WATSON CAPITAL | DIGITAL FINANCIAL INFRASTRUCTURE

Stablecoins: Follow the Economics, Not the Token

Regulatory progress creates a research agenda. It does not establish an investment return.

The next question in digital payments is who captures durable earnings after reserve requirements, distribution costs, compliance and redemption obligations.

October 6, 2026 | 8-minute read | Watson Capital Management LLC

Executive View

A growing payment network and an attractive investment are different propositions.

Stablecoin adoption can create business opportunities while leaving the economics divided among issuers, distributors, custodians and payment providers. The investor's task is to identify the claim on earnings, not merely the asset moving through the network.

Watson Capital's thesis: evaluate digital payment infrastructure through retained revenue, operating resilience and distribution power. Regulatory clarity may improve the conditions for adoption, but it does not guarantee attractive margins, defensible market share or an acceptable purchase price.

This is a thematic research framework, not a recommendation to buy a token or security. Facts are cited below; company-selection criteria, scenarios and economic examples are Watson Capital analysis.

The Policy Signal

Proposed rules sharpen the operating questions.

On September 24, the Federal Reserve requested comment on two proposals for Board-supervised payment stablecoin issuers. Its summary describes full backing with permitted reserves, standardized capital requirements, risk-management standards and a tailored application process. These are proposals, not final rules.1

The OCC issued its own implementation proposal in February. Its announcement identifies issuer and custody activities within its jurisdiction and distinguishes that proposal from separate anti-money-laundering and sanctions rulemaking.2 The regulatory perimeter must therefore be assessed for each business rather than generalized across every digital asset.

Recent international commentary adds a counterweight. Reuters reported on September 30 that the Swiss National Bank raised concerns about deposit migration and monetary-policy transmission.3

The BIS's August framework also distinguishes stablecoins from tokenized deposits and emphasizes redemption, interoperability and financial integrity.4

The shared research implication is narrower than a claim that the industry has been de-risked: operating obligations and the design of the payment system matter. The institutions do not offer identical policy prescriptions, and none of these sources establishes the future earnings of an individual listed company.

Earnings Transmission

Trace every dollar from reserve income to retained profit.

Reserve income is an obvious potential revenue source, but circulation alone is an incomplete earnings indicator. Watson Capital's analytical model starts with average reserves multiplied by realized reserve yield, then adds transaction and service revenue and subtracts distribution payments, operating costs, compliance, losses and taxes. Contract terms determine which entity receives each component.

Illustration only: $10 billion of average reserves earning 4% produces $400 million of annual gross reserve income before sharing and costs. At 3%, that falls to $300 million if reserve balances are unchanged. A one-percentage-point yield decline removes $100 million of gross income in this hypothetical. These are invented inputs, not reported company results or a forecast.

The useful question is whether payment growth, fee income or a better distribution mix can offset that sensitivity. Higher circulating balances can coexist with weaker retained economics if a company pays more to acquire or retain those balances. A distributor with strong customer access may capture a meaningful share of value even when it does not issue the instrument.

Federal Reserve staff's September analysis distinguishes tokenized money-market funds from payment stablecoins and notes that tokenization itself does not remove a money fund's underlying redemption constraint.5 Investors should likewise distinguish network transfer speed from the timing and conditions of conversion into usable bank cash.

Transaction counts and transfer volumes also need interpretation. Ask whether activity represents merchant payments, exchange settlement, treasury transfers or movement between related wallets. Without a reliable use-case breakdown, a large volume number is insufficient evidence of new paying customers or recurring commercial revenue.

Investment Research

Underwrite the business that owns the economics.

Watson Capital's qualitative diligence scorecard

Business model	Evidence to seek	Risk that can break the thesis
Issuer	Average reserves, realized yield, retained revenue after distribution and partner concentration	Falling yields, outflows or reliance on one distribution agreement
Payment provider or distributor	Commercial customers, repeat usage, net take rate and conversion costs	Price competition, subsidies or volume without incremental margin

Business model	Evidence to seek	Risk that can break the thesis
Custody and compliance provider	Recurring contracts, retention, service obligations and operating controls	Custody failures, liability exposure or costs rising faster than revenue
Bank or tokenized-deposit platform	Funding effects, settlement integration, customer demand and incremental economics	Deposit substitution, integration expense or limited interoperability

This scorecard is a research agenda, not a ranking of securities. For a listed business, reconcile the investment narrative with filings and contractual disclosures before assigning a valuation. Separate consolidated revenue from the portion attributable to stablecoin activity; do not value a diversified company as if all earnings come from one theme.

A resilient model needs both a commercial advantage and a credible risk perimeter. Ask who can redeem directly, what happens during a network or banking outage, how balances are reconciled and which party bears losses. Reserve backing, custody controls and access to redemption are separate questions. The BIS specifically identifies fragmentation across blockchains as an interoperability concern.4

Watson Capital would require evidence of retained economics before interpreting network growth as equity upside. Useful disclosures include a bridge from gross reserve income to company revenue, distribution concentration, operating costs and sensitivity to rates and balances. Missing disclosure should increase the uncertainty allowance in the analysis.

Forward Research Agenda

Use scenarios to test the mechanism, not to predict a price.

1. **Commercial adoption broadens.** Track repeat merchant or enterprise usage, service revenue and retained margins. Economic benefit must grow alongside activity.

2. **Reserve yields decline.** Recalculate earnings sensitivity using company-specific balances and distribution contracts. Volume growth may merely offset yield compression.

3. **Competition compresses pricing.** Monitor partner renegotiations, customer incentives and net revenue per unit of activity. Network volume can grow while returns weaken.

4. **Redemption or operational stress emerges.** Review outages, reserve disclosures, liquidity access and counterparty concentration. A rapid transfer rail does not ensure uninterrupted cash conversion.

For fourth-quarter research, maintain a dated watchlist of final-rule developments, issuer disclosures, distribution agreements and demonstrated commercial use. Revisit the thesis when these inputs change. Proposed regulatory text should not be treated as a completed authorization or as a substitute for due diligence on a particular provider.

The thesis would weaken if adoption remains concentrated in trading activity, economics depend on incentives that cannot be sustained, distribution partners absorb most incremental revenue, or compliance and capital costs erase the expected margin advantage. Conversely, repeat commercial use and improving retained economics would strengthen the business case. Neither outcome identifies an attractive security without considering valuation.

Investment Discipline

The investable claim must be explicit.

A payment stablecoin, an issuer's equity, a bank's deposit franchise and a payment processor's equity expose an investor to different economics. Watson Capital's research priority is to identify which claim captures durable cash flow, what can impair it and whether the price compensates for that risk. The technology supplies a possible mechanism. The financial evidence must supply the investment case.

Source Notes

Evidence and interpretation

Sources reviewed October 6, 2026. Regulatory announcements are distinguished from final rules. Federal Reserve staff analysis and BIS commentary are analytical perspectives. No security-specific recommendation, price target or performance claim is made.

1. Federal Reserve Board, Proposals for Board-supervised payment stablecoin issuers. September 24, 2026. Primary source for the proposal's scope and status.

2. OCC, Proposal to implement the GENIUS Act. February 25, 2026. Independent regulator's announcement; not evidence of a final rule.

3. Reuters, SNB's Tschudin voices concern about stablecoin impact on central banks. September 30, 2026. Recent reporting on funding and monetary-transmission concerns.

4. BIS, Pushing the monetary frontier: stablecoins and tokenised deposits. August 28, 2026. Primary source for the BIS perspective on redemption, interoperability and monetary-system design.

5. Kristen Payne and Mary-Frances Styczynski, Federal Reserve FEDS Notes, New Forms of Money and the U.S. Monetary Aggregates. September 4, 2026. Staff research, not a Board policy decision.

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