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Monthly Outlook

Market Recalibration

October 28, 2025

- **While fear continues to grip crypto markets, we think October's liquidation event is more likely to be a prelude to medium to long term strength, not weakness, with a clean slate for Q4 upside.**
- **However, full market stabilization will likely take a few months, and for now it's more likely we'll see a gradual grind up rather than a surge to new all-time highs in the medium term.**
- **The "smart money" in our space currently shows flows are clustering around the EVM stack and away from Solana and BSC over the last 30 days.**

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Following the massive liquidation event on October 10, we believe crypto markets have found a near-term bottom and that positioning is now significantly cleaner. Markets appear to have reset rather than broken.. In our view, the sell-off has restored the system to structurally healthier leverage levels, which could provide directional support in the short to medium term. That said, **it's more likely that we'll see a gradual grind up rather than a surge to new all-time highs** over the next few months.

Mechanically, the deleveraging event was more about market plumbing rather than solvency, though it did put the riskiest corners of the crypto market under strain as altcoins dumped and market makers pulled quotes. On the upside, we think the technically driven nature of the move means that underlying crypto market fundamentals remain sound. Institutional players – many of whom were insulated from the leverage washout - will likely lead the next leg higher. We think the macro environment is still supportive despite being highly complex and riskier than the start of the year.

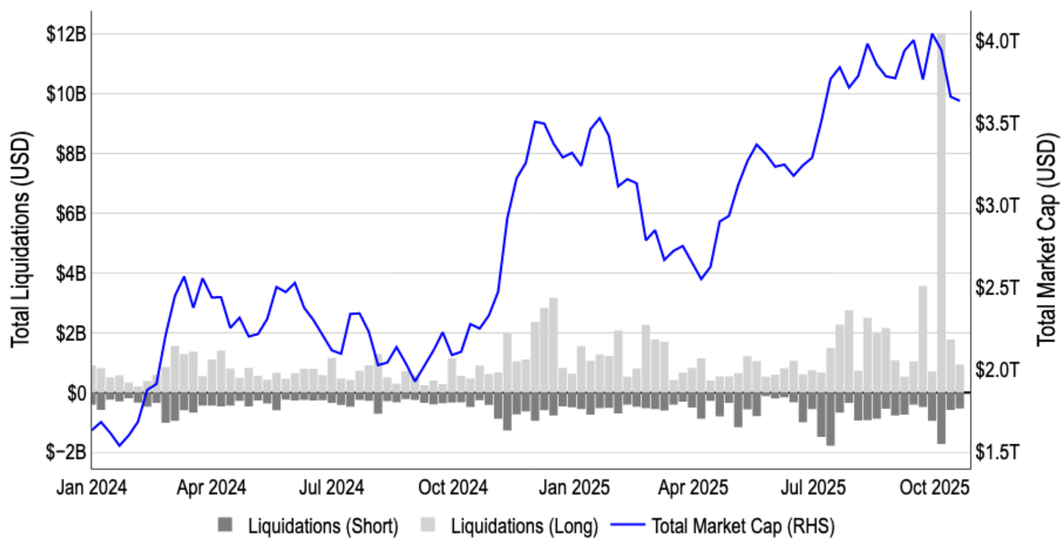
Looking at the "smart money" in this space (reported by Nansen), flows have rotated toward the EVM stack (e.g. Ethereum, Arbitrum) while Solana and Binance Smart Chain (BSC) have lost momentum. That said, we use smart money flows as a screen—not a buy signal—to identify where market depth, incentives, and builder/user activity are clustering across protocols, DEXs, and chains. Meanwhile, stablecoin data point to capital rotation rather than fresh money, which suggests rebounds will continue to rely on tactical incentives and narrative-driven rotations for the time being.

The Great Grain Robbery

A well-known anecdote among commodity traders is what's commonly referred to as "The Great Grain Robbery". It happened in 1973, and despite the title, it wasn't in fact a robbery at all. Rather, it was the systematic and covert draining of wheat and corn stocks by the Soviet Union from public markets over the course of a month. This mostly went unnoticed until global food prices spiked by 30-50%, before it emerged that the Soviet Union was suffering massive crop failures – pushing global grain supplies to dangerously low levels.

The tariff-induced crypto liquidation cascade on October 10—which drove many altcoins down by 40-70%—bears an uncanny resemblance to the informational dynamics at play in that event. In both episodes, **asymmetric information during periods of thin liquidity created massive market dislocations** that punished less liquid, higher-beta assets disproportionately.

Chart 1. Largest liquidations in recent crypto history



Weekly sum of liquidations across multiple exchanges. Sources: Allium, CoinMetrics, TradingView and Coinbase.

In 1973, the failure of US officials to recognize the global grain shortage stemmed from inadequate agricultural monitoring systems, leading Senator Henry Jackson to accuse them of either "incredible negligence" or "deliberate concealment." The aftermath spurred development of satellite crop monitoring to prevent future information asymmetries.

In crypto's case, the cascade wasn't just about information gaps but execution structure: altcoin liquidity is now fragmented across multiple exchanges while decentralized protocols automatically unwind overcollateralized altcoin positions when health factors deteriorate. This tends to create **self-reinforcing sell pressure** when prices start to slip. Not to mention that market makers now mostly hedge their exposure by shorting altcoins (which have significantly higher beta to large cap names, allowing them to keep position sizes smaller). But due to auto deleveraging (ADL), many of these entities abruptly closed positions and pulled their buy-side liquidity outright, exacerbating the sell-off.

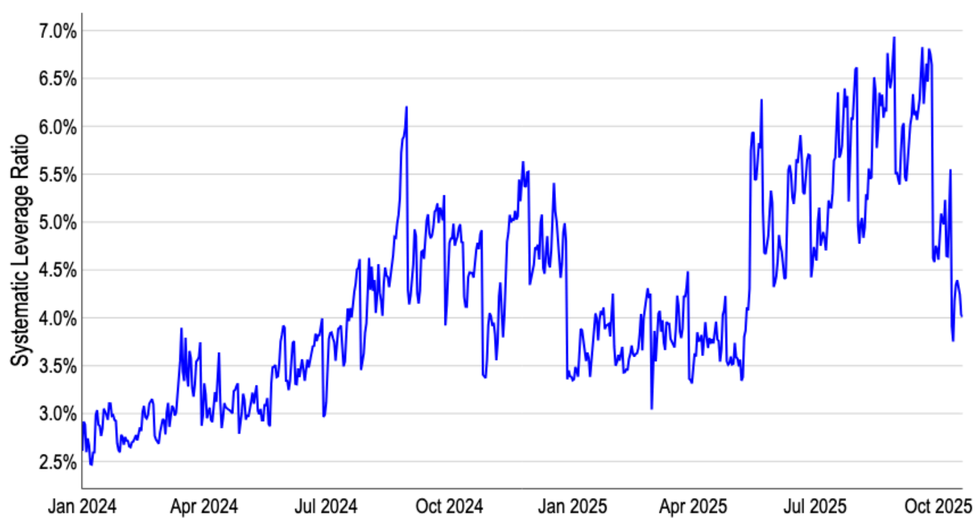
Both episodes underscore a timeless market truth: when liquidity vanishes and information asymmetries widen, the highest-beta, most leveraged corners of any market become the pressure release valves where forced selling concentrates. But what comes next?

Shape of the Recovery

Our view of the sell off is that this leverage flush was a necessary reset for crypto markets rather than a cycle top, potentially setting the stage for a grind higher in the months to come. Prior to the events of October 10, our primary concern was the possibility of the current bull market cycle being cut prematurely short. Indeed, a survey we ran from September 17 to October 3 indicated that 45% of institutional participants believed we were in the late stages of the bull market cycle.

In the aftermath of the sell off, we're actually more confident that the crypto market has directional upside, though we think crypto positioning in the next few months will be defined less by headline catalysts and more by market-structure repair. The liquidation cascade revealed fragilities around collateral standards, pricing sources, and transfer resilience across venues.

Chart 2. Short, sudden shock to leverage has reordered crypto markets



Perps and options option interest vs total market cap ex-stablecoins. Sources: Allium, CoinMetrics, TradingView and Coinbase.

Still, leverage has mostly been reset, as evidenced by our systematic leverage ratio (based on total open interest in derivatives divided by the total crypto market cap ex-stablecoins), which suggests we are roughly just above where we started the year (Chart 2). In our view, this will be one of the more critical stats to follow in the short to medium term. We think **the current ratio argues for episodic liquidity gaps and sharper tails** until risk controls are harmonized and market maker depth fully normalizes.

Looking ahead, we anticipate that future market strength will be primarily driven by institutional inflows, as institutions were largely insulated from the deleveraging event. Many either kept their leverage exposure low and/or were concentrated mainly in large-cap names, whereas altcoins – held more by retail market players – bore the brunt of the liquidation cascade. As institutional appetite recovers, we could see crypto markets rebound, though this may yet take a few months.

We thus anticipate a gradual increase in bitcoin dominance over the next 2-3 months, which may exert downward pressure on ETH/BTC and alt/BTC pairs before an eventual market rotation. Note that based on the breakeven levels for straddle and strangle option strategies, the implied market probability distribution of bitcoin prices over the next 3-6 months currently ranges from $160k to $90k with expectations asymmetrically biased to the upside (Chart 3).

Chart 3. Implied distribution of BTC price expectations based on straddle and strangle breakevens

Sources: CoinMetrics, Deribit, and Coinbase.

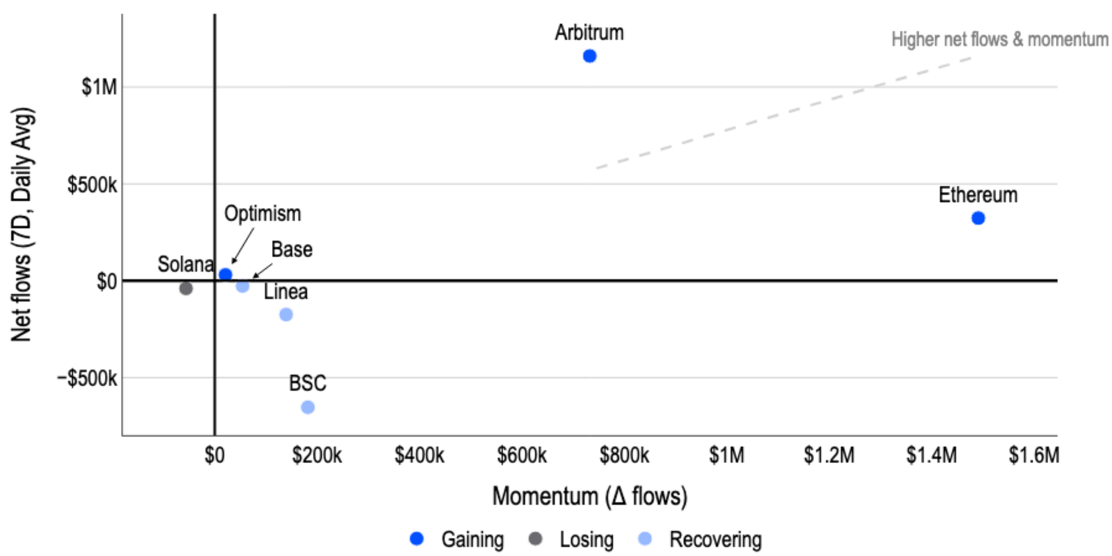
Follow the flows

In our view, **flows are the cleanest read on market players' conviction after a downturn.** After the recent deleveraging, we've seen prices overshoot while narratives have blurred. To get a sense of positioning dynamics, we think it's useful to pay attention to where "smart money" – investment funds, market makers, venture capitalists, and consistently high-performing traders – are currently (re)deploying capital.

Tracking these flows gives us an indication of which ecosystems are regaining depth, incentives, and builder/user activity—i.e., where the near-term opportunities are clustering and the protocols, DEXs and chains that one should search. **That said, this doesn't necessarily mean market players should buy the native tokens of these platforms**, as the onchain footprint can reflect yield farming, LP provisioning, basis/funding arbitrage, or airdrop positioning. It's also not always clear whether smart money bids are more tactical (incentive-driven) or durable. Instead, we think it's better to treat smart money flows as a screen to find selective opportunities.

After October 10, capital has rotated into Ethereum L1/L2s (i.e. Ethereum, Arbitrum) while Solana and BSC have lost momentum. Ethereum and Arbitrum lead on 7-day net smart money inflows with momentum building over the past 30 days (Chart 4). At the same time, smart money has been reallocating away from Solana and BSC; BSC's outflows have eased but remain negative.

Chart 4. Smart money flows – by chain



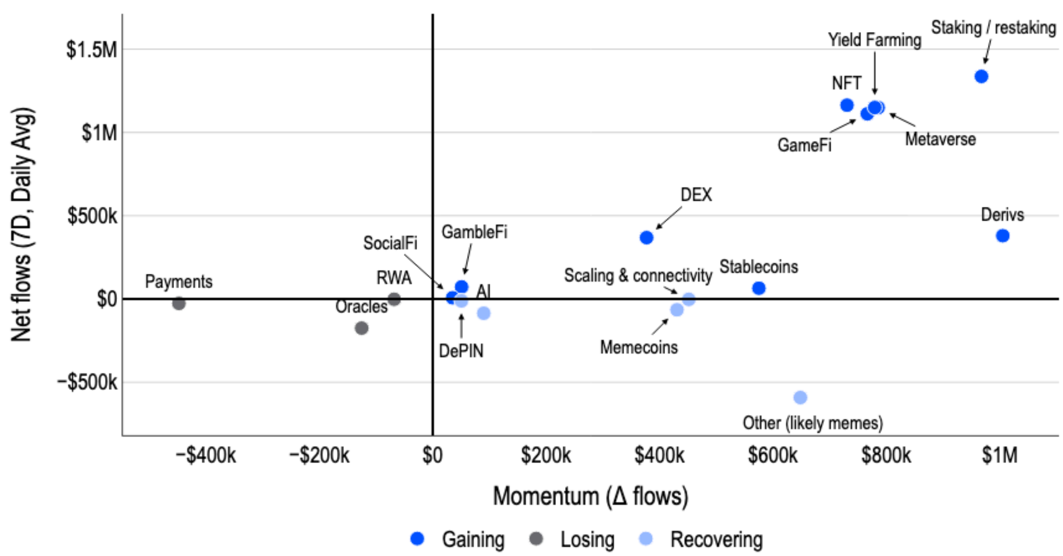
Sources: Nansen and Coinbase. Momentum is the difference between the daily average of 7D and 30D smart money flows.

The catalysts for these flows vary. For example, Arbitrum re-ignited incentives and DAO programs in October (e.g., DRIP Epoch 4 directing rewards to borrowing/liquidity on Aave, Morpho and game-adjacent activity), restarting the flywheel just as liquidity was redeployed.

We think it may be prudent to **keep an eye out for tokens on Base chain** for potential inflection trades.[1] Activity on Base jumped this weekend (October 25-26) as the x402 ecosystem went parabolic and Farcaster's acquisition of the Clanker launchpad fueled fresh token launches and user flows. That surge builds upon earlier catalysts—ongoing Base token speculation, the open-source Solana bridge, Zora's Robinhood listing, and Coinbase's Echo acquisition—which collectively expand the app surface and reasons for liquidity to rotate in.

Meanwhile, sector rotation since October 10 has favored "utility + yield" narratives over speculative plays. Yield protocols led smart money flows as post-crash dislocations reopened double-digit, points-boosted APYs (e.g., fixed/variable yield stacks and funding-rate arbs), while NFT/metaverse/game segments were re-energized on strategy-driven mechanics (i.e. PunkStrategy's deflationary NFT-trade loops) and headline deals (like Coinbase's UPONLY acquisition).

Chart 5. Smart money flows – by sector



Sources: Nansen and Coinbase. Momentum is the difference between the daily average of 7D and 30D smart money flows.

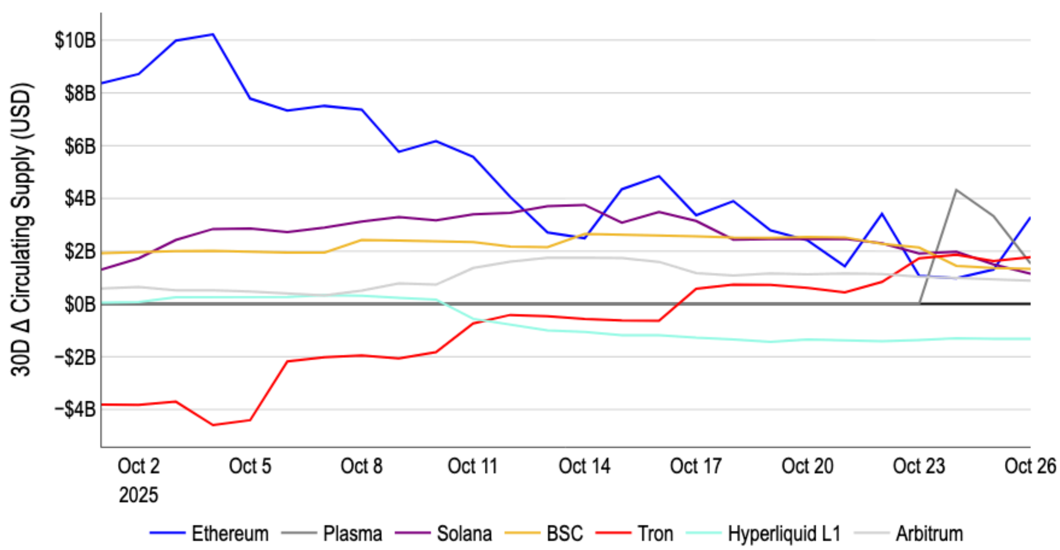
The staking/restaking theme remained strong as institutional offerings seized headlines with Grayscale launching the first US staking ETPs for ETH

[1] Note that Base is an Ethereum Layer-2 network incubated by Coinbase, built on the open-source OP Stack.

and SOL. Put simply, smart money is gravitating to sectors with clearer revenue paths, credible incentives, and institutional touchpoints, using stablecoins to redeploy risk selectively (Chart 5).

Stablecoin flows also suggest we're seeing capital rotation rather than a wall of new money. Over the past month, trailing 30-day stablecoin growth fell across most major major chains, with the exception of Tron (Chart 6). We think this implies that the post-crash flows have been redistributive, not additive—liquidity is shuffling selectively between protocols with live catalysts, but the system hasn't seen a broad surge in new stablecoin supply. Practically, that means rebounds will likely keep leaning on tactical incentives and narrative-led rotations until a clearer expansion in stablecoin circulating supply provides the rising tide that lifts most tokens.

Chart 6. Stablecoin supply momentum – by chain

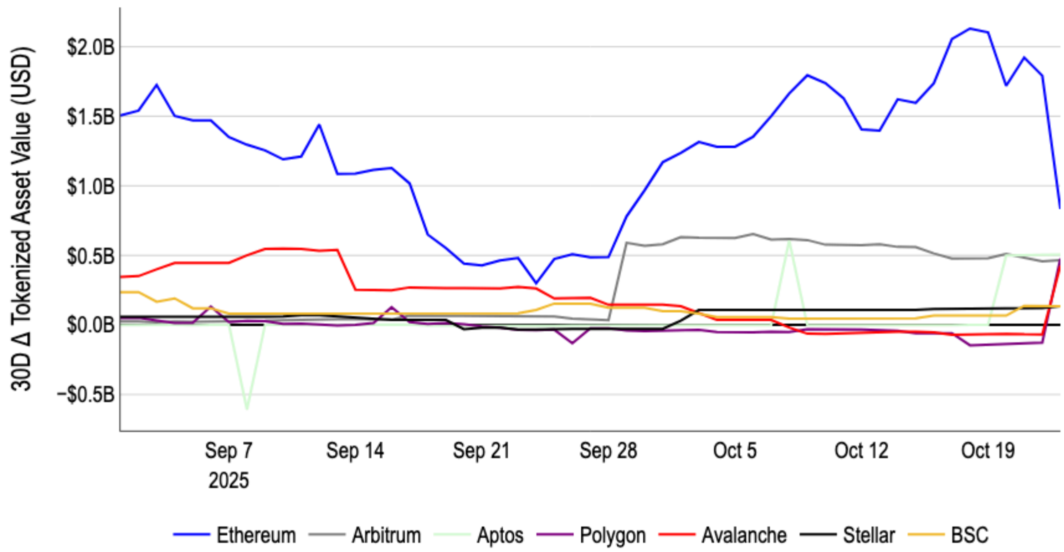


Sources: DefiLlama and Coinbase

Tokenized-asset rails are a major area of institutional interest. In October, BlackRock's BUIDL deployed ~$500M a piece to Polygon, Avalanche, and Aptos (Chart 7). This ~$1.5B total injection highlights real world assets (RWAs) as a resilient narrative, attracting TradFi involvement during volatile periods by offering stable yields (4-6% on tokenized treasuries) and liquidity without the speculative froth that was purged in the October 10 cascade.

Shifting beyond Ethereum (BUIDL's original home), these deployments leverage each chain's strengths—Polygon for Ethereum-compatible scalability and low fees, Avalanche for high-throughput subnets ideal for institutional DeFi integrations, and Aptos for Move-language security in handling complex assets. Although this may look like selective expansion from a singular player (BlackRock), we think the commitment to expanding the rails of RWA access amid broader crypto uncertainty spotlights the RWA sector as an area for future growth.

Chart 7. Real world assets flow – by chain



Sources: rwa.xyz and Coinbase

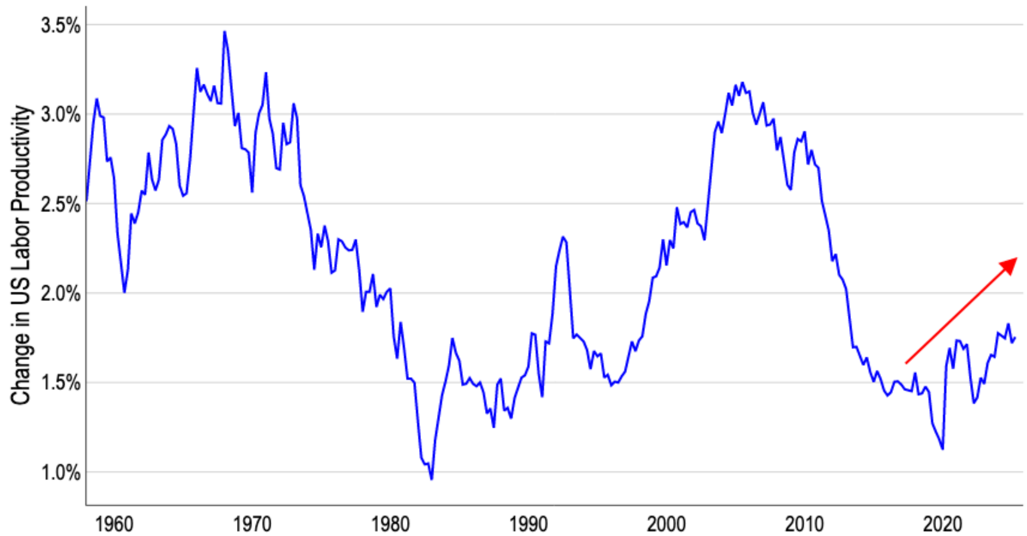
Don't forget about macro

Finally, it's important not to forget that crypto is still trading within a highly complex and increasingly risky macro environment. The sell off removed much of the excess leverage that's common to late-cycle bull markets. However, several macro factors add layers of uncertainty to investor sentiment: trade tensions (e.g. tariffs), geopolitical conflicts (e.g. US sanctions on Russian oil producers), soaring fiscal deficits (both in the US and abroad) and stretched valuations in other asset classes.

Despite the Federal Reserve's easing, 10-year US Treasury yields remain anchored around 4.0%, bounded within a 3.5-4.5% range. That stability is partially why we've been complacent about yield curve steepening at the margin (typically, the curve flattens during prolonged easing). However, we think it's likely that the steepening will continue, which may make riskier asset classes like US equities and crypto vulnerable to a downside correction if yields spike. That could happen if we see an erosion of fiscal buffers, for example.

On the other hand, if long-end yields are actually tracking U.S. economic growth higher, then they're more a reflection of stronger fundamentals rather than policy concerns. Faster nominal growth and productivity can absorb a higher discount rate and keep risk assets (including crypto) well-supported. On that point, we believe economists are collectively underestimating productivity at the moment, in part because factors like artificial intelligence are increasing the speed and efficiency of our workforce in a way that isn't being fully captured by official statistics.

Chart 8. Rise in US labor productivity (10y annualized growth rate)



Based on 10-year annualized growth rate. Sources: Bureau of Labor Statistics and Coinbase.

If that's the case, then this would suggest that the impact of macro volatility on risk assets via the discount-rate channel could in fact be diminishing. **That would shift crypto's drivers back toward endogenous factors** like liquidity, fundamentals, positioning, and pro-crypto regulatory developments (like a US crypto market structure bill).

Conclusions

Overall, where we are within the crypto market cycle remains a subject of intense debate, but we think the leverage flush in recent weeks has helped set the stage for a grind higher in the months to come. We believe macro tailwinds like Fed rate cuts, easing liquidity, and pro-crypto regulatory shifts under initiatives like the GENIUS/CLARITY Acts still bolster a bullish case, potentially extending the cycle into 2026.

That said, post-October 10 smart money flows resemble selective re-risking, *not* piling back into risk. These wallets have rotated toward the EVM stack (e.g. Ethereum and Arbitrum) and into "utility + yield" sectors, while Solana and BSC flows have cooled and stablecoin growth has decelerated. This indicates a redistribution of capital towards specific verticals rather than system-wide capital injection.

In parallel, heavyweight RWA flows signal institutional interest in expanding onchain, but in a measured, multi-venue way. Practically, we think near-term rebounds will keep clustering where incentives, product launches, and institutional rails intersect, although more sustainable crypto price action will likely need overall liquidity to recover first. Nevertheless, although crypto sentiment remains in “fear” territory, we think the recent leverage flush is actually a precursor to medium to long-term strength, setting the stage for more upside into 1Q26.

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