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Carol Schleif, CFA, SASB-FSA
Chief Market Strategist

Stablecoin: store of value, transaction token or hedge against the unknown?

"Well, bitcoin is a currency. Bitcoin has no underlying rate of return. You know, bonds have an interest coupon. Stocks have earnings and dividends. Gold has nothing, and bitcoin has nothing. There is nothing to support the bitcoin except the hope that you will sell it to somebody for more than you paid for it."

– John C. Bogle

The Through Line: Financial innovation is advancing quickly, giving participants many ways to invest and transact. Recent regulatory changes in the U.S. are helping create a framework for adoption of stablecoin, a form of digital currency designed to be less volatile than traditional crypto assets have been. What role can stablecoin play – investment or merely transaction conduit? How does it compare to crypto? How might it impact various aspects of the financial services sector? While it is early days and many aspects remain in flux, we profile some of the issues, opportunities and challenges.

A-Tisket, a-tasket, a token for my basket

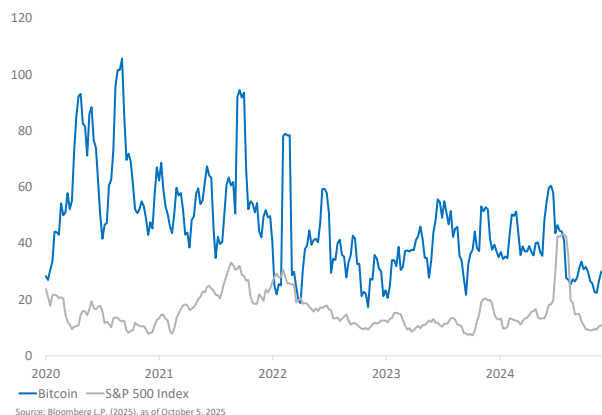
First, a little context and a few definitions. The **blockchain** provides the digital backbone (a.k.a. the ledger) where peer-to-peer financial transactions can be conducted and recorded. The technology promises around-the-clock, secure, private, speedy and decentralized transactions, obviating the need to involve middlemen (e.g., a central bank or bank custodians). The ultimate goal is anonymous, efficient and unalterable transfer of any type of asset.

Given that each transaction is virtual (i.e., electronic and not directly involving physical assets such as dollar bills), it requires **digital programmable tokens** to complete. In the context of the financial markets, **tokenization** is the process of converting almost anything (data, words, stocks, currency, art, real estate) into smaller digital bits. These tokens represent a digitized ownership stake in the underlying asset that can be processed, traded and/or handled more easily and securely. Cryptocurrencies, including bitcoin, ether and Ethereum, are examples of these tokens.

Depending upon who's telling the story, crypto's initial aim was to provide a medium of exchange, store of value and/or unit of account. In practice, though, crypto has proven far too volatile to offer the constancy needed to serve in those capacities.

Stablecoin – digital currency pegged to a real-world asset such as U.S. T-bills – was created in an attempt to sidestep the extreme volatility.

Bitcoin and S&P 500 Comparative 30-Day Volatility



Do you crypto?

According to data assembled by JP Morgan, the global USD-denominated stablecoin market (\$215 billion) is less than 10% of total global bitcoin assets.¹ While U.S. legislators have been trying to figure out how to handle digital assets, many other countries/trading blocs (e.g., the EU, China and Canada) are well along the path in building their own frameworks. Then, too, wide swaths of investors and interested citizens have been experimenting with them for years.

Various surveys, including a YouGov 2025 investment trends report referenced by Investopedia, show that **nearly half of Gen Z (those born between 1997 and 2012) participate on crypto exchanges.**² For many, crypto was their first foray into investments, although it's unclear whether they understand precisely what role it plays in their finances (speculation, store of value, medium of exchange).

It's GENIUS

Since their inception, the fitful regulatory approach to crypto and stablecoin has impeded more widespread usage of both in the U.S. During the last several administrations, legislators couldn't decide what crypto was (currency? collectible? asset?). That left several different regulatory bodies arguing over who was responsible for writing and enforcing what slice of which rules. The list included the SEC, CFTC, FinCen, OFAC, the OCC, Fed and FDIC. Progress froze in the tussle. Consequently, the first bitcoin ETFs were not approved until last year.

During the 2024 election campaign, President Donald Trump shifted course and actively embraced the concept of digital currency. Early in his second term, he signed an executive order whose goal was positioning the U.S. to be the "crypto capital" of the world. In July, he signed the GENIUS (Guiding and Establishing National Innovation for U.S. Stablecoins) Act, ushering in the first comprehensive digital assets legislation in the U.S. The act establishes who can issue stable coin; who regulates and monitors the issuers; and who sets reserve requirements. It also outlines a suite of consumer protections similar to the KYC/AML (Know Your Client/Anti-Money Laundering) rules that govern other areas of the banking system. Under the legislation, each stablecoin must be backed 1:1 with short-term U.S. government Treasuries or gold. **Issuers are specifically prohibited from paying interest on the coins.**³

Potential impacts of more stablecoin

We expect the use of stablecoin as a transaction facilitator to accelerate, especially among the corporate set. Increased regulatory clarity will enable a host of business-to-business uses. For example, a consistent, ubiquitous digital-exchange platform could improve many aspects of accounts payable/receivable processing, cross-border payments and processing of a host of other previously labor-intensive and/or more expensive financial activities. Benefits include faster processing time, improved accuracy, potentially lower cost, traceability and enhanced security.

In congressional testimony this past summer, U.S. Treasury Secretary Scott Bessent said dollar-denominated stablecoin could grow to \$2 trillion or more in market cap by 2030, necessitating short-term Treasury issuance⁴ worth over \$1 trillion. Remember, a key feature of the GENIUS Act's structure is the stipulation that each stablecoin be backed by Treasuries – thus creating demand for T-Bills. This is helpful, of course, while the government continues to run large deficits. It remains to be seen what impact aggressive issuance of T-bills might have (particularly if exacerbated by the requirement to pay back any portion of the IEEPA tariffs). Would that push up rates, even while equity investors seem to be discounting more Fed rate cuts in coming months? Or could it be offset by

incoming tariff revenue or accelerated cost savings in the wake of a DOGE-slimmed federal workforce?

Caveat emptor

As we discussed last week ([Weekly Strategy Perspectives: Capital Market \(R\)Evolution - BMO Private Wealth](#)), capital markets are evolving rapidly thanks to both technology and changing regulation. In light of the newness, there are several key challenges to keep top of mind:

- Despite the outlines of a regulatory framework, the stablecoin market is still in its infancy and has not been tested by a sustained economic or market downturn.
- Innovation – whether in technology, healthcare, financial services or other endeavors – often runs ahead of regulators, making several rounds of bubbles/busts the norm rather than the exception. Finding the sweet spot of regulation and durability during duress is equal parts art and science.
- A technological breakthrough could alter the lay of the land. According to some projections, if quantum computing achieves economic reality, for example, it could prove powerful enough to "break" the oldest crypto currencies. This would obviously disrupt any systems built on top of it.
- Stablecoin appears ideally suited for transactions but is not necessarily an investment vehicle to generate growth or return, given the GENIUS Act's prohibition against paying interest.
- Blockchain (and crypto currency) activity is designed to be irreversible. When used as a primary payment/transaction mechanism, it will be vital to ensure all necessary steps/cross checks happen before execution to avoid errors.

Implications for investors

It is vital for market participants to consider the role of each asset class in a portfolio. Equities are typically for growth (and sometimes income), fixed income can deliver stability and income. Other diversifying assets can fill gaps – either economic or psychological. Gold, for example, has traditionally been a safe-haven asset. It has no yield, is not a truly viable currency (try paying for gas with a gold bar), is taxed at higher rates and may require additional expense to store and insure. Despite the financial and potentially physical costs, it can play a comforting psychological role.

In some investors' minds, crypto plays a similar role: a hedge against a roiling market. While conceptually appealing, crypto currencies did not hold up well during the tariff-induced volatility of last spring, so untethered crypto may not be the desired psychological salve. Stablecoin may well continue to expand its role as a digitally nimble payment system. But it may not necessarily be a portfolio enhancement, given the lack of income stream, its untested nature and an increasing regulatory burden.

Developments across the financial marketplace offer a variety of ways to participate in outright, fractional, leveraged or hedged asset ownership. Increasingly, decision markets provide an additional ability to hedge the outcomes of various events (e.g., whether the Fed or Bank of Canada will cut policy rates at their respective October meetings). Having a clear rationale for why and how you participate can help diversify exposures and keep expectations in line.

In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

This week

All that glitters – Gold has been on a multi-year bull run that in its latest phase pushed the yellow metal to a record high above \$4,000/oz. Year to date, gold is up a little over 50%. Since the turn of the century, total returns just topped 1,300%, far outpacing the S&P 500 Total Return Index over the same period. The last comparable cycle ran from 1978 to January 1980 amid an inflation surge and geopolitical shocks, including the Iranian Revolution, the Iran hostage crisis and the Soviet invasion of Afghanistan. Gold rose a little over 400%, then reversed when the Fed pushed policy rates toward 20%, the economy slipped into recession and inflation was subdued. *From the January 1980 peak, the price fell more than 40% in under three months.* On each side of the trade, real interest rates expectations were a key sentiment driver; similar dynamics seem to be at play this time. *Inflation fears* remain elevated and central-bank policy globally has turned more dovish. When inflation-adjusted returns fall, gold looks more attractive as a store of wealth. *Geopolitics* are once again front and center. U.S. foreign trade and sanctions policies have boosted gold demand because many central banks are looking to diversify reserve holdings. Russia's war in Ukraine, conflict in the Middle East and U.S. domestic politics (including risks to Fed independence, the government shutdown and immigration enforcement) have added more fuel to the fire. Retail participation has broadened: Costco typically sells out of gold bars within minutes and gold ETF holdings are surging. Fundamentals look supportive and momentum is strong. BMO Capital Markets recently lifted its H2 2026 gold target to \$4,500/oz and Managing Director Helen Amos argued that "a multi-year rally for gold is far from over." *For those considering an investment in gold it is also important to remember the lessons learned in 1980: fundamentals and sentiment can quickly change and turn the fortunes of an extended bull market rally.*

Federal Open Market Committee – The FOMC released the minutes of its September meeting. For investors, the significant headline is that most committee members believe it will be appropriate to reduce policy rates as the year draws to a close. At the September meeting, the federal funds rate was lowered by a quarter point; the CME (Chicago Mercantile Exchange) FedWatch Tool pegs the probability of an October cut above 90%. Most committee members believe inflation remains elevated, with price risks continuing to tilt to the upside. Meanwhile, downside risks to the employment picture have increased. The neutral rate (r^*) is the rate level that encourages growth at a pace that inflation does not accelerate. Views vary widely on where this hypothetical number lies, but most would agree it is lower than the current federal funds rate, which provides the committee more room to cut. A quandary confronts the Fed: lowering rates too quickly could stoke inflation, but maintaining too-high rates could suffocate the labor market.

Ample provincial spending continues – When the Canadian federal budget is introduced on November 4, a large deficit is expected. Provincial governments are running higher deficits this fiscal year almost across the board, which will add to the fiscal impulse provided by Ottawa. The combined FY25/26 provincial deficit is pegged at C\$48.2 billion, the largest on record in dollar terms. At 1.5% of GDP, that falls shy of the FY20/21 pandemic-era shortfall, but you have to go back to the Great Recession to find the next comparable — and this at a time that is absent recession. All of those factors aside, the fundamental reality is that economic growth and inflation (revenue drivers) have slowed, while spending pressures (public sector wages, healthcare and infrastructure stress from torrid

population growth) continue to build. Assuming a federal deficit of around C\$70 billion, the change in the combined federal/provincial deficit could hit 2% of GDP for FY25/26, the largest non-pandemic swing since the Great Recession. This heavy dose of fiscal stimulus should support growth through 2026 and will need to be accounted for when setting monetary policy.

Canada's economic outlook may see brighter days ahead – The worst may be over for Canada's economy. After contracting in the second quarter in the face of pandemic-like declines in goods exports and machinery investment, real GDP turned modestly higher in July. This puts growth on track to meet, and possibly exceed, BMO's current estimate of 0.5% annualized in Q3. Barring an escalation of the trade war, both exports and investment spending seem likely to stabilize soon. We may have to wait a bit longer for that since Canada's merchandise trade deficit widened to \$6.3 billion in August from a revised \$3.8 billion in July. The economy should gather steam in the coming quarters, considering an abundance of fiscal stimulus is in the works (details in the November 4 federal budget) and the central bank is on an easing path. After nearly stalling earlier this year on economic concerns, consumer spending rebounded almost 5% annualized in Q2. The biggest risk facing Canada is the possibility that the U.S. government will walk away from the USMCA (after six months' notice), causing exporters to lose the compliance exemption. If this happens, the economy would likely face a recession.

Canada trade discussions – Prime Minister Mark Carney and President Trump met at the White House to address ongoing trade tensions. President Trump cited a "natural conflict" over autos and steel stemming from both countries' industrial ambitions. While Mr. Trump predicted a deal would eventually be reached, he signaled that some tariffs could remain and floated alternative trade arrangements beyond the USMCA. The leaders also discussed potential Canadian involvement in Mr. Trump's Golden Dome missile defense initiative, though Ottawa has not formally confirmed participation. Prime Minister Carney's pledge of up to US\$1 trillion in Canadian investment in the U.S. drew sharp criticism in the House of Commons from Opposition leader Pierre Poilievre, who accused the government of conceding too much without securing a deal.

Next week

As of this writing, the U.S. government remains closed and there's scant movement on either side toward reopening. This will delay the release of typical government data. Earnings season kicks into gear in the U.S. The Fed's Beige Book on Wednesday and business barometers in both countries should offer a peek into frontline corporate sentiment.

- **Tuesday 10/14** – U.S. NFIB optimism index | Canada Building permits
- **Wednesday 10/15** – U.S. – should be CPI (pending end of government shutdown), Empire State Manufacturing index, Fed's Beige Book | Canada manufacturing and wholesale sales
- **Thursday 10/16** – U.S. Weekly initial jobless claims, Retail sales, PPI reports, Philly Fed, Business inventories | Canada CFIB Business barometer, housing starts and new vehicle sales
- **Friday 10/17** – U.S. Housing starts, permits, Industrial production

Data scorecard as of October 8, 2025

Equity Market Total Returns						
	10/8/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	6,754	0.6%	16.0%	25.0%	26.3%	-18.1%
NASDAQ	23,043	1.2%	20.0%	29.6%	44.7%	-32.5%
DOW	46,602	-0.3%	11.0%	15.0%	16.2%	-6.9%
Russell 2000	2,484	0.3%	12.5%	11.5%	16.9%	-20.5%
S&P/TSX	30,502	0.1%	26.0%	21.7%	11.8%	-5.8%
MSCI EAFE	10,249	-0.2%	26.8%	3.8%	18.2%	-14.5%
MSCI EM	746	-0.1%	30.0%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.0%	6.4%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.0%	5.5%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		-0.1%	7.1%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		-0.1%	7.2%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	4.3%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		-0.1%	2.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		-0.1%	1.9%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.0%	4.0%	6.9%	8.2%	-9.5%
Government Bond Yields						
	10/8/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.12%	4.15%	4.15%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.19%	3.18%	3.18%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.71%	4.70%	4.70%	4.56%	3.53%	3.66%
German 10-Year Bund	2.68%	2.71%	2.71%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.69%	1.64%	1.64%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	10/8/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.92	1.2%	-8.8%	7.1%	-2.1%	8.2%
CAD:USD	\$0.72	0.0%	3.1%	-7.9%	2.3%	-6.7%
Bitcoin	\$122,903.51	0.3%	31.1%	120.5%	157.0%	-64.3%
Gold	\$4,042.03	4.0%	54.0%	27.2%	13.1%	-0.3%
Oil (WTI)	\$62.55	2.7%	-12.8%	0.1%	-10.7%	6.7%

* Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Endnotes

¹ [What to Know About Stablecoins | J.P. Morgan Global Research](#)

² [They Know It's Risky. They're Doing It Anyway: Inside Gen Z's Crypto Habit](#)

³ [The GENIUS Act of 2025 Stablecoin Legislation Adopted in the US](#)

⁴ [Dollar Stablecoin Market Could Hit \\$2 Trillion: Treasury's Scott Bessent - Bloomberg](#)



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