Fidelity DIGITAL ASSETS®

Stablecoins Explained

Part Three: Current Market Environment and Emerging Trends

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Introduction

This report is the third of a three-part series, "Stablecoins Explained," which aims to provide readers with a fundamental understanding of the increasingly popular digital asset category, stablecoins. This module examines the current market structure, issuer landscape, and emerging trends that may influence the next phase of stablecoin adoption.

Key takeaways from this report include:

- Stablecoins are emerging as core market infrastructure, not peripheral digital asset instruments
- Issuer economics and balance sheet strategy are key considerations for risk assessments
- Stablecoins are evolving from passive settlement assets into active financial primitives
- Stablecoins increasingly represent exposure to financial plumbing for institutional investors, not price beta

Market Structure and Concentration

The stablecoin ecosystem is approaching a meaningful inflection point. After a multi-year contraction, aggregate supply is expanding, and key usage metrics including transaction volume, settlement velocity, and decentralized finance (DeFi) integration continue to strengthen. Stablecoins are increasingly functioning as working capital rather than speculative funding, with growing use across payments, collateralization, treasury management, and cross-border settlement.

At the same time, stablecoins have become the primary settlement layer across digital asset markets, supporting liquidity, leverage, and on-chain digital dollar management. Their current role more closely resembles short-term, programmable digital dollar equivalents embedded within a 24/7 financial system rather than speculative digital asset trading fuel.

Today's market is highly concentrated, with the top two issuers representing approximately 83% of total stablecoin market capitalization. As of March 31, 2026, the total stablecoin market capitalization is approximately $315 billion, $110 billion above where it stood at the start of 2025.

For context, the previous peak of around $188 billion occurred in 2022, before a prolonged multi-year market downturn. That peak coincided with a preceding period of elevated on-chain activity marked by rapid DeFi expansion, high leverage utilization, and sustained demand for stablecoin-denominated liquidity across trading venues and lending protocols.[1]

Total Stablecoin Supply

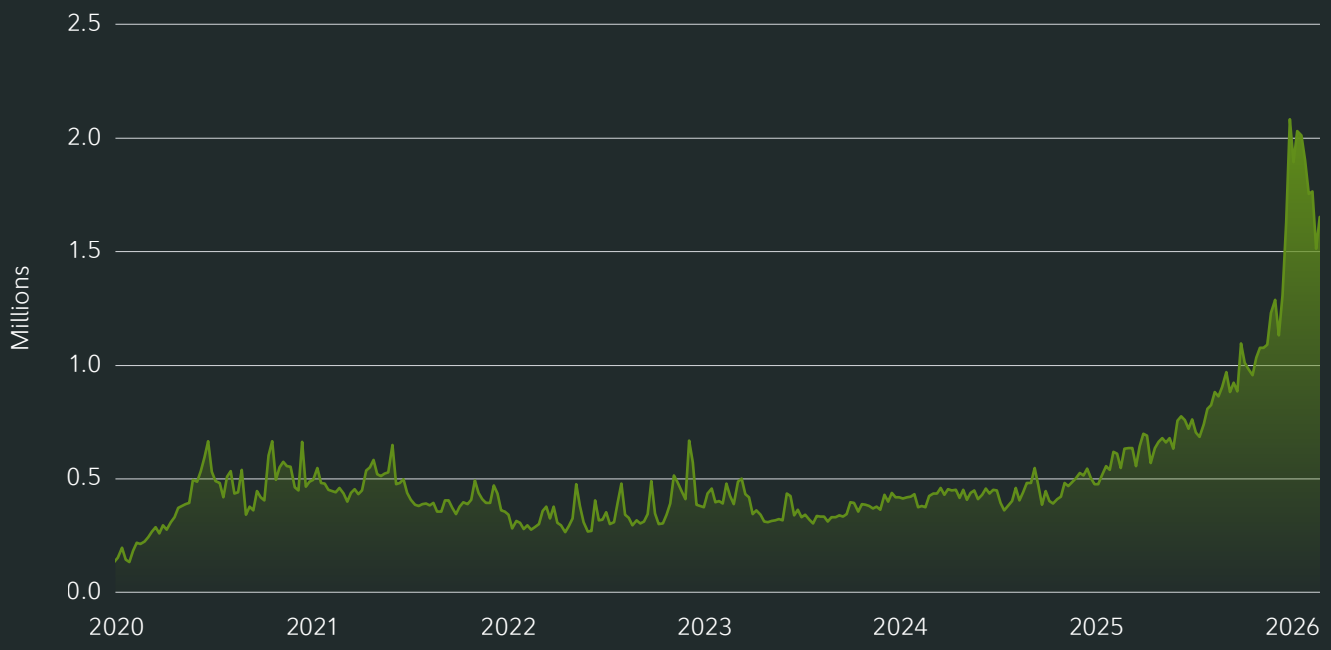
Source: Fidelity Digital Assets® Research via DeFiLlama, 03/03/26.

The subsequent drawdown in stablecoin supply, bottoming near $123 billion in 2023, reflected a combination of cyclical and structural factors. These included the contraction of DeFi activity following the 2022 market dislocation, the rapid unwinding of leverage, heightened regulatory scrutiny, and reduced speculative demand across digital asset markets more broadly. However, the contraction was not evenly distributed across issuers.

Since that trough, stablecoin supply has steadily rebuilt, surpassing prior highs despite a materially different market backdrop. Whereas the 2021–2022 expansion was fueled largely by speculative DeFi activity and directional trading, the recent increase has been accompanied by more diversified, usage-driven demand. Transaction volumes, payments usage, integration with centralized exchanges, cross-border settlement flows, and the maturation of on-chain derivatives infrastructure have all contributed to sustained issuance.

Further, the amount of unique stablecoin senders per week on Ethereum alone began materially increasing in late July 2025. This number reached a new all-time high and eclipsed two million unique senders during the last week of 2025, flashing a strong signal of growing real economic activity and broader adoption of stablecoins across on-chain markets. In other words, stablecoins are being used by more people, more frequently, for more purposes. This underpins growth in on-chain economic activity, broader adoption of digital dollars, and strengthening of stablecoins as the core settlement layer of programmable blockchains.

Weekly Ethereum USD-Pegged Stablecoin Senders



Source: Fidelity Digital Assets® Research via The Block Pro, 03/03/26.

The stablecoin market remains concentrated, with the largest issuers collectively representing a significant share of circulating supply. The advantages associated with scale (including broader liquidity, deeper exchange integration, and widespread settlement acceptance) reinforce stablecoins' growing role as foundational components of digital asset infrastructure rather than interchangeable instruments.

Today's issuer concentration shapes market structure and risk dynamics in nuanced ways. On one hand, well-established issuers can enhance liquidity efficiency, limit fragmentation, and help maintain tighter spreads and more consistent settlement performance. On the other hand, the broader digital asset ecosystem becomes more sensitive to any potential developments affecting these issuers, including regulatory changes, reserve management choices, or operational challenges.

As stablecoins grow further into their role as core financial infrastructure, the overall resilience of the ecosystem will increasingly hinge on the ongoing maturation of newer and emerging participants.

An Evolving Landscape

As stablecoin revenues increasingly depend on interest rate regimes, reserve asset composition, and operating leverage, issuer financial health matters more than protocol mechanics. Evaluating stablecoins now requires an understanding of reserve duration, liquidity mismatches, custodial exposure, and interest-rate sensitivity, parameters long familiar to traditional fixed income investors.

Clear segmentation is emerging between liquidity incumbents and distribution-driven entrants. Similarly, some stablecoins are now optimized for trading and collateral, while others are designed for payments and consumer adoption.

As stablecoins continue to mature as financial infrastructure, scale alone is no longer the sole differentiator. Instead, distribution, regulatory integration, and use case alignment will increasingly determine where incremental adoption accrues, particularly for new entrants operating outside traditional digital asset liquidity loops.

From a market structure perspective, this is a notable departure from prior stablecoin adoption waves, which were largely catalyzed by trading venues and DeFi protocols. This forges new paths for stablecoins driven by mainstream digital payments, merchant networks, and integration into traditional financial service models rather than speculative activity. Over time, this model may prove critical in expanding stablecoin usage beyond digital asset native cohorts.

Trust, Compliance, and Regulatory Alignment

One of the most compelling differentiators for traditional finance (TradFi) issuers is the institutional trust premium associated with their brand, compliance infrastructure, and regulatory footprint. As established, publicly visible financial institutions operating across multiple jurisdictions, some TradFi issuers may enter the stablecoin market with embedded advantages across governance, reporting, and risk oversight that may not be as easily replicable for digital asset native issuers.

These competitive advantages extend to regulatory familiarity rooted in mature KYC, AML, and consumer protection frameworks. Fully reserve-backed issuance with transparent asset reporting aligns with regulated custody and settlement standards. This design integrates more cleanly into existing payment and financial service workflows, enabling immediate utility while maintaining a focus on payments and programmable money rather than leverage or speculative yield.

Together, these factors lower both the psychological and operational barriers to adoption for non-digital asset users. For institutions, this structure offers clearer visibility into counterparty risk and regulatory posture.

Issuer Quality

As the stablecoin market matures, issuer quality has become as important, if not more important, than the coins themselves. Issuers and coins are often conflated, yet the distinction is fundamental.

Coins are the instruments users transact with, whereas issuers determine reserve management, redemption rights, and legal structure. Trust ultimately resides with the issuer, not the ticker. In practice, a stablecoin is only as reliable as the entity backing it, and many issuers operate more than one stablecoin for distinct regulatory, operational, or market reasons.

Today's market is defined by distinct strategic issuer models, none of which are universally superior. Each reflects a deliberate trade-off across transparency, oversight, regulatory posture, and scalability. Many issuers support multiple stablecoins with varying legal structures and use cases, making issuer-level assessment an appropriate lens for institutional analysis. For institutional participants, due diligence should therefore prioritize issuer governance, financial resilience, and regulatory alignment under stress rather than solely focusing on price parity.

As stablecoins become further embedded in global financial plumbing, issuer strength may determine long-term durability. Institutional adoption is likely to gravitate toward issuers capable of balancing regulatory credibility, operational resilience, and distribution at scale. In that sense, stablecoins are converging with TradFi instruments.

The Next Phase of Stablecoins: Scale, Structure, and Strategic Entry

As stablecoins shift from niche digital asset instruments to core financial infrastructure, their widening roles in payments, settlement, collateral, and tokenized digital dollars are setting the stage for broader and more gradual competition.

Greater issuer competition should generally benefit users through improved design, reduced fees, enhanced transparency, deeper TradFi and DeFi integration, and more specialized use cases. However, a wider range of models and collateral approaches also introduces risks such as liquidity fragmentation and reduced interoperability. In such an environment, issuer trust and clarity of backing become even more important, as the stablecoin label alone conveys less about underlying risk.

Growth is increasingly being shaped by innovations from new entrants that are starting to influence the core of the ecosystem rather than its periphery. Although established issuers currently retain a strong foothold, their advantages are becoming less decisive both as use cases diversify and stakeholders place greater value on adaptability, regulatory sophistication, and technical connectivity.

In this shifting landscape, the most durable competitive edge may derive from the ability to offer superior distribution networks, demonstrate regulatory leadership, and deliver seamless interoperability. These factors may ultimately redefine what constitutes a true moat in the next generation of stablecoin infrastructure.

Stablecoin Volume Is Increasing

Stablecoin usage continues to scale meaningfully, with transaction volumes on Ethereum reaching new all-time highs and reinforcing the view that stablecoins are increasingly being used as settlement infrastructure rather than cyclical trading instruments. Recent activity suggests that stablecoins now support a broader range of on-chain economic activity than in prior cycles, even in the absence of peak speculative conditions.

Demonstrated on-chain stablecoin activity (rising transfer volumes, a broader base of unique senders, and higher velocity alongside expanding circulating supply) suggests the market is organically deepening its tokenized digital dollar rails without the hallmarks of speculative euphoria seen in earlier cycles, such as 2021's yield-chasing and leverage blow-offs.

Notably, this expansion is occurring without outsized DeFi incentives or altcoin-beta froth even as stablecoin throughput scales, a pattern consistent with subdued retail sentiment and repeated leverage washouts that have cleared excess risk from the system. In parallel, the usage mix is quietly broadening beyond pure trading. Institutional and enterprise workflows increasingly cite stablecoins for cross-border B2B settlement, treasury mobility, and remittances. This shift is reflected in market infrastructure commentary that frames stablecoins as a cornerstone of tokenized liquidity and a practical settlement medium, and in operator data showing growing payment implementations across banks and processors.

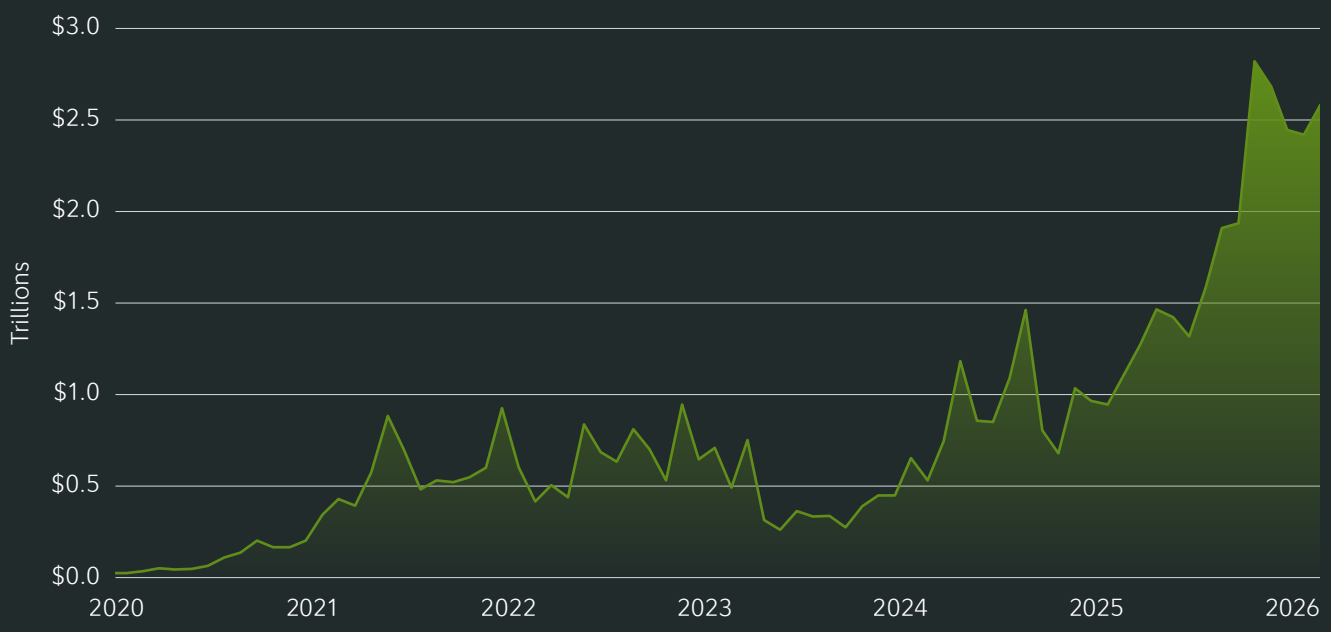
In October 2025, monthly raw stablecoin transaction volume on Ethereum exceeded $2.8 trillion, marking the largest monthly transfer value recorded on the network to date. Raw stablecoin transaction volume refers to the total notional value of stablecoin transfers recorded on-chain over a given period, without adjustment or additional interpretation. In other words, it is the gross dollar value of all stablecoin transactions that settle on a blockchain, counting every transfer at face value, regardless of purpose, netting, or economic significance.

These volumes are considered "unfiltered" because no attempt is made to distinguish "real economic activity" from other transactions such as flash loans or internal transfers. Raw stablecoin transaction volume essentially measures how much dollar-denominated value moves on-chain, rather than how economically meaningful or incremental that activity is. It is most useful as a measure of settlement scale for a network, or how much value it can or does move.

This represents a notable inflection point, surpassing volumes observed during earlier DeFi-driven peaks and underscoring the scale at which dollar-denominated tokens now operate within public blockchain infrastructure.

On a trailing 12-month basis, the aggregate adjusted stablecoin transfer value (filtered to remove certain transactions to better capture real economic activity) on Ethereum alone exceeds $18 trillion as of March 31, 2026. Including other blockchains, this number exceeds $28 trillion.

Monthly Ethereum On-Chain Volume of Stablecoins



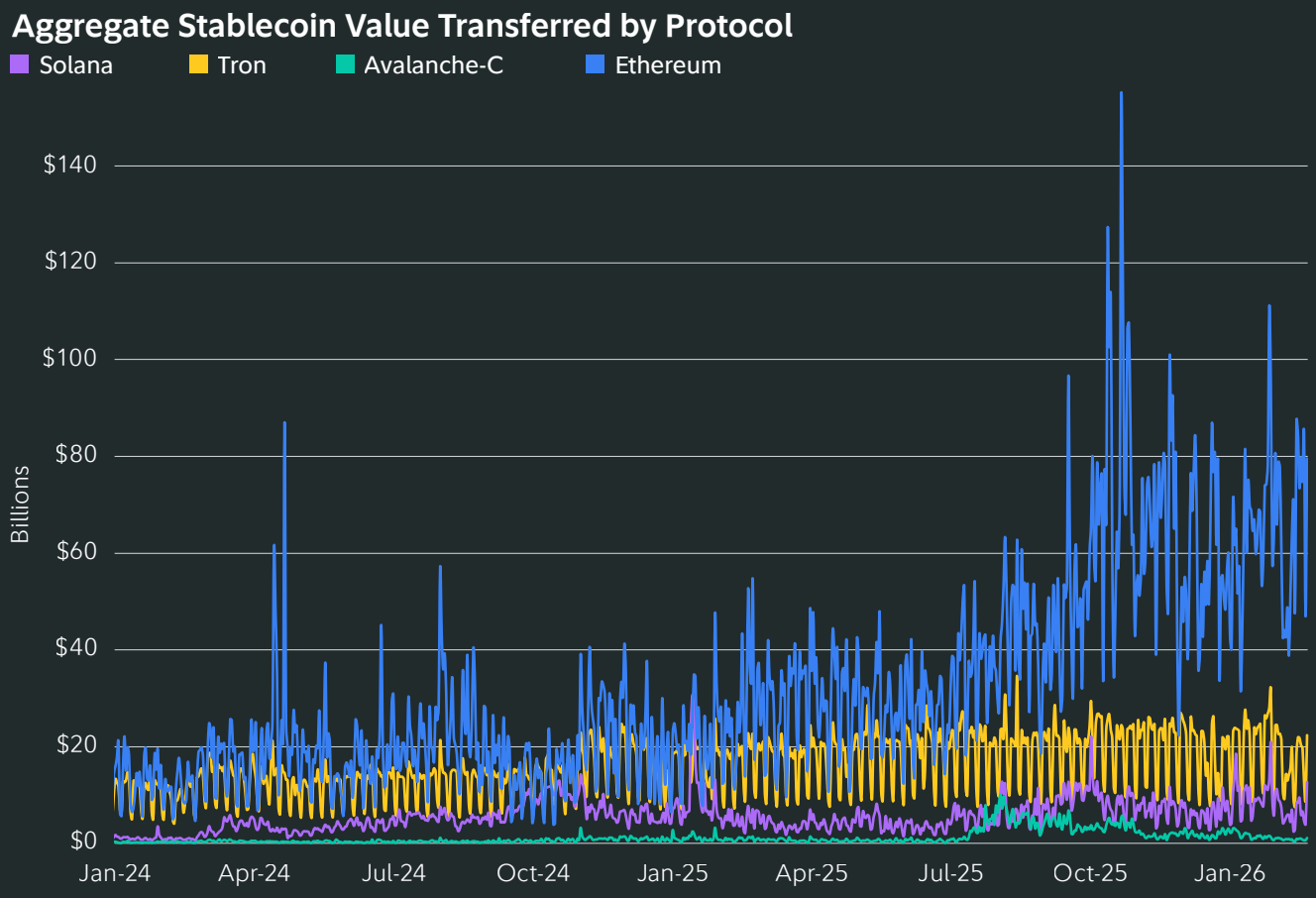
Source: Fidelity Digital Assets® Research via The Block Pro, 03/03/26.

Importantly, this increase in volume has occurred alongside a comparatively measured expansion in supply. Unlike the 2021–2022 cycle where issuance growth and transactional activity moved largely in tandem, the current environment is characterized by rising turnover and velocity, rather than balance sheet expansion alone.

Aggregate adjusted stablecoin one-year transfer values have climbed steadily from $7 trillion in 2023, to over $13 trillion in 2024, and more than $24 trillion in 2025. This trajectory suggests that stablecoins are circulating more actively and supporting a wider set of functions across trading, payments, derivatives settlement, and treasury movements across both centralized and decentralized venues.

The composition of activity further reinforces the interpretation that adoption is becoming more structural. A growing share of stablecoin volume on Ethereum is associated with exchange settlement and collateral movement, on-chain derivatives funding and margin flows, and treasury- and payment-related transfers.

Rather than being concentrated solely within leveraged DeFi strategies, stablecoin flows are increasingly distributed across a broader mix of financial use cases. This diversification points to stablecoins functioning as the primary medium of exchange for on-chain dollar liquidity, with Ethereum serving as a critical settlement layer.



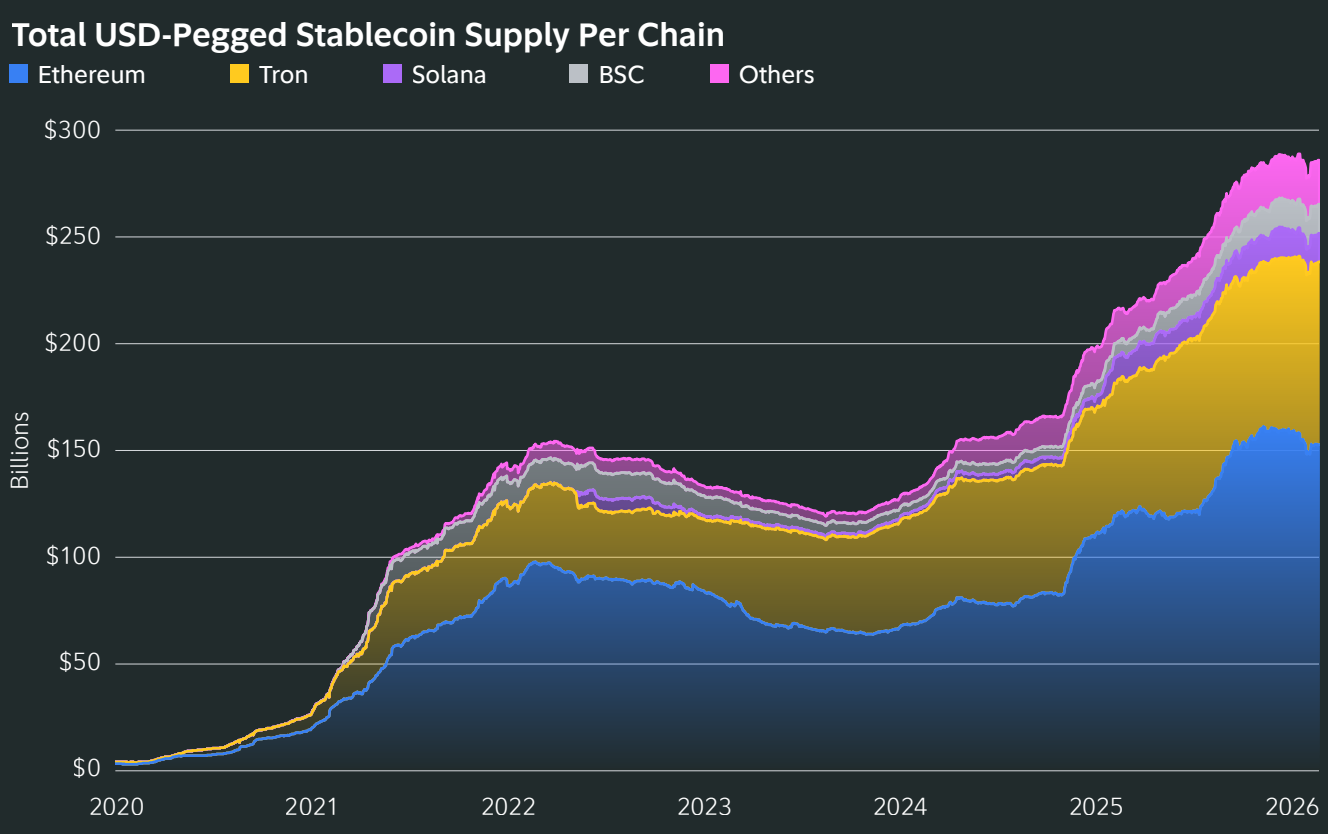
Source: Fidelity Digital Assets® Research via Coin Metrics, 03/03/26.

For institutional observers, the scale of stablecoin volume now flowing through Ethereum challenges the notion that public blockchains are peripheral to real financial activity. Monthly transfer volumes consistently exceed $1 trillion (and more recently $2 trillion), placing stablecoins in a category comparable to major payment networks, albeit with markedly different velocity and composability characteristics.

As infrastructure matures, sustained growth in stablecoin volume, particularly in the absence of parallel increases in speculative leverage, further supports the case for stablecoins as foundational financial primitives rather than cyclical digital asset trading instruments.

About Half of Global Stablecoin Supply Resides on Ethereum

Despite increasing activity across alternative blockchains, Ethereum remains the dominant settlement and issuance layer for stablecoins, hosting just over half of all circulating stablecoins. This concentration reflects Ethereum's position as the largest programmable blockchain by market capitalization, developer activity, and institutional integration. These attributes continue to attract both stablecoin issuers and sophisticated capital.

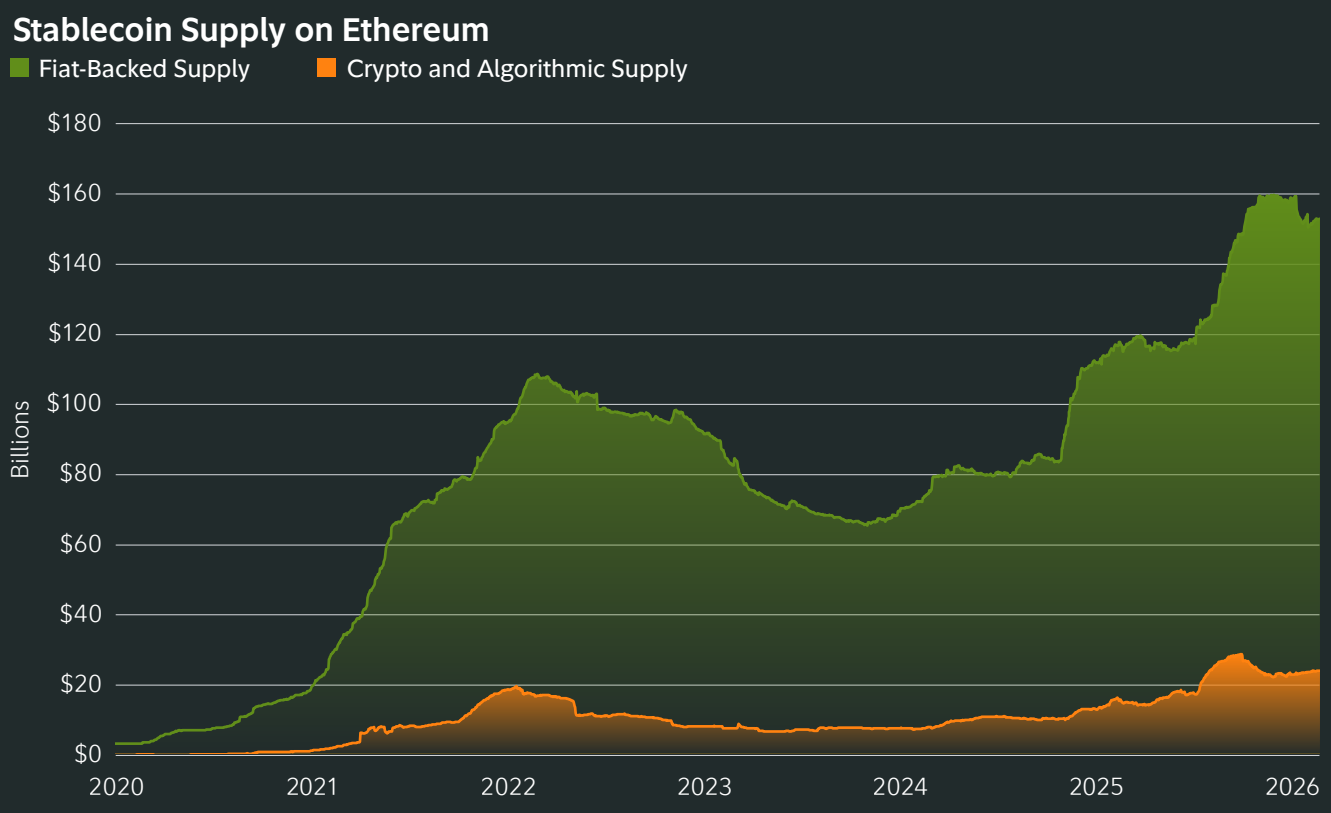


Source: Fidelity Digital Assets® Research via The Block Pro and DeFiLlama, 03/03/26.

Composition of Stablecoin Supply on Ethereum

Ethereum currently hosts approximately $164 billion in total stablecoin supply, including roughly $143 billion in fiat-backed stablecoins and about $21 billion in crypto-backed or algorithmic stablecoins as of March 31, 2026.

The dominance of fiat-backed issuance highlights Ethereum's role as the preferred chain for regulated or institutionally aligned stablecoins, where custody integrations, compliance controls, and on-chain transparency are critical. Meanwhile, the continued presence of crypto-backed and algorithmic designs underscores Ethereum's ongoing importance as an experimentation hub for decentralized monetary systems, even amid a broader post-2022 divergence from these models.



Source: Fidelity Digital Assets® Research via The Block Pro, 03/03/26.

Ethereum's Structural Advantage

Ethereum's lead in stablecoin supply is not driven solely by first mover momentum. Rather, it reflects a confluence of structural advantages that remain difficult to replicate at scale. One of these advantages is deep DeFi integration, with the majority of decentralized lending, derivatives, and liquidity protocols built natively on Ethereum.

Additionally, unmatched developer activity enables faster iteration, standardization, and composability across financial applications. With 3,467 full-time developers and 9,557 total developers as of March 31, 2026, Ethereum far exceeds Solana, the next-largest Turing-complete blockchain, at 1,079 and 3,245 respectively. Institutional infrastructure readiness, including custody, compliance tooling, and integration with centralized exchanges and prime brokerage services, further allows for seamless compatibility.

As the nexus of DeFi activity, Ethereum requires deep and reliable liquidity to support leverage, collateralization, and settlement. Stablecoins benefit from proximity to this activity, reinforcing a feedback loop that sustains Ethereum's share of circulating supply even if transaction volumes migrate elsewhere for cost efficiency. In other words, composability and financial infrastructure remain paramount on Ethereum, while higher-frequency transactions can occur elsewhere.

For institutional users, this distinction is critical. Ethereum increasingly functions as the balance sheet layer of the stablecoin ecosystem, while other networks operate as transactional rails. Roughly half of global stablecoin value today remains anchored on Ethereum precisely because it is where stablecoins are most effectively deployed into structured financial activity.

Looking Outside Ethereum

As stablecoin adoption matures beyond Ethereum, Tron has emerged as the most consequential non-Ethereum settlement layer. Tron reflects a market preference for low fees, fast finality, and operational simplicity, particularly where cost sensitivity outweighs composability in emerging markets, remittances, and exchange settlement.

However, Tron's architecture also highlights structural trade-offs. Fee predictability is achieved through resource models and implicit subsidies that can obscure true economic costs, while privacy remains limited and governance is tightly concentrated.

Purpose-built stablechains (Layer 1 blockchains developed for stablecoin payments) aim to address these constraints by formalizing what Tron has demonstrated in practice: Stablecoins operate most efficiently when the underlying chain is optimized around them. These stablechains extend this model with deterministic fees denominated in stablecoins, enterprise-grade throughput, and opt-in privacy primitives designed for compliance-aware institutions.

The emergence of purpose-built stablechains signals a shift toward infrastructure optimized explicitly for payments, treasury flows, and institutional settlement. Stablechains are blockchains designed primarily to support stablecoin activity, serving as payment, settlement, and liquidity rails rather than DeFi platforms. These networks are designed around stablecoins as the unit of account rather than as just another application layer, enabling meaningful improvements in fee predictability, throughput, and user experience relative to general-purpose blockchains.

In this context, Tron represents both proof of demand and a transitional architecture. It validates the appetite for stablecoin-native rails, yet its limitations create an opening for stablechains that can deliver comparable cost efficiency with stronger guarantees around privacy, regulatory alignment, and long-term scalability. The future of stablecoins outside Ethereum is therefore focused on integrating economic advantages into more purpose-built, institutionally legible infrastructure that can support stablecoins as global settlement instruments rather than purely digital asset-native liquidity tools.

Institutional Implications

Ethereum's continued dominance in stablecoin supply reinforces its role as the monetary backbone of on-chain finance, particularly for institutions engaging in DeFi, tokenization, and digital asset-native capital markets. While fee-optimized networks may capture marginal payment and remittance flows, the concentration of high-value stablecoin balances on Ethereum suggests that trust, security, and composability remain decisive factors for large holders.

As stablecoins further embed into financial infrastructure, Ethereum's position as the leading programmable base layer makes it a natural home for issuance, custody, and balance sheet management, even as execution and payment activity continue to diversify across the broader blockchain landscape.

Stablechains are designed to reflect real economic throughput as opposed to facilitating DeFi primitives. They reflect the digital asset market's transition from speculative, yield-driven activity toward mature infrastructure that behaves more like payment networks, settlement layers, and financial middleware.

By denominating gas fees directly in stablecoins and embedding payment-first primitives, stablechains may materially reduce the challenges associated with volatile fee markets, balance sheet complexity, and operational overhead that have historically constrained stablecoin usage on Ethereum.

Features such as deterministic finality (where transactions become immediately and irreversibly settled upon confirmation), guaranteed blockspace, and opt-in privacy frameworks position these chains to support high-volume commercial activity. This includes use cases such as payroll, remittances, and B2B settlement, while aligning more closely with institutional regulatory and compliance requirements.

That said, the stablechain model introduces key trade-offs. These include liquidity fragmentation away from Ethereum's deeply integrated DeFi base, greater reliance on issuer-aligned governance, and heightened regulatory sensitivity surrounding enhanced privacy features. Nonetheless, if stablecoins are to function as global, programmable digital dollars rather than purely digital asset-native liquidity instruments, stablechains represent a credible and increasingly necessary evolution, trading maximal composability for efficiency, predictability, and institutional scalability.

Further, because stablecoin transactions on Ethereum generally incur higher fees relative to other networks, other blockchains may be better suited to optimize stablecoin transfers for specific payment- or settlement-related use cases, as opposed to DeFi-oriented transaction activity on Ethereum.

Low market capitalization or stablecoin supply on other blockchains is therefore not necessarily an accurate proxy for economic throughput as idle supply may sit on Ethereum in DeFi protocols to generate yield when that capital would otherwise be unproductive elsewhere. As a result, stablecoins may increasingly be used on stablechains or other low-fee blockchains for payment activity where fee and speed optimization are priorities, especially if they are Ethereum Virtual Machine (EVM)-compatible.

Ethereum and Tron represent two distinct but complementary poles of stablecoin activity. Ethereum functions as the financial coordination layer where stablecoins are issued, composed, and reused across DeFi, capital markets, and tokenized assets. In contrast, Tron operates primarily as a global settlement rail that is optimized for moving stablecoin value efficiently, predictably, and at scale.

Ethereum's explicit, market-priced fee model supports deep composability and institutional credibility but introduces cost volatility that limits payment use cases. Meanwhile, Tron achieves near-zero perceived fees through resource models and subsidies that favor throughput over transparency and decentralization. The result is a bifurcated ecosystem in which Ethereum maximizes stablecoin economic velocity and innovation whereas Tron maximizes transactional efficiency and dollar movement. This architectural divergence may increasingly define both the limits of legacy Layer 1s and the underlying design rationale behind emerging stablechains.

Simultaneously, yield-bearing stablecoins are quickly emerging as a focal point in the evolution of digital asset markets, positioned at the intersection of on-chain capital efficiency and traditional financial competition. Recent legislative initiatives, including the CLARITY Act and related U.S. market-structure proposals, have placed stablecoin yield at the center of regulatory debate. Some banks argue that passive interest-paying tokens could threaten deposit stability, whereas issuing firms view yield as essential infrastructure for liquidity and user adoption.

Draft provisions under consideration in Congress would restrict or even prohibit passive interest payments on stablecoin holdings, aiming to prevent these instruments from taking on deposit-like features without being subject to bank regulation. As such, the future trajectory of yield-bearing stablecoins is likely to hinge on how lawmakers balance innovation incentives with bank risk considerations, making regulatory clarity not just a compliance matter, but a defining competitive variable for stablecoin issuers and holders alike.

Conclusion: Stablecoins as Financial Infrastructure

Stablecoins appear to have crossed the threshold from digital asset-native convenience to core market infrastructure. Several themes emerge across this report: the rising importance of issuers, broadening adoption that is increasingly usage-driven rather than leverage-driven, and a growing convergence between digital and traditional financial infrastructure.

Issuer Evaluation Could Be Paramount

The growing range of issuers, from banks and payment networks to established custodians, highlights the importance of evaluating the underlying institutions rather than assuming liquidity leaders will always offer the strongest long-term models.

Issuers with proven compliance track records, robust operational controls, and established distribution channels bring credibility that can meaningfully shape adoption. Their governance, oversight, and operational resilience directly influence the stability and safety of the assets they issue.

Issuer-specific attributes such as risk management discipline, regulatory alignment, treasury practices, and integration across payment rails should be central to market assessments. As the design space widens and more purpose-built stablecoins emerge for settlement, treasury, and enterprise workflows, assessing issuer strength, transparency, and operational rigor becomes essential for understanding the future trajectory of the stablecoin market.

Market Growth May Broaden the Design Space

The stablecoin market is entering an environment that is likely to accelerate industry-wide improvements including lower fees, higher transparency, and more robust approaches to collateralization and decentralization.

As the ecosystem diversifies, the introduction of new design models and operational philosophies may create some fragmentation. However, this diversity could ultimately strengthen the market by encouraging the development of interoperability layers, shared standards, and more consistent disclosures.

These structural upgrades would have the potential to reduce liquidity silos and allow stablecoins to compete based on resilience and architecture rather than historical dominance. In this environment, the evolution of the market would be shaped less by incumbency and more by the collective shift toward transparency, efficiency, and modularity—hallmarks of a maturing financial infrastructure.

Strategic Outlook

Stablecoins are rapidly evolving into programmable, digital dollar instruments woven into public blockchains and increasingly connected to traditional money markets. As yield-bearing designs, on-chain money markets, and tokenized treasury and collateral systems expand, stablecoins are shifting from speculative fuel to core financial infrastructure, blurring the line between payment instruments and short-duration yield vehicles.

In this environment, the key risks and opportunities center on market structure, liquidity transmission, and issuer resilience rather than token price movements. Understanding how tokenized digital dollar equivalents influence market efficiency, leverage, and capital mobility across asset classes is essential for institutional participants evaluating the next generation of financial infrastructure.

Interested in discussing the different use cases for stablecoins with our team?

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[1] CoinGecko, 2021 Yearly Cryptocurrency Report, October 2022.