



What Happened to Cryptocurrencies? Here Are the 3 Most Significant Headwinds the Industry Faces Today

Description

There's no doubt that the cryptocurrency industry is one of the hottest topics among investors these days, and rightly so. Ever since the [decentralized finance](#) (DeFi) boom last year, a tonne of capital has been flowing into the industry.

The total market cap of the cryptocurrency industry has gone from less than US\$200 billion at the start of 2020 to nearly US\$2.3 trillion, where it stands today. It even reached a high of roughly US\$3 trillion last month before starting the selloff that it's still currently on.

So with the total [market cap](#) of cryptocurrencies down by roughly 25%, you might be wondering why? If cryptocurrencies have so much potential, why have they been struggling to gain momentum lately?

So if you're interested in the cryptocurrency industry, here are three of the biggest headwinds it's facing at the moment.

A changing economic environment

There's no question that the pandemic caused a lot of long-lasting impacts on the economy. Because so much cash was injected into the economy, naturally, inflation is catching up with us, and now central banks have stated their intention to not only slow down the stimulus but also start increasing interest rates in 2022.

This is impacting the cryptocurrency industry for a couple of reasons. Firstly, major coins such as **Bitcoin** are now looked at as a hedge against inflation. So, with the potential for inflation to normalize in 2022, Bitcoin has struggled to gain ground. In addition, as interest rates are increased, investors tend to reduce their riskier assets, which also doesn't bode well for cryptocurrencies.

But while these are having a significant impact today, they are short-term issues which shouldn't necessarily impact the performance of your cryptocurrency investments over the long haul.

The potential for regulatory crackdowns

Another headwind that the cryptocurrency industry still faces is that in the back of some investors' minds, there is the concern that the industry could still be regulated.

In some countries, we've even seen a total ban on cryptocurrencies, which can understandably make investors skittish. However, as more companies and institutions continue to jump on the blockchain bandwagon, it's clear that it's the way of the future.

Plus, with some countries now making cryptocurrencies legal tender, the risk of major regulation crackdowns continues to become less of a concern for long-term investors.

Volatility and leverage can still impact the cryptocurrency industry

The last significant headwind that the industry is facing is that it can still be quite risky. In addition to some investors avoiding the sector altogether due to its volatility, the dangerous levels of leverage offered in cryptocurrency trading can also be a significant headwind.

However, volatility can be mitigated by investing for the long run and dollar-cost averaging your investments over time. And while leverage has caused significant selloffs before, there are so many long-term investors committed to the cryptocurrency industry that anytime there's a major selloff, investors immediately buy the dip.

So while each of these headwinds is enough to have an impact on cryptocurrencies today, none of these headwinds are long-term issues that should prevent cryptocurrencies from continuing on their impressive years-long rally.

What to consider when investing in the cryptocurrency industry today

The key to finding high-quality investments in cryptocurrencies is to look for projects that have some of the strongest communities and offer the most real-world use cases.

Right now, there are over 15,000 coins or tokens in the cryptocurrency industry. Over time, though, as the industry consolidates, the majority of these will end up losing value and become worthless.

So, it's crucial to do a tonne of [research](#) to identify which coins offer the most potential and then to thoroughly research the coin in order to understand what gives it value and what its tokenomics are.

Some of the hottest investments right now are in blockchains that have compatibility with **Ethereum**

and can run smart contracts, such as **Matic** (Polygon), which is now the 14th most valuable cryptocurrency and is one of the few cryptocurrencies that is setting new all-time highs in this environment.

So, if you're bullish on cryptocurrencies, I'd start researching and investing as soon as possible. These headwinds won't impact the industry forever, so while these top coins trade cheap, it's an excellent time to gain exposure.

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