



Global Investment Office | August 18, 2025

## US Policy Pulse

### The “GENIUS” of Greater “CLARITY” on Stablecoin

In this report, we discuss policy developments impacting the potential use and adoption of stablecoins, highlighting the recently passed GENIUS Act and the still-pending CLARITY Act.

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#### Key Insights:

- The 119th Congress is the most supportive of cryptocurrency to date, with 66% of the House and 59% of the Senate considered “pro-crypto.”
- Greater stablecoin and digital asset regulation through the GENIUS Act and pending CLARITY Act is largely viewed favorably by the industry and aims to create a regulatory framework for accelerating stablecoin innovation.
- Given estimates for stablecoin supply to exceed \$2 trillion by 2028, the GENIUS Act’s requirement of one-to-one backing by US Treasury and US dollar reserves implies new demand for Treasuries and the dollar amid headwinds from economic uncertainty, threats to hegemony and fiscal sustainability questions.
- Stablecoins are already among the largest external holders of US Treasuries, and additional related demand for Treasuries and the dollar, as well as from emerging market economies, could potentially push down yields.
- Equity markets may be rewarding stocks that are positioned positively for the next generation of digital asset development and adoption versus those that are negatively positioned.

The rise of digital currencies, beginning nearly two decades ago, has hit a critical juncture as the interests of private stakeholders, public markets and policymakers converge. The public policy tipping point comes as the executive branch and legislature make notable strides in developing a legal and regulatory framework governing the use of digital currencies broadly. More specifically, the recent passage of the Guiding and Establishing National Innovation for US Stablecoins Act (GENIUS Act), legislative consideration of the Digital Asset Market Clarity Act of 2025 (CLARITY Act) and the White House’s report on digital currencies, titled “Strengthening American Leadership in Digital Financial Technology,” have accelerated not only the expected timeline for regulation but the rate at which private entities may seek to adopt the new technology.

Government interest spans the use and adoption of stablecoins as well as other cryptocurrencies like bitcoin. In this report, however, we focus on the legislative and regulatory developments that may impact stablecoins, as the US government is

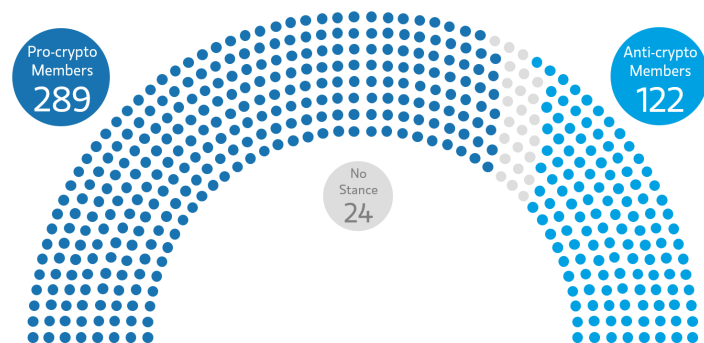
pursuing the development of policy frameworks that will promote stablecoin anchored to the US dollar and other reserve equivalents. We discuss the political factors driving stablecoin adoption, current policy considerations and the impact on financial markets.

## The Politics of Stablecoin

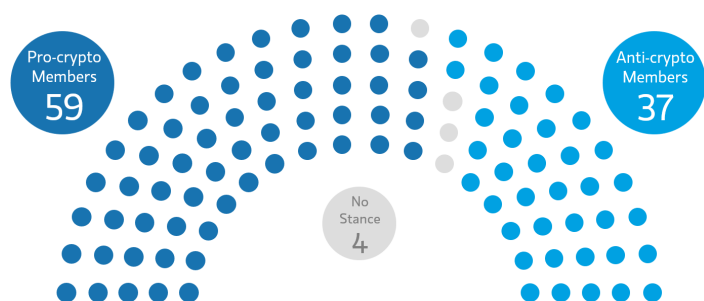
One of the top factors to consider at the intersection of politics and digital assets is the shift in the crypto industry's involvement in US elections. The industry's political donations have grown exponentially since 2020, with spending in 2024 estimated to be 12 times greater than in 2020 and 2022 combined. According to consumer advocacy group Public Citizen, cryptocurrency companies were the largest corporate political donors in the 2024 election cycle, at approximately \$120 million, accounting for 44% of all corporate donations.

Importantly, 85% of the Congressional candidates supported by the industry won their races in 2024, resulting in the most pro-crypto Congress to date. Pro-crypto sentiment spans both sides of the aisle, with 59% of seats in the Senate and 66% of seats in the House of Representatives considered supportive (see Exhibits 1 and 2). This compares to just a handful of pro-crypto lawmakers in prior Congresses, when crypto was not considered a top policy issue, and likely creates a favorable environment for legislative action and formal consideration of industry-friendly regulatory guidelines.

### Exhibit 1: In the House of Representatives, 66% of Members Are Considered Pro-Crypto



### Exhibit 2: In the Senate, 59% of Members Are Considered Pro-Crypto



Source: Coinbase, Morgan Stanley Wealth Management Global Investment Office as of Aug. 8, 2025

While crypto industry support was likely meaningful in both the congressional and presidential races, the Trump administration has taken an interest in supporting the crypto industry for a multitude of factors. These include, but are not limited to, a desire for lower US Treasury yields and greater liquidity amid rising federal debt and deficits, prioritization of growth and private sector competition in the tech industry and global competitiveness in the crypto space.

## The Regulation of Stablecoin

The Trump administration has made deregulation a policy priority, emphasizing some of the restrictive economic outcomes from overly stringent regulatory frameworks. In the case of stablecoin, however, more regulation is largely viewed favorably for the crypto industry and is a key step in private sector adoption of US dollar-pegged stablecoins.

Most recently, Congress passed the GENIUS Act, which was signed into law by President Trump on July 18, creating a regulatory framework for stablecoins, which could support increased stablecoin adoption. The act creates standards for stablecoin issuers, including but not limited to the establishment of US Treasury and dollar reserve requirements, as well as capital, liquidity and anti-money laundering obligations. Stablecoin must be backed on a one-to-one basis by cash, demand deposits, short-term Treasuries (with maturities under three months), repos or reverse repos. It also creates a dual regulatory oversight structure aimed at providing balance between federal and state bodies to prevent regulatory arbitrage and provide consumer clarity. For example, stablecoin issuers with more than \$10 billion in reserves meet the threshold for federal oversight, while those with less than \$10 billion may operate as state-regulated entities subject to baseline federal standards. The law also states that stablecoin issuers may not pay yield or interest to holders of stablecoins and that issuers are subject to anti-money laundering laws and regulations. Additionally, the GENIUS Act clarifies that stablecoins are neither securities nor commodities; as such, neither the Securities and Exchange Commission (SEC) nor Commodity Futures Trading Commission (CFTC) has primary jurisdiction over stablecoin issuers.

We expect continued policy action in the coming months and are paying particular attention to the Digital Asset Market Clarity Act of 2025, also referred to as the CLARITY Act, which addresses cryptocurrency market structure and establishes a regulatory framework and definitions for digital assets. For example, the CFTC would serve as the primary federal regulator for spot markets of digital commodities, overseeing the registration and supervision of digital commodity exchanges, brokers, dealers and other intermediaries. The SEC would be granted anti-fraud and manipulation authority over digital commodity and stablecoin transactions by SEC-registered exchanges, brokers and dealers, as well as jurisdiction of digital commodities sold as

securities, subject to new exemptions. The proposal would also establish rules pertaining to the Bank Secrecy Act and anti-money laundering compliance and define permissible use of digital commodities in banking activities. It would prevent agencies from requiring banks to include customers’ assets—including digital commodities and stablecoins—as liabilities on their balance sheets or to hold additional capital against the assets, except as needed to mitigate operational risks.

The CLARITY Act passed the House of Representatives with bipartisan support on July 17 and now sits with the Senate, where text will continue to be developed, negotiated and potentially changed. For example, the current draft of the bill amends the GENIUS Act to prohibit nonfinancial company stablecoin issuance and permits commodity-backed stablecoins. These provisions could alter stablecoin use cases and influence underlying asset performance. That said, we also expect various industry stakeholders and regulatory bodies to weigh in during the process as they seek to shape the outcome. However, final consideration of the CLARITY Act is likely to be delayed, as Senate passage, which is subject to a 60-vote threshold, hinges on bipartisan support.

Stablecoin Policy and the Markets

The primary macroeconomic impact of stablecoin legislation may be to boost medium-to-long-term demand for the US dollar and US Treasuries. So far this year, the dollar has weakened by 10% versus a basket of global currencies, and it is approaching its lowest level since 2022; Morgan Stanley & Co. Research currency strategists expect further depreciation through 2026. Historically, the US Dollar Index and the 10-Year US Treasury yield have typically been positively correlated, because higher yields tend to attract foreign capital, in turn strengthening the dollar. Since “Liberation Day,” this relationship has broken down, partially due to a combination of economic policy uncertainty, tariff concerns, Section 899 threats and currency hedging (see Exhibit 3). In other words, yields remained steady, while the dollar depreciated, indicating that for the same Treasury yield, demand for the dollar has been weaker.

Exhibit 3: US Treasury-US Dollar Correlation Has Recently Broken Down

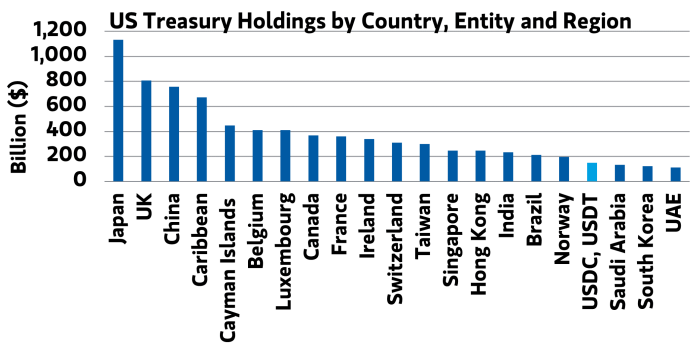


Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Aug. 14, 2025

Rising demand for stablecoins—as digital assets typically pegged to a fiat currency and holding low-risk collateral—also implies rising demand for the underlying collateral. Since US dollar-pegged stablecoins predominate, accounting for 99% of the market, greater demand for stablecoins could boost demand for both the dollar and US Treasuries, with the latter the most frequently employed underlying collateral. A US Treasury Borrowing Advisory Committee report from the first quarter of 2025 indicated that evolving market dynamics and legislation could help increase stablecoin supply to over \$2 trillion by 2028, from \$230 billion currently, resulting in roughly eight times the current dollar demand from stablecoins and potentially \$1.6 trillion in new demand for Treasury securities. Should investor confidence in the asset grow and stablecoin usage be adopted institutionally, this growing source of demand could support dollar hegemony and its status as a global reserve currency. Greater demand could potentially offset dollar weakness arising from tariff concerns; likewise, over the longer term, it may offset threats to dollar hegemony from the BRICS economies.

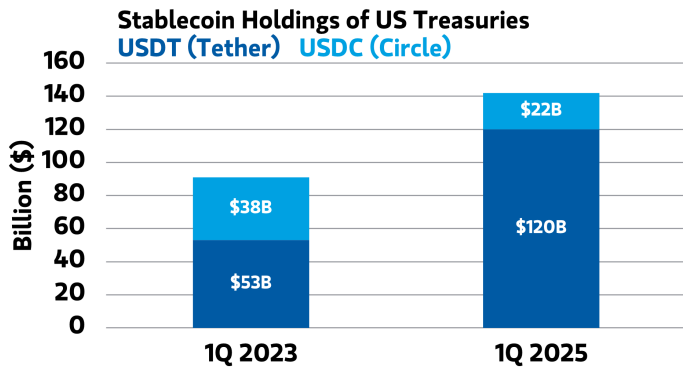
Regarding the potential impact of stablecoins on demand for US Treasuries, and thus on Treasury yields, prior to recently passed and pending legislation, the two largest stablecoin issuers already hold \$150 billion of US Treasuries and are the 18th largest external holder, ahead of Saudia Arabia and South Korea. Between the first quarter of 2023 and the first quarter of 2025, stablecoin holdings of Treasuries increased by 56%, or over \$50 billion, with USD-pegged stablecoins now representing over 99% of total stablecoin market cap (see Exhibits 4 and 5). If network effects proliferate, use of stablecoins as both a medium of exchange and a store of value could also facilitate cross-border transactions between consumers and businesses, particularly in emerging markets. This may not only provide dollar access to individuals abroad but democratize the payments process and generate more foreign demand for US Treasuries and the dollar.

Exhibit 4: Stablecoins Are Already Large Holders of US Treasuries



Note: USDC and USDT refer to USD Coin and Tether, respectively. USDC and USDT account for approximately 86% of total stablecoin market cap. Source: US Treasury, Bloomberg, Apollo, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2025

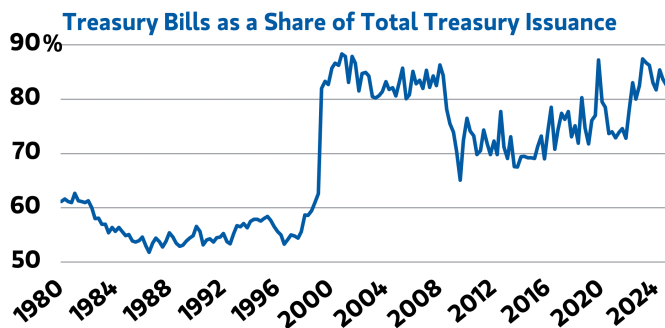
### Exhibit 5: Stablecoin Holdings of US Treasuries Have Increased 56% Since 2023



Source: US Treasury, Bloomberg, Apollo, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2025

Moreover, stablecoin-driven Treasury demand is likely to be concentrated on the front end of the yield curve, in T-bills, since the GENIUS Act requires stablecoin issuers to hold Treasury securities with remaining terms to maturity of 93 days or less as reserves. In recent years, US Treasury Secretaries Yellen and Bessent both shifted issuance toward shorter-maturity debt, with T-bills accounting for 82% of total Treasury issuance, compared with 65% in 2010 (see Exhibit 6). Recent guidance from Bessent suggests further Treasury reliance on T-bill issuance in upcoming quarters, and stablecoin-driven demand may develop into a key technical tailwind for the T-bill market, as it has the potential to apply meaningful downward pressure on T-bill borrowing costs. As long-term rates remain elevated, issuing more T-bills allows the Treasury to avoid locking in higher yields for longer periods, and a new source of stablecoin-driven demand for short-term bills could help absorb greater issuance on the front end from federal spending and push down yields over the long term.

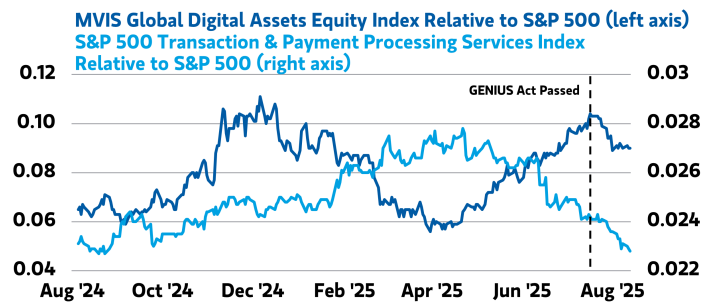
### Exhibit 6: Greater Stablecoin Demand May Absorb Further Supply on the Front End of the Treasury Curve, Where Issuance Has Risen



Source: US Treasury, Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Aug. 14, 2025

Renewed interest in stablecoins has also impacted equity markets, as potential winners and losers emerge. For example, “crypto-innovative” equities—stocks of companies deemed likely to enable, as well as benefit from, the digital asset economy—have outperformed the S&P 500 Index by more than 7% in 2025. The outperformance peaked the day the GENIUS Act passed, however, potentially an example of “buy the rumor, sell the news” price action. Meanwhile, some stocks may be negatively impacted by greater stablecoin innovation. For instance, transaction and payment processors in the financials sector may lose transaction wallet share to greater stablecoin adoption; stocks of several of those companies are flat this year relative to the S&P 500’s 10% gain and the MVIS Global Digital Assets Equity Index’s 16% gain (see Exhibit 7). Since Liberation Day, this dispersion is even larger. In other words, investors may be rewarding stocks that are positioned positively for the next phase of digital asset development and adoption, relative to stocks that are negatively positioned.

### Exhibit 7: Investors Are Rewarding Stocks Considered Enablers and Adopters of Stablecoin and Digital Assets



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Aug. 14, 2025

### Investment Conclusion

The current policy backdrop is supportive of stablecoin and broader digital asset innovation, with the most pro-crypto Congress to date. Recent legislation and regulation through the GENIUS Act and pending CLARITY Act are largely viewed as positives for the industry by creating a regulatory framework for accelerating stablecoin innovation and adoption. Moreover, we believe greater stablecoin supply and adoption, both in the US and abroad, could drive increased reserve demand for US Treasuries and the US dollar, which face headwinds from economic uncertainty, threats to dollar hegemony and fiscal sustainability. Finally, investors may be rewarding stocks that are positioned positively for the next stage of digital asset development versus those viewed as negatively positioned.

### Disclosure Section

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For index, indicator and survey definitions referenced in this report please visit the following:  
<https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

**MVIS Global Digital Assets Equity Index** covers the largest and most liquid companies which are active in the Digital Assets industry.

**S&P 500 Transaction & Payment Processing Services Index:** This index tracks the performance of transaction and payment processor companies in the S&P 500.

### Glossary

**BRICS** - Brazil, Russia, India, China, South Africa

### Risk Considerations

#### Virtual Currency Products (Cryptocurrencies)

- Buying, selling, and transacting in Bitcoin, Ethereum or other digital assets ("Digital Assets"), and related funds and products, is highly speculative and may result in a loss of the entire investment. Risks and considerations include but are not limited to: Digital Assets have only been in existence for a short period of time and historical trading prices for Digital Assets have been highly volatile. The price of Digital Assets could decline rapidly, and investors could lose their entire investment.
- Certain Digital Asset funds and products, allow investors to invest on a more frequent basis than investors may withdraw from the fund or product, and interests in such funds or products are generally not freely transferrable. This means that, particularly given the volatility of Digital Assets, an investor will have to bear any losses with respect to its investment for an extended period of time and will not be able to react to changes in the price of the Digital Asset once invested (for example, by seeking to withdraw) as quickly as when making the decision to invest. Such Digital Asset funds and products, are intended only for persons who are able to bear the economic risk of investment and who do not need liquidity with respect to their investments.
- Given the volatility in the price of Digital Assets, the net asset value of a fund or product that invests in such assets at the time an investor's subscription for interests in the fund or product is accepted may be significantly below or above the net asset value of the product or fund at the time the investor submitted subscription materials.
- Certain Digital Assets are not intended to function as currencies but are intended to have other use cases. These other Digital Assets may be subject to some or all of the risks and considerations set forth herein, as well as additional risks applicable to such Digital Assets. Buyers, sellers and users of such Digital Assets should thoroughly familiarize themselves with such risks and considerations before transacting in such Digital Assets.
- The value of Digital Assets may be negatively impacted by future legal and regulatory developments, including but not limited to increased regulation of such Digital Assets. Any such developments may make such Digital Assets less valuable, impose additional burdens and expenses on a fund or product investing in such assets or impact the ability of such a fund or product to continue to operate, which may materially decrease the value of an investment therein.
- Due to the new and evolving nature of digital currencies and the absence of comprehensive guidance, many significant aspects of the tax treatment of Digital Assets are uncertain. Prospective investors should consult their own tax advisors concerning the tax consequences to them of the purchase, ownership and disposition of Digital Assets, directly or indirectly through a fund or product, under U.S. federal income tax law, as well as the tax law of any relevant state, local or other jurisdiction.
- Over the past several years, certain Digital Asset exchanges have experienced failures or interruptions in service due to fraud, security breaches, operational problems or business failure. Such events in the future could impact any fund's or product's ability to transact in Digital Assets if the fund or product relies on an impacted exchange and may also materially decrease the price of Digital Assets, thereby impacting the value of your investment, regardless of whether the fund or product relies on such an impacted exchange.
- Although any Digital Asset product and its service providers have in place significant safeguards against loss, theft, destruction and inaccessibility, there is nonetheless a risk that some or all of a product's Digital Asset could be permanently lost, stolen, destroyed or inaccessible by virtue of, among other things, the loss or theft of the "private keys" necessary to access a product's Digital Asset.
- Investors in funds or products investing or transacting in Digital Assets may not benefit to the same extent (or at all) from "airdrops" with respect to, or "forks" in, a Digital Asset's blockchain, compared to investors who hold Digital Assets directly instead of through a fund or product. Additionally, a "fork" in the Digital Asset blockchain could materially decrease the price of such Digital Asset.
- Digital Assets are not legal tender, and are not backed by any government, corporation or other identified body, other than with respect to certain digital currencies that certain governments are or may be developing now or in the future. No law requires companies or individuals to accept digital currency as a form of payment (except, potentially, with respect to digital currencies developed by certain governments where such acceptance may be mandated). Instead, other than as described in the preceding sentences, Digital Asset products' use is limited to businesses and individuals that are willing to accept them. If no one were to accept digital currencies, virtual currency products would very likely become worthless.
- Platforms that buy and sell Digital Assets can be hacked, and some have failed. In addition, like the platforms themselves, digital wallets can be hacked, and are subject to theft and fraud. As a result, like other investors have, you can lose some or all of your holdings of Digital Assets.
- Unlike US banks and credit unions that provide certain guarantees of safety to depositors, there are no such safeguards provided to Digital Assets held in digital wallets by their providers or by regulators.
- Due to the anonymity Digital Assets offer, they have known use in illegal activity, including drug dealing, money laundering, human trafficking, sanction evasion and other forms of illegal commerce. Abuses could impact legitimate consumers and speculators; for instance, law enforcement agencies could shut down or restrict the use of platforms and exchanges, limiting or shutting off entirely the ability to use or trade Digital Asset products.
- Digital Assets may not have an established track record of credibility and trust. Further, any performance data relating to Digital Asset products may not be verifiable as pricing models are not uniform.
- Investors should be aware of the potentially increased risks of transacting in Digital Assets relating to the risks and considerations, including fraud, theft, and lack of legitimacy, and other aspects and qualities of Digital Assets, before transacting in such assets.

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- The exchange rate of virtual currency products versus the USD historically has been very volatile and the exchange rate could drastically decline. For example, the exchange rate of certain Digital Assets versus the USD has in the past dropped more than 50% in a single day. Other Digital Assets may be affected by such volatility as well.
- Digital Asset exchanges have limited operating and performance histories and are not regulated with the same controls or customer protections available to more traditional exchanges transacting equity, debt, and other assets and securities. There is no assurance that a person/exchange who currently accepts a Digital Asset as payment will continue to do so in the future.
- The regulatory framework of Digital Assets is evolving, and in some cases is uncertain, and Digital Assets themselves may not be governed and protected by applicable securities regulators and securities laws, including, but not limited to, Securities Investor Protection Corporation coverage, or other regulatory regimes.
- Morgan Stanley Smith Barney LLC or its affiliates (collectively, "Morgan Stanley") may currently, or in the future, offer or invest in Digital Asset products, services or platforms. The proprietary interests of Morgan Stanley may conflict with your interests.
- The foregoing list of considerations and risks are not and do not purport to be a complete enumeration or explanation of the risks involved in an investment in any product or fund investing or trading in Digital Assets.

**Investing in foreign markets** entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **Investing in currency** involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

**Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment.

**Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

**Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies. **Technology stocks** may be especially volatile.

**Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

**Growth investing** does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

**Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully

**Environmental, Social and Governance ("ESG") investments** in a portfolio may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. Certain issuers of investments may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. ESG designations are as of the date of this material, and no assurance is provided that the underlying assets have maintained or will maintain and such designation or any stated ESG compliance. As a result, it is difficult to compare ESG investment products or to evaluate an ESG investment product in comparison to one that does not focus on ESG. Investors should also independently consider whether the ESG investment product meets their own ESG objectives or criteria. There is no assurance that an ESG investing strategy or techniques employed will be successful. Past performance is not a guarantee or a dependable measure of future results.

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