What's Really Driving Volatility in the Crypto Markets?

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As an attorney who's advised companies in the digital assets space for over a decade—and among the first to accept bitcoin as payment for legal services—I've been getting a lot of questions lately about the recent and dramatic loss of value across virtually all crypto assets. In the midst of macro uncertainty about global peace, tariffs, financial markets, unemployment, inflation, the Tennessee Titans, and a creeping malaise, the diminished market value of cryptocurrencies in general and bitcoin specifically are remarkable. Those macro issues are at least partially responsible for the current bear market, but the prolonged downcycle that began on October 10, 2025, is defying what were once thought to be established trends like the "four year cycle" and the "halvening cycle," both of which have always given way to strong recoveries. My thoughts on some micro causes of the current bear market are the central focus here.

First, a caveat: I must acknowledge at the outset that many bitcoiners will be offended that I am lumping bitcoin and all the altcoins into the same bucket for the purposes of this discussion. I understand and note your objection, but I'm doing so anyway because bitcoin and the most established altcoins (Ethereum, Ripple, Solana and Cardano, to name a few) have waxed and waned in similar patterns, if not in lock-step, for years. In addition, institutional investment has recently aggressively entered into the digital asset markets and seems to be having the same effect on all major digital assets. When Bitcoin starts acting differently, I'll stop lumping them together.

October 10: The Day Everything Changed

Generally, cryptocurrencies have decreased in value by approximately 25% since the beginning of the year and 47% since President Trump announced a barrage of new tariffs on China on October 10 of last year. During the first nine months of the new administration, the crypto markets seemed to settle into a relatively

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steady and consistent uptick in response to the administration's largely crypto-friendly agenda. But on October 10, something(s) happened from which the crypto markets have not yet been able to recover.

I have read scores of industry-driven market-based explanations, all of which contain an air of truth and all of which predict a return to prosperity. Unfortunately, most are penned by market insiders who are afraid to let their owners/users/service providers/community see a chink in their armor. I think we need to open our eyes to the possibility that there may exist some serious headwinds that crypto needs to overcome to return to its former (and future) glory. I am a firm believer in the digital asset markets, and I firmly believe markets will bounce back. I am less certain about when.

Crypto's Perfect Storm & the Current Bear Market

As a starting point, we need to acknowledge that bitcoin and crypto were conceived as alternatives to traditional finance. We believed blockchain technology would allow alternative value propositions and payment rails that would offer new and better financing options. That promise has been at least partially fulfilled with the emergence of decentralized finance, or "DeFi," and the rampant acceptance of stablecoins. We also believed that bitcoin was built as a true store of value, a digital gold, that would serve as an alternative to fiat currency in times of uncertainty and heightened risk. When the value of bitcoin hit $126,000 in early October of 2025, we patted ourselves on the back and spoke of the fulfillment of our wisdom.

Then came October 10, 2025. The retrenchment in the crypto market started with the declaration of additional new tariffs on Chinese imports. The surprise announcement caused a massive sell-off of "risk assets" that resulted in the liquidation of approximately $20 billion in leveraged digital asset positions in centralized and decentralized exchanges. It has been reported that 70% of those liquidations took place during a 40-minute period.

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But wait! How did bitcoin, once viewed as digital gold, so quickly become a risk asset to be discarded in times of stress? And decentralized finance was created to facilitate banking without banks. How did we fall into the navel-gazing practice of lending crypto so that we could borrow crypto so that we could lend yet more crypto ad infinitum? Yes, my characterizations are tropes that too conveniently summarize the status quo, but they ring true. Oh, what a tangled web we have woven!

I'm not sure we will ever understand all the factors that contributed to our current crypto winter, but I think it's important to parse some of the likely causes. The macro forces affecting the markets were discussed above, but there are a number of more subtle causes that made crypto ripe for a substantial correction if not a collapse. What follows is my take of these micro forces, in no particular order.

Six Headwinds in Crypto

Widespread Profit Taking

Many HODLers (as in "Hold on for Dear Life," used to describe longtime holders of bitcoins and major altcoins) have finally decided to cash in. It's one thing to say, "I will never sell," but when you bought your bitcoin prior to 2017 for less than $1,000 per bitcoin and you see bitcoin start to fall from its peak of $126,000 per coin, it does not seem foolish to diversify at least a little bit. Many of the large sales since October 10, 2025, were from OG, erstwhile HODLers. Even relatively short-term holders who purchased crypto for the first time when President Trump was reelected in November of 2024 have experienced epic gains—bitcoin up about 80% and Ethereum up 100%. When the markets tipped in October, it's not surprising a significant number of those buyers ran for the exits to take their profits.

Marriage with Traditional Financial Markets

Most crypto enthusiasts got excited when major financial players like Grayscale, Blackrock, and Fidelity started packaging and selling bitcoin and major altcoin ETFs. The Securities and Exchange Commission (SEC), by greenlighting the trading of spot-based

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funds in early 2024, opened the floodgates for non-crypto savvy investors to access crypto yield through traditional stock purchases. Emotionally, it was great to have some of the best-known names in traditional finance, or "TradFi," finally admit what we early adopters have known all along—that digital assets are real financial products that are here to stay. We also didn't mind that the significant buying pressure caused by their entry into the crypto markets dramatically increased demand and thus the value of our crypto holdings. What we didn't plan on, though, was that those same big players would treat their crypto holdings just like they do their traditional holdings in times of financial stress—they sell! Hodling, holding cryptocurrency (particularly bitcoin) as a store of value instead of selling with market fluctuations, is a real mantra for longtime crypto market players. TradFi investors have no allegiance to hodling, which leaves crypto markets more susceptible to TradFi market swings.

With the Trump administration's stated focus of making the U.S. the most crypto-friendly jurisdiction on the planet—a stark contrast from the crypto-skeptical Biden administration—a number of large, traditional institutional investors felt like it was okay to stick their toes into the crypto waters. Their entry allowed many traditional investment funds, whose charters might not allow them to invest in digital assets, to get exposure to the crypto markets through traditional stocks. This created a profit-generating fly wheel: institutional TradFi was finally able to get access to crypto yield, and the demand they created fomented market pressure that pushed digital assets to new highs. On October 10, when digital asset markets tanked along with tradfi markets, the new investors hit the exits along with other profit-takers leaving a demand vacuum. Unlike hodlers, TradFi purchasers of digital assets have no qualms about selling whenever they think they can make more money somewhere else.

Alternative High-Yield Investment Options

One reason TradFi investment houses joined the crypto craze is because there have been relatively few attractive high-yield investment options available. Starting in 2023 and 2024, investing in

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artificial intelligence (AI) became more in vogue. It has been reported that in 2025, over 50% of the gains in U.S. stock markets was attributable to AI-related investments. It is quite likely that TradFi dollars that might otherwise have been invested in digital assets have instead been directed into AI. To all but the truest of believers, investments in digital assets are considered speculative, sometimes wildly so. While there are real-world use cases for crypto adoption (as opposed to speculation), concrete examples remain few and far between. The narrative that bitcoin should be treated as digital gold, for example, has taken a hit over the last six months with its price almost cut in half during recent market and political turmoil, while the price of gold has skyrocketed to all-time highs.

When AI came on the scene, real-world examples of value-added adoption were immediately apparent. Likewise, prediction markets have recently been allowed to operate in the U.S. and have attracted significant capital. It makes sense that speculative investment would lose ground to investment in value-added technologies with significant real-world adoption. There is so much weakness in the digital asset markets right now that retail investors don't know what to do with it, and institutional investors are doing what they do—seeking return wherever they can find it.

Decreased Leverage

It's no secret that a lot of digital asset investments, particularly in DeFi, make use of financial leverage. DeFi (and later, BitcoinFi) was built to allow users to monetize their digital assets by borrowing against them, and many have done so, but the consequences of becoming over-leveraged are harsh and immediate. Failing to maintain required collateral ratios in a DeFi position results in immediate liquidation of your account. During times of extreme volatility, it is difficult, if not impossible, to stake additional value into a leveraged position.

As I mentioned, $14 billion of the $20 billion in leveraged positions were wiped out during a 40-minute period when the market began its collapse on October 10. Since the scale of market decline

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became so great so quickly, many simply pulled out of the market altogether to ride out the storm rather than reinvesting. The buy-side activity one would expect to see after a major sell-off was absent, so there was nothing to act as a floor to the sell-off. The further the market fell, the more uncertain investors became and the more likely they became to simply take profits rather than reinvest.

The Trump Effect

Regardless of your political leanings, it is undeniable that this Trump administration has been more crypto-friendly than previous administrations, including the previous Trump administration. Regulation by enforcement, the SEC's previous modus operandi, is no more. The first meaningful crypto legislation—the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, designed to lay the groundwork for stablecoin adoption— has been signed into law and is being implemented as we speak. The Digital Asset Clarity Act of 2025, intended to clarify the regulatory framework for digital assets, has some bipartisan support and has already passed the House of Representatives.

Yet, like so many things associated with today's politics, there is a catch. The Trump family's headfirst dive into crypto feels to some like a cash grab. Allegations that investors in President Trump's crypto ventures may be seeking to influence the administration's policies have made it tougher to gain bipartisan consensus in this closely divided Congress. Even some sponsors of the Clarity Act are seeking to add ethics provisions that might prevent some of the Trump family's fundraising activities.

At a minimum, President Trump's promotion of his personal digital asset ventures is complicating the passage of the Clarity Act, which, if passed, is likely to restore calm to the digital asset markets and allow them to recover. Failure to pass needed legislation while there is bipartisanship and the will to do so could lead to further political polarization, particularly if this year's midterm elections result in a divided Congress as many predict.

Centralization of Bitcoin Ownership

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A great deal of the ethos behind crypto is that individuals, rather than a centralized authority (e.g., a government or a corporation), should control their financial well-being. Bitcoin was conceived because Satoshi believed the financial crisis of 2007/2008 was caused by government regulation and monetary policy that was out of step with what most people desired. DeFi was initiated to allow decentralized communities of individuals to buy, sell, and trade digital assets in a trustless way without the oversight of the Federal Reserve or the interference of banks. Yet somehow, our longing for decentralized control has fallen by the wayside as centralized entities like governments and digital asset treasury companies, "DATs," have started purchasing bitcoin and major altcoins for their own account.

Strategy, the largest and most well-known DAT, is reported to own over 3.4% of all the bitcoin that will ever exist. Many are encouraging the U.S. government to retain all the bitcoin it currently holds in a Strategic Bitcoin Reserve while embarking on a defined purchase schedule to increase its holdings. To be sure, corporate and government purchases of bitcoin serve to keep prices up by creating demand, but doesn't that run afoul of the decentralization the founders of crypto envisioned? By controlling over 3% of all bitcoin, Strategy already has the ability to move markets with its buying and selling activity. Likewise, large government holdings would give the government the ability to affect digital asset markets like a centralized operator. While large digital asset purchases by centralized entities are a big reason the crypto markets achieved the all-time highs they reached last year, the cumulative effect of those large purchases could be a loss of confidence by retail investors who entered the markets as believers in a decentralized monetary system.

So, Where Does that Leave Us?

These are a handful of my thoughts on why the digital asset markets have fallen and why they are not recovering as quickly as they usually do. I don't claim to have all the answers, but the questions need to be discussed. Have we traded our pure crypto ideologies to pump our bags, or are we simply experiencing growing pains as

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digital asset markets and platforms evolve into their full potential? Or is this current down-cycle just one more example of short-lived crypto volatility like the crypto winters that have preceded it? You have our thoughts; feel free to share yours.

About the Author

Recognized as a Trailblazer in Cryptocurrency, Blockchain and Fintech by the National Law Journal, John Wagster has consistently been at the forefront of emerging blockchain applications in finance, health care, and manufacturing. He continues to advise companies building the infrastructure of decentralized finance, helping clients structure, promote, and orchestrate legally sound and commercially viable token-generation events. Read full bio.

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