

LP Update - Q4 2025

Volatility is part and parcel of this industry, and that won't change. But as we've done since we launched the fund, we look beyond short-term price movements and focus on the fundamentals. Those have never been stronger.

Morpho has emerged as the leading DeFi platform in the industry and is one of the frontrunners in the push to build bridges between DeFi and TradFi. It is already underpinning the borrow and lending experience across Coinbase, Kraken, and Binance, and is making meaningful inroads into traditional finance. Apollo recently announced that they will be purchasing up to 90 million Morpho tokens and over the coming year we expect to see many more announcements of this kind.

Courtyard, alongside Polymarket, is one of the standout consumer apps built on crypto rails that has truly started to break out. After raising a Series A earlier in 2025, they have continued their impressive growth trajectory and will be releasing a lot more product over the coming year as they work towards their ambition of reimagining entertainment commerce in the digital realm.

Zooming out and looking at the macro picture, the stage has never been more favorable for our industry. The GENIUS Act has paved the way for institutions to adopt stablecoins and DeFi at large, while the CLARITY Act, which is expected to come into law in 2026, will provide further regulatory clarity and empower the industry to build with confidence. The bridging of DeFi and TradFi is happening in many ways, as we've written about extensively over the past year.

We're very excited about what 2026 has in store as we kickstart our first full year as Prelude.

Regulation: outlook towards CLARITY and Project Crypto

As we look ahead on how regulation will continue to shape crypto markets in 2026, the most important effort now centers upon the establishment of a clear framework in the US on how to classify digital assets as either securities or commodities with the CLARITY Act.

This regulatory ambiguity has been a major issue for most of crypto's existence, forcing the industry to operate in a legal gray zone with little to no guidance on which set of regulations to apply and which regulators to appeal towards. Teams were forced to act defensively, slowing down innovation, and institutional players were kept on the sidelines, hindering adoption.

The CLARITY Act and its accompanying joint SEC-CFTC regulatory effort dubbed "Project Crypto" seek to resolve this by defining clear lines of delineation between the SEC and CFTC on different taxonomies of digital assets. Most notably, projects will be provided a pathway to obtain a formal determination of their classification status as either a security or commodity and have the opportunity to operate under an "innovation exemption" which will provide room for supervised experimentation and relief from certain regulatory requirements for a set period of time.

Despite slowed progress due to the government shutdown throughout Q4, both the CLARITY Act and its regulatory implementation with Project Crypto are expected to significantly advance through Q1 2026 as the final version of the CLARITY Act lands in the Senate for review before requiring consolidation with the House's version which passed last summer.

Agentic Payments and x402

One emerging category we've been watching with excitement is around new payment standards designed natively towards agentic and autonomous use cases.

While traditional payments providers today provide programmatic interfaces, they are designed ultimately around humans at the end of a transaction. This manifests in these providers requiring new account registration, KYC screening, and connecting credit cards or bank accounts before processing transactions. All of which are cumbersome, expensive, or even impossible to access if either end of the transaction is a software agent rather than a human - especially one with access to crypto.

A crop of new standards have emerged over the last few months in this rapidly developing space as players across the industry such as Coinbase, Google, Stripe, and Visa have all launched implementations. At a high level, these standards can be broken down into solving problems at two distinct layers in a machine-to-machine setting: first, how to authenticate and authorize a transaction intent and second, how to actually facilitate the transaction.

At the authentication level, the core task is in establishing trust between the buyer and seller by standardizing how information is shared between the two parties and enabling an audit trail of the automated interactions. Once this is complete, the transaction then needs to be facilitated somehow. This is where crypto and a new protocol called x402 come in.

x402 was originally created by Coinbase and has seen increasing support from Cloudflare, Google, and Vercel amongst others. It defines a simple protocol that allows any programmatic interface or autonomous agent to ask for payment before responding. The protocol centers around leveraging crypto as the cheapest and simplest method of verifying payments, as software agents can easily provision and control crypto wallets, and enables new forms of payment models such as pay-per-request and micro-transactions given the low costs compared to handling traditional bank or credit card transactions. CoinGecko, one of the largest data providers in crypto, has for example integrated x402 to allow developers and agents to pay for data per-request as opposed to charging on a monthly subscription.

Despite launching less than a year ago, it's been impressive to watch x402's growth as the protocol facilitated more than 150m transactions and \$40m in volume in Q4.