

The growing interconnection between crypto, global markets and U.S. monetary policy

Crypto assets may not be the safe haven some advocates make them out to be. Our research points to the growing influence of U.S. monetary policy on crypto cycles — and how they align with global equity markets.



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By [Tammaro Terracciano](#)

Crypto markets have experienced significant growth in recent years, going from \$20 billion in 2016 to almost \$3 trillion in 2021. Advocates of crypto say the market offers a more inclusive, efficient and secure financial landscape. Because crypto assets operate on decentralized networks — with no bank or government body to control them — their most enthusiastic proponents believe crypto to be an alternative to the traditional financial system.

Nonetheless, crypto and global equity cycles have become more synchronized in the past years. Our recent paper, which followed both the [crypto cycle and global equity markets](#) between 2018 and 2024, found that the two are surprisingly synched up, responding similarly to monetary policy shocks. And one of the driving forces is institutional investors. The growth of crypto assets has attracted not only retail investors but also large financial institutions like banks, pensions and mutual funds, whose participation rose from about 20% in 2019 to 60% in 2023. Our research suggests that their participation is key for the synchronization of crypto assets and stocks.

As a result, U.S. monetary policy is having just as much of an impact on crypto assets as it's known to have on the global financial cycle, which means crypto assets are being treated more and more like traditional assets instead of functioning on their own separate “track.” This could have policy implications for regulators, especially in the U.S., since we found that only the Federal Reserve significantly affects the crypto cycle — likely reflecting the high dollarization in crypto markets. We argue that policymakers should monitor institutional participation closely to contain possible spillover risk.

The crypto factor

We start our analysis by computing the “crypto factor,” a single component that accounts for 78% of the variation in crypto prices. This is significantly higher than the 20% variance observed in global equities, indicating a bigger concentration of market capitalization in major crypto assets compared with top equities.

It also suggests that, despite the diversity among crypto assets, their price movements are largely influenced by a common underlying factor. We use this crypto factor to measure against a set of global equity factors when studying the synchronization between the two markets.

Institutional investors changing the crypto landscape

The influx of institutional investors into the crypto market has fundamentally altered its dynamics due to their intrinsic characteristics such as large capital, extensive use of leverage and exposure to different asset classes. Although institutional involvement in crypto is proportionately small compared with their financial statements, their trading volume overshadows that of retail traders in crypto markets.

Because these entities invest in both stocks and crypto assets, their trading activities create a direct link between the two markets, heightening the synchronization of their price movements. In other words, the higher the participation of institutional investors, the higher the correlation between crypto and equity markets.

Such institutional participation also determines the effectiveness of U.S. monetary policy on crypto assets. Contrary to the belief that crypto assets are untouched by government intervention, our research reveals that crypto prices go down when the U.S. Federal Reserve tightens its monetary policy. This effect mirrors the response seen in equity markets, where higher interest rates generally lead to lower stock prices.

Spillover risks

Our findings reject claims that crypto markets act completely independently from traditional financial systems. Based on our research, those who buy crypto are exposed to the same sorts of cycles as traditional stocks. At the end of the day, the so-called crypto revolution may just be the emergence of another asset class.

While it is true that crypto assets could help investors diversify their portfolios, higher institutional participation could also increase spillover risks between traditional and crypto markets. Understanding these dynamics is important because changes in crypto prices could start to affect stock prices more directly if institutional investors continue to treat crypto assets like traditional ones. Those considering crypto assets as a safe haven from economic turmoil, then, might need to rethink their strategies and acknowledge that crypto assets can be influenced by the same monetary policies that impact stocks and bonds. For this reason, it is important for regulators to thoroughly monitor institutional participation in crypto markets.



Tammaro Terracciano

Assistant Professor of Financial Management at IESE. His research focuses on international finance, monetary economics, fintech, and digital currencies.

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