Kaiko Research

Digital Assets Under Pressure in the First Half of 2026

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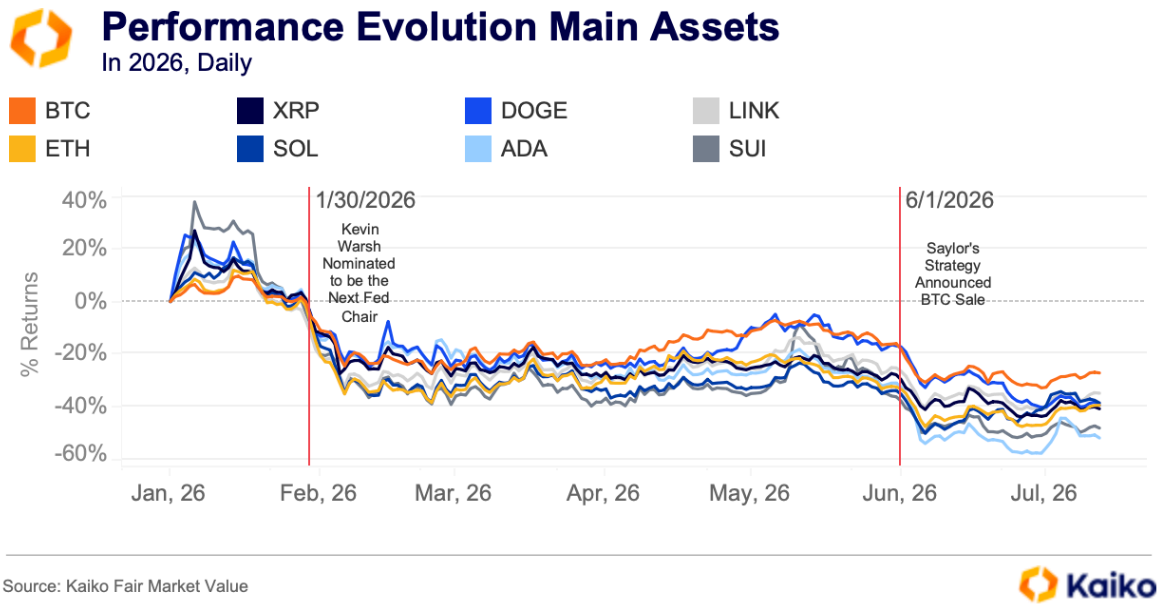
The first half of 2026 was defined by a sharp repricing across digital asset markets, driven by a combination of tighter monetary expectations and crypto specific catalysts. Major assets recorded broad based losses, volatility remained elevated during stress episodes, and liquidity conditions became more fragile around key market shocks. Although BTC remained more resilient than most major crypto assets, it still underperformed traditional benchmarks such as SPX, gold, and WTI.

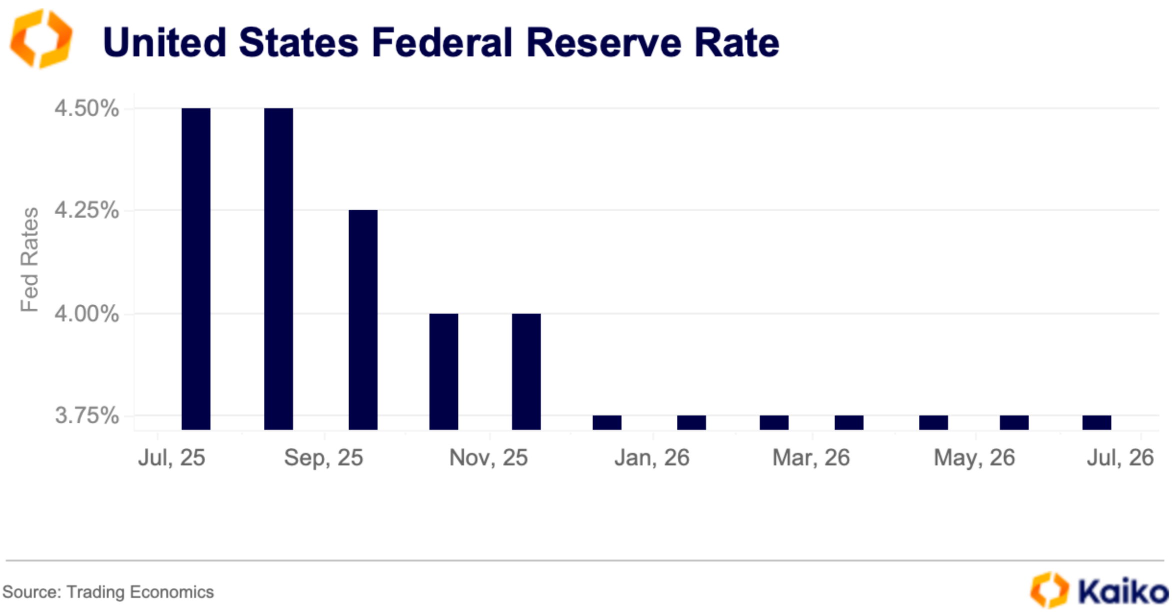
- BTC is down 27% year-to-date, while ETH and XRP are down around 41%.
- Two major shocks shaped the market, tighter Fed expectations in January and Strategy's BTC sale announcement in June.
- Liquidity became more fragile during stress episodes, with volumes spiking while market depth contracted around key sell offs.

A Challenging First Half of the Year for Digital Assets

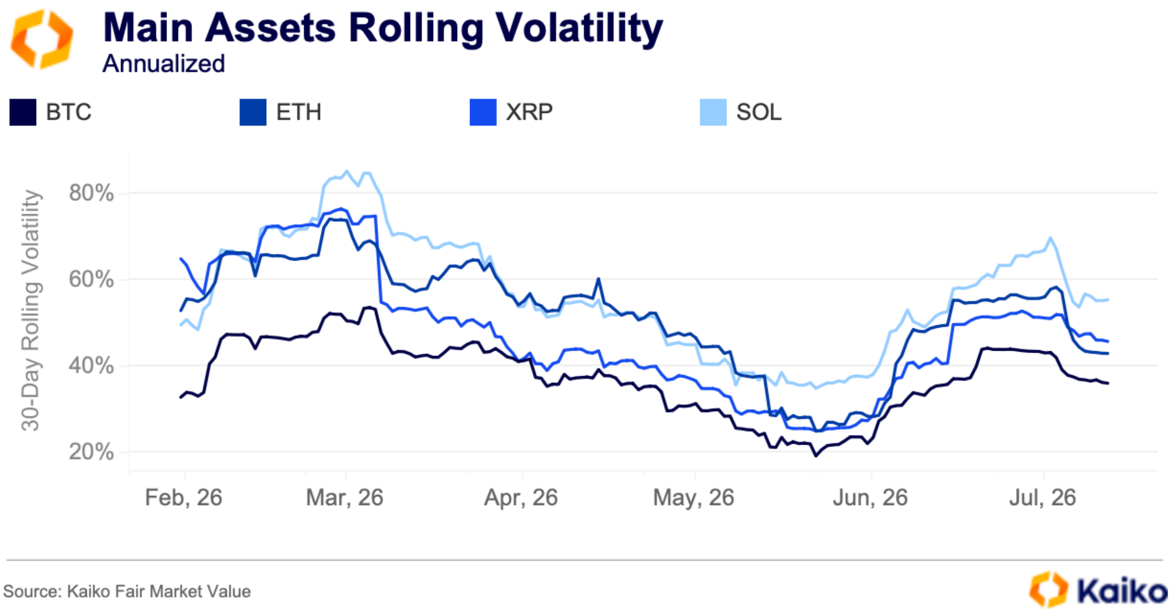
The first part of 2026 was marked by several contractions in digital asset markets. Since January 1, major crypto assets have posted negative returns, with BTC down 27%, ETH down 41%, SOL down 39%, and XRP down 41%. The move became particularly severe after the end of January, when Kevin Warsh's nomination as the next Fed Chair strengthened expectations of a more restrictive monetary stance. This pressure was further amplified by Jerome Powell's decision to pause rate cuts, keeping interest rates around 3.75% throughout the first half of the year.

A second catalyst emerged in early June with Strategy's announcement of a BTC sale. Strategy has long been one of the largest institutional holders of Bitcoin, and its position has become a symbol of long term institutional conviction in the asset. A Bitcoin sale by such a significant holder likely added further pressure to market sentiment, and most assets fell toward their year-to-date lows.



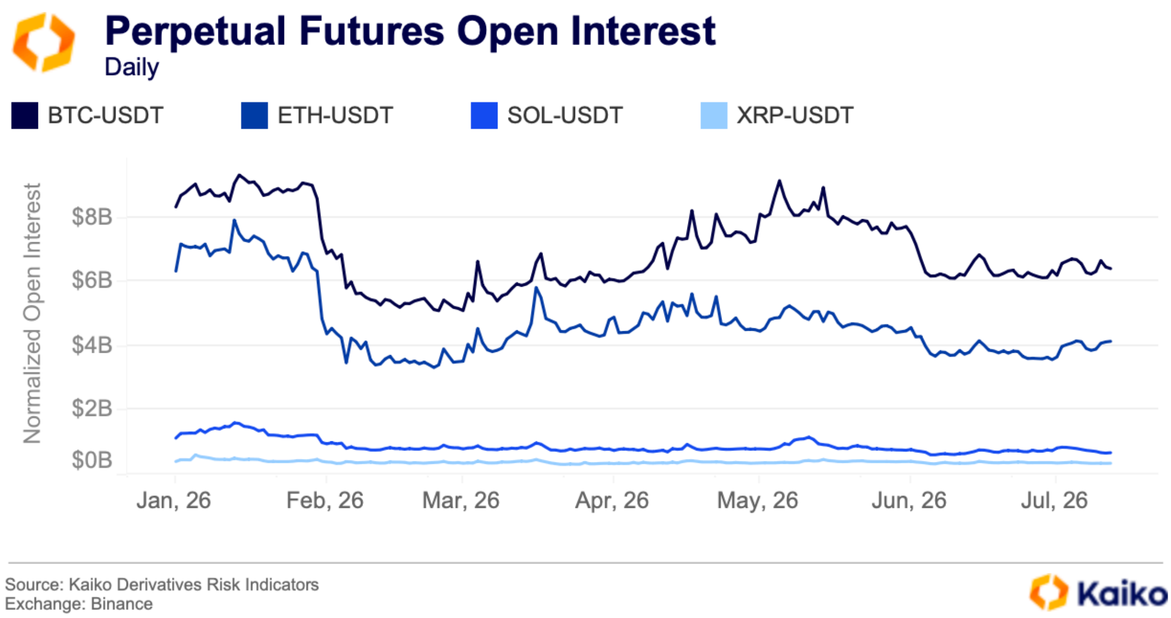


Volatility followed a trajectory consistent with this market stress. It was elevated in February and March, with annualized levels close to 75% to 85% for SOL, XRP, and ETH, before gradually easing through the end of May. However, the June shock triggered a clear rebound in volatility, followed by renewed stabilization in July.



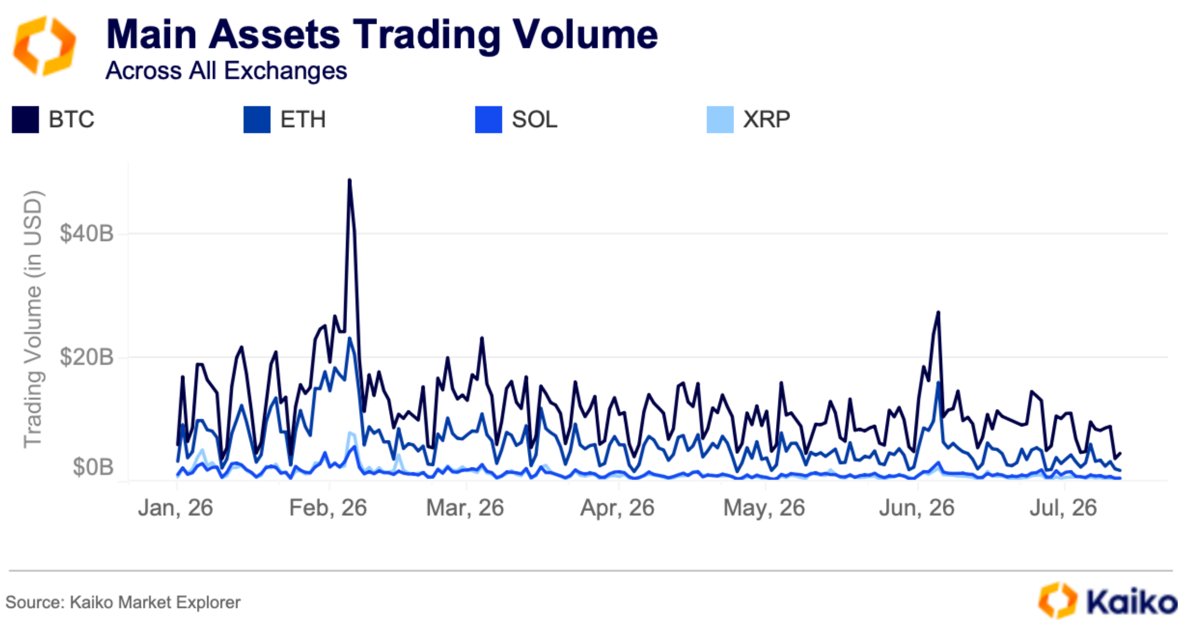
In derivatives markets, open interest in perpetual contracts contracted sharply after the February shock, with BTC falling from around $9 billion to nearly $5 billion, and ETH from around $7 billion to below $4 billion. This decline indicates a reduction in leverage and risk appetite. Conversely, the partial recovery observed in the spring reflected a reopening of positions and a gradual return of activity, with BTC notably returning to its early year levels.

The renewed decline in June, with BTC around $6 billion and ETH around $4 billion in July, shows that market participants once again reduced their exposure after the Strategy related shock. Overall, open interest points to a more cautious market, marked by deleveraging phases.

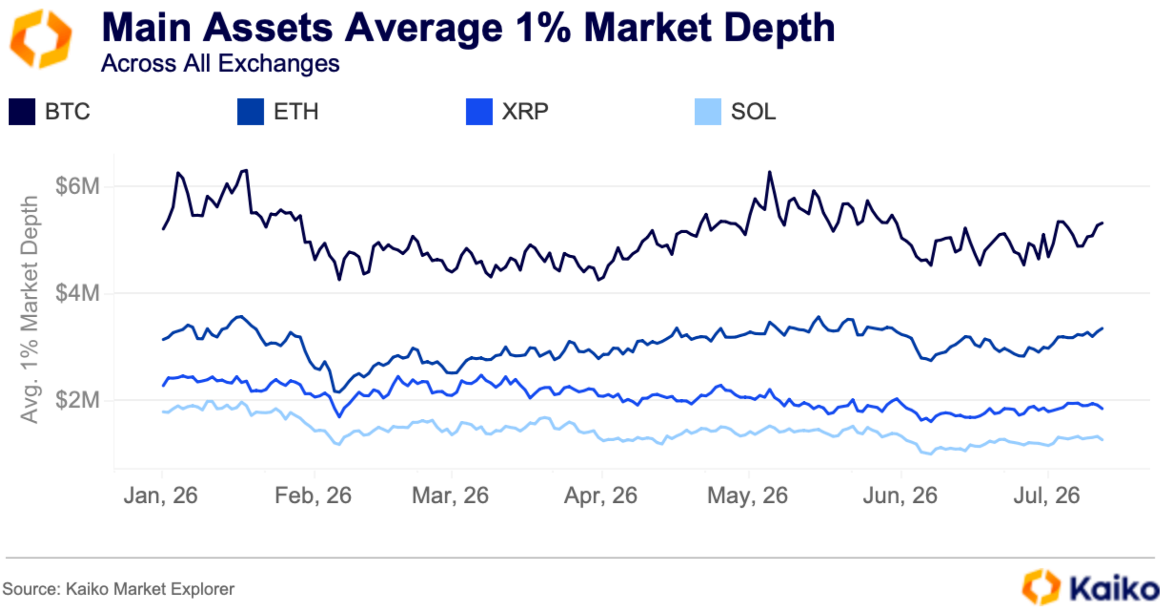


Liquidity Weakened by Market Shocks

Liquidity was also affected by this market environment. Trading volumes saw spikes during periods of stress, particularly in late February and early June. For BTC, daily volumes approached $50 billion during the first shock, while a second peak of nearly $27 billion was observed around the Strategy related announcement. These volume surges reflect a defensive reaction from market participants, with rapid position adjustments in a declining market environment.

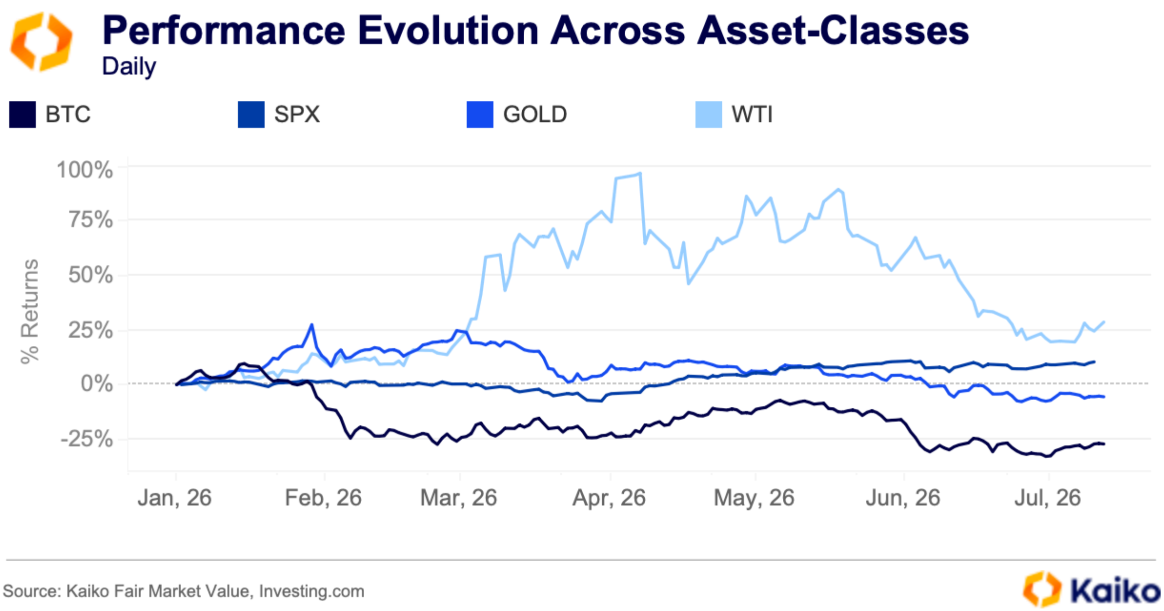


Average 1% market depth was also sensitive to market conditions during the first part of 2026. BTC retained the deepest liquidity, generally ranging between $4 million and $6 million, while ETH hovered around $3 million. After a notable deterioration in February, market depth partially recovered in the spring, before contracting again in June. The market therefore maintained stronger absorption capacity for BTC and ETH, but overall liquidity remained vulnerable to both macroeconomic catalysts and digital asset specific shocks.

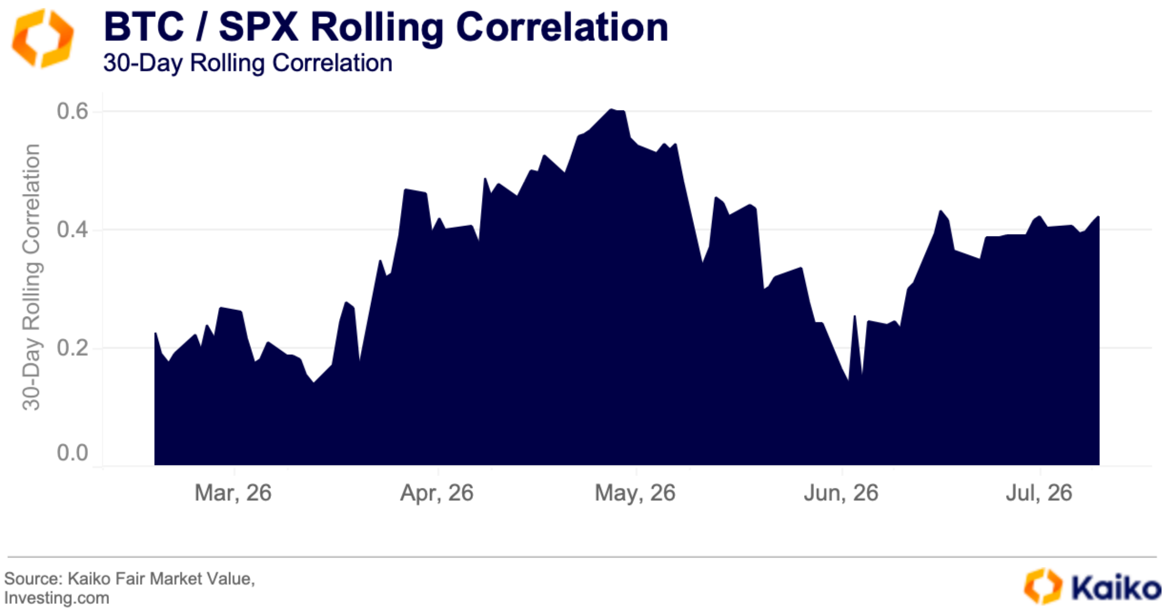


BTC Underperforms as Cross Asset Dynamics Diverge

The comparison with other asset classes highlights the underperformance of the crypto market. Since the start of the year, BTC is down around 27%, while the SPX is up around 10%. This divergence shows that digital assets have mainly reacted to their own catalysts, with the Middle East conflict having a limited impact on their trajectory. By contrast, WTI clearly stood out, still up around 25% to 30%, despite pulling back from its spring highs. This performance was largely driven by tensions linked to the Middle East conflict, which reinforced concerns over energy supply and triggered moves in oil prices.



The correlation between BTC and SPX remained positive for most of the period, but it varied significantly, rising to around 0.6 in the spring, signaling increased sensitivity of BTC to broader market conditions. However, when digital asset specific catalysts emerged, the correlation declined. This was notably observed after the June stress episode, when the correlation fell back toward 0.15, before later recovering to around 0.4.



Conclusion

The first part of 2026 confirmed a challenging environment for digital assets. Performance was broadly negative, volatility remained elevated during periods of stress, and exposure in perpetual contracts declined after the main market shocks. Liquidity showed some resilience in BTC and ETH, but remained sensitive to stress episodes, with volumes concentrated around sell off periods and less stable market depth. Compared with other asset classes, BTC underperformed SPX, gold, and WTI, illustrating a crypto market dominated by caution, and a strong dependence on catalysts.