Staked | Kraken

The State of Staking

Q2 | 2022

$206 BN (-69% Q/Q)

Market Cap of Top 35 PoS Assets

22% (-8% Q/Q)

PoS Share of Total Crypto Market Cap

24 (-4 Q/Q)

PoS Chains in CoinGecko Top 100

15% (-0.8% Q/Q)

Average Yield

$4 BN (-73% Q/Q)

Annualized Staking Rewards

Staking Yields Hold Steady Through Market Crash

Despite the extreme sell off in crypto assets, stake rates and staking yields remained largely unchanged from their record highs in Q1. The average staking yield decreased slightly from 15.4% in Q1 to 14.6% in Q2. The average stake rate remained effectively flat. As a result of the significant loss in market value, annualized staking rewards decreased by 73% to $3.9BN, their lowest value since Q4 2020.

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Avg. Yield	14.6%	15.4%	13.9%	11.8%	12.4%
Avg. Stake Rate	48.6%	49.3%	43.2%	46.1%	47.7%
Annualized Staking Rewards ($BN)	$ 3.9	$ 14.9	$ 14.7	$ 12.2	$ 6.0

Source: *Annualized staking rewards are calculated by multiplying the market cap, stake rate and staking yield for each protocol on the last day of the quarter (e.g. 09/30/21 or 12/31/21). Market capitalizations per CoinGecko. Stake rate and yield data per on-chain block explorers.*

Liquidations and forced selling decimated the crypto market in Q2. The $55BN+ Terra / LUNA / UST ecosystem imploded. $3BN+ hedge fund 3AC filed for bankruptcy. Centralized lenders BlockFi, Celsius and Voyager became insolvent, requiring bail-outs and bankruptcies.

As a result, crypto assets crashed in Q2, losing 59% of their value, or $1.3TN. The total crypto market capitalization fell to $960BN, its first time below $1TN since Q4 2020. The impact on PoS assets was even more extreme. The Top 35 PoS assets lost 69% of their value in the quarter, or $460BN, falling to $206BN in market cap. Driven by lower asset prices, the value of staked assets plunged by 71% in the quarter to $50BN, their lowest value in over a year.

$BNS	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Staked Assets	$ 49.4	$ 170.3	$ 181.1	$ 157.3	$ 78.3

Source: *The staked asset value is calculated by multiplying the market capitalization and stake rate for each protocol on the last day of the quarter (e.g. 09/30/21 or 12/31/21). Market capitalizations per CoinGecko. Stake rate data per on-chain block explorers.*

PoS market share of the crypto market cap decreased by 8%, falling from 30% in Q1 to 22% in Q2, its first time below 25% in a year. Excluding Bitcoin, PoS market share fell 11% to 38%, its lowest share ever. Stablecoins accounted for the majority of loss in share, increasing from 7% share in Q1 to 16% in Q2. Ethereum's PoS market share increased from 61% to 65%, as ETH sold off less than the broader PoS index.

$BNS	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
PoS Share	22%	30%	31%	30%	24%

Source: *Market capitalizations per CoinGecko.*

LUNA and AVAX both fell out of the top 10 crypto assets, leaving 3 (Ethereum, Cardano and Solana) secured by PoS. PoS secured 24 of the top 100 crypto assets in Q2, down 4 from 28 in Q1. PoS dominance of the top 10 assets decreased by 10.4% from 32.4% in Q1 to 22% in Q2. Only 3 PoS assets (Ethereum, Cardano and Solana) were worth more than $10BN at the end of the quarter, down from 7 in Q1.

Not All Yield is Created Equal

> ***“It’s only when the tide goes out that you learn who has been swimming naked.”** - Warren Buffet*

Q2 was a watershed moment for the industry as contagion exposed seemingly well capitalized and trusted businesses. Multi-billion dollar industry leaders devolved into insolvency overnight. Each of them had one thing in common: unsustainable yield. During bull markets these businesses thrived, but as risk appetite receded against a bearish macro backdrop we learned firsthand that not all yields are created equal. Proper risk management can’t be overstated enough.

Luna + UST / Anchor Collapse: *Unsustainable Yield Economics*

Luna + UST’s collapse stemmed from Anchor’s unsustainable economic and stabilization model. Its stablecoin UST maintained its peg via an arbitrage-based stabilization mechanism that utilized lending protocol Anchor, which provided a 20% APY. Ultimately, over $40BN in LUNA and $10BN of USD equivalent liquidity was wiped out in a matter of days.

3AC / Celsius: *Predatory Counterparty Risk*

3AC was at one point considered the most successful and reputable hedge fund in the crypto space, with ~ $3BN+ in AUM at its peak. Their reputation allowed them to not only take on risky trades utilizing funds from lenders, but also from companies and projects’ treasuries. In many cases, 3AC promised its clients 8% yield on USD or stablecoin deposited with them, which many trusted 3AC to be able to fulfill. However, after a number of heavy losses due to the exposure to the GBTC discount as well as Luna, the team eventually could not meet its margin calls. Once again, it was overleverage that brought this giant to its knees.

Celsius was the first CeFi platform to show signs of trouble, as they announced a temporary freeze on all trading and transfers to prevent a bank run. Celsius exemplified poor management practices by using customer deposits to generate yield on risky DeFi protocols like liquidity pools and Lido. After suffering heavy losses, Celsius continued to attract more deposits with high yield marketing in order to honor previous depositors’ redemptions.

BlockFi / Voyager: *Opaque Counterparty Risk*

BlockFi, while not engaging in risky yield sources themselves, did lend out to counterparties such as 3AC that ultimately weren't able to meet obligations. And as such BlockFi also indirectly suffered greatly from the contagion effects of panic in the markets. Voyager similarly also had exposure to risky counterparties and ultimately had to pause all trading and transfers in anticipation of bankruptcy filing.

Above all, it was a lack of transparency, leverage and poor risk management that allowed contagion to spread as far as it did. Once one party started to offer higher yield than competitors to attract more deposits, it sparked a game of yield chasing using riskier and unsustainable trades behind closed doors.

Staking Provides Superior Risk-Adjusted Yields

In a bull market, investors tend to look at headline numbers for yield without much consideration for how that yield is generated. But as we've seen, different types of yield come with different risks. In addition to the risks highlighted above, DeFi protocols have also had their share of issues with smart contract risk where user deposits are drained, or impermanent loss risk for those providing liquidity in liquidity pools for volatile asset pairs. In contrast, staking mitigates most risk and comes closest to being a "risk-free-rate" in crypto the following way:

Sustainable Yield Economics

Staking rewards come from sustainable sources and provide transparent yield. The rewards come from inflation built into the protocol, of which the design and mechanism is transparently outlined in the whitepaper or ongoing documents.

No Counterparty Risk

Non-custodial staking allows investors to earn yield without giving up ownership of assets to another party.

Limited Downside Risk

Staking does come with some risk in the form of slashing penalties, but the penalty is relatively small (1-5%) and can be minimized by working with a reliable provider.

Staking Outperforms in Downtowns

Throughout the quarter's drama, staking rewards remained reliable. Staking rewards are generated by inflationary tokens and fees that are minimally impacted by supply and demand, and don't rely on leverage or other temporary incentives. As a result, token rewards remained stable. In fact, data shows that due to a cascade of unstaking activity by sellers, staking yield on most protocols increased during the market downturn as would be expected.

Staking Yields Remain Stable During Price Crashes

The biggest failures in the category repeated the same mistakes of most of the past financial crises: too much leverage chasing risky yield. When the tide goes out, it's worth looking at staking and DeFi to see if they suffer from the same flaws. Upon close examination, it's clear staking needs to be part of everyone's proper long term risk management strategies.

Appendix 1/2

Top 35 PoS Chains by Market Cap

PROJECT	TICKER	MARKET CAP	YIELD	STAKE RATE
Ethereum	ETH	$133,275,228,451	4.3%	8.9%
Cardano	ADA	$15,747,671,035	4.6%	55.0%
Solana	SOL	$11,618,504,834	6.2%	75.1%
Polkadot	DOT	$7,889,820,786	14.8%	51.8%
TRON	TRX	$6,002,921,515	4.3%	41.8%
Avalanche	AVAX	$4,967,701,617	9.1%	57.5%
Polygon	MATIC	$3,966,371,080	9.9%	39.0%
Crypto	CRO	$2,955,195,401	10.9%	16.3%
NEAR	NEAR	$2,474,605,033	11.2%	42.5%
Cosmos	ATOM	$2,158,973,322	19.0%	64.4%
Algorand	ALGO	$2,068,724,782	8.3%	25.3%
Flow	FLOW	$1,625,486,703	9.5%	51.1%
Tezos	XTZ	$1,314,949,226	5.9%	74.0%
Elrond	EGLD	$1,134,313,097	15.6%	55.2%
Helium	HNT	$1,004,949,614	5.3%	36.7%
The Graph	GRT	$700,376,219	9.9%	39.2%
Fantom	FTM	$660,373,034	14.7%	49.0%
Radix	XRD	$644,624,991	11.5%	80.0%
Stacks	STX	$590,280,624	8.8%	39.6%
Thorchain	RUNE	$579,382,885	12.1%	13.2%
Dash	DASH	$479,679,057	6.8%	38.8%
Kusama	KSM	$438,752,114	19.4%	47.6%
Kava	KAVA	$410,424,350	27.1%	49.8%
Celo	CELO	$392,075,961	4.8%	48.0%
Mina	MINA	$354,380,277	22.2%	85.9%

Appendix 2/2

Top 35 PoS Chains by Market Cap

PROJECT	TICKER	MARKET CAP	YIELD	STAKE RATE
Decred	DCR	$322,474,046	8.8%	65.0%
Osmosis	OSMO	$317,931,151	29.4%	17.0%
Livepeer	LPT	$267,628,467	34.2%	49.1%
Audius	AUDIO	$264,191,976	24.0%	37.5%
Oasis	ROSE	$255,195,156	13.4%	61.4%
Harmony	ONE	$229,881,508	10.3%	40.1%
ICON	ICX	$219,926,460	12.4%	42.5%
Skale	SKL	$183,168,099	12.5%	76.9%
Secret	SCRT	$166,366,694	22.9%	64.3%
Juno	JUNO	$136,110,746	68.3%	61.7%
Total		**$205,818,640,311**		
Average		**$5,880,532,580**	**14.6%**	**48.6%**
Median		**$644,624,991**	**11.2%**	**49.0%**

About Staked

Staked is a leading non-custodial staking service provider. Staked offers staking services for 35+ proof-of-stake blockchains with billions of delegated assets. Leading investors, exchanges and wallets trust Staked to reliably and securely deliver optimal staking rewards. Kraken acquired Staked in December 2021.

For more information about Staked, please visit: http://staked.us

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