Crypto assets have emerged as an increasingly popular asset class among retail and institutional investors. Although initially considered a fringe asset class, their increased adoption across countries—in emerging markets, in particular—amid bouts of extreme price volatility has raised concerns about their potential financial stability implications. This note examines the extent to which crypto assets have moved to the mainstream by estimating the potential for spillovers between crypto and equity markets in the United States and in emerging markets using daily data on price volatility and returns. The analysis suggests that crypto and equity markets have become increasingly interconnected across economies over time. Spillovers from price volatility of the oldest and most popular crypto asset, Bitcoin, to the S&P 500 and MSCI emerging markets indices have increased by about 12-16 percentage points since the onset of the COVID-19 pandemic, while those from its returns have increased by about 8-10 percentage points. Spillovers from the most traded stablecoin, Tether, to these indices have also increased by about 4-6 percentage points. In absolute terms, spillovers from Bitcoin to global equity markets are significant, explaining about 14-18 percent of the variation in equity price volatility and 8-10 percent of the variation in equity returns. These findings suggest that close monitoring of crypto asset markets and the adoption of appropriate regulatory policies are warranted to mitigate potential financial stability risks.

INTRODUCTION

Crypto assets are gaining increasing popularity among investors as an asset class. Launched in 2009, the total market capitalization of crypto assets has increased exponentially from less than $20 billion in January 2017 to more than $3 trillion in November 2021 (Figure 1, panel a). Much of this increase has occurred during the COVID-19 pandemic as trade in crypto assets has accelerated, leading to a twentyfold increase in the market capitalization of crypto assets between March 2020 and November 2021. While advanced economies, notably the United States, are among the most technologically prepared for the adoption of crypto assets (Cryptohead 2021), their adoption in recent times has been particularly pronounced in emerging market economies—with nine of the top 10 major adopters in 2021 being emerging market economies (Chainanalysis 2021). Bitcoin, the largest crypto