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Analysts Downgrade Coinbase as Crypto Momentum Fades


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Compass Point Research has downgraded Coinbase Global Inc. (NASDAQ: COIN) from “neutral” to “sell,” citing a combination of valuation concerns, declining trading volumes, and sustained regulatory challenges as key factors behind the move. The downgrade reflects broader unease about the cryptocurrency exchange’s near-term outlook as the market transitions into a more mature and heavily scrutinized phase.

In its report, Compass Point analysts noted that Coinbase's share price appears misaligned with recent performance metrics, particularly as the crypto market shows signs of weakening momentum. The analysts argue that the exchange's elevated price-to-sales ratio is difficult to justify given the sharp decline in retail trading activity and competitive pressure from rivals offering low or zero-fee trading.

According to market data, cryptocurrency trading volumes have fallen by approximately 30% on a quarter-over-quarter basis, significantly impacting Coinbase's core revenue stream from transaction fees. The  firm generates the majority of its income from user trades, making it especially sensitive to market activity levels. Lower volatility and reduced retail participation have added pressure on the company's financial performance, even as it maintains a strong institutional client base.

The downgrade also comes amid increasing competition from traditional finance players entering the digital asset space. The launch of multiple spot Bitcoin ETFs from major asset managers such as BlackRock and Fidelity has shifted investor attention and could further erode Coinbase's market share. These ETFs offer exposure to Bitcoin without the need for direct exchange interaction, potentially diverting volume from platforms like Coinbase.

Regulatory scrutiny remains another persistent challenge. The U.S. Securities and Exchange Commission (SEC) continues to investigate Coinbase's operations, particularly concerning its listing practices and staking services. While the company has denied wrongdoing and pledged to cooperate with regulators, the ongoing legal uncertainty has weighed on investor sentiment.

Despite the negative outlook, Compass Point acknowledged Coinbase's industry-leading brand and strong balance sheet as mitigating factors. The firm continues to benefit from its early-mover advantage, trusted name, and custody solutions that appeal to institutional investors. However, the analysts cautioned that unless the company can diversify revenue streams and adapt to changing regulatory and competitive dynamics, its current valuation may not be sustainable.

