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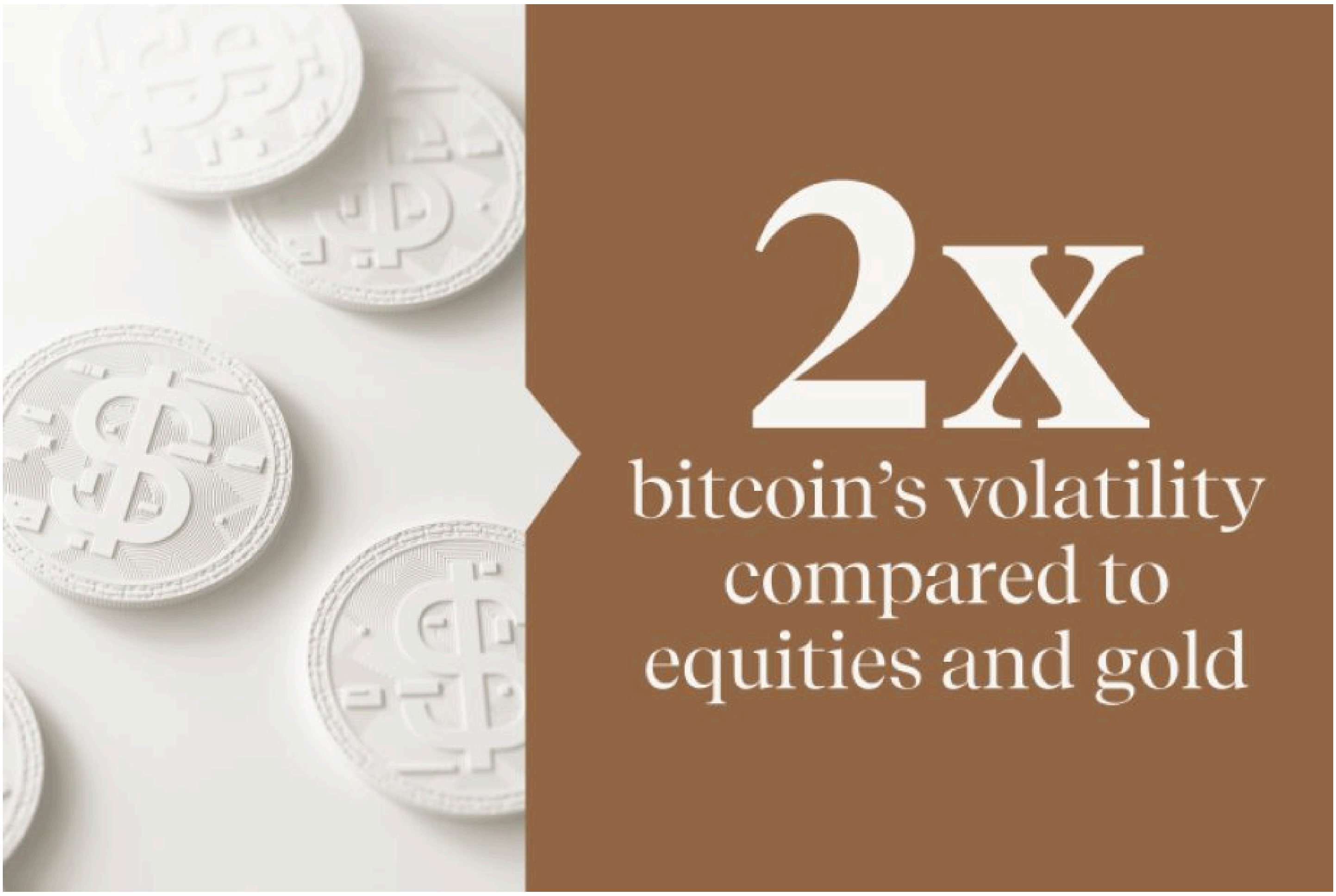
Bitcoin's role in investing: What you need to know



When bitcoin was first launched, it was dismissed as a digital curiosity. Today, it sits at the crossroads of global finance.

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Once a digital curiosity—an experiment born of distrust in the financial system—bitcoin, a cryptocurrency,[1] is now being debated in boardrooms and considered by some of the world’s largest institutions.

Mounting U.S. debt, declining trust in institutions, a generational wealth transfer and the rapid evolution of digital assets (bitcoin and others) have some clients asking: Is my portfolio ready for bitcoin?

Our answer: We don’t currently recommend it as part of a core allocation. The bull case for bitcoin is strengthening, yet we see important reasons to remain cautious. Regulation is only beginning to solidify, volatility remains relatively high for a standalone asset, and history suggests bitcoin could contribute outsize risk to a portfolio.

The bull case for bitcoin

Proponents argue bitcoin could become a widely adopted digital store of value, like a digital gold. They point to:

- **Bitcoin's scarcity and decentralization.** Supply is capped at 21 million coins, a feature hard-coded into bitcoin's protocol.[2] Scarcity is the foundation of the "bitcoin as digital gold" narrative, the idea that it's an alternative to fiat currencies whose values are being systemically eroded by an explosion in government debt levels. The decentralized nature of bitcoin's supply means no single entity can alter its issuance, further distinguishing it from traditional monetary systems.
- **The great wealth transfer.** As Millennials (born 1981–96) and Gen Z (born 1997–2012) inherit over $100 trillion in assets,[3] their investing preferences will shape future markets. Men aged 18–49, the most receptive (25% in surveys owned bitcoin[4]), and others in these generations, seem poised to drive broader cryptocurrency adoption.
- **Improving regulatory clarity around the world.** New legislation and frameworks introduced in the United States and abroad are reducing uncertainty, legitimizing bitcoin among both institutions and individuals, and encouraging broader participation in the market.
- **Maturing infrastructure.** U.S. spot bitcoin ETFs, launched in 2024, have attracted $62 billion in net inflows,[5] signaling strong investor interest. The growth of bitcoin derivatives markets, lending platforms and secure custody solutions further supports mainstream adoption.
- **Growing institutional acceptance.** Major financial institutions are beginning to recommend bitcoin allocations in client portfolios. Even small allocations by large asset managers could significantly increase demand.
- **Global accessibility and portability.** Bitcoin operates without a central authority, generally making it accessible to anyone anywhere with an internet connection. Its borderless and digital nature allows for easy transfer and storage, making it far more portable than a physical asset such as gold. This portability is especially attractive in those emerging markets with unstable currencies.

Bitcoin's market capitalization, just below $2 trillion, is large for a single security (it's roughly the market cap of Meta). To be sure, it's small compared to traditional asset classes—$2 trillion is just 6% of gold's total market cap. We caution against drawing direct parallels, given their still distinct features, but bitcoin bulls commonly speculate that if bitcoin's market cap were ever to match gold's, a coin would theoretically be worth more than $1.5 million—about 20 times higher than today.

This combination of scarcity, growing mainstream acceptance and decentralization underpins the optimistic outlook for bitcoin's long-term value.

Indeed, while the bull case is compelling, we note several risks and uncertainties that must be weighed carefully before considering any allocation.

Despite real progress, regulation remains fragmented

One reason why we don't think bitcoin is ready for core portfolios is the regulatory landscape. In 2025, most economies signaled an opening toward the digital assets ecosystem,[6] which supported bitcoin's entry into institutional finance. But the environment is fragmented overall.

Policy progress or regression lies in policymakers' hands, and while the lack of global regulatory consistency is inherent in decentralized assets, it leaves investors without the protections and stability that oversight is intended to provide. Although bitcoin is generally further along its regulatory journey than other parts of the ecosystem, its acceptance has been bolstered by advancements in digital asset regulation as a whole.

Striking a balance between regulations that foster investor confidence and cryptocurrencies' original, decentralized purpose will likely remain a key challenge for the industry.

Swings are tempering, but bitcoin remains volatile

Bitcoin is notorious for its volatility. Over the past decade, bitcoin has been four times more volatile than global equities—nearly 70%, versus global equities' 16%. Bitcoin has also seen 14 bear markets (meaning a decline of 20% or more) over the same period; global equities had two. And bitcoin's declines have been worse: The average loss, during bitcoin's five worst declines, was 57%. For global equities, the five worst slumps averaged to a 21% decline.

However, because bitcoin is a relatively new asset, the period used for analysis matters. Recently, bitcoin's volatility has been easing. Since the SEC approved the first bitcoin spot ETFs in January 2024, the cryptocurrency's annualized volatility has been about 45%, much lower than that of the prior decade.

Bitcoin’s rolling 1-year volatility is now lower than Nvidia’s but twice gold’s

Volatility, %

Source: Bloomberg Finance L.P. Data as of January 30, 2025.

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Bitcoin’s decline in volatility could reflect growing institutional acceptance and the maturation of the asset. Yet even so, its one-year volatility is still more than twice that of broad equities and gold. The price action over the past few months serves as a good example that such volatility may not be suitable for all investors or portfolios.

Volatility isn’t necessarily a bad thing on its own, and investors historically have often been rewarded for holding through it. For example, those who bought and held bitcoin over the past decade saw an annualized return of 72%.

Correlation with other assets has been inconsistent

Bitcoin’s correlation with other assets has fluctuated significantly. It has a low long-term correlation to global equities (around 0.2), but that tends to spike during periods of market turmoil.

Whenever global equities gained 5% or more over a four-week period (“risk-on”), bitcoin was up 75% of the time, and gold was up 73% of the time. However, whenever equities declined 5% or more (“risk-off”), bitcoin was down 93% of the time, while gold was down only 55% of the time.

Bitcoin has not served as a reliable diversifier during volatile equity markets

% of time

Source: Bloomberg Finance L.P. Data as of January 30, 2026. Risk-on: MSCI World performance greater than 5%. Risk-off: MSCI World performance smaller than -5%. Both over a rolling four-week period in the past decade.

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In “risk-off” periods, equities averaged an 8% loss. During those same periods, bitcoin fell by an average of 13%, while gold gained 0.4% on average.

Historically, bitcoin hasn’t consistently protected portfolios during equity market weakness. Instead, those were the times it tended to perform worse.

Beyond equities, a common narrative is that bitcoin can act as a currency diversifier. While it has had a slightly negative correlation with the U.S. dollar (-0.14) over the past decade, gold has served as a more reliable USD diversifier, with a correlation of -0.50 over the same period.

Bitcoin adds outsize risk to a portfolio

Bitcoin’s unique characteristics make it difficult to classify using traditional asset allocation frameworks. It offers the potential for capital appreciation and some degree of currency diversification, but it also introduces significant risk.

Here’s how a bitcoin allocation compares to other diversifiers and may affect your portfolio’s risk:

- **Bitcoin versus gold.** While their correlations to traditional multi-asset portfolios have been similarly low, their contributions to overall portfolio risk have been vastly different. Our analysis has shown that since the launch of bitcoin ETFs in January 2024, a 5% allocation to gold alongside a traditional 60/40 portfolio would have contributed 2% to overall portfolio risk. The same allocation to bitcoin would have contributed 13% of portfolio risk.
- **Bitcoin versus fixed income.** A similar exercise shows that historically, the 40% bond allocation in a classic 60/40 accounted for only about 9% of the portfolio’s total risk. Allocating 3.5% to bitcoin introduced the same level of risk as the entire 40% fixed income allocation.

A moderate allocation to bitcoin contributes about 2x–3x its weight in risk

Contribution to risk, %

Source: Bloomberg Finance L.P. Data as of January 30, 2025. Note: A balanced portfolio is made up of 60% MSCI World and 40% municipal bonds.

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For ultra-conservative portfolios or near-term funds, even a small bitcoin allocation may introduce unacceptable volatility and drawdown risk. Aggressive or opportunistic investors may consider sizing bitcoin within their risk budgets, but careful sizing and risk management are essential.

Bitcoin doesn't exist in a vacuum

The digital asset landscape is rapidly evolving, and bitcoin is only one part of it. Tokenization—the representation of real-world assets as digital tokens on a blockchain[7]—is broadening access to alternative investments and streamlining asset management. Blockchains now function as settlement rails for transferring and recording asset ownership, enabling instant, transparent and cost-effective value transfers across global markets.

Since January 2025, financial institutions' adoption of blockchain-based products and strategies has accelerated.[8] As investors become more familiar and comfortable with the technological ecosystem bitcoin inhabits, adoption of the coin may accelerate.

And as the digital asset ecosystem beyond bitcoin expands, new opportunities and risks to bitcoin's progress may also rise. The increasing adoption of USD-pegged stablecoins, to take one commonly cited example, could reinforce the dollar's dominance. The USD peg could help provide more efficient and secure cross-border transactions and settlement. Yet it could also slow the broader de-dollarization trend of the past year and work against wider crypto adoption.[9]

Why we don't favor a core allocation

Bitcoin is still on its journey from digital curiosity to widely used asset. While we currently do not recommend bitcoin as part of a core portfolio, it may suit aggressive and/or speculative investors as a satellite allocation, if they're willing to accept its risks and volatility. Bitcoin has shown its potential for significant returns in the past, but future outcomes remain uncertain, so careful sizing and risk awareness are essential.

Beyond bitcoin, the digital asset ecosystem is evolving rapidly. As new technologies and platforms develop, they may help build the infrastructure cryptocurrencies need—for broader market acceptance, and to win our confidence, as well.

As always, aligning portfolio construction with your long-term goals and risk tolerance is paramount. Your J.P. Morgan team can help you navigate the risks and opportunities of bitcoin and the broader digital asset landscape.

1 Bitcoin is a digital currency (cryptocurrency) that operates without a central authority, such as a government or bank. Bitcoin is supported by a decentralized network that uses blockchain technology—a public, distributed ledger—to record all transactions. It relies on "mining" to validate and add transactions, ensuring security and transparency. The system is open source, allowing anyone to participate or review its code.

2 According to Blockchain.com, nearly 20 million bitcoins have so far been mined. Chainalysis estimates say 2.3 million to 3.7 million bitcoins (including Satoshi Nakamoto's original holdings) have been permanently lost as of 2025. So as of 2026, over 95% of the total supply is in circulation.

3 "The Cerulli Report: U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2024," Cerulli Associates, December 5, 2024.

4 Gallup survey data as of June 2–15, 2025.

5 Glassnode Studio. Data as of January 30, 2026.

6 Notable developments in digital asset regulation last year include: The U.S. House of Representatives passed the Digital Asset Market Clarity Act, which established clear regulations for cryptocurrencies, defined the oversight roles of the SEC and CFTC, and emphasized consumer protection and innovation. In January 2025, President Trump signed an executive order prioritizing dollar-backed stablecoins (a stablecoin is a type of cryptocurrency designed to maintain a stable value by being pegged to a reserve asset such as a fiat currency, and issuers of stablecoins are entities that create, manage and back these digital tokens to ensure their price stability), and creating a U.S. strategic bitcoin reserve. The Guaranteeing Essential National Innovation for U.S. Stablecoins (GENIUS) Act, enacted in July, mandates that stablecoin issuers back coins with a 1:1 supply of low-risk reserves starting in 2027, introduces bankruptcy protections, and clarifies federal and state regulatory oversight. The European Union implemented the Markets in Crypto-Assets (MiCA) regulation, which enforces unified authorization, transparency and disclosure requirements for issuers and crypto service providers across its 27 member states. Brazil's central bank established a crypto framework integrating virtual assets into the financial system and expanding tax reporting to all providers, while the Federal Supreme Court relaxed restrictions on crypto use in political campaigns. In the United Arab Emirates, the Payment Token Services Regulation (PTSR) set strict licensing, consumer protection and anti-money laundering standards for digital tokens, and recently approved the first USD-backed stablecoin under PTSR.

7 Blockchains are decentralized, distributed digital ledgers that securely record transactions in a tamper-evident and transparent manner across a network of computers. Bitcoin operates on a blockchain, so its digital ledger records all bitcoin transactions securely and immutably.

8 One illustration: J.P. Morgan has started lending against bitcoin, launched a tokenized money market fund on Ethereum, and the Kinexys platform runs real-world blockchain applications for repo settlement and intraday liquidity.

9 David Duong and Colin Basco, "2026 Crypto Market Outlook," Coinbase, December 19, 2025. Another theoretical risk to bitcoin we have seen mentioned is the advent of quantum computing—using quantum mechanics to process information much faster than with classical computers. The concern is that quantum computing could potentially break many current cryptographic standards—formalized protocols and algorithms used to secure digital communication and data—by efficiently solving the mathematical problems that underpin their security. Many experts believe quantum computers capable of threatening the bitcoin digital system are still years, if not decades, away. The bitcoin community is also actively researching quantum-resistant solutions.

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