Perspective from **Franklin Templeton Digital Assets**

2023 outlook

Poised for growth

December 2022

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The digital assets ecosystem has seen significant growth over the past few years. We think this environment will continue to enjoy high growth rates over the next several years, for two reasons:

- First and foremost is the fact that companies are developing and deploying new technology and protocols in blockchain environments. From our perspective, this activity mirrors the development and proliferation of early internet protocols. Developer activity in these technologies is quite high in comparison to the other open-source programming environments.
- Second, the digital assets that power the economics of these blockchain-based development platforms have found increasing levels of adoption in investors' portfolios alongside assets such as equity, and credit-related investments in both public and private market form.

We have assessed the long-term value of blockchain technology and its impact on the operations of asset management businesses. We expect it to be a foundational technology in the financial services industry that makes use of massive amounts of data records. With this fundamental understanding, we see how this technology can be useful to any number of industries and commercial endeavors across the planet. In our opinion, blockchain technology adoption is a major theme on which investors will become increasingly focused in the years ahead.

Over the next 12 months, we expect three outcomes to occur in the digital asset sector:

- The regulatory landscape should push forward as policymakers hope to protect end consumers of digital assets and also promote the productivity and efficiencies gained through its deployment. The United States is the jurisdiction where we most expect clarity to begin to form in earnest. The United States is currently lagging other global regulators when it comes to allowing exploration and development of these technologies.
- During times of slower economic growth, we have seen business leaders deploy innovation and technology to remain competitive as they await better revenue-generating environments. There are many global macroeconomic constraints that appear to be limiting global growth. Thus, we expect the development and deployment of blockchain technology to accelerate in the next 12 months as one of many investments businesses make to increase efficiency.

- We believe the next 12 months will be a period of increased education and understanding about the benefits of blockchain vs. the volatility of price movements of various digital assets.

We think of digital assets as three main categories:

- There are the native tokens that power the "tokenomics" of blockchains. These are often referred to as cryptocurrencies. In this emerging environment, these cryptocurrencies have had quite volatile price movements.
- The second category is any asset that firms are developing on existing blockchain technology rails. We expect this to become a huge category. These would include traditional financial investments using these technologies as well as new assets that might flow due to metaverse or virtual environment developments. We believe it is important to separate the first category from the second when exploring the digital asset sectors.
- The third category is represented by central bank digital currencies (CBDCs) that governments will develop to replace existing monetary systems around the globe. This effort remains quite constrained at the moment.

In our opinion, digital assets are poised to "grow up" right before our eyes. This market maturity will expose the benefits and opportunities that investors may need to prudently use these assets to achieve their long-term investment goals.

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