Franklin Templeton Digital Assets Dynamic BTC/ETH SMA

FRANKLIN TEMPLETON
digital assets

Q1 2025 | Product Commentary

Performance

Average Annual Total Returns (%)
As of March 31, 2025

	3-mo*	6-mo*	1-Yr	Since Inception (03/31/23)
Gross of Fees (USD)	-16.84	19.77	3.03	54.27
Net of Fees (USD)	-17.50	18.04	0.00	49.88
S&P Cryptocurrency MegaCap Index (Benchmark)	-17.72	18.06	2.80	53.67

Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please. visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Note: Performance calculations reflect business day performance and does not reflect any weekend performance data.

Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee), which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.

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*Cumulative Total Returns

Key Takeaways

- Portfolio performance was negative over the last quarter, driven by uncertainty around global macroeconomic factors and political developments that led to significant global market volatility. Despite Bitcoin reaching a historic price milestone, the overall market experienced a pullback, with significant declines in major indices.
- Over the course of the quarter, U.S. institutional investment into the digital assets market continued to rise, with inflows into Bitcoin ETPs and the filing of several new crypto ETPs. Strategic steps by the Trump Administration and several U.S. state governments to establish cryptocurrency reserves aim to position the U.S. as a leading crypto hub.

Market Overview

US stocks experienced heightened volatility during the first quarter amid concerns about Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's (Fed's) interest-rate policy, with some investors fearing a potential recession or stagflation (stagnant economy and high inflation).

Underwhelming earnings reports and guidance from some companies and significantly lower consumer confidence also hindered sentiment. Despite reaching new closing highs earlier in the quarter, the Dow Jones Industrial Average and the S&P 500 Index ended the quarter with negative returns. The technology-heavy NASDAQ Composite Index suffered a significantly larger decline than the other two indexes as investors remained concerned about the potential effects of a Chinese company's new artificial intelligence (AI) model on US companies' AI spending. The Fed kept the federal funds target rate unchanged at its January and March meetings after cutting it three times in 2024 for a total of 100 basis points. At the press conference following the March meeting, Fed Chair Jerome Powell indicated that the central bank's forecast of weaker economic growth and higher inflation in 2025 generally balanced out each other, thus leading the Fed to leave the March forecast of approximately 50 bps in rate cuts for this year unchanged from its December 2024 projection.

Annual inflation, as measured by the core personal consumption expenditures price index—which excludes volatile food and energy prices and is the Fed's preferred inflation gauge—rose at a higher-than-expected rate in February after cooling in January, remaining well above the Fed's 2% long-run target. Meanwhile, the core Consumer Price Index (CPI) rose at a lower-than-expected annual rate in February and reached the lowest level since April 2021. Headline CPI cooled in February after rising in January at the fastest month-over-month rate since August 2023 and the fastest annual rate since June 2024.

The US labor market remained resilient despite economic uncertainty. While the number of new jobs added in February was below consensus expectations, it was higher than the downwardly revised figure for January; meanwhile, the unemployment rate ticked slightly higher in February after edging lower for two consecutive months. The country's gross domestic product expanded in 2024's fourth quarter at a lower annualized rate than in the previous quarter as growth in consumer spending and government spending was partially offset by a decline in investment. Manufacturing activity contracted in March after expanding for two consecutive months as new orders, production and employment declined, with the prices subindex reaching the highest level since June 2022 due to higher raw materials prices due to tariffs. In contrast, services activity expanded for the ninth consecutive month in March but at a slower pace. Growth in business activity partially offset a decline in the employment subindustry, which slipped into contraction territory.

Stock markets worldwide remained turbulent over the period and major US stock indexes declined. The S&P 500 Index, DJIA and NASDAQ Composite Index dropped -4.27%, -0.87% and -10.26%, respectively. Four out of the 11 S&P 500 sectors finished with negative returns with consumer discretionary and information technology selling off the most. Conversely, the energy sector was a bright spot for performance as investors turned more defensive. Small-cap stocks struggled over the quarter followed by large- and mid-cap equities. In all three tiers, value stocks outperformed growth, with the large-cap tier ending modestly positive.

The first quarter of 2025 brought generally negative performance for cryptocurrencies and broader digital assets. The total crypto market cap decreased by 27.19% over the quarter. The S&P Cryptocurrency LargeCap Index, which tracks the largest and most liquid cryptocurrencies, fell by 20.75%, while the S&P Cryptocurrency MegaCap Index, focused on the two largest cryptocurrencies by market capitalization, Bitcoin and Ethereum, fell by 17.72. This market pullback was largely due to global macro activity and political developments. The correlation between most traditional finance (TradFi) sectors and digital assets, declined over the quarter. The correlation between digital assets and commodities experienced negative or neutral correlations, oil and gold experienced slightly negative and slightly positive correlations respectfully with digital assets, and the correlation between digital assets and equities saw a slight increase.

TradFi and Digital Asset Correlation Matrix

01/01/2025 – 3/31/2025

Sources: Santiment, Seeking Alpha, FTDA Resources.
Representative benchmarks: USD (Bloomberg Dollar Spot Index), Oil (Dow Jones Commodity Crude Oil Total Return Index), Commodities (S&P GSCI Total Return CME), ETH (S&P Ethereum Index), BTC (S&P Bitcoin Index), Crypto Large Cap (S&P Cryptocurrency LargeCap Index), BTC/ETH (S&P Cryptocurrency MegaCap Index), S&P 500 (S&P 500 Index), NASDAQ 100 (NASDAQ 100 Index), US Bonds (Bloomberg U.S. Aggregate Index), Gold (Bloomberg Composite Gold Index).
For illustrative purposes only.
Diversification does not guarantee a profit nor protect against loss.

On Sunday January 9th, Bitcoin reached yet another historic price milestone, hitting an all time high of $109k. However, BTC would still close the quarter down at $71k. Ethereum, however, failed to reach Q4 '24 highs during the same time period and experienced a notable decline over the quarter, even relative to BTC. As a result, ETH/BTC – the price of ETH in BTC – dropped to a new local low of 0.02168 during the quarter, a level not seen since 2020, highlighting Ethereum's continued underperformance relative to Bitcoin in both up trending and down trending markets. Conversely, Bitcoin dominance (Bitcoin's % market capitalization of total crypto market capitalization) soared to a local high of 62.48%, reaching levels not seen since 2021. This underscores the broader risk-off sentiment where capital rotated back into BTC from smaller cap tokens, given BTC's sentiment as a store of value asset. Institutional investment in cryptocurrencies continued to rise during Q1. Spot Bitcoin ETPs brought in $870M in net inflows for the quarter, while Ethereum ETPs saw $253M of net outflows. Additionally, Institutional interest in new cryptocurrency spot ETFs rose, as product offering filings expanded beyond Bitcoin and Ethereum and entered new horizons. New ETP filings included spot ETFs for Solana, Ripple, Polygon and Avalanche, as well as hybrid multi-token ETPs.[1]

Although both traditional and crypto markets experienced volatility with the new administration's tariff policies, regulatory sentiment shifted in favor of digital assets. The Trump Administration took tangible steps towards establishing a strategic U.S. Bitcoin reserve, as well as a United States Digital Asset Stockpile, both of which would incorporate digital assets to the United States balance sheet on a federal level.[2] A March press letter laid out a strategy of diversifying national asset holdings while minimizing market disruption, which would be done through seizing cryptocurrency holdings rather than increasing taxpayer burden. A committee and interagency task force would manage the reserve to ensure ongoing regulatory compliance. Similarly, Trump appointed Paul Atkins, a pro-crypto lead with notable personal digital asset holdings, as the head of the Securities and Exchange Commission (SEC).[3] This appointment set the stage for the release of the GENIUS act, a congressional bill outlining the regulation and payment of stablecoins. This bill proves to be a large step in the widespread rollout of digital assets on a wider level.[4]

Many local state governments also took steps towards establishing state-level cryptocurrency reserves. Specifically, Texas passed a bill to establish a state-managed Bitcoin reserve, while Utah enacted legislation prohibiting state and local government entities from restricting the acceptance or custody of digital assets. Over the quarter, 10+ US states either pushed new or furthered proposed legislation for a statewide digital asset reserve policy. These announcements come at a timeline parallel to that of Trump's Bitcoin strategic reserve by the US government to re-establish the US as the crypto capital.[5]

Portfolio Positioning

Franklin Templeton Digital Assets Dynamic Bitcoin/Ethereum seeks to provide excess return or alpha over a market capitalization weighted benchmark of Bitcoin (BTC) and Ethereum (ETH) through long only exposure to BTC and ETH. The Franklin Templeton Digital Assets investment team determines weights for BTC and ETH based on fundamental research, which includes our proprietary tokenomics scoring system, and establishes relative risk and return of each digital asset.

Portfolio Highlights

For the first quarter of 2025, Franklin Templeton Digital Assets Dynamic Bitcoin/Ethereum performance was

-17.50% (net of fees). On an absolute basis both the currency and smart contract platform sectors contributed to negative performance.

Sector Performance Contribution

	Asset Symbol	Avg. Weight (%)
Smart Contract Platforms	ETH	10.03
Currency	BTC	89.97

During the first quarter of 2025, we maintained our relative value-based investment strategy, which meant we sustained our portfolio weights from our last rebalance in Q4 of 2024, despite market fluctuations. The portfolio was underweight in Ethereum entering the quarter, which was a view maintained throughout the quarter as the price of ETH continued to decline. This decision was influenced by the ongoing challenges faced by Ethereum, including the relatively low transaction throughput and declining on-chain activity.

Additionally, net outflows into Ethereum ETPs further dampened investor confidence. In contrast, Bitcoin demonstrated relative resilience over the quarter, supported by strong investor sentiment and positive inflows into Bitcoin ETPs. Institutional demand for Bitcoin as a strategic reserve asset, both by the U.S. government and globally, reinforced its position. We remained slightly underweight in Ethereum and overweight in Bitcoin.

Our dynamic strategy enables us to swiftly adapt to market developments and optimize our investment outcomes. The portfolio is index-controlled and traded in a risk-oriented manner, with trades scaled based on relative value and fundamental research. As the market evolves and activity/adoption occurs between the two networks, we continue to re-evaluate our allocations to Bitcoin and Ethereum.

Contributors

	Avg. Weight (%)
Ethereum (ETH)	10.03
Bitcoin (BTC)	89.97

Ethereum (ETH), in the smart contract sector, is a decentralized, smart contract blockchain with its own cryptocurrency. Founded in 2013, Ethereum allows for the use of smart contracts and the ability to build decentralized applications. Ethereum, unlike Bitcoin's PoW, is a proof-of-stake (PoS) blockchain. PoS is a consensus mechanism that uses validators to produce and approve blocks of transactions. Over the quarter, Ethereum wasn't exempt from macroeconomic uncertainties facing the larger markets. An overall lack of activity on the Ethereum network hit the price of ETH hard; despite being added to the U.S. strategic reserve initiative, it experienced a general decrease in transaction throughput. ETHs fundamental challenges in on-chain activity were compounded by a broader market sell-off in risk that negatively impacted all digital assets. Even after Ethereum switched to Proof-of-Stake, changing its underlying model from an energy-intensive one to a more economical and adaptable alternative, there are still shortcomings in its fee revenue accrual, reflected by ETH price. The $30M in total fees generated by Ethereum transactions in March 2024 dropped substantially to around $500k in March 2025.[6] ETH had a negative contribution to the portfolio in Q1.

Bitcoin (BTC), in the currency sector, is the original cryptocurrency. Originally proposed by the alias Satoshi Nakamoto in a paper in 2008, Bitcoin is the first application of blockchain's peer-to-peer network and distributed digital ledger to create a network for decentralized digital currency. The protocol uses the proof-of-work (PoW) consensus mechanism to secure its network through a cryptographic mathematical puzzle that validates transaction data on the chain. Bitcoin faced its worst Q1 in a decade, as the economic uncertainty of the new presidential administration largely contributed to a significant BTC selloff.[7] Specifically, U.S. tariff policy contributed to larger risk-on uncertainty within the markets. However, the establishment of a strategic Bitcoin reserve sparked institutional interest, as U.S. government demand signaled growing legitimacy and served as a strong indicator of Bitcoin's future utility. BTC was a negative contributor this quarter.

Digital Asset and Strategy Outlook

The first quarter of 2025 was a challenging period for digital assets, marked by significant market pullbacks and evolving political developments. The S&P Cryptocurrency LargeCap Index fell by 20.75%, while the S&P Cryptocurrency MegaCap Index declined by 17.72%. Despite Bitcoin reaching a historic milestone of over $109k, Ethereum experienced a notable drop, leading to a shift in market cap dynamics favoring Bitcoin over other lower market cap altcoins. Institutional investment in cryptocurrencies continued to rise, manifesting itself through substantial inflows into Bitcoin ETPs and new ETF filings for various cryptocurrencies. The Trump Administration and several U.S. state governments took strategic steps to establish cryptocurrency reserves, aiming to position the U.S. as a leading crypto hub. These efforts included legislative actions and the creation of task forces to manage and regulate digital asset holdings, setting the stage for potential future growth and stability in the digital assets market.

We have assessed the long-term value of blockchain technology and believe it will be foundational for the future of the asset management industry. Our CEO Jenny Johnson believes that blockchain technology has the potential to be a massive disruptor for traditional finance. In our opinion, digital assets are a major theme on which investors will become increasingly focused on gaining exposure to in their investment portfolios in the years ahead. We define digital assets as frontier risk alternatives – new investible opportunities that capture the return streams of novel business models and can generate long-term growth. We believe that as companies continue to develop new technologies on blockchain rails, the economics and value created can be captured through strategic selection of these protocol's underlying tokens.

Investment Team

Anthony Pecore
Senior Vice President
Director, Digital Asset Management

Twelve investment team members who are involved in fundamental and quantitative research, data science, and trading.

Sources

1. Source: "SEC Filings." Securities and Exchange Commission. March 2025.
2. Source: "Establishment of the Strategic Bitcoin Reserve and United States Digital Asset Stockpile." White House. March 2025.
3. Source: "Incoming SEC chair Paul Atkins owns up to $6 million in crypto-related assets-though no Bitcoin." Fortune Crypto. March 2025
4. Source: "GENIUS Act of 2025." Library of Congress. March 2025.
5. Source: "US Strategic Bitcoin Reserve Monitor." Bitcoin Reserve Monitor. March 2025.
6. Source: "State of the Network's Q1 2025 Wrap Up." CoinMetrics. April 1, 2025.
7. Source: "Bitcoin (BTC) Price Posts Worst Q1 in a Decade, Raising Questions About Where the Cycle Stands." CoinDesk. April 6, 2025.

What should I know before investing?

All investments involve risks, including possible loss of principal. **Digital assets** are subject to risks relating to immature and rapidly developing technology, security vulnerabilities of this technology, credit risk of digital asset exchanges, regulatory uncertainty, high volatility in their value/price, unclear acceptance by users and global marketplaces, and manipulation or fraud. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value.

Glossary

Basis Points: A Basis Points: A basis point is one hundredth of one percent (1/100% or 0.01%).

Bloomberg Composite Gold Index: A benchmark index that tracks the performance of gold as a commodity.

Bloomberg Dollar Spot Index: An index that tracks the performance of the U.S. dollar relative to a basket of 10 leading global currencies.

Bloomberg U.S. Aggregate Index: Represents the performance of U.S. investment-grade bonds, covering government, corporate, and mortgage-backed securities.

BTC: The original cryptocurrency and often referred to as "digital gold".

Consumer Price Index: A price index that measures the price of a weighted average market basket of consumer goods and services purchased by households.

Core Personal Consumption Expenditures Price Index: Index that measures the prices paid by people for domestic purchases of goods and services in the United States, excluding prices of food and energy.

Dow Jones Commodity Crude Oil Total Return Index: Tracks the performance of crude oil, reflecting futures returns and movements in oil prices.

ETH: A decentralized, smart contract blockchain with its own cryptocurrency.

Federal Funds Rate: In the U.S., the federal funds rate is the interest rate at which depository institutions trade federal funds (balances held at Federal Reserve Banks) with each other overnight.

Federal Reserve: The central banking system of the United States, responsible for monetary policy, interest rates, and financial stability.

NASDAQ 100 Index: Tracks the 100 largest non-financial companies listed on the NASDAQ, primarily in the technology sector..

NASDAQ Composite Index: A market index that tracks the performance of over 3,000 stocks listed in the NASDAQ stock exchange.

Proof-of-Stake (PoS): A peer-to-peer consensus mechanism for processing transactions and creating new blocks in a blockchain.

Proof-of-Work (PoW): describes a consensus mechanism that requires a significant amount of computing effort from a network of devices.

S&P 500 Index: Index of 500 leading U.S. publicly traded companies, reflecting the performance of the large-cap U.S. stock market.

S&P 500 Price Index: A market index that measures the performance of the 500 largest publicly traded companies in the United States by market capitalization.

S&P Bitcoin Index: An index tracking the value of Bitcoin (BTC), the largest cryptocurrency by market cap.

S&P Cryptocurrency LargeCap Index: Measures performance of the largest, most liquid digital assets, providing a snapshot of top cryptocurrencies.

S&P Cryptocurrency MegaCap Index: An index tracking the performance of the largest and most liquid cryptocurrencies by market capitalization.

S&P Ethereum Index: An index measuring the performance of Ethereum (ETH), one of the largest cryptocurrencies by market cap.

S&P Goldman Sachs Commodity Index (GSCI) Total Return Chicago Mercantile Exchange (CME): A benchmark index that measures the performance of a diverse range of commodities, including energy, agriculture, precious metals, and industrial metal, calculated on a total return basis.

S&P GSCI Total Return CME: A broad index tracking the total return of futures contracts on 24 commodities.

S&P LargeCap Index: An index measuring the performance of U.S. large-cap stocks, generally represented by the largest companies in the S&P 500.

Dow Jones Industrial Average: Tracks the performance of 30 large, publicly-owned blue-chip companies in the United States.

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