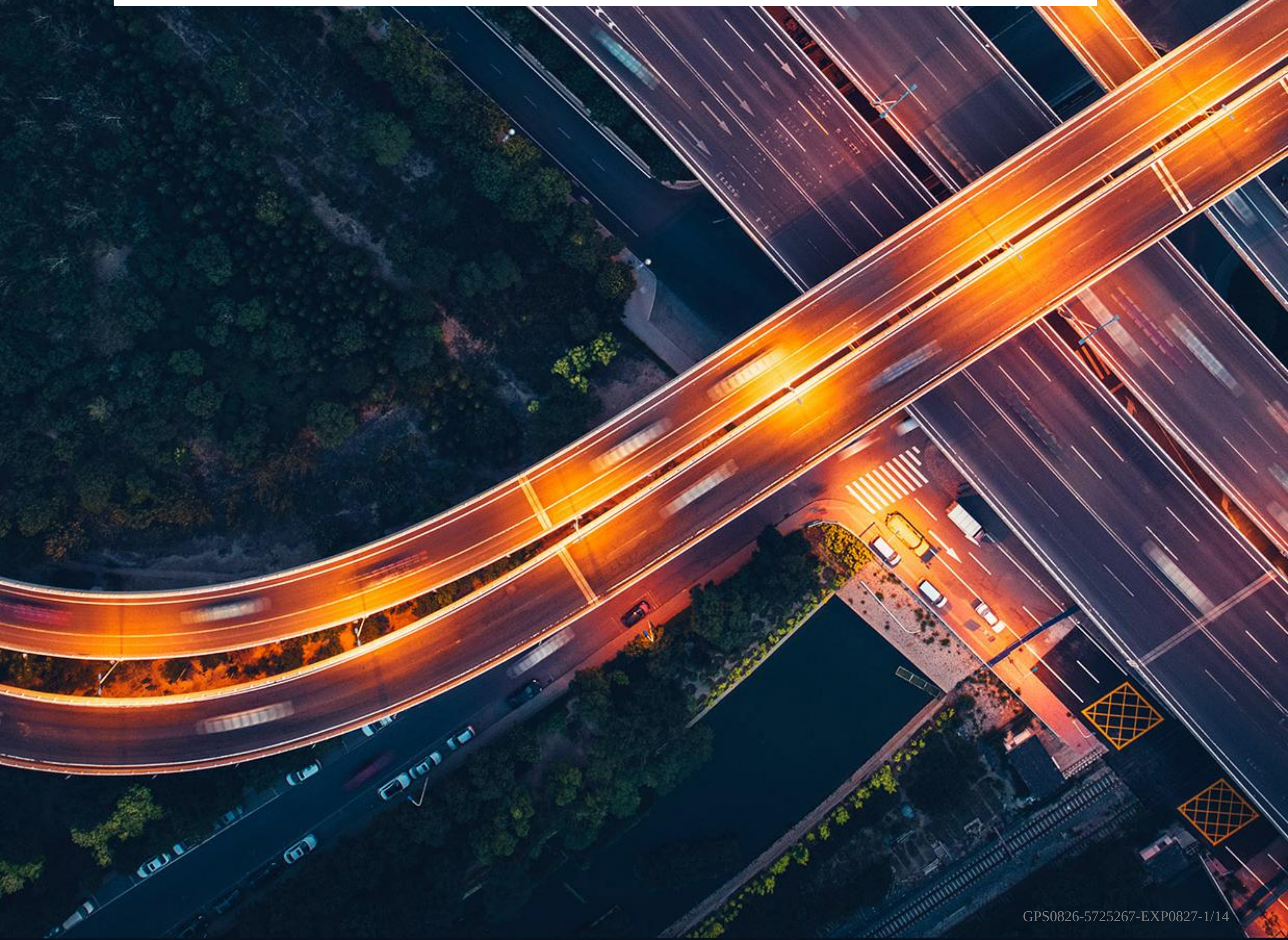
Re-Underwriting Bitcoin: Still a Portfolio Diversifier After the Pullback?

BlackRock



Executive Summary

After reaching all-time highs in October 2025, bitcoin prices have pulled back by more than 50% to mid-2026 lows. We view the sell-off as a function of idiosyncratic deleveraging and flow dynamics, and believe bitcoin's core investment case as an important emerging global monetary alternative and unique portfolio diversifier remains unchanged. Bitcoin has exhibited a "dual personality" during this period, at times serving as a haven asset (notably in the aftermath of the U.S.-Iran conflict), while at other times trading with elevated correlation with risk assets, particularly during deleveraging episodes such as February 2026. This duality is likely driven by the balance between macro hedging demand and positioning-driven liquidity dynamics.

We observe that when speculative positioning becomes elevated, bitcoin's correlation with risk assets tend to increase during subsequent deleveraging phases. Positioning reached extreme levels as bitcoin prices rallied above $120,000 last October: futures open interest exceeded $90 billion at peak, heavily concentrated in leveraged perpetual futures on offshore exchanges. A macro-driven risk-off catalyst (China tariff headlines) triggered large-scale deleveraging across precious metals and crypto markets. The resulting liquidation waves drove prices down to cycle lows below $60,000 per bitcoin by June 2026.

Beyond deleveraging, a slowdown in institutional inflows also created headwinds to price recovery during the sell-off. Spot bitcoin ETPs, which attracted a historic $60 billion in inflows from January 2024 launch through October 2025, experienced more than $5 billion in subsequent outflows as investor attention rotated toward AI-themed products, which captured $30 billion over the same period. In addition, concerns around the balance sheet sustainability of digital asset treasury entities weighed on sentiment. We view these as cyclical flow dynamics rather than indicators of a structural shift in the trajectory of bitcoin's long-term institutional adoption.

In the long run, bitcoin has remained a low-correlation asset, underpinned by its core investment case as an emerging global monetary alternative and a potential hedge against fiat debasement (we highlight in our analysis that every developed market currency over the last century has lost 99%+ of value against gold).[1] Bitcoin's role as a portfolio diversifier has remained distinctive, offering positively skewed returns and low correlation to traditional risk assets, including equities, over extended time horizons; notably, we see structural signs that risk correlations should revert lower following significant deleveraging since last October. And while bitcoin remains inherently volatile, its volatility has trended lower over the past decade as market structure has matured, supported by the growth of derivatives markets and the expansion of and exchange-traded products (ETPs). This downward trajectory in bitcoin's volatility, however, has been partially offset over the past year by the growth in levered perpetual futures within the bitcoin market, which tend to increase volatility in any asset class where they reach a material share of trading volume.

Our updated trailing 10-year analysis indicates that a modest 1-2% allocation to bitcoin would have enhanced risk-adjusted returns within a traditional 60/40 portfolio. In our view, a measured allocation to bitcoin is likely to remain compelling for many investors, serving as a potential strategic diversifier for long-term portfolio construction.

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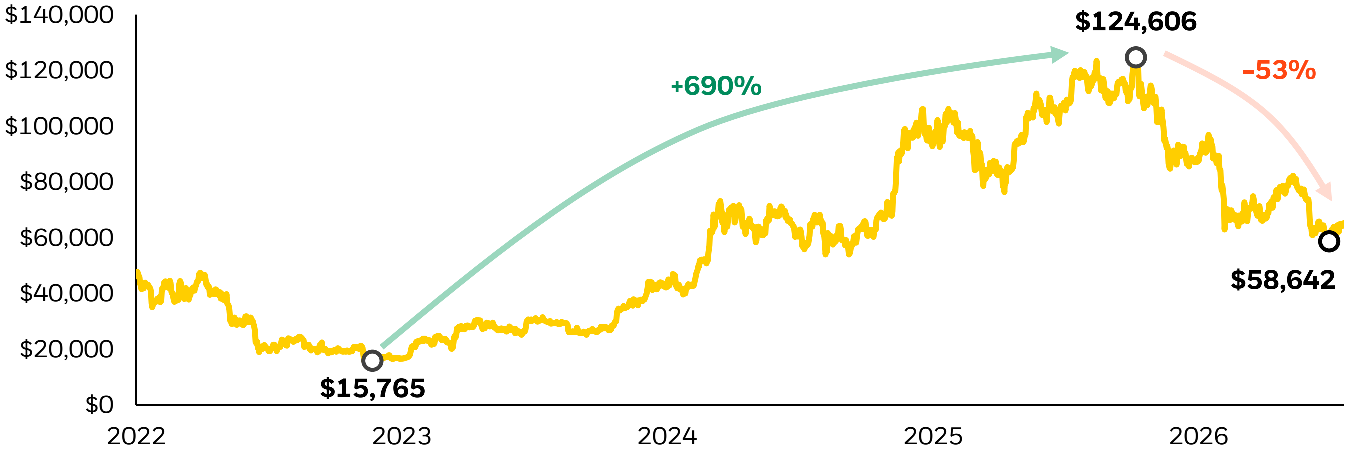
1. Analysis based on the currency being held as cash.

Crypto-native deleveraging catalyzed bitcoin's 50% pullback from October 2025 highs

Following a ~700% rally from late 2022 lows to all-time highs in October 2025, bitcoin has retraced by roughly 50% through early June 2026. The drivers of the rally were largely idiosyncratic: bitcoin saw positive regulatory developments under the new administration and benefitted from greater institutional adoption including the launch of U.S. spot ETPs. Lower interest rates following rapid hikes in 2022 also broadly boosted bitcoin and precious metals assets.

Figure 1: Bitcoin Spot Price (January 2022 – June 2026)



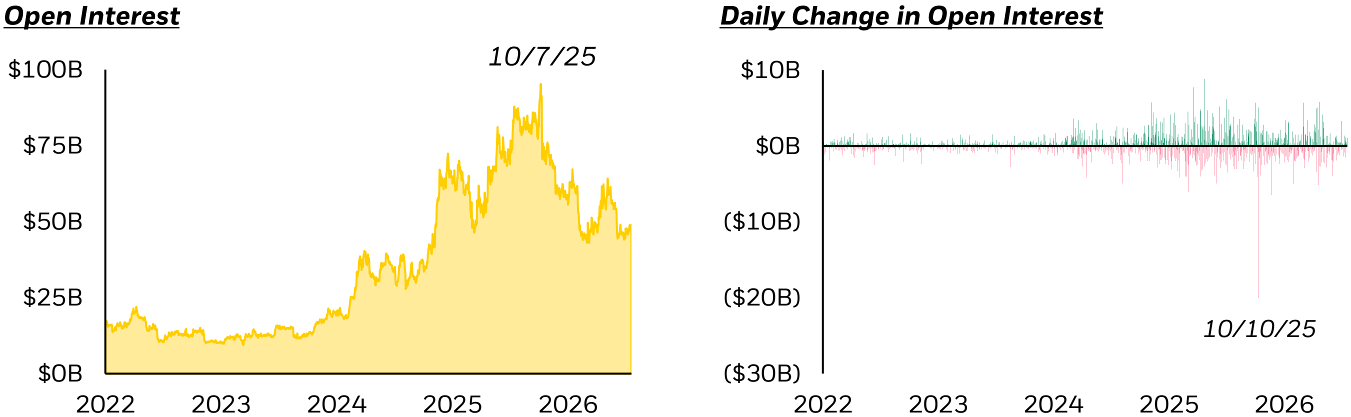
Source: Bloomberg and Coin Metrics, as of July 17, 2026.

Speculative positioning built up through the rally alongside higher prices. By early October, futures open interest had ballooned to over $90 billion across crypto exchanges. 80% of this open interest came from ex-CME perpetual futures, or "perps," which have no expiry date and offer potentially extremely high leverage (up to 50-125x on some venues). Perps were a mostly crypto-native instrument popular with retail traders and enabled this record long positioning into October highs but left thin drawdown limits before these positions were automatically liquidated.

On October 10, 2025, the U.S. announced additional tariffs on China, which triggered a sell-off across global markets: S&P 500, Nasdaq, and Emerging Markets equities fell 3-4% on the day, while bitcoin and ether dropped by 6% and 11%, respectively.[2] The pain was especially acute in cryptocurrencies: bitcoin's open interest dropped by $20 billion, the largest single-day decline on record.

2. Bloomberg settlement prices for S&P 500 Index, Nasdaq-100 Index, MSCI Emerging Markets Index, and Bitcoin/Ethereum spot. Source: Bloomberg.

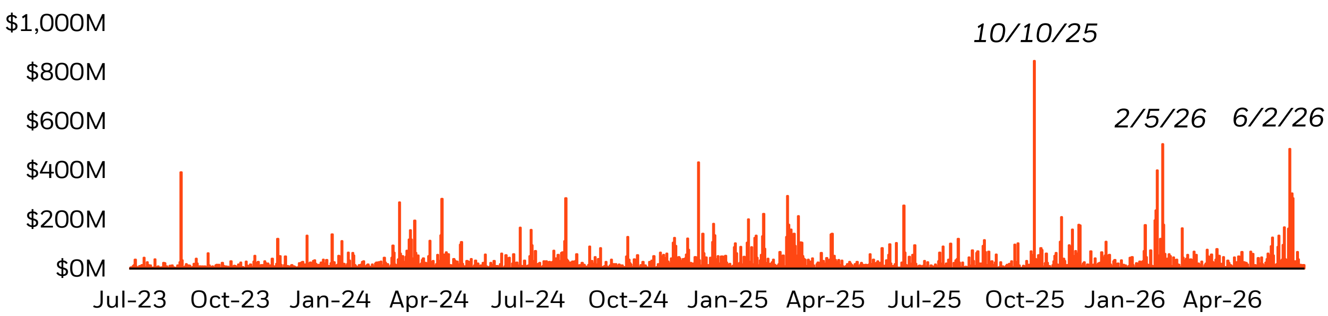
Figure 2: Bitcoin Perpetual and Non-Perpetual Futures



Data recorded across 24 exchanges, including CME (non-perpetual futures). Source: Coinglass, as of July 17, 2026.

While equities reverted higher by the end of the month as tariff risk receded, crypto remained under significant selling pressure, with additional waves of forced liquidations in February and June 2026 taking bitcoin to cycle lows below $60,000. We identify several idiosyncratic drivers unique to bitcoin underpinned the sustained price weakness, notably the fund flow rotation from digital assets towards AI-exposed equities and growing skepticism towards ongoing accumulation by digital asset treasuries.

Figure 3: Bitcoin Futures, Reported Daily Liquidations

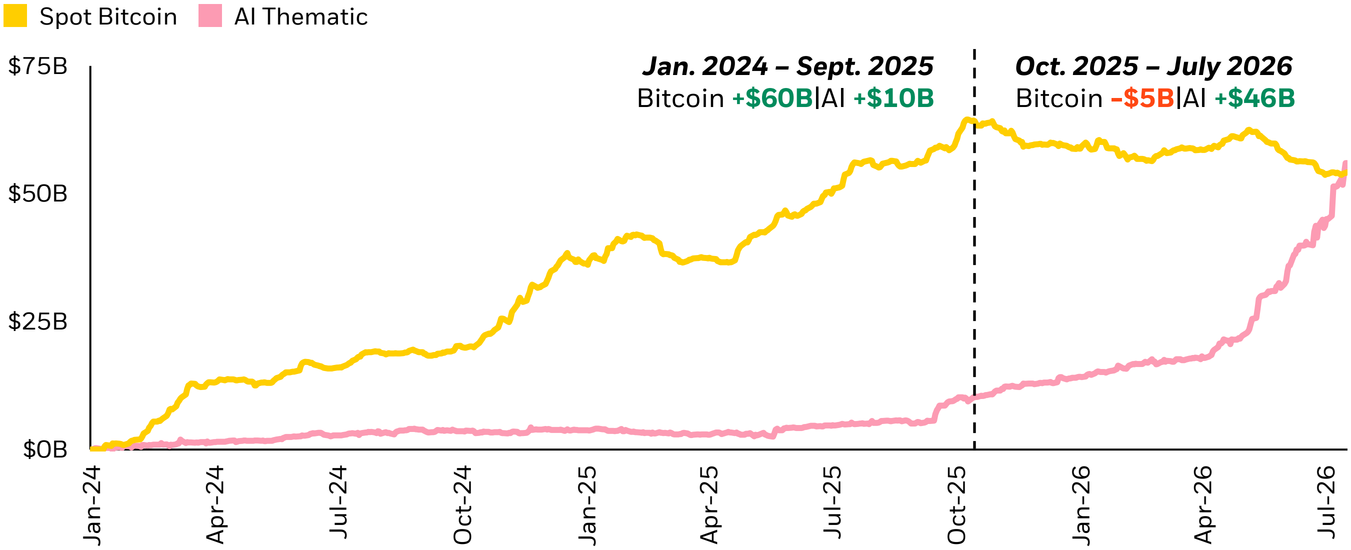


Source: Coin Metrics, as of June 15, 2026.

Slowing institutional buying has weighed on prices so far in 2026

October 2025 also marked a notable pivot for bitcoin ETP inflows, which mirrored the sharp acceleration of inflows to equity-thematic funds, especially those tracking outperforming AI-exposed equities. Since the U.S. launch, spot bitcoin ETPs took in $60 billion between January 2024 and October 2025, with AI-thematic ETFs gaining $10 billion over this period. Since then, bitcoin funds have suffered ~$5 billion in outflows in aggregate while AI funds recorded more than $46 billion of inflows. In our view, the rotation into AI-exposed equities likely competed for capital and became a net drag on investors' bitcoin allocations. Conversely, a normalization could lead to a return to structural inflows for bitcoin and other cryptocurrencies over time.

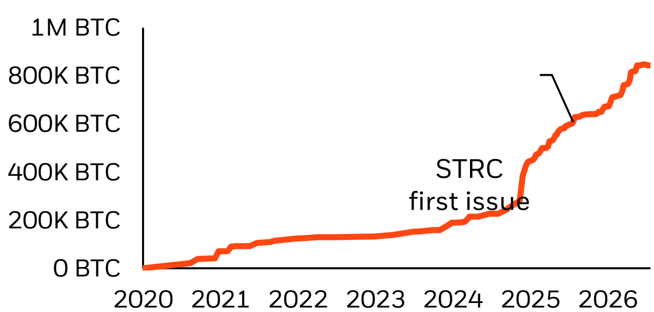
Figure 4: Cumulative ETP Flows Since January 2024



AI Thematic includes semiconductor sector, leveraged single-name semiconductor, and index and active AI equity ETFs. Spot Bitcoin includes U.S. and international exchange-traded products (ETPs) holding spot bitcoin. Source: Bloomberg, as of July 17, 2026.

Investor skepticism has also increased toward sustained purchases by digital asset treasuries (DATs) – public companies that accumulate digital assets using proceeds from equity and credit issuance. Strategy, the largest DAT, has been a major bitcoin buyer in recent years and now holds ~4% of circulating supply. In July 2025, Strategy issued its first preferred stock, raising $10.5 billion that helped finance an acceleration in its bitcoin accumulation. When the company disclosed a small test sale of 32 bitcoin (0.004% of its holdings) in early June 2026, the market reacted sharply: bitcoin fell ~20% and traded below $60,000 for the first time since 2024. In subsequent weeks, Strategy introduced an updated capital allocation framework that authorized potential bitcoin sales to fund equity and preferred repurchases. The company has so far leaned more on equity issuance rather than spot bitcoin sales to increase its cash position.

Figure 5: Strategy Bitcoin Holdings



Source: Strategy company filings and disclosures, as of July 20, 2026. This is not meant as a guarantee of any future result or experience. This information should not be relied upon as research, investment advice or a recommendation regarding any security in particular. Specific companies or issuers are mentioned for educational purposes only and should not be deemed as a recommendation to buy or sell any securities. Any companies mentioned do not necessarily represent current or future holdings of any BlackRock products.

Beyond institutions, we observe that bitcoin "whale" selling (i.e., liquidations of more than $100 million per transaction) appears to have spiked in Q4 2025 through Q2 2026, including: **(1)** on-chain disposals and movements by Satoshi-era long-term holders in November 2025 and May 2026;[3,4] **(2)** miner selling (e.g., MARA's ~$1.1 billion sale in March 2026 to retire convertible debt and fund its pivot into AI compute);[5] and **(3)** isolated instances of ETP-based liquidations, most notably a $1.3 billion iShares Bitcoin Trust ETF***** (IBIT) block executed via a request for quote (RFQ) trade in May 2026.[6] These transactions coincided with rising interest and robust performance in AI-exposed equities, and likely reflect both rotation into AI exposure and rebalancing concentrated bitcoin positions following the preceding price run-up.

*The iShares Bitcoin Trust ETF is not an investment company registered under the Investment Company Act of 1940, and therefore is not subject to the same regulatory requirements as mutual funds or ETFs registered under the Investment Company Act of 1940.

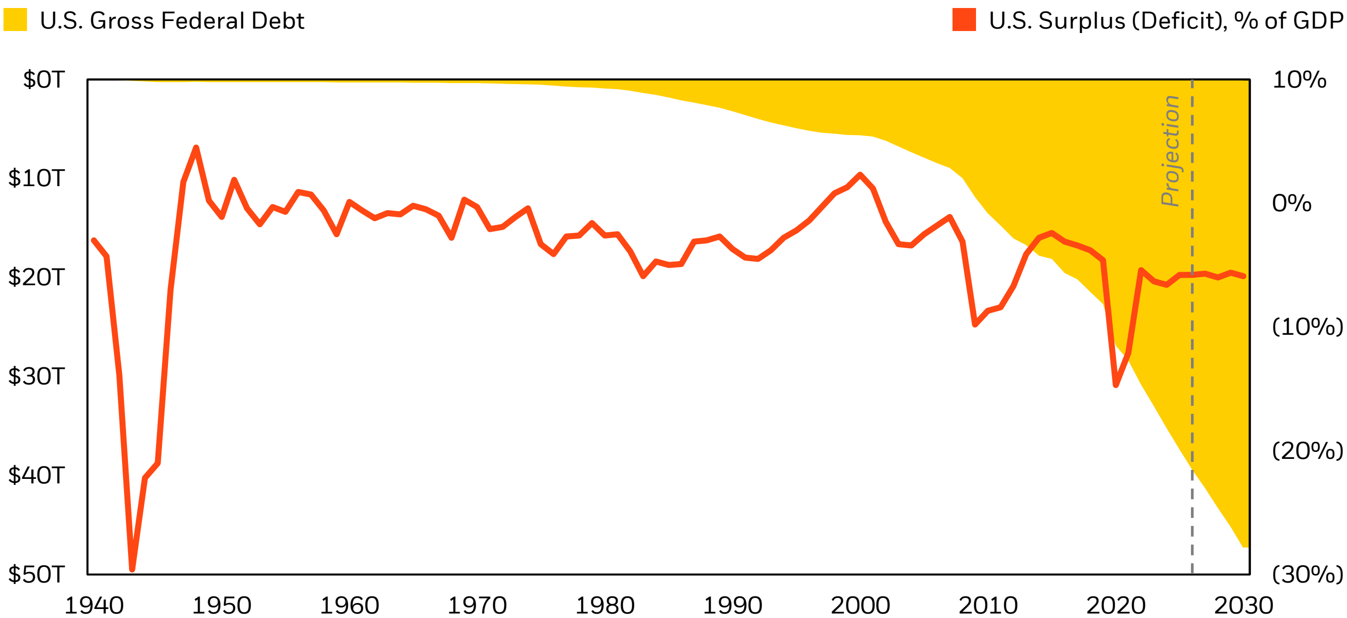
3. Arkham Intelligence on X, https://x.com/arkham/status/1991528115638800804?lang=en. **4.** The Block, https://www.theblock.co/post/402447/bitcoin-og-moves-2650-btc. **5.** MARA Holdings press release, https://ir.mara.com/news-events/press-releases/detail/1418/mara-holdings-inc-announces-1-0-billion-repurchase-of-0-00-convertible-senior-notes-due-2030-and-2031-and-sale-of-15133-bitcoin. **6.** NYDIG, "The $1.3B Trade and the $29.5M Urgency Premium," https://www.nydig.com/research/the-1-3b-trade-and-the-29-5m-urgency-premium.

Bitcoin has continued to offer unique, low-correlation, and positive-skewed returns for portfolios

Notwithstanding recent price volatility – a recurring feature in its 16-year trading history – we believe an allocation to bitcoin can offer unique value to portfolios as a hedge against monetary debasement and as a source of low-correlation and positively-skewed returns.

Bitcoin's role as a global monetary alternative remains a key attraction for institutional investors and allocators. The continuous rise in U.S. and global government debt and deficits remains a major concern for the potential for monetary debasement (i.e., "money printing) they bring, and the consequent risk of erosion of purchasing power of fiat currencies. With no credible path for consolidation on the horizon, these fiscal dynamics reinforce the strategic case for assets with supply constraints beyond the discretion of central banks, governed by geology in the case of gold and mathematics and code in the case of bitcoin.

Figure 6: U.S. Gross Federal Debt and Surplus (Deficit)

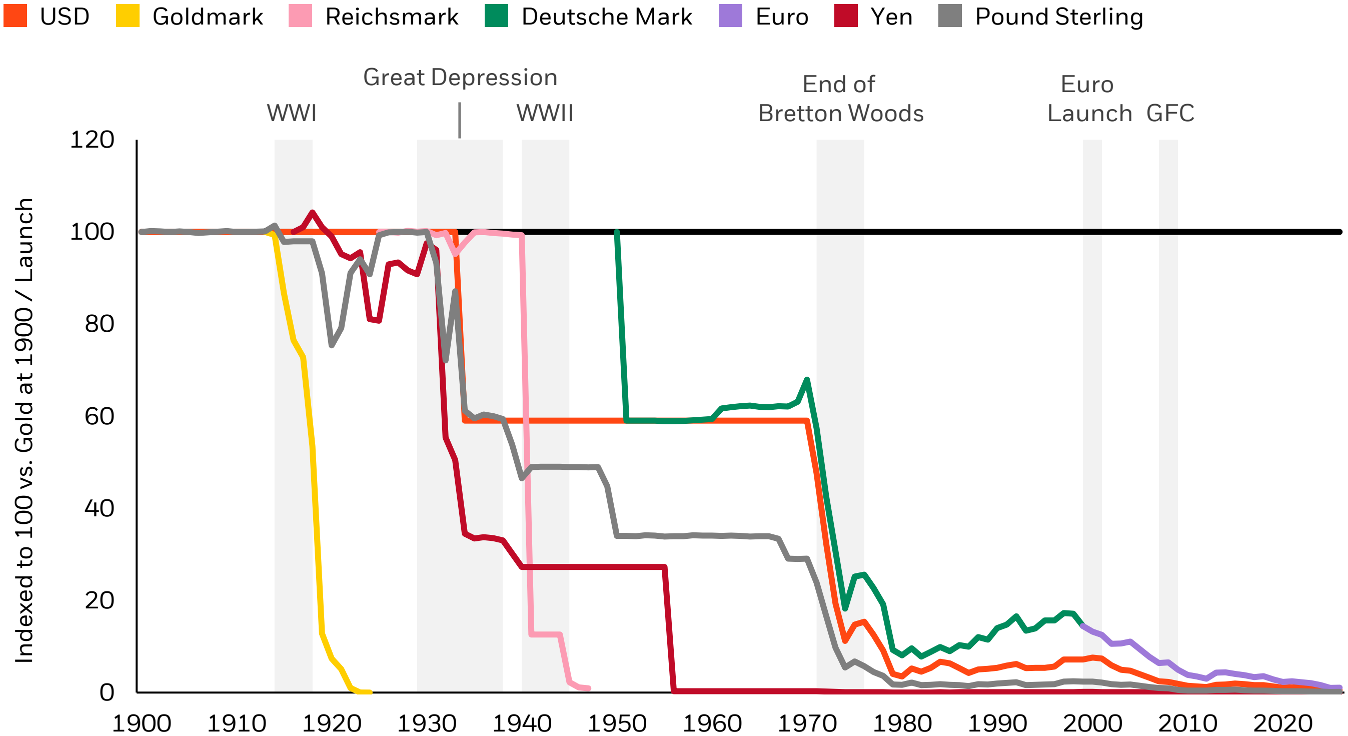


Source: St. Louis Fed and Congressional Budget Office, as of May 2026.

To better illustrate the monetary history that solidified gold's historical role as a store of value, we examine a 100-year-plus track of fiat debasement in Figure 7. In the first half of the 20th century, World Wars and recurring economic challenges created inflationary episodes that eroded the real value of paper money. The Bretton Woods system of dollar-gold convertibility, introduced in 1944, collapsed by the 1970s, driving further fiat depreciation across the world's most institutionally stable economies. Measured through today, every fiat currency issued by the dominant world economies at the turn of the 20th century has lost more than 99% of its value against gold.[7] These outcomes represent the more measured end of the global fiat currency spectrum; in multiple large but less developed economies including Turkey, Argentina, Brazil, and Russia, the loss of purchasing power has been far more acute and recurrent, with episodes of hyperinflation often ending in wholesale replacements of national currencies.

7. Analysis based on the currency being held as cash.

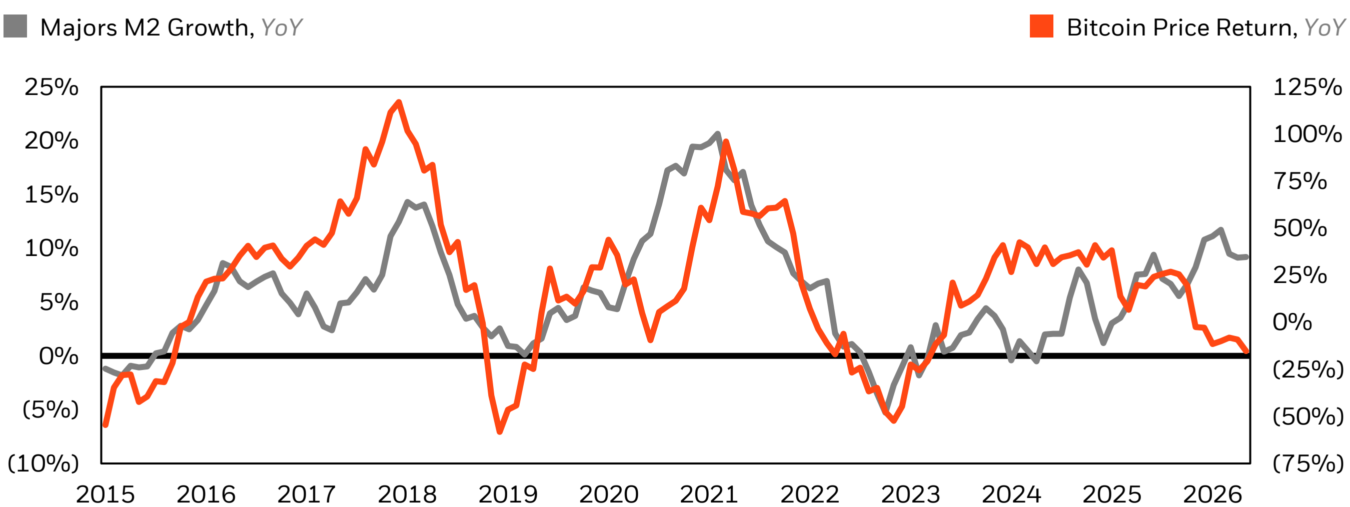
Figure 7: Developed Market Fiat Currency Values Indexed to Gold



Source: MeasuringWorth, Bloomberg, and BlackRock Digital Assets Research, as of Dec. 31, 2025.

Although only launched in 2010, bitcoin has already built a compelling if shorter record as a global monetary alternative alongside gold. Bitcoin's returns over the last decade have broadly tracked changes in money supply and tended to outperform during periods of accelerating M2 growth.[8] While that relationship has weakened in the near term following the post-October sell-off (despite continued M2 expansion), history suggests that bitcoin's value often aligns with the direction of liquidity in the global monetary system.

Figure 8: Global M2 Supply Growth vs. Bitcoin Performance

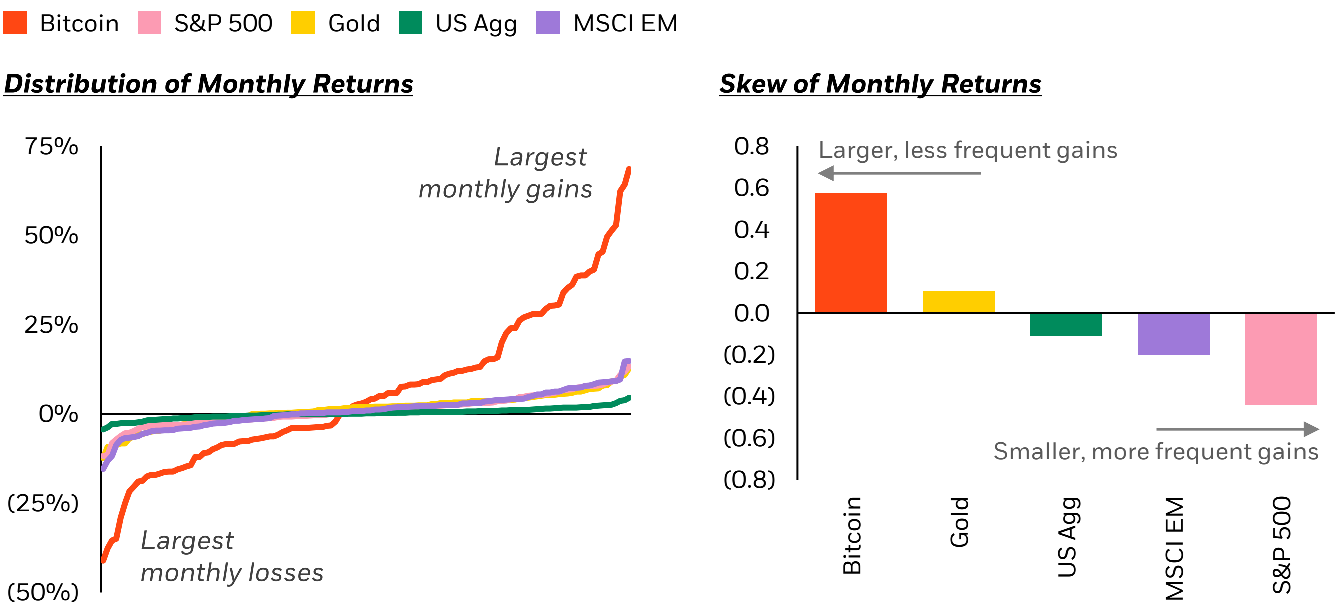


Majors include U.S., Eurozone, China, Japan, and England. Source: Bloomberg, as of June 30, 2026. *Past performance does not guarantee future results.*

8. M2 tracks circulating money supply in an economy, including physical cash, checking and savings account deposits, money market mutual funds, and small-denomination time deposits.

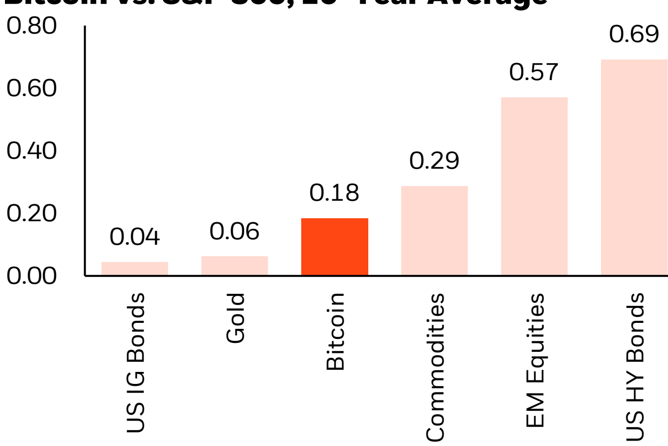
Over the past decade, bitcoin's distribution of monthly returns has exhibited markedly more positive skew than that of other major asset classes (Figure 9). Relative to equities, bitcoin has generated more pronounced upside tail events, whereas stocks have tended to display more frequent, smaller advances and less frequent but larger drawdowns. This contrasting skew profile reinforces bitcoin's appeal as a potential diversifier within portfolios carrying large equity allocations.

Figure 9: Bitcoin 10-Year Historical Returns



Based on monthly total returns of the Bloomberg Bitcoin Spot Price, Bloomberg Spot Gold Price, Bloomberg US Agg Total Return Index, MSCI Emerging Markets Net Total Return USD Index, and S&P 500 Total Return Index,. *Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.* Source: Bloomberg, as of June 30, 2026.

Figure 10: Trailing 6-Month Correlation of Bitcoin vs. S&P 500, 10-Year Average

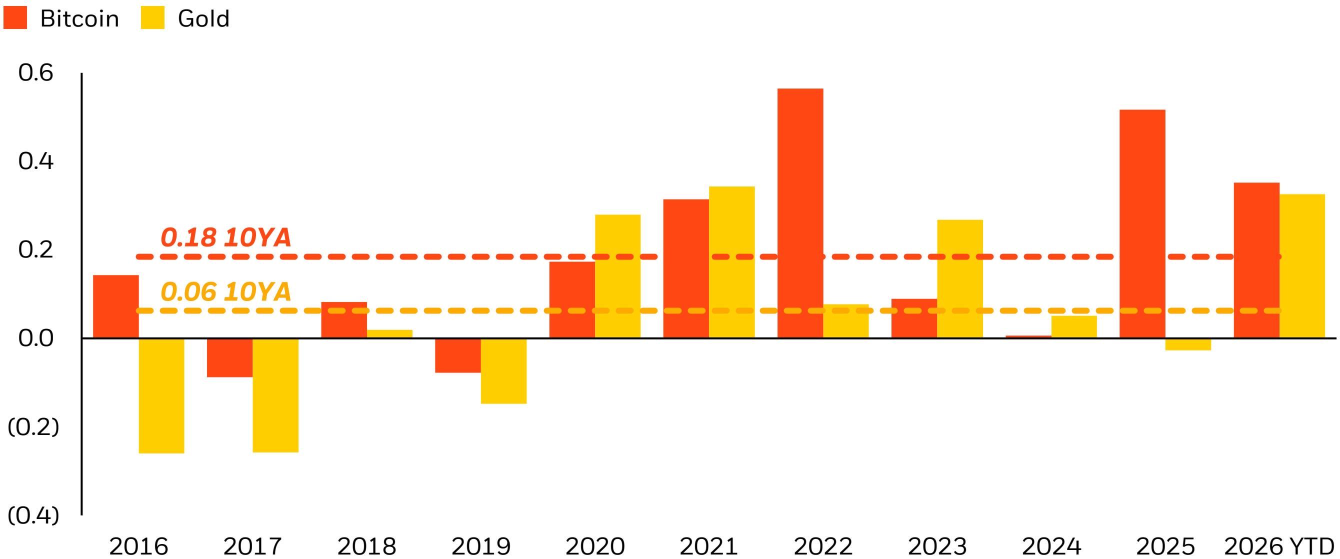


Based on the Bloomberg US Agg Total Return Index, Bloomberg Spot Gold Price, Bloomberg Bitcoin Spot Price, Bloomberg Commodity Index Total Return, MSCI Emerging Markets Net Total Return USD Index, and Bloomberg US Corporate High Yield Total Return index. Correlation measures how two securities move in relation to each other. Correlation ranges between +1 and -1. A correlation of +1 indicates returns move in tandem, -1 indicates returns move in opposite directions, and 0 indicates no correlation. Source: Bloomberg and Coin Metrics, as of June 30, 2026.

These positively skewed returns also have tended to exhibit low correlation with risk assets including equities: bitcoin's 10-year correlation with the S&P 500 stands at 0.18, above gold and investment-grade bonds yet well below broad commodities, emerging market equities, and high-yield bonds.

Bitcoin has at times traded with elevated risk correlation in short-term periods, most notably the 2022 Federal Reserve tightening cycle and the 2025 tariff whiplash; we regard these spikes as episodic rather than structural. Bitcoin's underlying investment case aligns more closely with that of gold – as a global monetary alternative and a hedge against inflation, global disorder, and declining trust in fiat currencies. Even for gold, which tends to be viewed as a standard uncorrelated, store-of-value asset, brief periods of high equity correlation exist, including COVID in 2020-2021 and the monetary easing cycle in 2023.

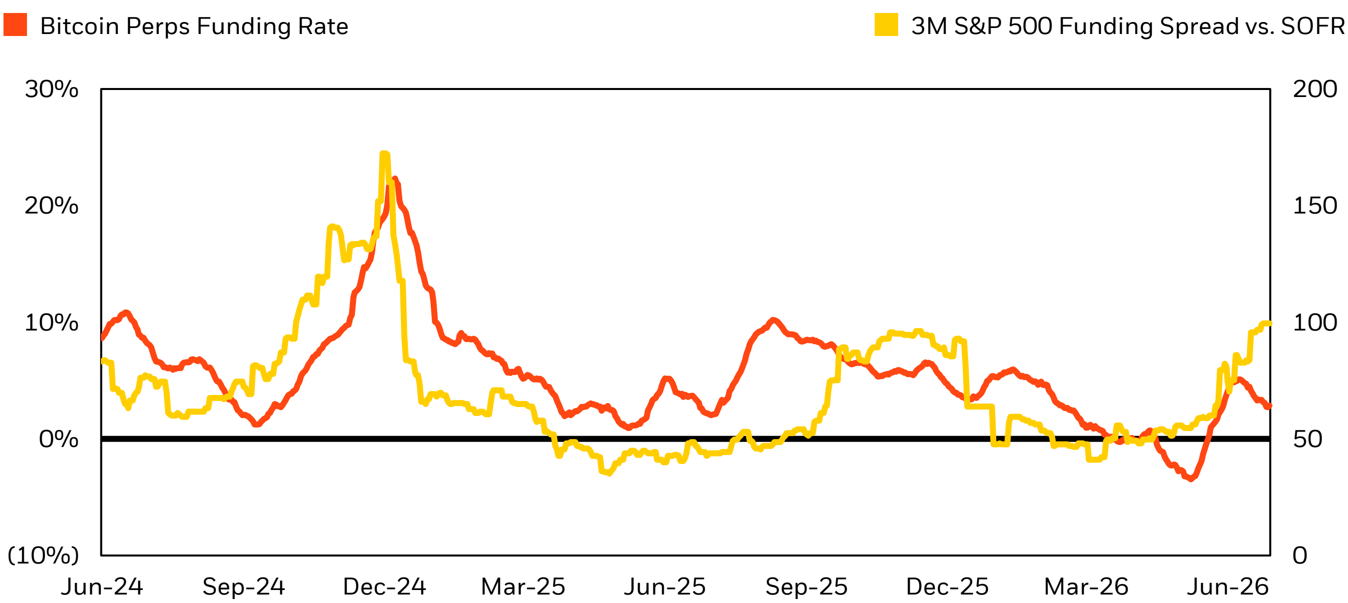
Figure 11: Trailing 6-Month Correlation vs. S&P 500, Annual and 10-Year Average



Source: Bloomberg and Coin Metrics, as of June 30, 2026. Past correlations are not indicative of future correlations.

Indeed, in the aftermath of the sell-off since last October, structural signs are emerging that bitcoin's correlation to risk assets is declining on a go-forward basis. Funding rates on perpetual futures, which historically tracked equity funding rates closely, have retreated from the elevated levels seen during the 2024-2025 bull run to turn briefly negative territory in 2Q2026, indicating traders are willing to pay to maintain short exposure. We view this as evidence that speculative positioning has reset meaningfully lower, sentiment has shifted negatively in contrast with equities, and bitcoin should revert towards a low-correlation regime versus broader risk assets.

Figure 12: Bitcoin Perps Funding Rate vs. S&P 500 3-Month Funding Spread vs. SOFR[9]



Source: Coin Metrics, Bank of America, and Bloomberg, as of June 30, 2026.

9. SOFR (Secured Overnight Financing Rate) is the primary USD reference rate for overnight cash borrowing, collateralized by U.S. Treasury securities. S&P 500 funding spread vs. SOFR represents the premium market participants are willing to pay to gain synthetic long exposure to the S&P 500 and is viewed as a gauge of demand for equity risk, i.e., the spread widens when investors bid up the implied financing cost over the risk-free rate.

Beyond its long-term track record as an effective, low-correlation diversifier, bitcoin continues to serve as a shorter-term hedge against geopolitical disorder. Through multiple shocks in recent years, bitcoin often outperformed both the S&P 500 and gold in the weeks and months following the onset of disruptions. This pattern has held true thus far in 2026 amid ongoing conflict between the U.S. and Iran, with bitcoin delivering positive returns and outperforming equities and gold following the onset of hostilities in February and the end of the ceasefire agreement in July.

Figure 13: Asset Returns Following Major Geopolitical Disruptions Post-2020

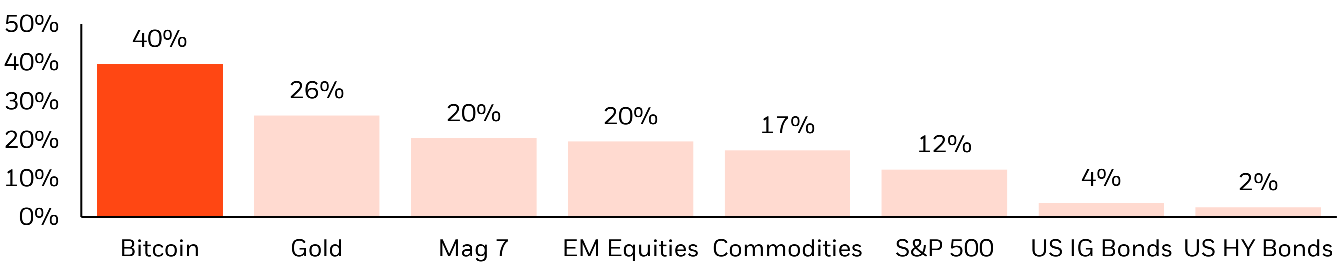
		10D Return			60D Return		
Event	**Date**	**S&P 500**	**Gold**	**BTC**	**S&P 500**	**Gold**	**BTC**
COVID Outbreak	3/9/2020	-19%	-12%	-32%	-1%	2%	9%
2020 U.S. Election Challenges	11/3/2020	7%	-1%	19%	12%	-1%	113%
Russia Invasion of Ukraine	2/21/2022	0%	2%	5%	-2%	2%	-1%
U.S. Regional Banking Crisis	3/9/2023	-2%	10%	22%	4%	11%	25%
U.S. Global Tariff Declaration	4/2/2025	-5%	4%	-2%	5%	6%	23%
U.S.-Iran Initial Conflict	2/28/2026	-2%	-1%	2%	4%	-11%	13%

Returns are calculated using S&P 500, spot gold, and spot bitcoin data from Bloomberg. *Index performance is for illustrative purposes only. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.* Source: Bloomberg, Council on Foreign Relations, CNBC, St. Louis Fed, and WSJ.

Bitcoin is still volatile, but becoming structurally less so

Bitcoin remains a volatile asset by any conventional standard, and investors should size allocations appropriately depending on their unique goals and risk parameters (we discuss this further in a later section). That said, the direction of travel has been downwards: bitcoin's annualized volatility has declined meaningfully from regular spikes above 100% a decade ago to below 50% over much of the past 2-3 years.

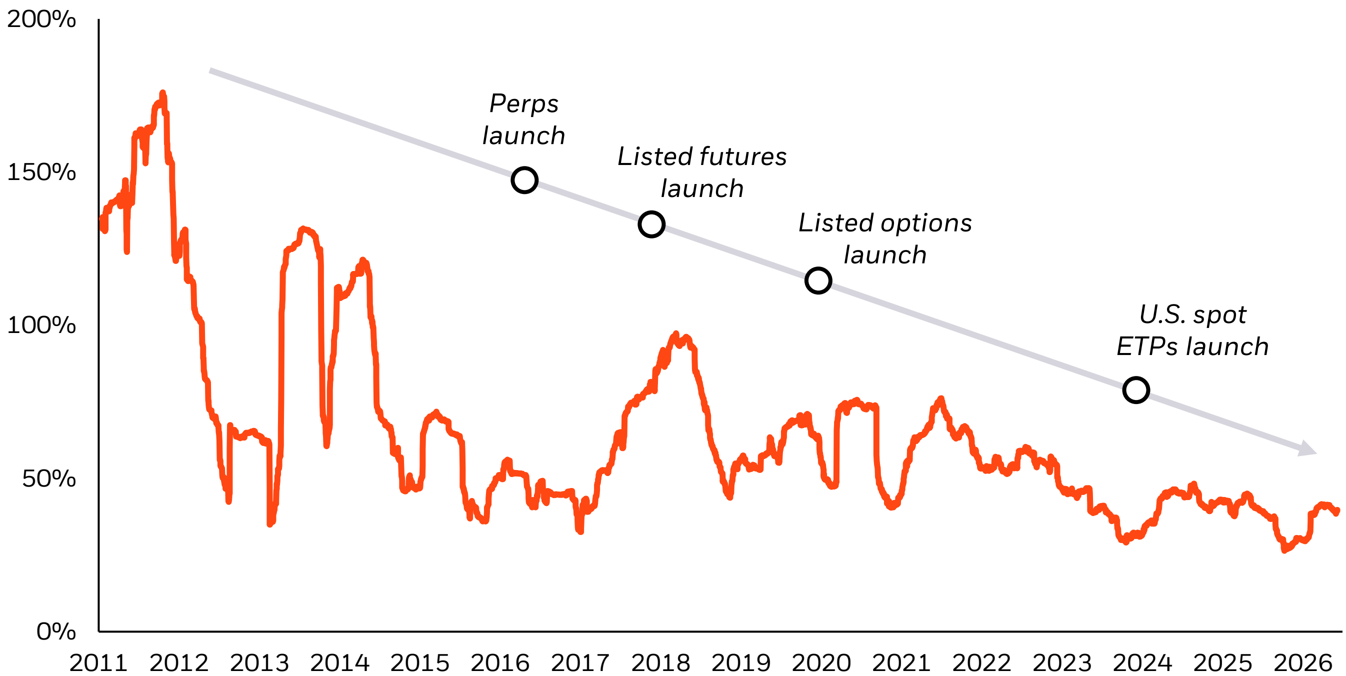
Figure 14: Trailing 12-Month Realized Volatility, Annualized



Based on the Bloomberg Bitcoin Spot Price, Bloomberg Gold Spot Price, Bloomberg Magnificent 7 Total Return Index, MSCI Emerging Markets Net Total Return USD Index, Bloomberg Commodity Index Total Return, S&P 500 Total Return Index, Bloomberg US Agg Total Return Index, and Bloomberg US Corporate High Yield Total Return index. Volatility represented by standard deviation, which measures how dispersed returns are around the average. A higher standard deviation indicates that returns are spread out over a larger range of values and thus, more volatile. Source: Bloomberg, as of June 30, 2026.

Evolving market structure explains much of this shift. A decade ago, bitcoin traded almost exclusively on offshore spot crypto exchanges where retail flows skewed heavily towards buys and liquidity was thin. This in turn produced recurring cycles of sharp spikes and violent liquidations, driving excess volatility. Over time, the market acquired the full derivatives architecture of a mature asset class with perpetual futures in 2016, regulated CME futures in 2017, CME options in 2020, and U.S. spot exchange-traded products (ETPs) and options on ETPs in 2024. Arbitrage and hedging flows across spot, futures, options, and ETPs deepened two-sided market liquidity, resulting in lower volatility. Periods of acute volatility can still erupt, as evidenced by October's perps liquidation event; we do not expect such episodes to disappear, especially as leveraged perpetual futures markets continue to grow and expand (including their recent entry into the onshore U.S. market).[10] That said, the continued maturation of bitcoin's market structure has meaningfully improved its capacity to absorb and manage significant price dislocations.

Figure 15: Bitcoin Trailing 12-Month Realized Volatility, Annualized



Volatility represented by standard deviation, which measures how dispersed returns are around the average. A higher standard deviation indicates that returns are spread out over a larger range of values and thus, more volatile. Not a guarantee of future results. Source: Bloomberg and Coin Metrics, as of June 30, 2026.

Small allocations to bitcoin can positively impact risk-adjusted portfolio returns

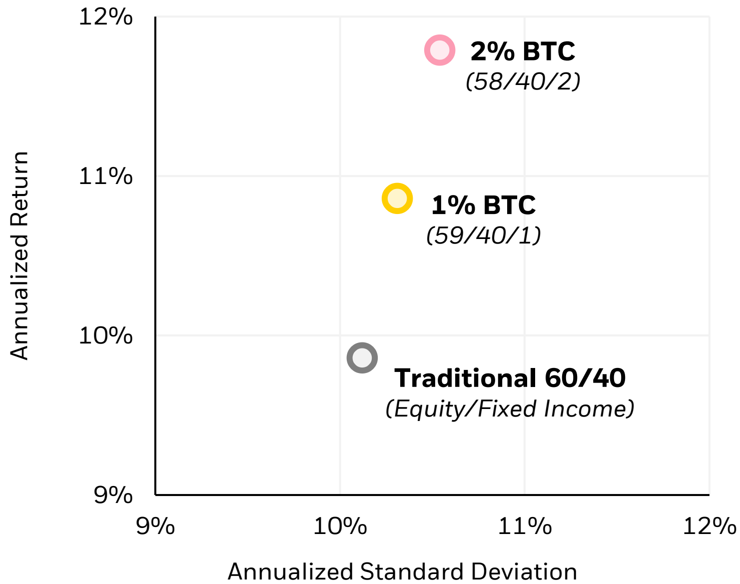
The traditional 60/40 portfolio faces a more complex diversification challenge today than in prior periods. Equity and fixed income return correlations have risen episodically, reducing the reliability of the conventional stock-bond offset, while equity concentration risk has intensified as a narrow group of mega-cap names has come to dominate index-level returns. Against this backdrop, small bitcoin allocations could serve as a meaningful portfolio diversifier.

10. CFTC, "CFTC Approves BTCPERP Contract Submitted by KalshiEX, LLC," https://www.cftc.gov/PressRoom/PressReleases/9240-26.

GPS0826-5725267-EXP0827-11/14

Our 10-year historical analysis for a traditional, U.S.-based 60/40 portfolio indicates that a 1-2%, equity-funded allocation to bitcoin would have improved returns while broadly preserving comparable risk characteristics. Overall, the changes improved returns relative to the amount of risk taken, while keeping the portfolio's performance close to the starting 60/40 portfolio. Allocation sizing and implementation should ultimately consider investor-specific objectives, risk tolerance, and applicable regulatory constraints.

Figure 16: Rolling 10-Year Historical Analysis of Hypothetical Annualized Portfolio Return vs. Risk, Annualized



Portfolio	Sharpe Ratio	Information Ratio	Alpha	Tracking Error	Max Drawdown *(Return, %)*
1% BTC	0.90	1.11	0.95	1.06	-20.6
2% BTC	0.96	1.14	1.85	2.00	-20.9
Benchmark: **Traditional 60/40**	0.81	--	--	--	-20.3

Performance shown is hypothetical. Hypothetical data results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for risk factors that may affect actual portfolio performance. Index performance does not reflect any management fees or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is not indicative of future results. Analysis period: May 31, 2016 to May 29, 2026. Source: Bloomberg, BlackRock, and MPI. BTC: Bloomberg bitcoin spot price. Traditional 60/40: 60% S&P 500 Index / 40% Bloomberg US Aggregate Bond Index. 1% BTC: 59/40/1: Allocation with 59% S&P 500 Index / 40% Bloomberg US Aggregate Bond Index /1% Bloomberg Bitcoin spot price. 2% BTC: 58/40/2: Allocation with 59% S&P 500 Index / 40% Bloomberg US Aggregate Bond Index /2% Bloomberg Bitcoin spot price. Sharpe ratio: Measures risk-adjusted return by comparing a portfolio's excess return over the risk-free rate to its total volatility. Information ratio: Measures active return relative to active risk or tracking error to the benchmark. Alpha: Measures the return of a portfolio generates above what would be expected based on its benchmark or risk exposures. Tracking error: Measures the volatility of a portfolio's excess return relative to its benchmark. Maximum drawdown return: Measures the largest peak-to-trough decline over a given period. This information should not be relied upon as research, investment advice or a recommendation regarding the Funds or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future holdings within the portfolio of any BlackRock client.

Conclusion

We view bitcoin's ~50% pullback from October 2025 highs as a positioning correction rather than a change in its investment case. A historically overleveraged market, enabled by perpetual futures, suffered cascading liquidations compounded by slowing ETP outflows and digital asset treasury demand. With speculative excess now largely purged, we believe bitcoin's recent episodes of elevated risk correlation should normalize lower, consistent with its longer-term record as a low-correlation diversifier.

Bitcoin's core roles as a unique portfolio diversifier and monetary alternative remains underpinned by low structural correlation to traditional assets, positively skewed returns, and capped supply independent of centralized issuance. History suggests that even modest allocations can improve the risk-adjusted return profile of traditional portfolios, and we continue to believe that long-horizon investors are likely to increasingly consider a measured allocation to bitcoin as a strategic complement to their conventional holdings.

This information must be preceded or accompanied by a current prospectus for the iShares Bitcoin Trust ETF. Investors should read and consider it carefully before investing. The Trust is not a commodity pool for purposes of the Commodity Exchange Act. Before making an investment decision, you should carefully consider the risk factors and other information included in the prospectus.

Investing involves a high degree of risk, including possible loss of principal. An investment in the Trust is not suitable for all investors, may be deemed speculative and is not intended as a complete investment program. An investment in Shares should be considered only by persons who can bear the risk of total loss associated with an investment in the Trust.

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