



Can the Ethereum Merge Take This Token to New All-Time Highs?

Description

[Cryptocurrencies](#) have witnessed monstrous growth in the past few years. Impressively, much of this growth has been led by the largest-capitalization tokens, such as **Ethereum** ([CRYPTO:ETH](#)), which has occupied [second spot](#) in terms of size for a very long time.

Ethereum's value is derived from its incredible ecosystem. The first blockchain to utilize smart contracts, Ethereum's impressive ecosystem of decentralized applications is what has many investors bullish on this top token's long-term value.

Indeed, a number of experts are pointing to late 2022 as a potential renaissance for Ethereum. That's because this network is aiming to go to the next level, with a major milestone on the horizon. Let's dive into what this "Ethereum merge" is all about and whether this event could take Ethereum to new all-time highs.

What is the Ethereum merge?

The Ethereum merge is essentially the merging of Ethereum's testnet (the Beacon chain) with its mainnet. This merge has been pushed back a couple of times. However, the significance of this merge is noteworthy, given the interest Ethereum's proof-of-stake (PoS) testnet has seen.

PoS consensus mechanisms provide a means for a given crypto project to validate transactions and secure its network via holders of a given token "staking" their tokens with validators. Relative to Ethereum's existing proof-of-work consensus mechanism, which requires miners to solve complex mathematical problems to validate transactions on the network, PoS validation is much less energy intensive. Accordingly, for the eco-friendly crypto maxis, this is a big deal.

Additionally, this merge provides a much more sustainable, scalable, and, some suggest, secure network. While we won't know how this merge will perform until it happens, it's expected that transaction speeds should increase, and costs could come down. For those who transact on Ethereum, this is a big deal.

Positives arising from Ethereum Merge

From a structural standpoint, this merge makes sense. However, there are other positives stemming from this move that investors may want to consider in terms of Ethereum demand.

Staking is a big source of demand for tokens on other networks. Investors can earn significant returns via holding a given token, and staking with validators. Doing so is expected to allow Ethereum investors to earn double-digit returns on their investment, just via staking. This is akin to a dividend yield in the stock market.

Now, unlike stocks of companies, Ethereum doesn't necessarily have cash flows to pay out these yields. There are transaction fees on the network. However, new tokens are generally minted to provide these returns. Thus, there's some doubt with respect to how Ethereum's supply will change over time.

That said, the move from Ethereum mining to staking could lead to even greater adoption for this cryptocurrency. That's the factor most investors are watching closely right now.

Bottom line

There are certainly risks with this upcoming merge. We don't know how the transition will be handled by nodes. The timeline is uncertain. And it's clear that there's some technical elements Ethereum developers are struggling with. These will need to be resolved.

However, there's also a clear valuation argument in favour of this merge. Should it go off successfully, it's entirely possible we could see another rally in Ethereum — perhaps to new highs. Time will tell, but this is one token I'm watching right now.

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