supporting stablecoin settlements, they face pressure on transaction fees as blockchain-based payments become viable alternatives.

Outlook

- With regulators and central banks increasingly signalling support and providing clearer frameworks, stablecoins are set to transform the financial landscape. Unlike Bitcoin, which promised digital currency but struggled with volatility, stablecoins represent digital money that is fast, stable and programmable.
- We are entering an era where stablecoins will become foundational to global payments, capital markets and financial services. They will drive innovation in cross-border commerce, enable new forms of yield generation and redefine how banks, payment networks and investors interact with money.
- For investors, this means stablecoins are no longer a crypto curiosity but a critical component of the future financial system—offering new opportunities and risks as they reshape liquidity, credit and the role of traditional financial institutions.

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