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DeFi 2024 vs DeFi 2020: The Evolution of the New Financial Era

The summer of 2020, affectionately dubbed the “DeFi Summer”, marked a remarkable period for the cryptocurrency industry. This era was characterized by the rising popularity of decentralized finance (DeFi) platforms and exchanges, including MakerDAO (MKR), Uniswap (UNI), Compound (COMP), and Synthetix (SNX). Innovative offerings like liquidity pools, yield-generating cryptocurrencies, and incentive programs drew an unprecedented influx of individuals to the DeFi realm. Consequently, the year witnessed a significant milestone as the total value locked (TVL) across all crypto networks surpassed $1 billion for the first time.

Shifting our focus to 2024, it’s evident that crypto TVL has experienced a staggering growth of nearly 100 times, now exceeding $100 billion. Despite this impressive surge, however, discussions about a DeFi Summer in 2024 seem to be lacking. To recognize that we are indeed in the midst of a DeFi Summer 2024, it’s essential to look beyond the apparent stagnation in crypto prices.
Comparing these two eras of DeFi reveals the remarkable progress we have made. From the emergence of groundbreaking platforms to the significant increase in TVL, the crypto industry has undergone transformative growth, signaling a new wave of opportunities and possibilities in the realm of decentralized finance.

DeFi Summer of 2020 vs DeFi Summer of 2024

How DeFi metrics evolved in the past four years, revealing significant shifts in the crypto finance landscape.
This optimized description keeps the CORE message while condensing it for better SEO performance. It starts with a strong statement that summarizes the main point and rearranges the sentences for smoother flow.

Metric	June 2020	June 2024
Total crypto market cap	$260 billion	$2.27 trillion
Total TVL	$1.8 bn	$100 bn (On June 18, 2024)
Ethereum TVL dominance	95% in August 2020	62%
Total TVL / Total market cap	0.007	0.044
Stablecoin transfer vol	$1.5 billion	$48.5 billion
DEX volume (monthly)	$606 million	$137 billion
BTC	~ $9,600	~ $61,500
ETH	~ $230	~ $3,380
COMP	~ $230	~ $48
UNI	~ $4.4 (September 2020)	~ $9.3
SNX	~ $1.9	~ $1.99
MKR	~ $500	~ $2,500

DeFi Summer of 2020

Back in the Summer of 2020, the DeFi sector was predominantly composed of decentralized exchanges (DEX) and lending platforms. Nearly all of the renowned DeFi protocols were hosted on Ethereum (ETH), highlighting its significance in the decentralized finance world. Crypto enthusiasts were captivated by liquidity pools and yield farming, emerging as the new trends. During this period, Bitcoin (BTC) struggled to surpass the $10,000 milestone, still recovering from a price drop after hitting an all-time high of over $19,000 in 2017. Conversely, Ethereum garnered more investor attention following the 2017 initial coin offering (ICO) boom, demonstrating its vast potential to be the backbone of decentralized finance.

The projects emerging from the ICO boom, such as the lending platform AAVE (initially ETHLend), derivatives exchange Synthetix (earlier Havven), and the REN inter-blockchain liquidity protocol, are poised to revolutionize the entrenched global financial sector. However, among all the DeFi initiatives, Compound, a decentralized lending platform, emerged as the epitome of the DeFi Summer of 2020. This rise to prominence occurred when Compound introduced the COMP governance token and started allocating it to lenders and borrowers within its ecosystem. This pivotal move transformed Compound into a pioneer among crypto enterprises, as it decentralized its operations, empowering token holders to engage in protocol governance. This trendsetting approach was soon emulated by numerous others. Furthermore, Compound’s innovative token incentive strategies for distributing its native tokens established the foundation for the prevalent airdrop designs we see today.

DeFi Summer of 2024

Today, DEXs, liquidity pools, collateralized crypto loans, and governance tokens are commonplace. Beyond trading and lending, DeFi has evolved to encompass liquid staking protocols, restaking, and native yield, as well as the tokenization of real-world assets. These crypto trends have injected new vitality into the DeFi ecosystem, ushering in an exciting DeFi Summer of 2024.

ot:A Multichain DeFi Summer

DeFi has also become more multi-chain than ever before. Back in the DeFi Summer of 2020, Ethereum reigned supreme, accounting for over 95% of total value locked (TVL) on all crypto networks. However, current DeFiLlama data reveals that this figure has now shrunk to 62%. Notably, close to a third of total TVL is currently spread across competing L1 chains like BNB Chain (BNB), Solana (SOL), Tron (TRX), and various L2 networks. An interesting development as of June 2024 is that Bitcoin now accounts for 1% of total TVL. This shift is largely due to the emergence of token standards such as Ordinals and Runes, which have ushered in DEXs on the Bitcoin network and sparked new markets for Bitcoin NFTs and memecoins. According to Gautam Chhugani and Mahika Sapra, analysts at brokerage firm Bernstein, in April 2024, “Bitcoin is no longer a ‘plain vanilla’ blockchain where nothing happens beyond simple BTC hodling. Instead, it’s undergoing a ‘DeFi summer’ moment reminiscent of Ethereum’s boom in 2020.

ot:Yield Becomes the New Normal

When Ethereum shifted from being a proof-of-work (PoW) blockchain to being a proof-of-stake one in September 2022, ETH instantly transformed into a yield-bearing asset. This transition has significantly eased the process of earning returns on unused tokens through ETH staking. Taking it up a notch, liquid staking protocols have emerged, enabling users to generate yield on their ETH without any token lockup. As of late-June 2024, the popularity of Ethereum liquid staking is evident,

with Lido, a prominent liquid staking protocol, commanding a substantial one-third of the total value locked (TVL) across all networks. In a notable development, Blast, a recently launched Ethereum L2, is offering native yield on ETH, ensuring that ETH holders on its platform automatically earn staking returns on their tokens. Nevertheless, the star of the DeFi Summer of 2024 has been EigenLayer, a groundbreaking protocol that introduced restaking on Ethereum. This innovative approach not only unlocks an extra layer of yield for Ethereum stakers but also bolsters the crypto economic security of staked ETH.
The concept may be initially challenging to comprehend, but Techopedia's insightful article on EigenLayer will help you grasp it. In the first half of 2024, EigenLayer experienced explosive growth, with its Total Value Locked (TVL) skyrocketing from $1.3 billion to an astonishing $17.9 billion. This remarkable surge has propelled EigenLayer to become the world's second-largest DeFi protocol, trailing only Lido. Meanwhile, the upstart Blast, just four months old, has already amassed $1.5 billion in crypto assets, ranking it as the third-largest Ethereum Layer 2 solution in terms of TVL, following Arbitrum (ARB) and Base. Both EigenLayer and Blast are riding the wave of two trending DeFi narratives: native yield and restaking, which have gained significant popularity in recent times.

ot:DeFi Stalwart MakerDAO Champions RWA Tokenization

RWA tokenization, a crypto trend transforming our perspective on DeFi, has been led by the veteran protocol MakerDAO. As part of its Endgame plan, MakerDAO has shifted from being just a stablecoin protocol to offering RWA services, allowing crypto enthusiasts to access off-chain investments like US Treasury bonds. Recent data from makerburn.com reveals that as of June 27, 2024, a significant 38% (equivalent to $1.95 billion) of MakerDAO's DAI stablecoin supply was backed by RWAs, including cash and short-term government securities. This shift hasn't been without controversy. While supporters argue that RWAs provide a buffer for DAI against crypto market volatility, detractors fear that this move could undermine DAI's decentralized nature, making it more vulnerable to influences from the traditional financial sector. Despite these differing viewpoints, MakerDAO's pivot to RWAs marks a notable evolution in the DeFi landscape, blending the worlds of crypto and traditional finance.

New Stablecoins for DeFi Summer

DeFi Summer of 2024 ushered in novel stablecoin designs, evolving the crypto landscape. Unlike the algorithmic stablecoins that shook the industry in 2022 with Terra's collapse, Ethena emerged with a distinct approach. They introduced a "synthetic dollar" rather than the conventional "stablecoin" label for their US dollar-pegged token, USDe. This token harnesses Ethereum staking innovations to maintain its peg, offering a unique value proposition. Backed by staked ETH, USDe employs short ETH hedges on exchanges, ensuring a delta-neutral position approximating the dollar. Furthermore, users have the opportunity to stake their USDe tokens, earning a yield-bearing token, sUSDe. This token generates returns from the underlying staked ETH and the funding rate earned through short ETH positions, providing an additional income stream for investors. Ethena's synthetic dollar marks a significant milestone in the stablecoin evolution, promising a more robust and sustainable approach for the DeFi ecosystem.

Ethena names this tool the "internet bond." By late June 2024, USDe circulation had surged from $85.9 million at the year's start to $3.57 billion, as reported by DeFiLlama. This significant growth underscores the increasing popularity and adoption of the innovative financial instrument.

The Bottom Line

Crypto observers who solely concentrate on market prices could overlook the groundbreaking advancements happening in the background. While Crypto TVL might not have reached the peak witnessed in November 2021, the crypto sector in 2024 appears to have stabilized, no longer driven by excessive speculation or bullish market expectations. This stability reflects a maturing industry, where innovation and real-world applications take precedence over mere market fluctuations.