

Sypher Bitcoin Yield Fund & **borrow / on / bitcoin**

The State of Bitcoin Yield 2026

September 2026



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Executive Summary

Bitcoin yield is a complex matching problem.

The right form of yield depends first on the holder: how much bitcoin they own, their cost basis, and what they are unwilling to give up for a return. It depends next on where the bitcoin sits, which determines which strategies can reach it. Only then does the headline yield matter.

This paper maps the bitcoin yield market through that lens and reaches six conclusions.

Cost basis creates different yield appetites. For holders with a large, embedded gain, any strategy capable of forcing a disposition carries a tax cost that is difficult to justify, and even an exchange into a higher-returning asset may be suboptimal on an after-tax basis. For holders with a moderate cost basis, yield can be valuable precisely because it defers the decision to sell bitcoin for an alternative. Cost basis creates a meaningful range where yield can make sense as an alternative to realizing gains.

Customer type correlates with access point. Self-custody, crypto-native custodians, Layer-2 vaults, traditional custodians, and pooled funds each serve a distinct cluster of customers. A yield strategy designed for one access point has, in effect, selected its customer base, whether or not that selection was intentional.

The payer matters more than the rate. Headline yield tends to receive disproportionate attention and can obscure the more important questions of safety and durability. A lower rate does not by itself indicate a safer yield. Every yield stream has a payer and an economic mechanism behind it, and those warrant closer examination than the rate: who pays, why they continue to pay, and how the mechanism behaves when market conditions change.

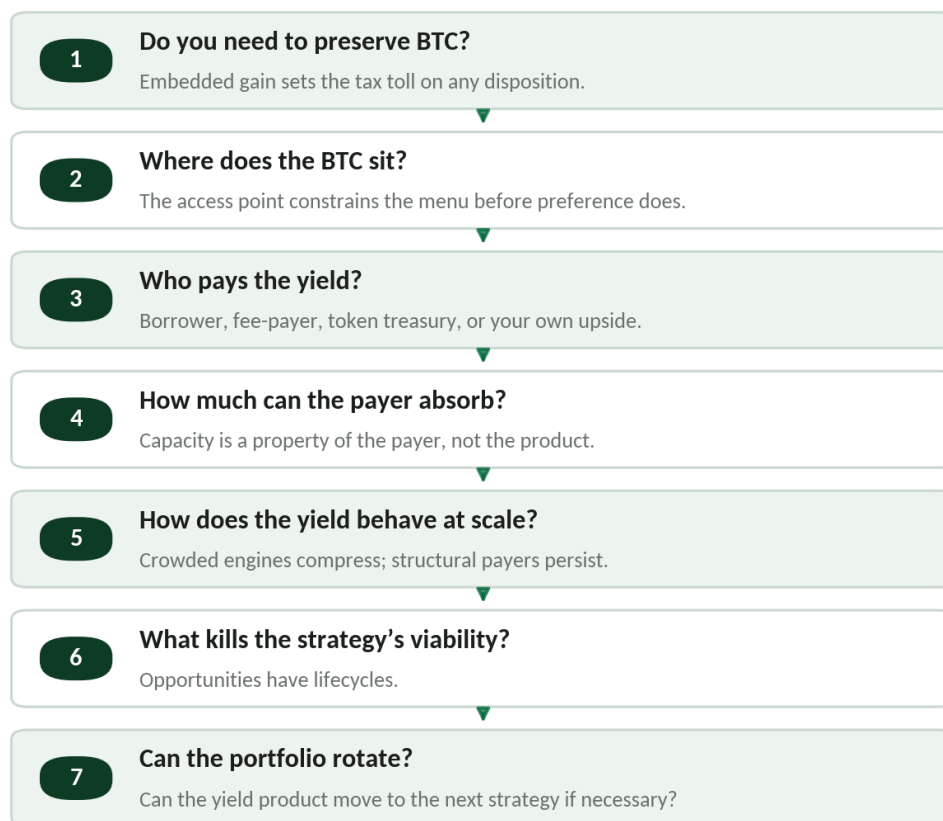
Scalable yield strategies ≠ guaranteed sustainability. Strategies that can absorb significant capital today may not generate sustainable yield tomorrow. Yield engines decay as inefficiencies close, volatility declines, and volume increases. The history of bitcoin yield already provides examples of this dynamic, including strategies adapted from traditional finance.

Custody should be the distribution layer. Custody is the safest bet for where the market majority will be reached, particularly as new bitcoin buyers increasingly prioritize simplicity over complexity. Yield will increasingly need to be delivered at the custodian, and custodian menus will need to expand considerably beyond their current offerings.

Strategy rotation is the key advantage. Bitcoin yield is still in an early phase, and many opportunities will emerge and disappear before the market stabilizes. The prudent approach is therefore to remain nimble: identify where sustainable activity is developing, allocate while the economics are attractive, and rotate before a temporary yield engine becomes a long-term trap.

The durable advantage in this market is unlikely to accrue to whoever identifies the highest rate. It is more likely to accrue to those who can match the customer through their desired access method with a menu of desired yield options.

Customer Framework at a Glance



I. Introduction

Bitcoin's first institutional phase was about access. The next is about productivity. Spot ETFs, qualified custody, institutional trading infrastructure, and a growing credit market have transformed bitcoin from a hold-only asset into one increasingly integrated into financial markets. The next unresolved question is what bitcoin can earn without sacrificing the characteristics that made institutions willing to hold it.

Today's product landscape can be confusing. "Yield" describes at least six economically distinct activities. Some are durable. Some are visibly decaying. Some are dollar income strategies wearing a bitcoin wrapper. This paper maps the market as it stands and how it may evolve.

Throughout the document, we assume that you, the reader, have basic knowledge of bitcoin yield, its ecosystem, and financial markets.

II. The Customers of Bitcoin Yield and Their Access Points

Bitcoin yield has no single customer. It has six distinct demand profiles, and they sort along two primary axes. The extent of embedded gains filters the strategy due to opportunity cost. And investor demographics filter which access channel is most desirable. Risk tolerance varies within each segment but is generally correlated with the first two conditions.

The Segments

Customer	Est. Size (Aug '26)	Cost-Basis Profile	Primary Need
Sub-\$5K basis holders (whales & early adopters)	~1.5–2M BTC (est.)	Pre-2018 accumulation; >90% embedded gain	Basis preservation above all; estate planning; principal safety
\$5–30K basis holders (the 2019–2021 class)	~1.5M BTC (est.)	~55–90% embedded gain	Yield, executed tax-aware; title security after 2022
\$30–65K small retail	~0.5–1M BTC (est.)	2024–2026 buyers; modest embedded gain	Rate and income; simple access; low minimums
\$30–65K large retail / HNW	~0.5–1M BTC (est.)	Modest embedded gain; multi-million portfolios	Rate with professional support: accounting, tax, and legal
ETF holders	~1.3M BTC across spot ETFs	~\$80,000 average	Convenience; brokerage-native exposure. Never thought yield was an option
Institutions & treasury companies	~1.4M BTC in treasury vehicles; \$500B+ in institutional custody overall	Mixed; treasury companies often elevated	Mandate-clean income; capacity; audit and reporting

Segment sizes are directional estimates from onchain cohort analysis and disclosed holdings¹ and should be treated as order-of-magnitude. These cohorts are analytical rather than mutually exclusive investor classifications, and the BTC figures are intended to size economic behavior rather than identify legal owners.

Four observations matter more than the actual segmentation.

The sub-\$5K cohort controls the deepest pool of dormant BTC and is the least served: nearly every high-yield product on the market requires a risk of disposition it cannot afford.

The \$5–30K class is the market's most established yield-seeking cohort: this is, almost by definition, the cohort that filled the centralized earn platforms last cycle. We believe this cohort remains particularly sensitive to title transfer, and that the lesson it took from 2022 was not to abstain from yield but to avoid surrendering title again.

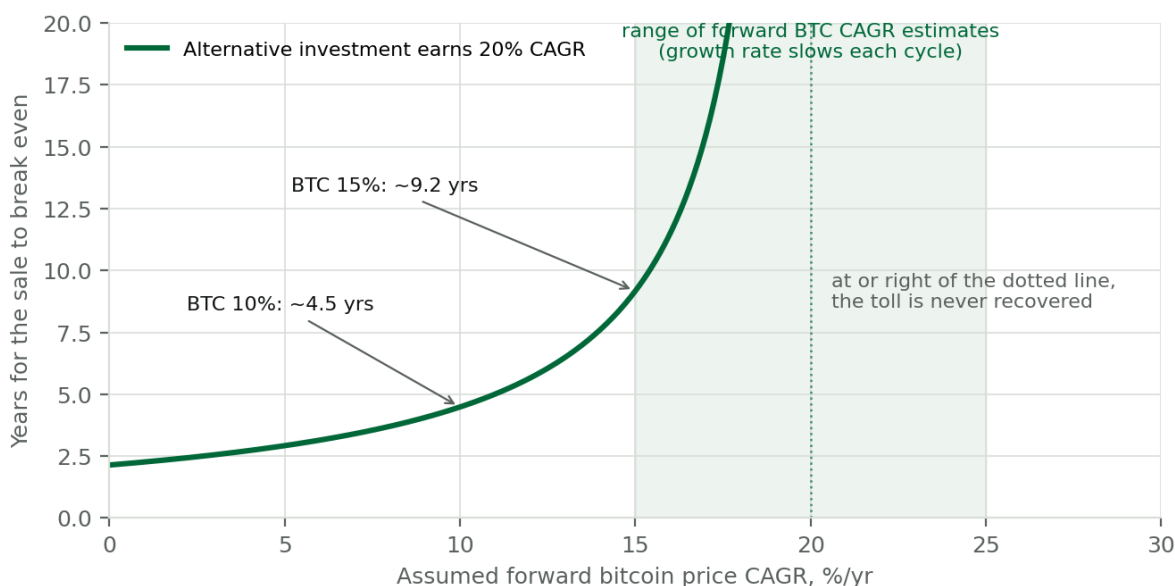
ETF holders are the fastest-growing customer segment, and their in-wrapper yield today consists of exactly one item: securities lending of the ETF shares themselves, a real monetization engine but poorly designed to generate consistent, dividend-like income streams.

Treasury companies remain a segment with a high demand for yield, because preferred dividends and interest obligations must be serviced against a bitcoin balance sheet. But the regulatory complication of how, and the risk complication of being a public company, make solving for their requirements a high-cost, high-value endeavor.

Why Basis Dominates Behavior

Selling low-basis bitcoin is expensive. A holder with a \$5,000 basis who sells at today's prices hands roughly 32% of the position to tax (a 35% combined rate on 92% embedded gain). Keeping the coins earns bitcoin's price CAGR, while selling redeloys 68 cents on the dollar into the alternative.

The relevant assumption is whether the next best alternative can beat bitcoin's forward CAGR. Currently, forward estimates cluster in the mid-teens to mid-twenties, shaded on the chart below. Even if an alternative investment earns a consistent 20% CAGR (finding one is harder than it seems), it takes roughly four and a half years to catch up against bitcoin compounding at 10%. And it never catches up once bitcoin's CAGR is at or greater than 20%.



Years for a post-sale alternative earning a 20% CAGR to recover the 32.3% tax toll, as a function of the reader's assumed forward bitcoin price CAGR. \$5,000 basis, 35% combined LTCG+state taxes.

The chart shows that selling pays only for someone who expects the alternative to beat bitcoin's forward CAGR by a wide margin for many years. At higher cost bases, swapping to an alternative becomes easier, but even at a \$30,000 basis, the tax toll is roughly 20% of the position. This is where yield becomes important. Earning modest yield pushes the curve outward, compounding its effect over time. The rational holder at this level should favor low-risk bitcoin income because it's easier than finding an alternative investment.

The Access Points

Between the customer and the strategy sits the **access point**, and it is the most underrated variable in the market. Since the debacles of the last cycle (FTX, Three Arrows, etc), qualified custodians have become much more important. Currently, five channels exist:

Self-custody for the technically sophisticated: strategies run directly from the holder's own keys. It's possible to obtain the best economics and retain full sovereignty, but it comes with the highest operational and cognitive burden.

L2 Vaults: deposits into curated onchain vaults that deploy into a menu of managed or automated strategies. Usually, the holder receives a receipt token. The structure can also work without one. Yield can be emissions-based, with the deposit simply sitting in the vault, or come from deploying into the menu of lending and yield options for higher returns.

Crypto Custodian Rails (Coinbase, Kraken, BitGo, Anchorage, Fireblocks): yield products integrated where the bitcoin sits in hot or cold wallets with regulated terms of service. The available strategies are limited, particularly when funds must remain within the custodian's environment.

Traditional Custodian Rails (BNY, State Street, Citi, etc., as they launch): a potential future default seat for institutional bitcoin. Yield menus are nascent, but distribution power is enormous.

Traditional Funds (506(c) funds, ETFs, managed vehicles, in-kind §721 subscription): professional execution, diversification across strategies, documentation and tax reporting built for advisors. Accredited-investor gating applies. Tokenized variants may eventually arrive at crypto and traditional custodian rails.

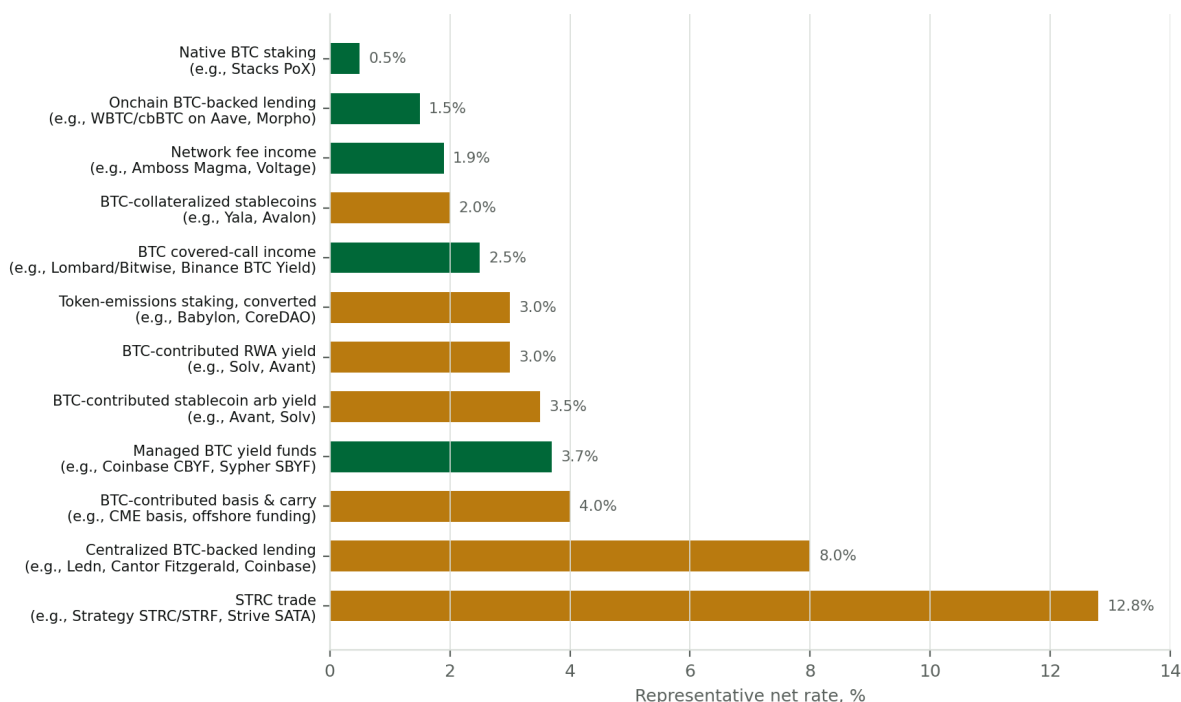
Which channel a holder uses is governed by position size, risk tolerance, and spare time. Larger and more sophisticated holders migrate to qualified vehicles almost regardless of basis, because self-directed DeFi is a part-time job they do not want. What they are buying from a fund or advisor is accounting, tax reporting, legal structure, and someone to call. Crypto-native professionals are the exception, running the full menu including direct DeFi because it is their job. Small retail defaults to whichever custodian or consumer front-end already holds the coins.

Access Point	Pros	Cons
Self-custody	Best pure economics; full sovereignty; instant execution; no intermediary	10–15 self-managed steps; 24/7 monitoring; strict automated liquidation mechanics; key management risk
L2 vaults	Outsourced strategy at protocol fees; transparent onchain positions; instant entry	Receipt token may be a taxable swap; smart-contract and curation risk; potential securities treatment; constant monitoring
Crypto custodian rails	Coins never move; one-click adoption; institutional security	Platform fees; menu limited to integrated strategies; title and rehypothecation terms vary
Traditional custodian rails	Where institutional coins will sit; deposit-grade convenience; regulatory comfort	Menus barely exist; deposit economics suggest thin pass-through when they do; switching out is costly
Traditional funds (inc. tokenized variants)	Diversification across payers; §721 in-kind entry preserves basis; documentation, audit, and tax reporting; professional rotation	Management fees; accredited gating; monthly rather than instant liquidity

III. The Strategy Landscape: Categories, Sizes, and Tradeoffs

What does the market actually pay today? The table below summarizes representative rates by strategy type. Roughly half of the “bitcoin yield” on offer is paid in dollars, with many of these options converting

to bitcoin to generate in-kind yield. The lens throughout is strict. Bitcoin is what gets deployed, and the rate shown is what the bitcoin earns.



Representative net rates by strategy category, August 2026, with the largest providers of each. Green bars are paid in bitcoin; amber bars are paid in dollars or a secondary token and converted to bitcoin. Sources: BitcoinYield.com live board, company disclosures, Galaxy Research, Sypher estimates.

Three notes on the categories. First, token-emissions staking and native BTC staking are separated deliberately. The first is paid in a secondary asset (Babylon's BABY, CoreDAO's CORE) that must be sold or converted, so the payer is a token treasury, while the second is paid in bitcoin and the payer does not have to be a token treasury.

Second, lending is split by venue rather than by economics. Centralized and on-chain bitcoin-backed lending provide the same service but with different bells and whistles, and in some cases, a different cost of capital.

Third, the BTC-contributed categories share one structure despite many different strategies. Bitcoin is posted as collateral, dollars are borrowed and deployed into tokenized RWAs, basis and carry, or stablecoin arbitrage, and the resulting yield is converted back into bitcoin. The underlying dollar markets are enormous, but the bitcoin-contributed wrappers on top of them are small. Quoting the dollar market's size would overstate the yield reachable by bitcoin today.

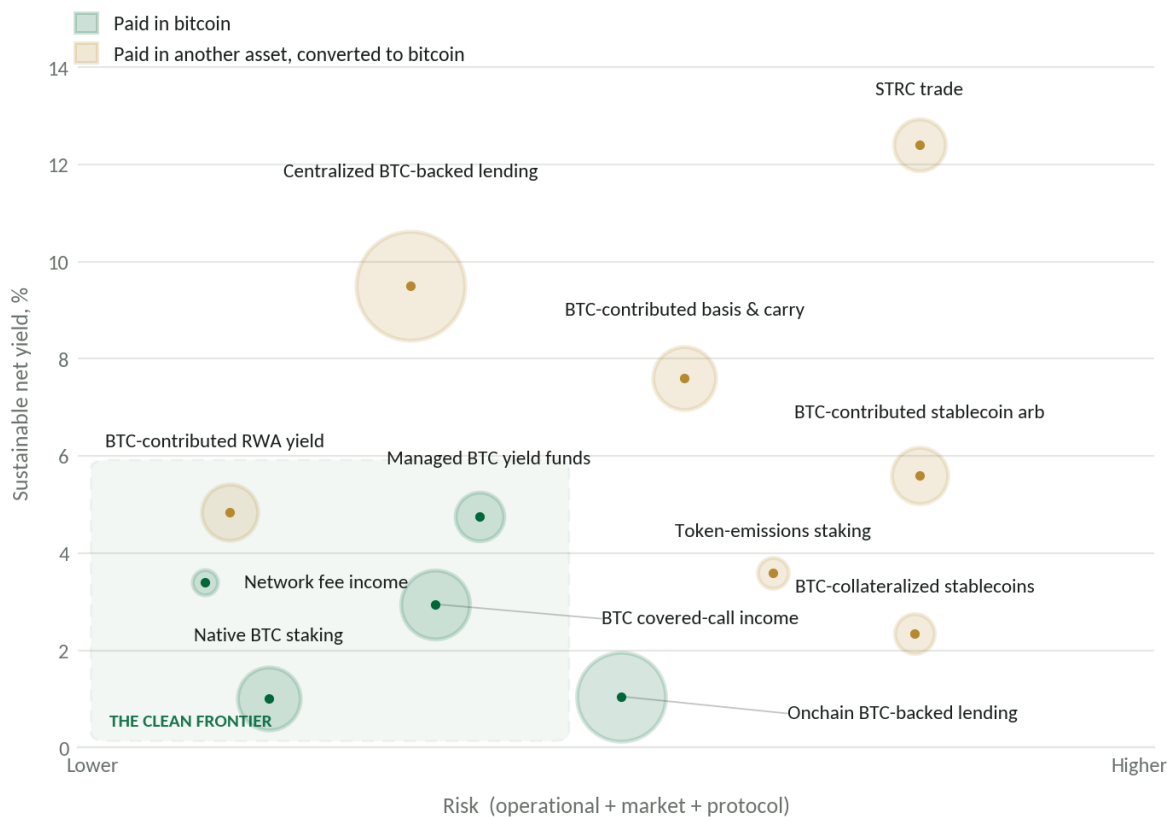
Strategy Categories: Payer, Capacity, and Primary Risk

Category	Net Rate	Payer	Capacity	Pros	Primary Risk
Native BTC staking / BTC-paid consensus	0.1–3% BTC	Network participants (miner bids and fees),	Capped by network fee budgets and transaction volume; BTC-holder staking live since	Basis-safe; principal never changes hands; rate is auction-priced, not administered	Capacity and protocol; real rates stay small until onchain fee volume grows

Category	Net Rate	Payer	Capacity	Pros	Primary Risk
		purchased, not minted	July 2026 in a capped bootstrap		
Token-emissions staking	1–5% (secondary asset)	Token treasury	Bounded by the paying token's market cap	Boosts near-term returns; convertible to BTC	Subsidy exhaustion and token price; reward sales pressure the payer
Network fee income	1–3.6% BTC	Fee-paying network users	Small; scales with network usage	True fee-for-work, bitcoin-native, no emission	Capacity and operational intensity; usage-dependent
Onchain BTC-backed lending	0.5–2.5% BTC; up to ~4% in curated vaults	Borrower (BTC borrow demand)	Largest single pool by deposits	Deep, transparent, continuously priced	Custodian or wrapper holds the underlying; bridge and contract risk remain; rate is thin because BTC borrow demand is scarce
Centralized BTC-backed lending	Lend: 4–10% USD; borrow: spread-based	Borrower	\$73.6B market and growing ²	Paid by real borrowers; overcollateralized post-2022; rated ABS takeout now exists; loan proceeds are generally not taxable income because they create an obligation to repay	Credit, liquidation, and counterparty; liquidation of pledged BTC can create a taxable disposition
BTC-collateralized stablecoins	Borrow rail; return depends on deployment	The deployment; issuer float where shared	Scales with issuance and collateral demand	Dollar liquidity without selling; basis preserved	Liquidation mechanics; issuer and peg risk
BTC covered-call income	2.5–8% BTC, cyclical	Options market (volatility buyers)	Bounded by option market depth at each strike	BTC in, BTC out, no borrow leg; institutional custody variants now live	Upside sacrifice and volatility compression
BTC-contributed RWA yield	2.5–3.5% net, paid in BTC	RWA borrower / U.S. Treasury	Underlying RWA market vast; BTC-contributed wrappers ~\$1B scale today	Rate-durable engine; yield converted and paid in kind	Credit, financing, and wrapper; thin net spread after borrow costs
BTC-contributed stablecoin arb yield	3–5% net	Market structure (funding spreads)	BTC-contributed vaults ~\$1–2B; underlying float much larger	Deep venues; legible fixed-rate variants emerging	Protocol and borrow-leg; NAV can deviate by design
BTC-contributed basis & carry	0–10% USD, cyclical	Leveraged longs paying funding	Large in strong regimes; compresses with crowding	Genuinely large when priced; liquid instruments	Basis compression and funding; dollar-denominated
Managed BTC yield funds	3–7% BTC	Multiple underlying payers	Scales with underlying sleeves	Diversified payers; \$721 in-kind entry; reporting and rotation	Manager selection and fee drag; underlying risk varies by sleeve
STRC trade	10–13% USD	Issuer (issuance-serviced)	~\$15–17B outstanding ³	Familiar preferred mechanics; large liquid issues	Issuance-serviced and reflexive; corporate credit risk, not bitcoin yield

The chart below summarizes the landscape across risk, yield, capacity, and denomination. Risk runs left to right, sustainable net yield bottom to top, bubble area shows deployable capacity, and color shows

whether the yield is paid in bitcoin or paid in another asset and converted. The shaded region is what we define as the clean frontier, a Sypher framework rather than an industry standard.



Bubble size indicates deployable capacity. Positions are directional, not measured.

The strategy map: risk, yield, capacity, and denomination, using the category names above. Capacity estimates are order-of-magnitude Sypher synthesis.

The Matching Framework: Customer, Access Point, Strategy

The strategies group into the categories above, and the customers and access points were defined in Section II. The matching exercise is the point of this paper:

Customer	Natural Access Point	Matching Strategies	Poor Fits
Sub-\$5K basis holders	Self-custody; crypto custodian rails	Do nothing; native BTC staking and network fee income (1–2%)	Anything that wraps, swaps, pools, or sells; hedged carry (straddle exposure)
\$5–30K basis holders	Self-custody; crypto custodian rails; L2 vaults; traditional funds	Custodian yield options; native and emissions staking; managed BTC yield funds; curated BTC-backed lending; 2–5% conservative strategies	Title-transfer earn programs; rehypothecated collateral; anything reprising 2022 counterparty structures
\$30–65K small retail	Crypto custodian rails; L2 vaults; traditional funds	BTC-contributed stablecoin arb and RWA yield; covered-call income if distributions are the goal; preference for low- to high-	Complexity premiums for tax protection they do not need; self-managed DeFi beyond skill

Customer	Natural Access Point	Matching Strategies	Poor Fits
		single-digit yield options; modest leverage acceptable	
\$30–65K large retail / HNW	Crypto custodian rails; traditional funds; traditional custodian rails	Managed BTC yield funds (multi-strategy); centralized BTC-backed lending; BTC-contributed RWA yield; borrow for liquidity	Self-managed protocol operations (time cost); unregistered vaults
ETF holders	Traditional custodian rails; traditional funds	Share-lending programs (\$1058-protected); covered-call overlays (income seekers); future in-kind lending	Self-custodied DeFi (operationally out of reach)
Institutions / treasury companies	Crypto custodian rails; traditional custodian rails	Centralized BTC-backed lending; native and emissions staking at custody; senior ABS paper	Emissions-funded APYs at size; strategies that cannot absorb size

One question belongs alongside every rate on this board: *yield relative to what?* A BTC-denominated rate competes against at least four benchmarks. The USD risk-free rate is what a dollar-mandated allocator will measure against. Bitcoin’s own forward appreciation is the opportunity cost of any strategy that constrains the position. The probability of a negative return converts a nominal rate into a risk-adjusted one. And liquidity determines whether the rate can be realised on exit.

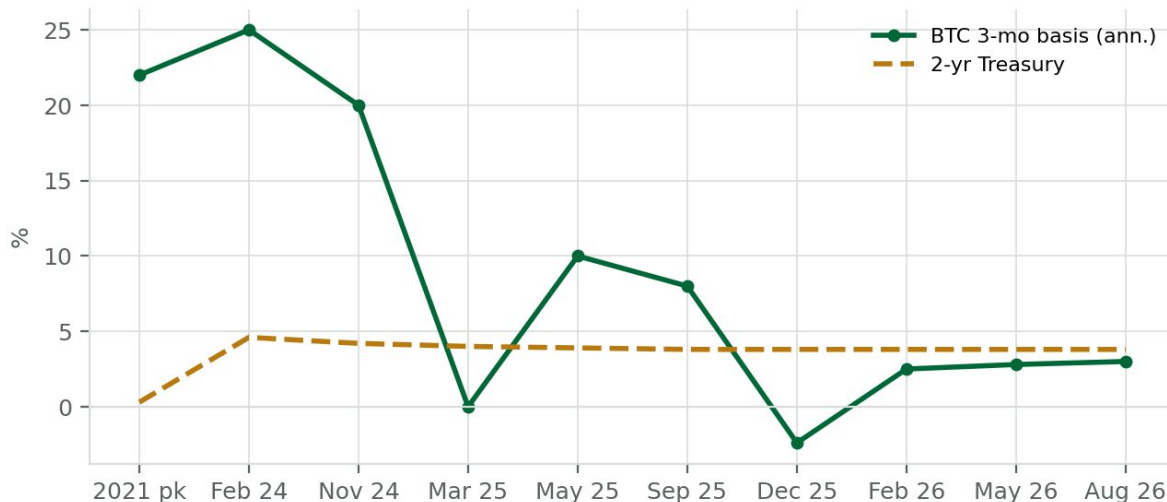
The table and map above show what the market pays today. The next question is whether those rates are durable. The answer depends on what happened to the market’s major yield engines as capital scaled into them.

IV. The Case for Active Management: Strategies Are Falling by the Wayside

The case for active management is empirical: three large engines have already decayed. Basis has compressed, options income has become more cyclical, and emissions-funded yield has largely evaporated.

The Basis Trade Compressed Below Treasuries

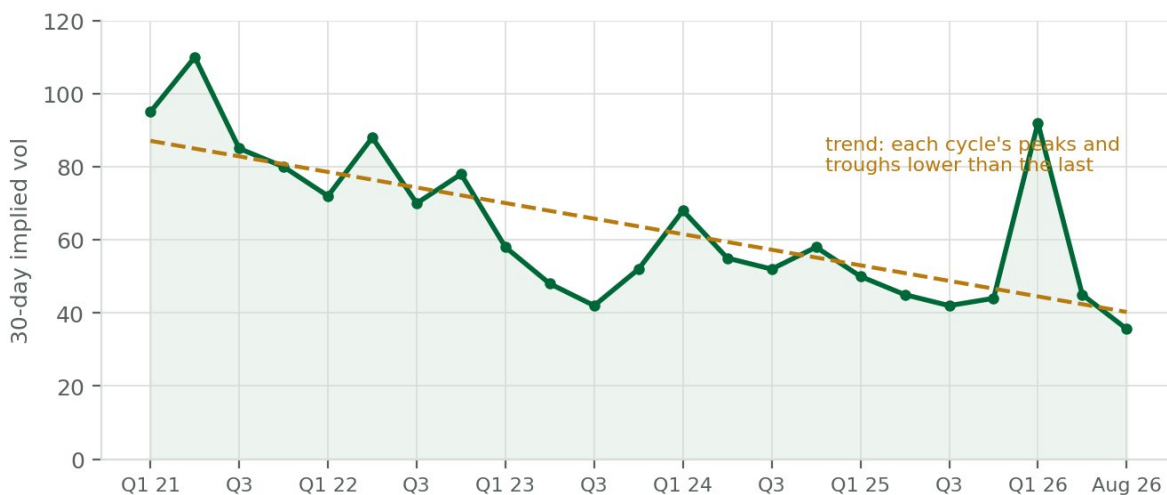
The long-spot, short-futures carry paid more than 20% annualized at the 2021 peak and reached approximately 25% as institutional ETF demand accelerated in early 2024⁴. It has paid less than a 2-year Treasury every month since February 2026 and briefly went negative in December 2025. The mechanism is textbook: the ETF handed institutions a scalable spot leg, capital flooded the spread, and the spread converged toward the risk-free rate.



Annualized 3-month BTC futures basis versus the 2-year Treasury. Illustrative reconstruction from CF Benchmarks, Glassnode, and CryptoQuant reporting.

Options Income Is Consuming Its Own Raw Material

Covered-call yield is a function of implied volatility, and implied volatility has declined structurally for five years, from readings near 100 in 2021 to the 40s by 2025, and it was cut by more than half within 2026 alone, falling from above 90 in February to the mid-30s by August⁵. Each cycle's peaks and troughs sit lower than the last. Derivatives desks attribute the latest leg explicitly to systematic call-overwriting by yield funds. The return profile is also asymmetric. Several episodes of compression into the mid-30s this year have coincided with subsequent volatility expansion and price weakness, meaning sellers harvest thin premium through the calm and absorb the full drawdown at the spike.



30-day BTC implied volatility, quarterly, 2021 through August 2026 (Deribit DVOL / Volmex BVIV). Illustrative reconstruction. Dashed line: linear trend.

Emissions-Funded Yield Evaporated

The 2024–2025 cohort of BTCfi farms advertising double-digit APYs paid those rates from token treasuries, and the bill eventually came due. Sector TVL contracted on the order of 74% from its peak as incentive programs ended and exploits reminded conservative holders why they are conservative⁶. The

two examples that define the emissions category today are Babylon, whose real reward rate is documented at roughly 0.4%, paid in BABY, by the largest consumer integrations⁷, and CoreDAO, whose dual-staking structures deliver roughly 5% by converting CORE emissions into bitcoin terms. In both cases the payer is a token treasury, and the yield lasts as long as the token's market absorbs the sell pressure.

Paying even 2% on \$10 billion of staked bitcoin would require \$200 million a year in real fee revenue, a level no Bitcoin Layer-2 is close to generating today. Stacks, which paid more than 4,200 BTC in rewards to stakers since 2021, does not clear that bar either. However, post PoX-5 upgrade in July, the protocol has generally untethered yield from the L2. BTC can now earn BTC-denominated yield while remaining on Bitcoin L1. The catch is that the payout is tied to a dual-stake with the STX token.

Under PoS, the payer is the treasury. Under Stacks PoX, the payer is the bitcoin miner who bids their BTC for the opportunity to mine Stacks blocks. The expectation is that their STX blocks will appreciate more than their BTC. Whether the mechanism lasts depends on a) Stacks usage/growth and on b) whether STX rewards keep justifying those bids. The economic pressure is solely on Stacks as bitcoin activity must flow to L2 for long-term viability. Thus far, its design appears to be the most scalable “native” staking option on the market.

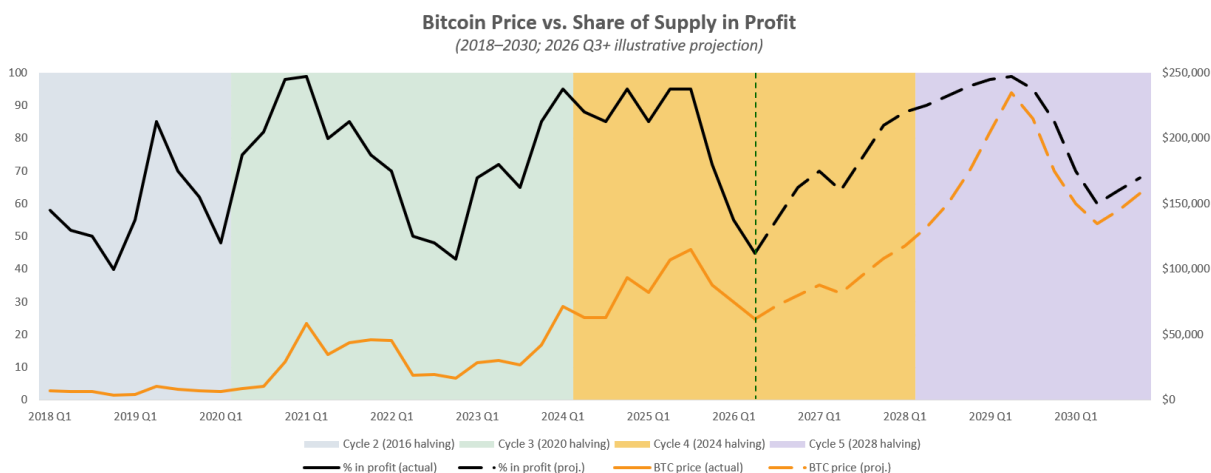
What Follows

There is no rating agency separating safe bitcoin yield from subsidized bitcoin yield, and a broadly accepted benchmark for low-risk, BTC-denominated return has not yet emerged. In that environment, a static allocation to any single strategy is a bet that its payer survives. The evidence suggests that an active allocation framework may be better suited to this market than a static allocation: core weight to strategies with structural payers (credit, native staking, network fee income), tactical sleeves for basis and volatility that size to zero when the spread is unpriced, and published conditions under which each sleeve turns off. Active management in this market is not a style preference. It is the mechanism by which capital exits decaying payers before the decay completes.

V. Customers, Custodians, and Product Convergence

Demand for Bitcoin Yield Is Expanding

Every structural force points toward customer expansion. The next cycle's yield market is likely to be larger on the demand side than the supply side, especially as more of the supply moves back into profit in the next cycle. The goal for yield strategies and the access points is to meet the customers where they are with tailored products for their unique needs. An ETF customer requires a different set of services than a moderately low-cost-basis family office.



Share of bitcoin supply in profit versus price, 2018–2030. 2026 Q3 onward is an illustrative projection. Source: Sypher analysis of onchain data.

Custodians Are Gathering Assets and Pulling Strategies Inside Their Ecosystems

The access layer is consolidating around custody. Banks are entering (BNY live, State Street and Citi launching) but need compelling solutions to entice customers to move their BTC, and yield products are rebuilding inside qualified custody because that is where the collateral is allowed to live⁸. The strategic takeaway underneath this scramble is that **settled bitcoin is sticky**. Once BTC is integrated into an institution's operational stack, moving it is a difficult endeavor⁹. Even for lenders, it's much easier to refinance a loan if the new lender sits inside the same custodian. The implication for strategy providers is that yield options must come to the access point because average users want to be served there.

Serving the ETF Holder

U.S. spot bitcoin ETFs collectively hold roughly 6.5% of circulating bitcoin (about 1.3 million of the 19.9 million BTC mined), at our estimate of \$80,000 for the flow-weighted acquisition cost¹⁰, much higher than the native holder average near \$53,000¹, and modestly underwater at today's prices. This gives ETF flows an increasingly important role in marginal price discovery. As the market grows, ETFs remain the easiest way for traditional investors to access bitcoin. Reader traffic on BorrowOnBitcoin, a Sypher-operated publisher, shows margin lending against bitcoin ETFs among its most searched topics, which is consistent with latent demand. The conclusion: services that can target this audience are uncharted territory, and current holders are likely to become tax sensitive as we move into the next halving cycle's upswing.

Product Convergence: Tokenization Meets 506(c)

Recent product development is converging toward a common hybrid structure from opposite directions. Regulated 506(c) funds are tokenizing their share classes to reach onchain distribution¹¹. Simultaneously, protocol-native products are wrapping themselves in 506(c) structures to reach advisors and institutions that cannot touch an unregistered vault, a move sharpened by regulatory signals that retail yield vaults may be treated as securities. The end state both paths are converging on is the same instrument: a regulated wrapper with onchain settlement and embedded compliance.

Growth Follows Capacity, Not Necessarily Durability

The strategies growing fastest are the ones that can absorb capital, not necessarily the ones where the market is heading or those with the strongest long-term economics. Dollar carry and credit scale because their deploy legs are not bounded by bitcoin. The dollar is the perimeter. By contrast, as bitcoin grows and usability increases, network fees may be one of the most compelling opportunities to generate yield. In the interim, the correct deployment may be two-dimensional, with a weight for capacity and one for long-term persistence.

VI. Potential Next-Generation Bitcoin Yield Markets

For near-term scale, market-structure and credit engines are the easiest place to source yield. But if bitcoin becomes more than a gold-like commodity, DeFi can play an outsized role in the sustainability of yield, because onchain rails are where fee capture and fee pledging are programmable. The implication runs in both directions. Traditional finance built on top of bitcoin should be forward-looking in integrating DeFi strategies into its arsenal, and DeFi-native builders should lean on traditional finance to guide their structuring, disclosure, and evolution. The two convergence paths of Section V are this thesis expressed as product design for yield strategies.

Here is what financial deepening makes possible. This list is not exhaustive. We include only ideas that change the payer or the access point, not new wrappers on the same engine. More options for yield will emerge as the market matures, and these are some of the most visible from here.

Plausible Next Markets

Bond-based RWA carry. Borrowed dollars deployed into tokenized corporate credit and real estate debt rather than T-bills, earning a credit spread on top of the policy rate. The deploy leg needs real underwriting, which favors managed vehicles.

Bitcoin CLOs. The first rated bitcoin ABS priced in February 2026 at roughly 335 basis points over benchmark, twice oversubscribed¹². Managed pools of bitcoin-backed loans in rated tranches follow naturally, with institutional capital buying the senior slices. The second-order effect matters more than the instrument. A rated securitization market could give credit investors a reason to finance or hedge BTC-denominated exposures at institutional scale, since a buyer can hold the paper and hedge the collateral exposure by shorting bitcoin against it, creating a potential new source of demand for borrowed bitcoin. Borrow demand for bitcoin itself is the missing input that keeps onchain lending rates near zero today, and a functioning CLO bid is the most plausible path to repricing them.

Mortgage-linked spreads. Crypto is now recognized collateral in mortgage underwriting¹³. Lenders can earn real estate credit spreads on bitcoin-collateralized mortgage paper, and holders can finance property against bitcoin instead of selling it.

Emerging Experiments

Non-rehypothecated solver and collateral-rent strategies. Bitcoin earns a fee for standing behind things rather than being lent. It can bond solver networks, back stablecoins and insurance reserves, and provide first-loss enhancement while never leaving custody. The payer is anyone who needs credible collateral, so capacity grows with bitcoin's financialization itself.

Dealer-flow risk supply. The buffer and autocallable complex being built on bitcoin ETFs needs a counterparty for every payoff it manufactures¹⁴. A crypto-native manager with options infrastructure can supply those hedges for a structuring spread, and the demand grows in drawdowns.

Access-point fee rebates. Custodians rebating part of the trading, lending, and custody economics to enrolled coins, the way brokerages share securities-lending revenue. ETF share-lending programs are the primitive version.

Longer-Term Hypotheses

L2 fee capture models. Networks that route sequencer revenue or settlement fees to bitcoin stakers rather than to a token. Stacks' BTC-paid consensus is the earliest version. The first durable fee pledge would convert staking into an equity-like claim on network activity.

Actuarial yield. A regulated bitcoin-denominated life insurer now exists¹⁵. Mortality pooling is a payer uncorrelated with any market spread, policy loans add a basis-safe borrow rail, and the insurer is a natural long-duration borrower for bitcoin credit.

Tax alpha. Systematic loss harvesting on a volatile asset, and conversions of appreciated positions into diversified vehicles, create after-tax value with no payer at all. The main dependency is legislative, since wash-sale codification would shrink the harvest.

VII. Navigating the Market as a Customer

The practical synthesis of this paper fits in six habits.

- **Locate yourself before shopping.** Embedded gain and custody seat determine your menu before preferences enter.
- **Interrogate the payer, not the rate.** Ask who funds the yield and why they keep paying. Borrowers and fee-paying users have an underlying economic reason to keep paying.
- **Read the denomination flag.** BTC-denominated yield compounds the position, while USD-denominated yield is dollar income against a bitcoin balance sheet. Both are legitimate, but complications arise in accounting treatment and tax management.
- **Treat LTV as tax policy.** A liquidation can turn a financing decision into a taxable disposition at precisely the point when BTC prices are under stress. Conservative loan-to-value protects the basis as much as the collateral.

- **Diligence the access method as much as the strategy.** Title, rehypothecation rights, custody structure, redemption mechanics, and audit trail decide what you actually own when something breaks.
- **Prefer structures that can rotate.** Because payers retire on short notice, a vehicle that can move among strategies holds an advantage over any point solution, however attractive its current rate.

The market's direction is legible. Customers grow and gain power, custody becomes the perimeter, and regulated funds and currently unregulated vaults will converge.

About Sypher Bitcoin Yield Fund

Sypher Bitcoin Yield Fund provides accredited investors with professionally managed bitcoin yield generation through conservative, tax-efficient structures. Our approach combines institutional-grade risk management with onchain efficiency, offering an alternative to both expensive private lenders and operationally complex DeFi protocols.

For more information about Sypher's approach to bitcoin yield:

Website: www.syphercapital.com

Contact: ir@syphercapital.com

Sypher Capital Management, LLC

Sypher Bitcoin Yield Fund, LP

About BorrowOnBitcoin

BorrowOnBitcoin is a free comparison publisher covering the bitcoin-backed lending market. The platform tracks every major bitcoin-backed lender in one place, comparing rates, custody models, loan-to-value limits, and terms, with rates verified and refreshed weekly. Alongside the comparisons, BorrowOnBitcoin publishes plain-English guides on how bitcoin-backed loans work, from LTV mechanics and margin calls to custody and rehypothecation tradeoffs, and select lenders extend rate discounts to borrowers who reach them through the platform. BorrowOnBitcoin is a publisher, not a broker or a lender. BorrowOnBitcoin is operated by Sypher Capital.

For more information about bitcoin-backed borrowing:

Website: www.borrowonbitcoin.com

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