

Q4 2024 WALLET™ Index Update

Digital Payments News/Insights

- The total transaction value in the global digital payments market is expected to reach \$20.4 trillion USD in 2025. During the period 2025-2029, the total transaction value is expected to show an annual growth (CAGR) of 15.9%, resulting in a projected total amount of \$36.8 trillion USD by 2029. This growth is predicted to be spearheaded by the Mobile POS Payments market segment, with a projected transaction value of \$12.6 trillion USD in 2025. When looking at the industry through a global lens, the country with the largest market for digital payments in 2025 is projected to be China with a cumulative transaction value of \$9.3 trillion USD.¹
- In Q3 2024, retail e-commerce sales in the United States reached over \$300 billion USD, up 2.6% from the previous quarter². According to U.S Census data, by the end of 2023, e-commerce sales made up 15.6% of total retail sales in the country. That percentage is forecasted to rise to 16.6% in 2024 and up to 20.6% by 2027³. The industry is on track to continue to dominate the digital payments landscape, estimated to generate \$1.2 trillion USD by the end of 2024 and \$1.8 trillion USD by the end of 2029⁴.
- In March 2024, a study conducted by WorldPay, The Global Payments Report 2024, estimated that digital wallets will account for 61% of e-commerce payments and 46% of point-of-sale payments worldwide by 2027. This increase is due to consumers' desire for convenience; however, there are some drawbacks in terms of increased amounts of fraud. By 2027, digital wallets are projected to account for more than \$25 trillion in global transaction value, or 49% of sales and POS combined^{5,6}.
- The US Consumer Financial Protection Bureau (CFPB) finalized a rule to supervise big technology firms operating digital wallet and payment applications in consumer financial markets. The rule will help CFPB ensure that these companies, specifically those handling more than 50 million transactions per year, follow federal law just like other large banks, credit unions and other financial institutions already supervised by CFPB. The regulator will supervise these companies in three key areas including data collection, data sharing, handling of disputes and fraud, and service disruptions and debanking⁷.
- Digital payment options are likely to expand into other sectors such as housing, utilities, grocery, car payments and repairs, and travel, as consumers continue to battle inflation and focus on nondiscretionary spending. Between early 2023 and 2024, Buy Now, Pay Later (BNPL) used for grocery purchases has risen by 40%⁸.

¹ <https://www.statista.com/outlook/fmo/digital-payments/worldwide>

² <https://www.digitalcommerce360.com/article/quarterly-online-sales/>

³ <https://www.practicalecommerce.com/charts-u-s-retail-ecommerce-sales>

⁴ <https://www.statista.com/study/28028/e-commerce-in-the-united-states-statista-dossier/>

⁵ <https://thefinancialbrand.com/news/payments-trends/digital-wallets-absorb-credit-cards-as-they-boom-worldwide-176418/>

⁶ <https://corporate.worldpay.com/news-releases/news-release-details/worldpay-global-payments-report-2024-digital-wallet-maturity>

⁷ <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-on-federal-oversight-of-popular-digital-payment-apps-to-protect-personal-data-reduce-fraud-and-stop-illegal-debanking/>

⁸ <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-shaping-the-future-of-payments-trends-and-insights-for-2025.pdf>

Industry Trends in 2024

Rise of Account-to-Account (A2A) Payments

- A2A Payment, facilitated by peer-to-peer (P2P) systems (e.g. PayPal (Nasdaq: PYPL, WALLET Index weight: 5.97%) refers to direct payments from one party to another, bypassing intermediaries like credit cards (e.g. Mastercard (NYSE: MA, WALLET Index weight: 6.06%), Visa (NYSE: V, WALLET Index weight: 6.13%)). A2A payment offers more convenience for customers, enhanced security through multi-factor authentication and reduced costs for businesses⁹.
- A2A Payments are set to become mainstream, with an estimated CAGR of 14% from 2024-2027 largely driven by consumer preference for direct and efficient payment methods¹⁰.
- Currently constituting nearly half of global e-commerce transactions, digital wallet usage is forecasted to increase to 54% by 2026, indicating significant growth and adoption of online payment methods¹¹.

Instant payments to displace other payment methods

- Cash and checks are being phased out due to establishment of real-time payments infrastructure in almost all major markets¹².
- In card-concentrated markets, such as the United States and United Kingdom, instant payments will not displace cards easily while in historically cash-heavy markets such as Brazil and India, instant payments are likely to capture market share away from cards. In the European Union alone, instant-payments transactions are expected to increase from three billion today to almost 30 billion by 2028, an average annual growth rate of 50 percent¹³.

Rise of in-app and in-store purchases

- In-app and in-store are the fastest growing channels for digital payments adoption. The use of digital payments for in-app purchases in the United States has reached 60 percent, an increase of 8 percentage points since 2019. The adoption for in-store purchases has also increased from 19 percent in 2019 to 28 percent in 2024. This increasing penetration represents a channel that totals roughly \$10 trillion of annual consumer-to-business spending across the United States and Europe¹⁴.
- OEM wallets, namely payment solutions from manufacturers of smartphone devices and other operating systems, are the most common in-store digital payment devices in both United States and Europe. For in-app and online purchases, global wallets provided by technology companies such as Pay Pal and Amazon are the most common solutions in both the United States and Europe¹⁵.

⁹ <https://www.forbes.com/advisor/money-transfer/peer-to-peer-fraud-statistics-in-year/>

¹⁰ <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

¹¹ <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

¹² <https://www.mckinsey.com/industries/financial-services/our-insights/global-payments-in-2024-simpler-interfaces-complex-reality#:~:text=Instant%20payments%20will%20continue%20to,out%20of%20cash%20and%20checks>

¹³ <https://www.mckinsey.com/industries/financial-services/our-insights/global-payments-in-2024-simpler-interfaces-complex-reality#:~:text=Instant%20payments%20will%20continue%20to,out%20of%20cash%20and%20checks>

¹⁴ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/state-of-consumer-digital-payments-in-2024>

¹⁵ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/state-of-consumer-digital-payments-in-2024>

Rise in digital payment players becoming the origination point for shopping

- Increasingly, digital payment players are becoming the origination point for shopping. Rather than simply offering digital payments as a payment option during checkout, consumers can now browse and select products through digital payment marketplaces¹⁶.
- US consumers under the age of 35 are almost twice as likely as the broader population to begin shopping journeys at non-merchant sites. Consumers in the United States, starting their journey through digital marketplaces spend 1.5 to 2 times more than those who start their shopping process at the merchant's site. This suggests that there is likely to be an economic benefit to digital players who offer their service at the time of origination of shopping¹⁷.

Rise in payment orchestration platforms

- Payment orchestration platforms are poised to become more important than before. They provide a way to manage multiple payment providers, methods and channels through a single interface. They allow businesses to optimize their payment stack, routing transactions through the most cost-effective and reliable providers¹⁸.
- As the payment landscape becomes more complex, these platforms are likely to become more essential to simplify operations¹⁹.

Rise in the need for digital security

- As digital payment tools become ubiquitous, there has become an increase in the need for digital security tools. Businesses are investing to bring to the market new tools that can protect against fraud. They are investing in advanced authentication methods such as biometrics and behavioral analysis, AI and machine learning algorithms²⁰.

Rise of AI²¹

- Using generative AI, machine learning and pay-by-palm, certain Amazon consumers can now speed through in-store checkout with more accurate fraud detection capabilities. AI-powered technology is authenticating the customer's identity and processing payments, providing a frictionless experience for customers.

Rise of Embedded Payments²²

- The global market for embedded payments is expected to surpass \$138 billion in the five-year period ending 2026, a more than threefold increase. Consumers can make a purchase without leaving their website, social media channel or mobile app.

¹⁶ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/state-of-consumer-digital-payments-in-2024>

¹⁷ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/state-of-consumer-digital-payments-in-2024>

¹⁸ <https://www.globalpayments.com/commerce-payment-trends>

¹⁹ <https://www.globalpayments.com/commerce-payment-trends>

²⁰ <https://www.globalpayments.com/commerce-payment-trends>

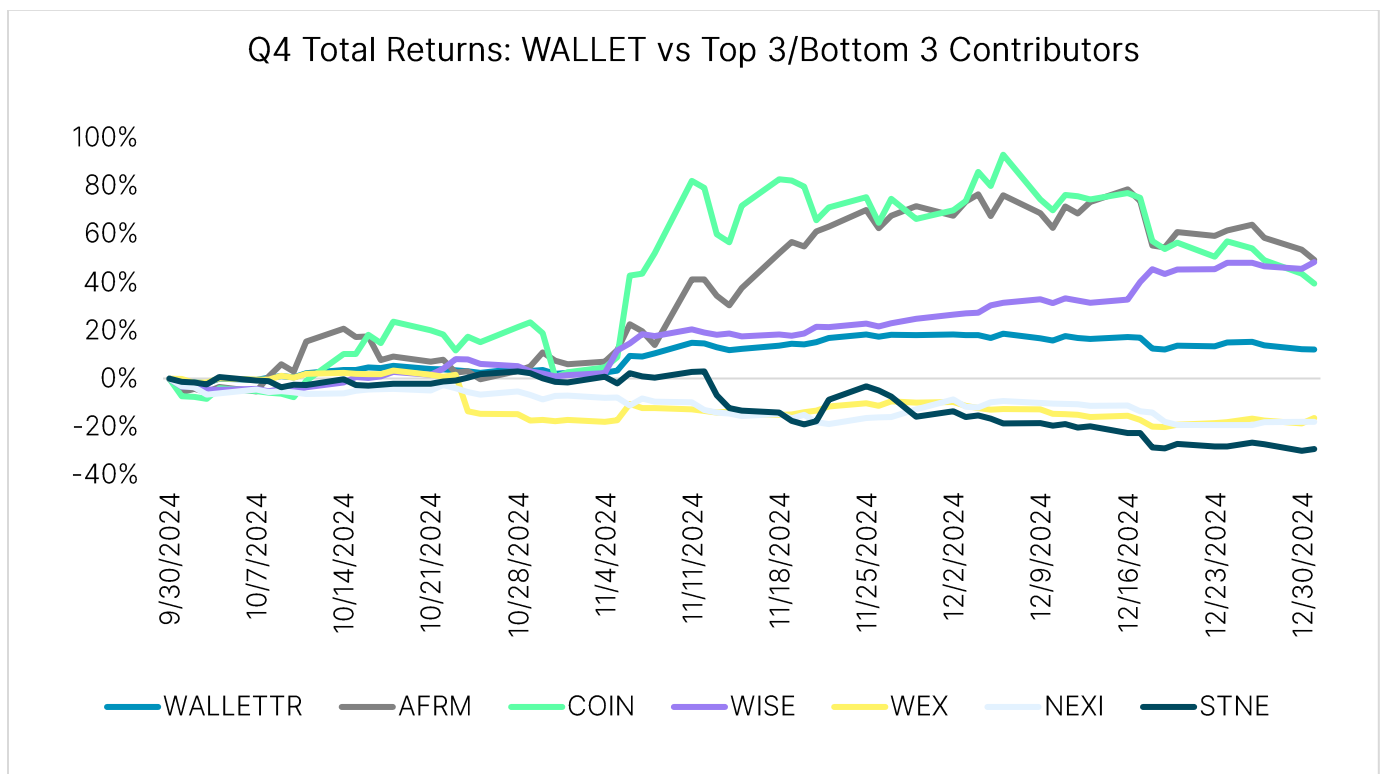
²¹ <https://www.globalpayments.com/insights/2023/10/04/ais-vital-role-in-payments-and-commerce>

²² <https://www.globalpayments.com/commerce-payment-trends>

- Embedded payments are expected to gain more momentum beyond 2024. It is expected to drive repeat sales, promote better cash management and enable seamless reconciliation and reduce payment error.
- Embedded payments also foster greater brand loyalty. Companies can create better brand experiences and deeper connections.

WALLET Index Q4 Performance (Total Returns)

- In Q4, WALLET was up 12.1%, slightly above last quarter’s returns of 11.9%.
- For the year 2024, WALLET generated total returns of 25.3%. This compares to a 2024 gain of 27.5% for the MSCI World Financials Index.



Source: Bloomberg

Top 3 Contributors to WALLET Index Performance in Q4 2024

Company	Symbol	Wallet Contribution Percentage	Average Wallet Weight (%)	Q4 Total Returns (9/30-12/31)	2024 Total Returns
Affirm Holdings	AFRM	2.09%	4.9%	49.2%	27.5%
Coinbase Global	COIN	1.75%	3.7%	39.4%	46.9%
Wise PLC	WISE	1.51%	4.8%	48.3%	19.5%

Source: Bloomberg

Top 3 Contributor Q4 2024 Reported Earnings Insights

Affirm Holdings (AFRM)²³

- The stock was up 49.2% for the period September 30, 2024 – December 31, 2024
- Revenue and Gross Merchandise Value (GMV) growth came in ahead of Street estimates, up 35% year-over-year and 41% year-over-year respectively. Adjusted operating margin increased 50 bps sequentially to 18.6%. Management sees GMV increasing 25%-30% year-over-year in 2Q 2025, implying a modest quarter-over-quarter deceleration. It increased FY 2025 guidance for adjusted operating margin to >20% (up from 18.4%) and continues to target GAAP profitability for 4Q 2025.
- The company accounted for 34% of U.S. Pay-Later GMV in 2Q2024, up 2 points year-over-year and earned more than half of U.S. pay-later revenues in the same period.
- Additionally, its estimated market share of the Buy Now, Pay Later (BNPL) market increased 2 points quarter-over-quarter while the share of the BNPL market to the total market increased by 1 percent on a year-over-year basis.

Coinbase Global (COIN)²⁴

- The stock was up 39.4% for the period September 30, 2024 – December 31, 2024
- The rise in bitcoin to \$100K in early December resulted in large trading volumes in exchanges like Coinbase and Robinhood.
- The recently concluded US elections were a material positive for the company as it upped the likelihood of major changes in the SEC's regulatory approach towards cryptocurrency. There is also expected to be a more favorable political & legislative environment, which in turn, is expected to boost institutional interest in cryptocurrency.
- The company reported revenues that grew 78%, but came in below analyst estimates. Revenue totaled \$1.3 billion. Earnings came in at 28 cents per share, missing consensus estimates of 45 cents. Additionally, total trading volume increased 143% to \$185 billion, with analysts estimating \$185.4 billion. Institutional trading volume grew 132% to \$151 billion, below expectations of \$157 billion. Retail trading volume totaled \$34 billion, with forecasts for \$28.3 billion in volume. Transaction revenue grew nearly 100% to \$572 million, below estimates of \$621 million.
- While the stock dipped post earnings, they subsequently recovered. While earnings disappointed, investors remain optimistic about the long-term theme. Additionally, the expected start of Trump's new term lifted investor sentiment towards the stock.

Wise PLC (WISE)²⁵

- The stock was up 48.3% for the period September 30, 2024 – December 31, 2024
- The company reported profits for the first half that was well ahead of expectations, due to a higher gross margin and lower operating costs. Profits jumped 55% over the previous year's figures.

²³ <https://investors.affirm.com/static-files/0c67e457-05d4-4346-9bb2-6afab690666d>

²⁴ <https://investor.coinbase.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=17927446>

²⁵ https://wise.com/imaginary-v2/images/b4e39297919e9749b16f13f504929e75-Wise_2024_Annual_Report_and_Accounts.pdf

- Net interest income and revenue were in-line with expectations, but profits exceeded consensus expectations. Gross margin expanded due to lower COGS, which helped push pre-tax profit margins well above the 13%-16% target range.
- Additionally, the partnership between Standard Chartered and Wise is expected to boost the company's total payment volume, due to Standard Chartered's vast customer base in Asia and the Middle East.
- The company reiterated that it was on track to achieve an underlying profit before tax (PBT) margin of 13%-16% in the medium term, reiterating its previous guidance from June. It does not expect to make further material investments in reduced pricing in the second half.

Bottom 3 Contributors to WALLET Index Performance in Q4 2024

Bottom 3 Contributors	Symbol	Wallet Contribution Percentage	Average Wallet Weight (%)	Q4 Total Returns (9/30-12/31)	2024 Total Returns
Wex	WEX	-0.67%	3.3%	-16.4%	-12.3%
Nexi	NEXI	-0.42%	1.7%	-18.4%	-27.6%
Stoneco Limited	STNE	-0.40%	0.97%	-29.2%	-56.3%

Source: Bloomberg

Wex (WEX)²⁶

- The stock was down 16.4% for the period September 30, 2024 – December 31, 2024.
- The stock came under pressure due to unexpected weakness in WEX's mobility segment. Specifically, local fleet customers were buying fewer gallons per business day, which were likely not indications of a broader economic slowdown
- In 3Q 2024, total revenues grew 2% to \$666 million, below guidance of \$688 million - \$ 698 million. All three business segments missed Street expectations. The company lowered its FY 2024 revenue outlook by \$73 million and adjusted EPS by \$0.92. The revenue reduction is comprised of \$15-\$20 million negative impact from lower expected fuel prices and to a lesser degree by lower interest rates.

Nexi (NEXI)²⁷

- The stock was down 18.4% for the period September 30, 2024 – December 31, 2024
- The stock came under pressure due to headwinds from a slowdown in customer spending and a tough macroeconomic environment.
- Despite these headwinds, the company confirmed guidance for mid-single digit revenue growth in 2024 and mid-high single digit EBITDA expansion. For next year, the Street is estimating 5% revenue growth as the macroeconomic environment is expected to improve. Costs expanded 3.6%, pulled

²⁶ https://s201.g4cdn.com/988560546/files/doc_financials/2024/q3/10-q-6ce57501-e78e-4e01-99df-a1ef4641de57.pdf

²⁷ <https://www.nexigroup.com/content/dam/corp/downloads/investors/financial-results/2024/07-31/2024-07-31-nexi-1H2024-financial-results-presentation.pdf>

higher by inflation, business and volume growth. EBITDA margin expanded 60 bps vs 3Q 2023 to 57% and is expected to end the year at 53%.

- In 3Q 2024, the company reported revenue growth of 5.6% year-to-date, with Merchant Solutions revenue up by 6.9%. EBITDA increased by 7.3%, with 82 basis points margin expansion.

Stoneco Limited (STNE)²⁸

- The stock was down 29.2% for the period September 30, 2024 – December 31, 2024
- The stock came under pressure largely due to rising interest rates and slowing growth in Brazil, impacting its financial services business. Additionally, the company reported a slowdown in total payment volumes for key accounts for the third quarter. It reported adjusted net income of R\$587 million, growing 35% year-over-year. The bottom-line beat was mainly driven by effective tax rate.
- It reported 3Q 2024 revenues of \$3.36 billion, in line with Street estimates. It also reported adjusted net income of \$586.8 million, above estimates of \$553.1 million, and diluted EPS of \$1.97, above estimates of \$1.77.

Sources: Nasdaq Global Indexes, Bloomberg, FactSet

The Nasdaq CTA Global Digital Payments™ Index (WALLET™) is tracked by the Amplify – Mobile Payments ETF (IPAY).

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²⁸ <https://api.mziq.com/mzfilemanager/v2/d/46ed7b29-1318-408a-a036-ba544e2ecccb/ae409361-5429-9c8f-b29a-932052fcbdac?origin=1>