Chiara Munaretto

***Behind the Peg***

*Stablecoin Insider's Series*

# How do Stablecoin Vaults work?

## Breaking down the role of vaults in lending and yield generation

*+ example with* Morpho

**1 · DEPOSIT**

Stablecoins enter the vault

**2 · POOL & DEPLOY**

Capital is combined and allocated per strategy

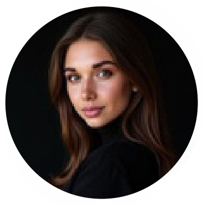
**3 · STRATEGY EARNS**

Lending, staking, or RWA yield accrues

**4 · RETURNS FLOW BACK**

Depositors receive yield via share value

**CONTINUOUS LOOP**



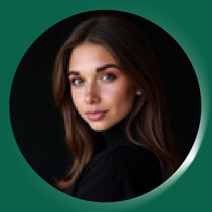


With on-chain vaults now managing billions in pooled stablecoin deposits, **the mechanics behind stablecoin lending and yield generation** are becoming core infrastructure for **tokenized capital markets**.

Inside here:

- What is a vault, and how does it work?
- How does money move between depositors, the vault, and borrowers?
- Where does the yield really come from?
- Example with Morpho

*Enjoy the reading.*



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# What is a Vault?

How do Stablecoin Vaults work?



Think of it as a fund run by code instead of a fund manager's back office.

**You deposit stablecoins, the vault follows a pre-set strategy, and you hold a token that represents your slice of the pool.**

### TRADITIONAL FUND GIVES YOU

- A stated mandate
- Allocation limits
- Standardized risk disclosures
- Governance rules
- Regular reporting

### A VAULT USUALLY GIVES YOU

- A raw on-chain ledger
- A headline yield number
- Technical docs (if any)
- Uneven, self-reported detail
- No universal standard yet

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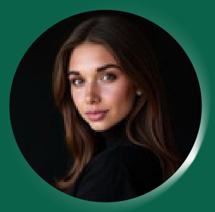

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# How does it work?

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A **vault pools stablecoin deposits** and deploys them into a strategy (lending, staking, or real-world assets) that generates **yield**.

That yield then **flows back to depositors** as rising share value, and the cycle repeats continuously.

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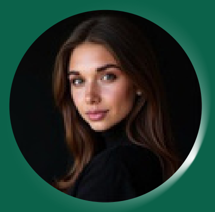

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# Who is involved?

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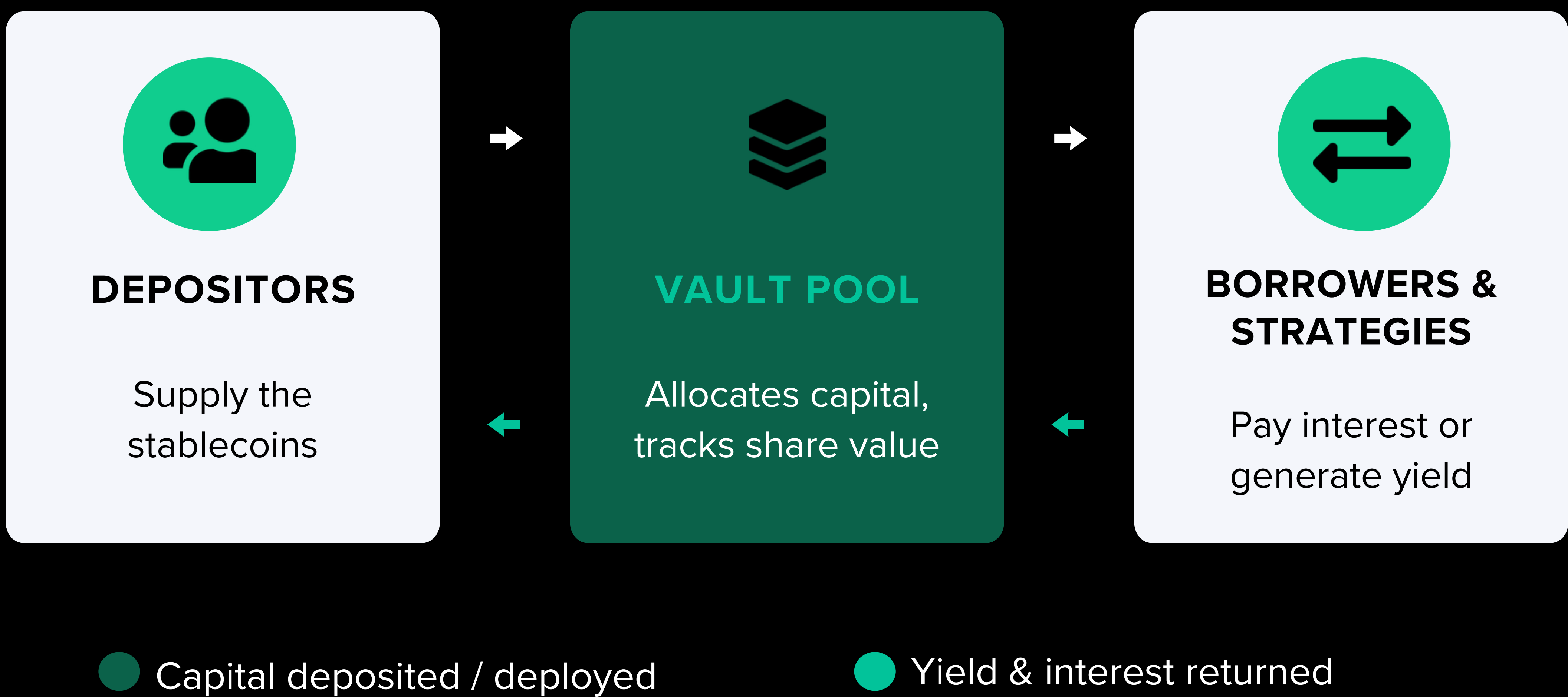
Capital moves in from depositors and out to borrowers or strategies, while yield and interest flow back in the opposite direction, continuously and at the same time.

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The **vault** sits at the center of an ecosystem, with several different players, **each playing a distinct role** in keeping capital flowing safely and productively.

**CURATORS**

Sets strategy & risk limits

**DEPOSITORS**

Supply the capital

**VAULT POOL**

**BORROWERS**

Draw liquidity, pay interest

**GUARDIANS**

Oversight & change control

**INFRASTRUCTURE**

Oracles, audits, custodians

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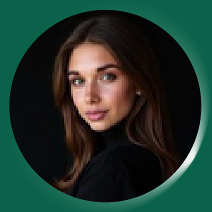

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# Where does the yield come from?

How do Stablecoin Vaults work?



# LENDING

Traders and institutions borrow **stablecoins** from the vault, pledging other crypto assets as collateral worth more than the loan.

The **vault** sets the terms like collateral ratios, interest rates, and what happens if a loan turns risky.

## A SIMPLE EXAMPLE

1. Borrower pledges $150 of ETH
2. Vault lends $100 in stablecoins
3. Borrower pays interest over time
4. Interest flows back to depositors

How do Stablecoin Vaults work?



# STAKING & YIELD AGGREGATION

Some vaults earn by **helping run blockchain networks** (**staking**).

Others act like a tireless portfolio manager, constantly scanning dozens of opportunities and moving funds toward whichever is **paying best** right now.

## STAKING

Assets are pooled to help secure a blockchain network. In return, the network pays rewards, which the vault passes on to depositors.

## YIELD AGGREGATOR

The vault automatically shifts funds between lending markets and pools, chasing the best available return without depositors lifting a finger.

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# REAL-WORLD ASSET VAULTS

Instead of only earning from crypto activity, these vaults invest stablecoins into **tokenized versions of traditional assets** like government bonds, private credit, invoices.

**The yield comes from, as the word says, real assets, not crypto trading.**

## WHY THIS MATTERS

Crypto-native activity is a relatively small pond. **Traditional finance is enormous by comparison.** Bond markets, corporate credit, and short-term cash markets dwarf the entire crypto sector.

By connecting stablecoins to those markets, RWA vaults act as a bridge, **letting on-chain capital earn yield tied to the same instruments a treasury desk or money market fund would hold.**

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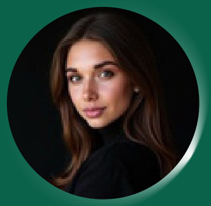

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# Example with

Morpho

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**Morpho splits lending into two layers:** ***fixed***, isolated markets underneath, and ***curated vaults*** on top that decide how deposits are spread across them.

**DEPOSITORS → CURATED VAULT**
like a Steakhouse- or Gauntlet-curated USDC vault

↓

| Isolated market A | Isolated market B | Isolated market C |
|---|---|---|
| **wstETH / USDC** | **WBTC / USDC** | **cbBTC / USDC** |

Each market pairs one collateral asset with one loan asset. Its rules are fixed at creation so a problem in one market can't spread to the others.

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# Good knowledge is built together.

Feel free to send me feedback, ideas, topics you would like to read more, or directly collaborate with me on the next post.

**Share if you find this valuable.**

**Chiara Munaretto**