The Ethereum Investment Thesis

A first-principles look at why ETH accrues value — the settlement demand, the staking yield, the fee burn, and the risks an honest case cannot skip.

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Most people approach ether the way they approach a stock — as a bet that a number goes up. That framing obscures more than it reveals. Ether is not a share in a company; there is no board, no dividend, no earnings call. It is the native asset of a global settlement network, and the case for owning it rests on what that network is, what its asset does inside it, and how value flows back to holders. This report sets out that case from first principles: the demand for Ethereum's block space, the yield ETH earns, the supply mechanics that shape its scarcity, the frameworks analysts use to value it, and — because no thesis is complete without its own counterargument — the bear case and the places real risk actually lives.

AT A GLANCE

ASSET TYPE **Productive / monetary**	LAUNCHED **July 30, 2015**	TOTAL SUPPLY **~120M ETH · no cap**
STAKING YIELD **~2.7–3.5% (in ETH)**	SUPPLY STAKED **~29–33%**	MONETARY STATUS **Mildly inflationary***

01

WHAT YOU ARE ACTUALLY BUYING

Ethereum is a decentralized computer that anyone can use and no single party controls. Its value proposition is credible neutrality: applications deployed on it — lending markets, exchanges, stablecoins, tokenized assets — keep running exactly as written, without a company that can freeze, censor, or revoke them. To use that computer, you pay in ether. ETH is therefore the fuel the system consumes, the collateral that backs its largest applications, and, once staked, the bond that secures the network itself. Buying ETH is not buying equity in a business; it is buying a claim on the economic activity of a settlement

layer — part commodity, part yield-bearing instrument, part reserve asset. The thesis stands or falls on whether that activity is durable and whether its value genuinely reaches the token. The rest of this report tests both halves of that claim.

02

THE DEMAND SIDE: A SETTLEMENT LAYER

The strongest evidence for durable demand is where capital already sits. Ethereum's base layer holds the largest pool of value locked in decentralized finance of any chain — on the order of tens of billions of dollars, roughly eight times its nearest competitor — and it settles the deepest markets in stablecoins and tokenized assets. Crucially, this leadership now extends beyond the base layer itself. The wave of layer-2 rollups — Arbitrum, Optimism, Base, zkSync and others — execute transactions cheaply on their own networks but settle their proofs and data down to Ethereum, paying it for the privilege. Counting the base layer together with the rollups that anchor to it, the Ethereum ecosystem commands a majority of on-chain economic activity. Two forces make that demand unusually sticky. The first is the network effect of liquidity: capital pools where other capital already is, and the deepest lending and trading venues in crypto are built on Ethereum, so new applications gravitate there to reach it. The second is the migration of real-world assets on-chain — tokenized treasuries, money-market funds, and payment stablecoins are settling on Ethereum precisely because its neutrality and record make it defensible to institutions. Demand for the network is not hypothetical; it is measurable, sticky, and increasingly institutional.

03

THE YIELD: ETH AS AN "INTERNET BOND"

Since the network moved to proof of stake, ETH became a productive asset: lock it up to help secure the chain and it earns a return, currently in the range of roughly 2.7 to 3.5 percent annually, paid in ETH itself. That yield is not conjured from thin air — it is assembled from new consensus issuance, the priority tips users attach to transactions, and value captured from block ordering (MEV). Because the return is denominated in the same asset that is staked, analysts Collin Myers and Mara Schmiedt framed staked ETH as an "internet bond" — a native, yield-bearing instrument for the digital economy, a coinage later popularized across research desks. Around 29 to 33 percent of all ETH is now staked, and regulated access arrived with the July 2024 launch of US spot ether ETFs. For a fuller treatment of the mechanics, see our explainer on how Ethereum staking works. The yield is

real, but it is nominal — measured in ETH, not dollars — a distinction the next section makes unavoidable.

04

THE BURN AND THE SUPPLY QUESTION

What makes that nominal yield interesting is the supply side. EIP-1559 and the fee burn destroy the base portion of every transaction fee, permanently removing ETH from circulation in proportion to how heavily the network is used. Pair that with the roughly 88 to 90 percent collapse in issuance after the 2022 Merge — from around 13,000 ether a day to under 2,000 — and you get an asset whose net supply can, under enough demand, actually shrink. For stretches between late 2022 and early 2024 it did exactly that, giving rise to the "ultrasound money" slogan popularized around the 2021 EIP-1559 era. Intellectual honesty demands the caveat, though: since the March 2024 Dencun upgrade shifted rollup data onto cheap blobs and slashed the fees they burned, ether has drifted back to mildly net-inflationary, on the order of a few tenths of a percent a year. The supply is elastic and demand-driven, not deflationary by decree — a lever, not a law.

05

THE THREE-LEGGED VALUATION

How do you value an asset with no cash flows in the traditional sense? The most cited framework, David Hoffman's "triple-point asset," argues ETH is simultaneously three things: a capital asset (staked, it produces yield), a consumable asset (spent as gas to transact), and a store of value (locked as collateral across DeFi). Few assets occupy all three states at once, and that overlap is the crux of the bull case: the same unit of ETH can be earning yield, backing a loan, and standing ready to pay for computation, compounding its usefulness in a way a single-purpose asset cannot. A second lens treats the fee burn as a quasi-dividend, applying discounted-cash-flow logic to network revenue — more usage, more burn, more value returned pro rata to every holder. A third values ETH by the cryptoeconomic security it provides: the more the network is worth securing, the more the securing asset is worth. None of these is decisive alone. Together they explain why serious investors treat ETH as an emerging monetary asset rather than a tech stock — and why its price is so reflexively tied to how much the network is genuinely used.

> **The reflexive core:** every leg of the thesis — the yield, the burn, the security budget — scales with network usage. Heavy demand tightens supply and lifts real yield; weak demand

> does the reverse. ETH is a leveraged bet on Ethereum being used, not merely on it existing.

06

THE BEAR CASE, STATED HONESTLY

A thesis you cannot argue against is not a thesis; it is a hope. The sharpest critique is the value-accrual problem: after Dencun made rollups cheap, layer-2s capture most of the fees, MEV, and user activity while paying comparatively little back to the base layer — the open "are L2s parasitic or symbiotic?" debate that now defines Ethereum research. If scaling succeeds but the value leaks to the rollups, ETH the asset may underperform Ethereum the ecosystem. Competition is the second front: Solana has, at times since late 2024, exceeded Ethereum's base layer in decentralized-exchange volume and raw transaction count, proving that users will follow performance. The third is concentration: Lido, the largest liquid-staking provider, controls roughly a quarter of all staked ETH, uncomfortably close to thresholds where a single entity's behavior could matter to consensus. Related worries sit lower in the stack — historical dominance of a single execution client, though it has eased as competitors gained share, and centralization in the MEV relay-and-builder supply chain that orders transactions. Each is a genuine, unresolved risk, not a talking point to be waved away. The bull's honest reply is that these are known problems being actively worked on, not hidden ones — but a thesis that ignores them is marketing, not analysis.

07

WHERE THE REAL RISKS LIVE

It is worth being precise about danger, because the headlines mislead. Ethereum's base protocol — its consensus and virtual machine — has never been hacked; there has been no nine-figure core-protocol exploit. The enormous losses that make news happen a layer up, at applications, bridges, and exchanges. The roughly $1.5 billion Bybit theft of early 2025, frequently miscast as an "Ethereum hack," was in fact a compromise of an exchange's signing interface — an operational-security failure, not a flaw in the chain. The distinction matters for an investor: base-layer risk is low and slow-moving, while the application layer is where capital is actually lost. Regulatory risk, meanwhile, has eased without being settled — the 2024 spot-ETF approvals implicitly treated ETH as a commodity, materially reducing, though not statutorily resolving, the question of its legal status. Smart exposure means owning the base asset while respecting the fragility of what is built on top of it.

08

A THESIS ASSET, NOT A TRADE

The honest conclusion is that ETH is a thesis asset, not a momentum trade. Its value does not derive from a slogan or a price target but from a chain of linked propositions: that a credibly neutral settlement layer is worth having, that demand for its block space endures, that staking makes the asset productive, that the fee burn ties scarcity to usage, and that value ultimately reaches the token rather than leaking entirely to the layers above. An investor who cannot defend each link should not hold the asset on conviction. One who can is buying not a bet on a number, but a claim on the economic gravity of the most-used programmable settlement network in the world. For the timely, positioning view of how that thesis looks against current restaking and rollup dynamics, see our companion 2026 restaking and L2 outlook.

"The thoughts of the diligent tend only to plenteousness; but of every one that is hasty only to want."

PROVERBS 21:5

METHODOLOGY & SOURCES

This report was compiled from primary protocol documentation and corroborating market data, cross-checked by a multi-agent research review. Core facts — the July 30, 2015 launch; the post-Merge issuance drop of roughly 88–90% (~13,000 to under 2,000 ETH/day); EIP-1559 burning the base fee; total supply near 120–121 million ETH with no hard cap; staking participation of roughly 29–33% (~35–36M ETH); and nominal staking yield around 2.7–3.5%, comprising issuance, tips, and MEV — follow the specifications and on-chain data directly. *Monetary status is directional and activity-dependent: ETH was net-deflationary across stretches of late 2022–early 2024 but has been mildly net-inflationary since the Dencun upgrade (March 2024) reduced rollup base-fee burn, on the order of +0.2% to +0.5% per year. The "internet bond" framing is attributed to Collin Myers and Mara Schmiedt; the "triple-point asset" framing to David Hoffman (Bankless). US spot ETH ETFs began trading July 23, 2024, without staking at launch. No core-protocol exploit of Ethereum exists; large 2025 losses (e.g. the ~$1.5B Bybit theft) were third-party exchange/application failures, not base-layer flaws. Figures are approximate. Sources: ethereum.org/roadmap, etherscan.io/stat/supply, stakingrewards.com, defillama.com. Educational only; not financial advice.

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