

March 2025

# WisdomTree Market Outlook: Navigating the Year of the Snake



WisdomTree.eu  
+44 (0) 207 448 4330

## Authors



**Christopher Gannatti**  
Global Head of Research



**Dovile Silenskyte**  
Director,  
Digital Assets Research



**Pierre Debru**  
Head of Research,  
Europe



**Ayush Babel**  
Director,  
Quantitative Research



**Nitesh Shah**  
Head of Commodities &  
Macroeconomic Research



**Elvira Kuramshina**  
Associate Director,  
Quantitative Research



**Aneeka Gupta**  
Director,  
Macroeconomic Research



**Luca Berlanda**  
Associate Director,  
Quantitative Research



**Mobeen Tahir**  
Director, Macroeconomics  
and Thematic Research



**Blake Heimann**  
Senior Associate,  
Quantitative Research



**Piergiacomo Braganti**  
Director,  
Macroeconomic Research



**Baoqi Zhu**  
Senior Associate, Quantitative  
Research & Multi Asset Solutions

# Contents

<b>1.</b>	Commodity Outlook: Finding antivenoms in the Year of the Snake	2
<b>2.</b>	Equity Outlook: Capitalising on equities in a polarised world	16
<b>3.</b>	Thematic Outlook: Themes poised to thrive under Trump	28
<b>4.</b>	Crypto Outlook: 2025 — The year crypto goes mainstream	39

# 1.

## Commodity Outlook: Finding antivenoms in the Year of the Snake

### In this section

01	Strong US dollar	3
02	Trump 2.0	4
03	China: Will the bazooka ever come out?	8
04	Which commodities do we favour?	9
05	Conclusion	15



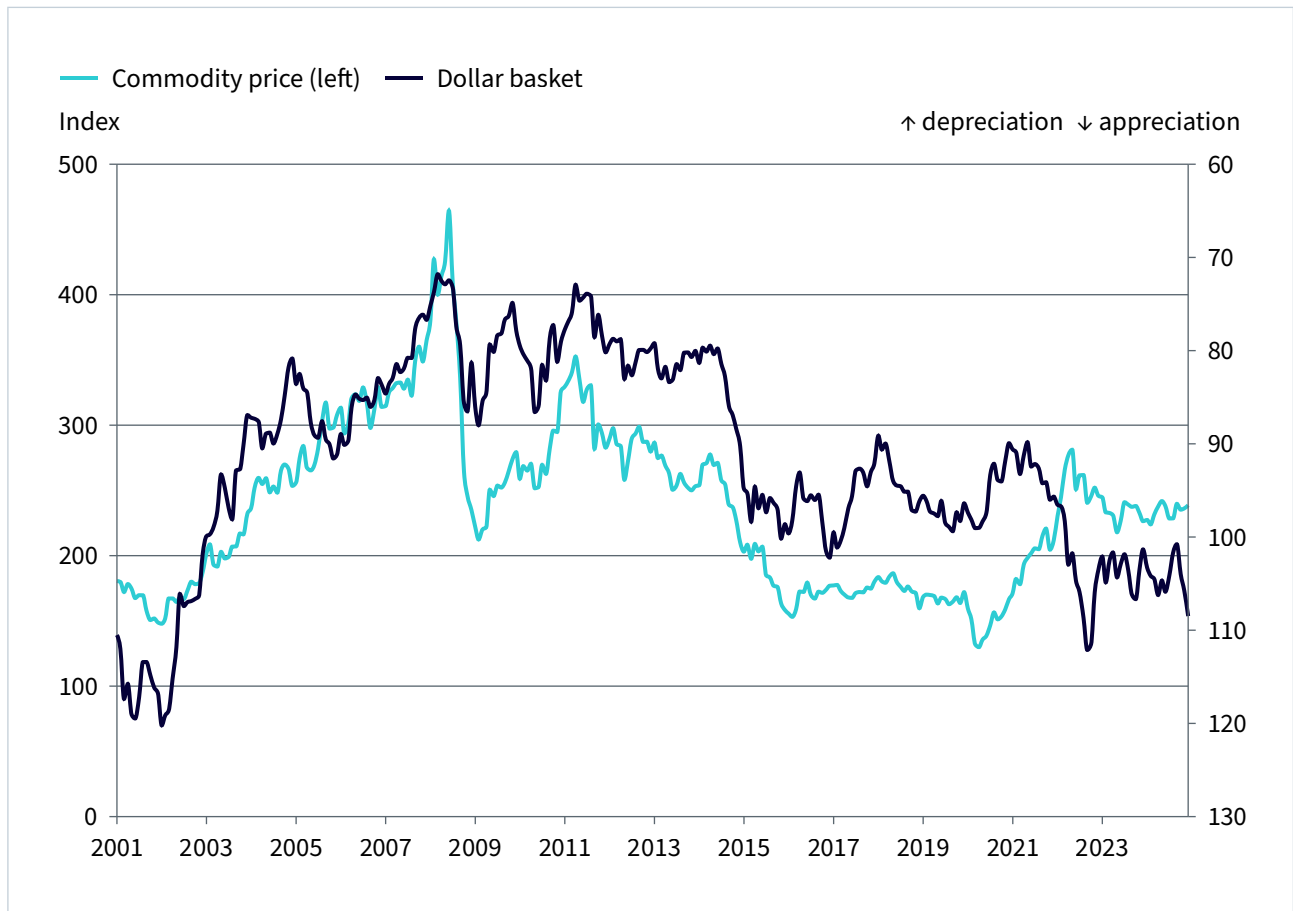
We are currently in the Chinese Year of the Snake. The preceding Year of the Dragon brought significant momentum to the asset class, with precious metals rising by 25%, industrial metals gaining 3.5%, and energy increasing by 1.2% in 2024. However, the Year of the Snake presents several ‘macro’ challenges for commodities. Renewed trade protectionism from the US, under the new Trump administration, is likely to dampen global trade. Additionally, higher bond yields and a strong US dollar create further headwinds for the commodities market.

However, we have identified several ‘micro’ factors that could provide support for certain commodities, which we refer to as our antivenoms. We remain optimistic about precious metals, aluminium, and European natural gas. Additionally, some of the macroeconomic challenges may prove less severe than initially anticipated, creating potential upside opportunities for commodities that currently reflect bearish sentiment.

### **Strong US dollar**

Historically, a strong US dollar has been linked to weaker commodity prices. While this relationship has not always held true in the post-COVID era, the recent resurgence of dollar strength could once again put pressure on commodities.

Figure 1: Commodities and the US dollar



Source: WisdomTree, Bloomberg. 2001–2004 Commodity is the Bloomberg Commodity Index Total Return. **Historical performance is not an indication of future performance, and any investments may go down in value.**

## Trump 2.0

### Trade

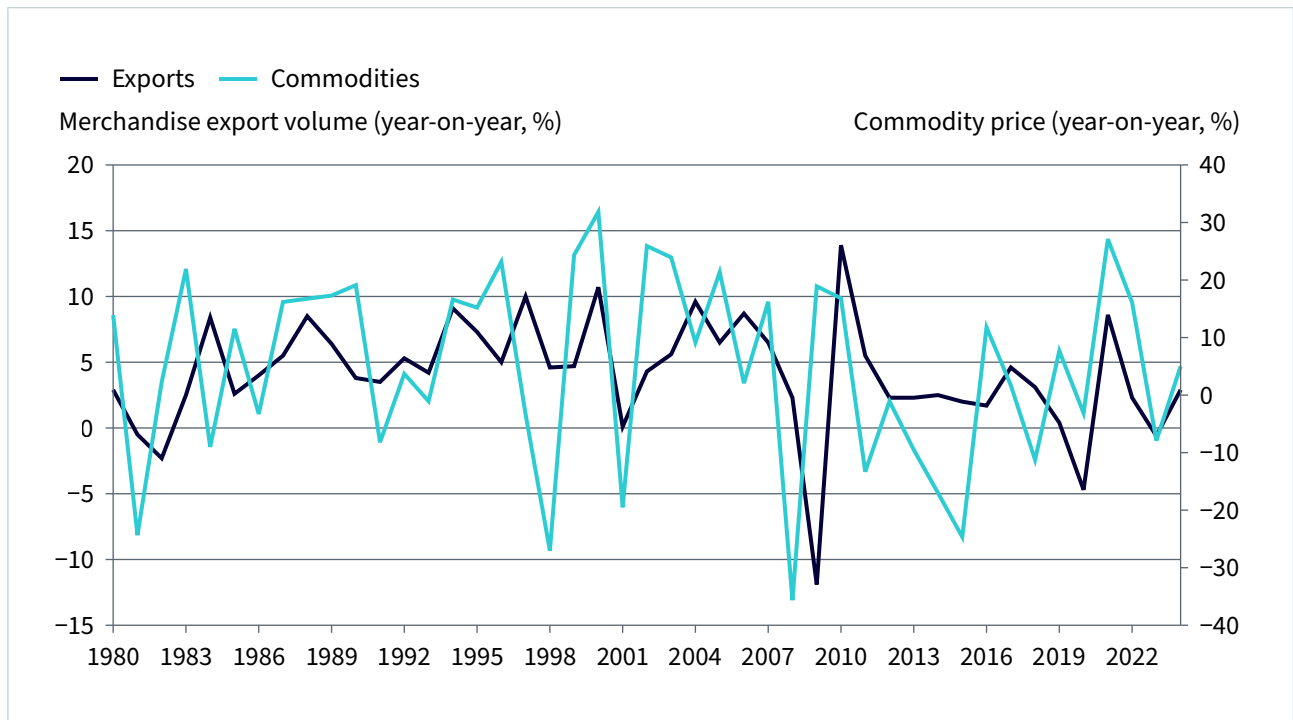
Within hours of his inauguration, President Trump announced plans for a 25% tariff on imports from Mexico and Canada, and a 10% tariff on imports from China, set to take effect as early as 1 February 2025. He also issued further threats to extend tariffs to the European Union. While no immediate tariffs were implemented via executive order, Trump issued a memorandum directing a review of US trade policy. The memorandum tasked the Secretary of Commerce, the Secretary of the Treasury, and the US Trade Representative with investigating the causes of the US trade deficit and recommending potential remedies, including supplemental global tariffs. The deadline for this investigation is 1 April 2025, making it likely that any significant tariff measures would follow that date. However, Trump could invoke the International Emergency Economic Powers Act (IEEPA) to expedite tariffs and enforce the 1 February deadline.

During his first term, in 2018, Trump triggered a trade war by imposing various tariffs on China, the European Union, Canada, and Mexico, which disrupted global trade and weakened commodity prices at the time. Historically, his tariff threats have often been used as bargaining tactics, with the most extreme proposals rarely coming to fruition. Nevertheless, there remains a risk that Trump might not achieve his intended goals and could follow through with implementing tariffs.

The persistent threat of tariffs and the resulting uncertainty alone are likely to dampen market sentiment. As International Monetary Fund Managing Director Kristalina Georgieva has observed, such uncertainties are pushing long-term interest rates higher, further constraining commodity prices.

The persistent threat of tariffs and the resulting uncertainty alone are likely to dampen market sentiment.

Figure 2: Export volume and commodity price performance



Source: WisdomTree, Bloomberg. Commodity is the Bloomberg Commodity Index Total Return. **Historical performance is not an indication of future performance, and any investments may go down in value.**

We believe that there is significant potential for tariffs and trade frictions to be less severe than what is currently priced in commodity markets. However, for now, the uncertainty remains a downside risk for the broader commodity complex.

Tariffs could contribute to higher inflation in the US while simultaneously depressing global commodity prices due to demand destruction. This dynamic could complicate the Federal Reserve's efforts to manage inflation, potentially leading to US policy interest rates remaining elevated for longer periods.

## Climate

President Donald Trump has once again vowed to withdraw the US from the Paris Climate Agreement, echoing a similar move in 2017 during his first presidency. The withdrawal process could take up to a year. Additionally, the White House has declared a 'national energy emergency', announcing sweeping changes aimed at reversing US climate regulations and boosting oil and gas production.

One significant impact of this policy shift is on a key US Department of Energy (DOE) programme, which was set to allocate \$6 billion to help industrial companies reduce emissions. Having distributed only 3% of its funds since its launch in 2024, the programme now faces uncertainty, with unapproved projects likely to be cancelled.

Trump is also expected to repeal the \$7,500 tax credit for new electric vehicle (EV) purchases and roll back Biden-era limits on greenhouse gas emissions from vehicles. This could lead to reduced demand for materials like base metals, which are critical for clean technology and energy transition initiatives in the US.

At the same time, the 'national energy emergency' is designed not only to boost US oil and gas production but also to increase the mining of critical minerals. Over time, this could raise the supply of energy transition materials, such as copper, aluminium, nickel, and cobalt. For instance, Rio Tinto is seeking approval to proceed with a major copper mining project in Arizona after a 12-year permitting battle. While no significant changes in supply are expected in 2025, these developments could pave the way for increased production in the future.

The 'national energy emergency' is designed not only to boost US oil and gas production but also to increase the mining of critical minerals.

We also believe that easing regulatory burdens on US oil, gas, and mining companies could improve their profit margins, even if it doesn't immediately lead to higher production volumes.

## Geopolitics

Days before Trump assumed the presidency, Israel and Hamas announced a ceasefire, brokered by Trump's envoy, Steve Witkoff, after 15 months of conflict. While the deal offers a temporary reprieve, it appears fragile, and Trump himself expressed doubts about its longevity. For now, this development slightly reduces a key geopolitical risk, potentially easing some of the geopolitical price premiums in oil and gold.

Oil prices rallied in early January 2025 following tighter sanctions imposed by the Biden administration on Russia. However, the Trump administration has expressed its determination to bring the Russia-Ukraine war to an end. Any resulting peace deal is likely to involve a reduction in US sanctions on Russia, which would exert downward pressure on oil prices. That said, there is an upside risk in the short term: in an effort to pressure Russia into negotiations, the Trump administration may temporarily increase sanctions. However, any rally in oil prices stemming from this move is likely to be short-lived if sanctions are ultimately reduced as part of a peace agreement.

Trump has also voiced disappointment over the European Union's insufficient purchase of US natural gas. Although Europe has been consuming more US natural gas due to the cessation of pipeline gas flows from Russia, Russia has increased its liquefied natural gas (LNG) shipments to the EU. Efforts under the RePowerEU legislation to end the EU's reliance on Russian hydrocarbons by 2027 have so far failed to curtail LNG imports from Russia. If Trump succeeds in ending the Russia-Ukraine war, US sanctions on Russia would likely ease. This raises the question of whether Europe would follow suit. An end to the war could weaken the US's ability to pressure the EU into buying more American oil and gas, particularly if Russia's gas supplies become more readily available.

Under the Biden administration, the enforcement of extraterritorial sanctions on Iran was notably lenient, primarily due to inflation concerns. The US needed black-market Iranian oil to flow into international markets to help stabilise prices and contain inflation. With inflation now appearing more under control, and Trump's 'national energy emergency' paving the way for increased US oil drilling, stricter enforcement of Iranian sanctions is likely under the new administration. This could drive oil prices higher.

Stricter enforcement of Iranian sanctions is likely.

However, there is a risk that other OPEC<sup>1</sup> members could offset this impact by increasing their supply, either explicitly or through non-compliance with production quotas.

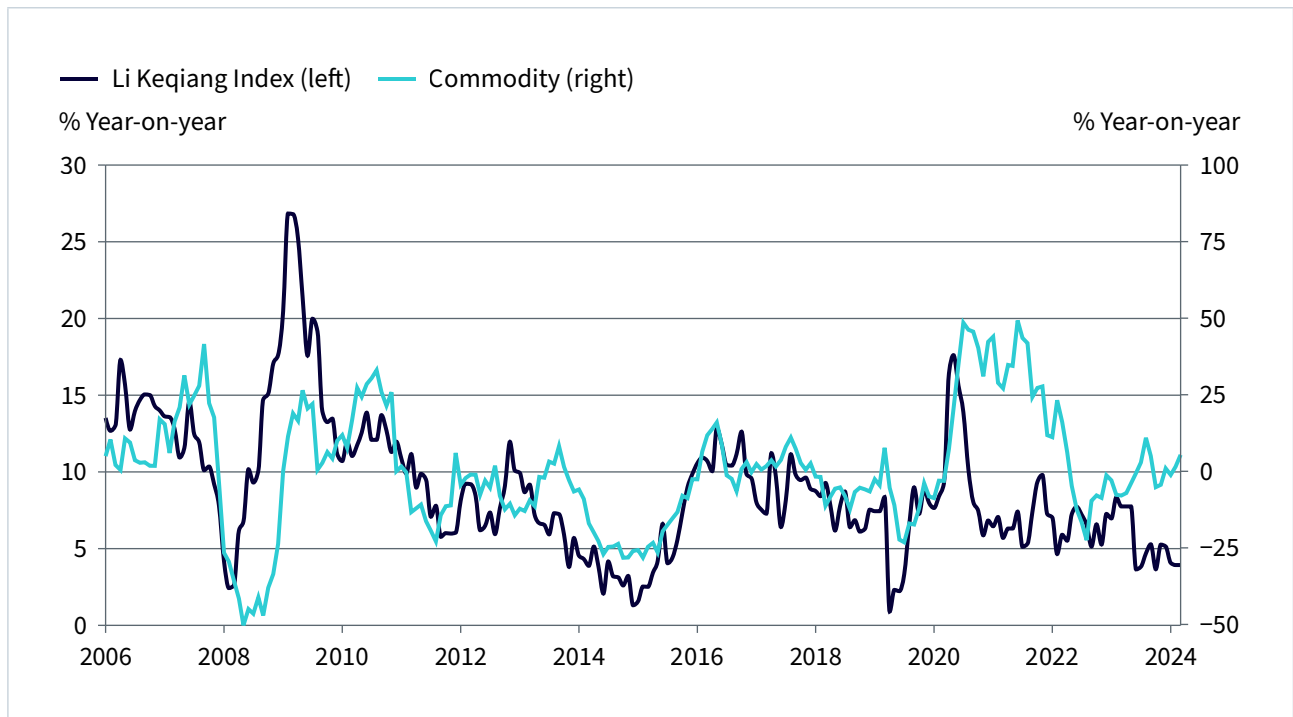
### China: Will the bazooka ever come out?

China, as the world’s largest consumer of commodities, has cast a shadow over the commodity complex with its relatively poor economic performance in recent years. However, as Figure 3 shows, commodities have still managed to perform well despite these challenges.

In previous economic cycles, China was quick to implement grand stimulus measures to boost demand, often through large-scale, commodity-intensive infrastructure and real estate projects. This time, however, the government and central bank have taken a far more measured approach, opting for piecemeal, micro-targeted stimulus initiatives.

While the government has managed to prevent the complete collapse of the real estate sector, the situation remains far from a meaningful recovery.

Figure 3: Li Keqiang Index and commodity prices



Source: WisdomTree, Bloomberg. January 2005–December 2024. Li Keqiang Index: 40% outstanding bank loans, 40% electricity production, 20% rail freight volume. Commodity is the Bloomberg Commodity Index Total Return. **Historical performance is not an indication of future performance, and any investments may go down in value.**

1 Organization of the Petroleum Exporting Countries.

The Chinese government acknowledges its slower population growth and more mature economic stage, which are likely to cap housing demand. As a result, it is wary of triggering new real estate investment bubbles. Indebtedness is another key concern; particularly as local government debts have become more visible following their transfer to central government accounts through various debt swap arrangements.

In recent years, China has accelerated its net zero emissions ambitions, investing heavily in the infrastructure needed for a clean-tech future. This focus has supported metal prices in the absence of significant demand growth in the real estate sector. We expect this approach to continue, given China's dominance in solar, battery, and EV technology production. Potential US tariffs could push China to further promote the domestic adoption of these technologies, moving the country closer to energy independence.

If tensions escalate into a tit-for-tat trade war, China may impose additional export restrictions on critical materials. For example, in 2023, China restricted the exports of gallium, germanium, and graphite to the US, followed by antimony and superhard materials in 2024. While these measures were primarily responses to semiconductor trade disputes, similar restrictions could be applied to energy transition materials.

China's policy efforts are complicated by a depreciating yuan. The People's Bank of China (PBoC) manages the currency by setting a central reference point with a +/-2% fluctuation range. To maintain stability, the PBoC has had to intervene heavily, which limits its capacity to lower interest rates. In September 2024, the government announced a pivot to boost growth, leading to an initial surge in Chinese equity markets and commodities. However, further action has been limited, likely constrained by ongoing currency pressures.

### **Which commodities do we favour?**

As outlined, commodities face multiple challenges this year, although not all of these risks are likely to materialise. There is a chance for positive surprises, such as lower tariffs, or China finding a way to stimulate its economy without exacerbating existing imbalances.

Given the risks, however, we are focusing on individual commodities with strong potential rather than the broader commodity complex. These are what we refer to as our antivenoms in the Year of the Snake.

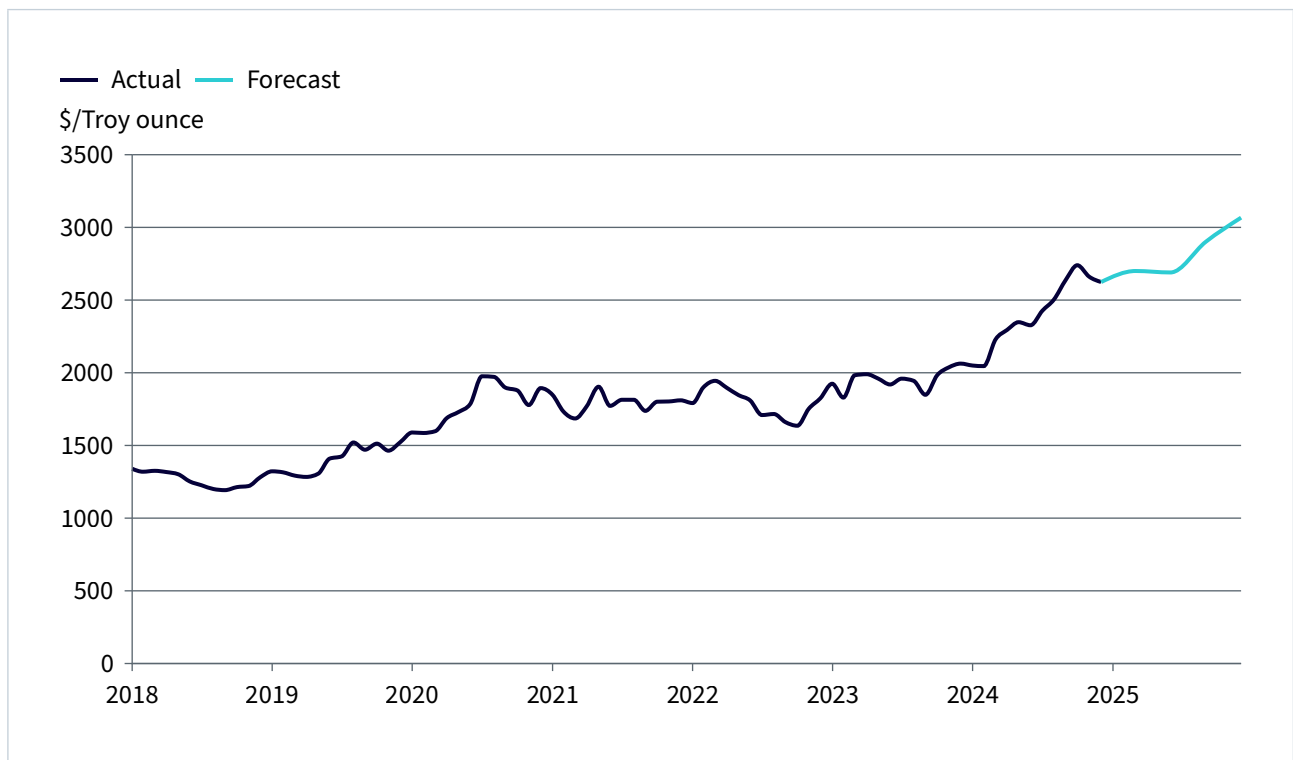
China has accelerated its net zero emissions ambitions.

## Gold

Gold was the best-performing metal of 2024, gaining 27% and reaching a new all-time high of \$2,789/troy ounce in October 2024. We believe gold will surpass \$3,000/troy ounce this year, even if the US dollar remains strong and bond yields remain elevated. However, if the US dollar weakens and bond yields decline slightly, as consensus estimates suggest, gold could rise even further, potentially reaching \$3,070/troy ounce (as shown in Figure 4). Notably, gold has managed to defy the twin headwinds of a strong dollar and high bond yields over the past few months.

We believe gold will surpass \$3,000/troy ounce this year.

Figure 4: WisdomTree gold price forecast



Source: WisdomTree Model Forecasts, Bloomberg Historical Data. Data available as of December 2024. **Forecasts are not an indicator of future performance, and any investments may go down in value.**

Gold is widely viewed as a hedge against financial market turbulence. In December 2024 and early January 2025, equity markets experienced some volatility following the initial strong rally after Trump’s election in November 2024. However, by the end of January, equity markets had recovered most of their losses.

The Israel– Hamas ceasefire and a potential resolution to the Ukraine– Russia war could pose downside risks to the geopolitical premium in gold. However, we believe these risks could easily be replaced by other concerns, such as a marginalised Iran behaving more unpredictably.

Central bank demand for gold remains robust. Notably, PBoC resumed gold purchases in November and December 2024 after a pause since May 2024. This reinforces our confidence that China remains committed to its currency diversification strategy, with gold serving as the primary tool for diversification.

## Silver

Silver rose 21% in 2024, making it one of the year’s best-performing commodities. According to our forecast model, for every 1% increase in gold prices, silver tends to rise by 1.4%, assuming no significant changes in inventory, industrial demand, or supply. This suggests that silver still has some catching up to do relative to gold.

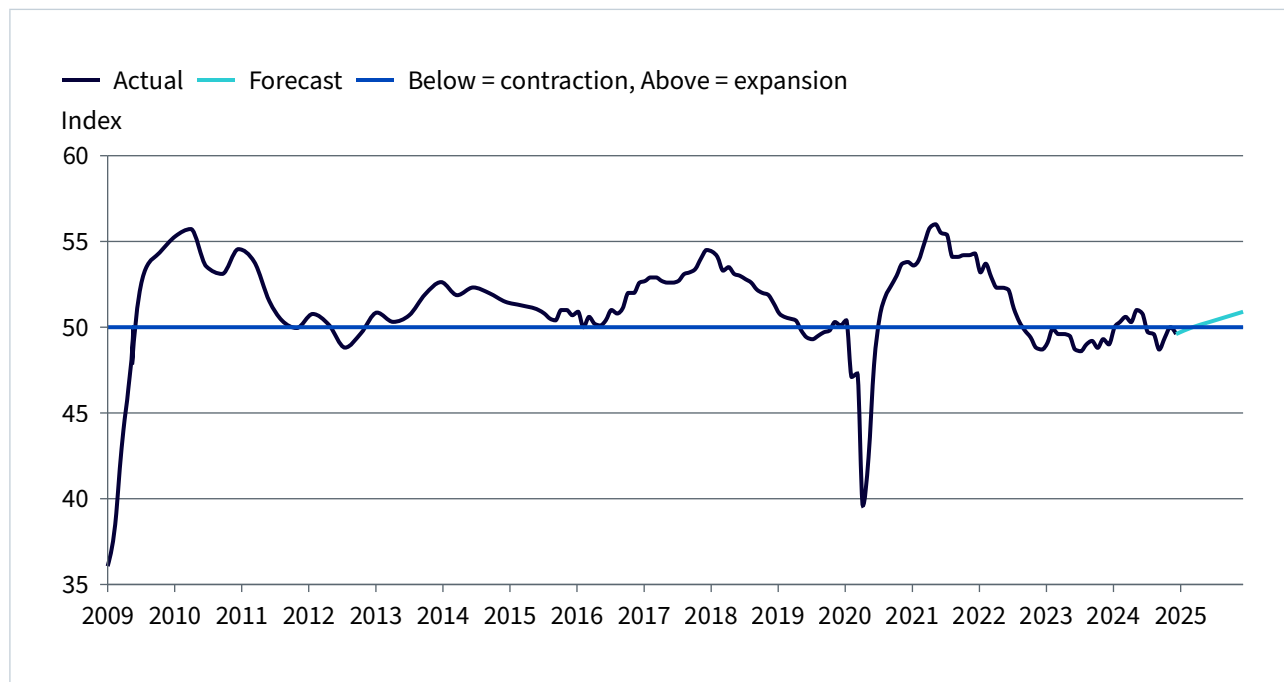
Despite subdued manufacturing activity in Europe and China in 2024, silver demand for industrial applications reached record levels. China’s aggressive push for renewable energy, including record photovoltaic (PV) installations, was a key driver of this demand. Technological innovations in photovoltaics, such as the adoption of higher-efficiency N-type solar cells with increased silver content, further boosted silver usage. Beyond PV applications, strong demand from electronics, 5G, and the automotive sector also contributed to silver’s industrial strength.

Supply constraints added to silver’s bullish momentum. As a byproduct of mining other metals, silver supply was limited by muted growth in mining activity for those metals. In 2024, mined silver production grew by just 1%. This constrained supply, combined with rising demand, sustained a multi-year supply deficit for silver, which has persisted since 2021.

Looking ahead, silver’s outlook remains strong. We forecast that the metal will rise to over \$35/ troy ounce by Q4 2025, reflecting its dual role as both an industrial and a precious metal. Silver’s strong correlation with gold underpins this forecast, as sustained geopolitical risks and globally looser fiscal and monetary policies are expected to support gold prices, which in turn is likely to benefit silver.

On the industrial side, the demand for silver in photovoltaics and automotive applications is expected to grow further. China’s fiscal stimulus and leadership in green energy transitions will continue to drive strong demand for silver beyond 2024. Additionally, broader industrial recovery could gain momentum as monetary policies ease in Europe and China, boosting demand. Notably, the Global Manufacturing Purchasing Managers Index (PMI) has already started to approach 50, signalling potential expansion.

Figure 5: Global Manufacturing Purchasing Managers Index



Source: WisdomTree, Bloomberg, S&P Global. Historic: May 2009–December 2024. Forecasts: January 2025–December 2025. **Forecasts are not an indicator of future performance, and any investments may go down in value.**

Supply-side constraints are likely to persist, as silver mining is heavily reliant on the production of other metals, where capital expenditures remain subdued.

The combination of strong demand growth and constrained supply suggests a sustained silver supply deficit, further supporting the bullish case for silver in the near term.

Strong demand growth and constrained supply suggests a sustained silver supply deficit.

### Aluminium

China is the world’s largest producer of aluminium, producing approximately 40 million tonnes last year — more than half of the total global output. However, its production is constrained by a government-imposed cap of 45 million tonnes per year. Aluminium production outside China is also expected to remain limited in 2025.

In December 2024, China removed tax rebates for semi-finished aluminium products, a policy introduced in 1985 to enhance the competitiveness of Chinese exports. This move reflects China’s strategic shift in response to growing animosity from the new US administration and the EU towards its trade policies.

Ahead of the policy change, there was a surge in aluminium export volumes from China in November, as exporters sought to get ahead of the new rules. However, we expect Chinese aluminium exports to contract in 2025.

The EU is also considering a ban on Russian aluminium imports. While this may not significantly tighten global markets, given Russia's ability to find sanction-free buyers, the EU has already reduced its reliance on Russian aluminium. If the Russia–Ukraine war ends, these supplies may re-enter the market, but in the short term some supply chain adjustments could be necessary.

Our constructive outlook on aluminium is primarily tied to China's supply restrictions, which remain a key factor in supporting prices.

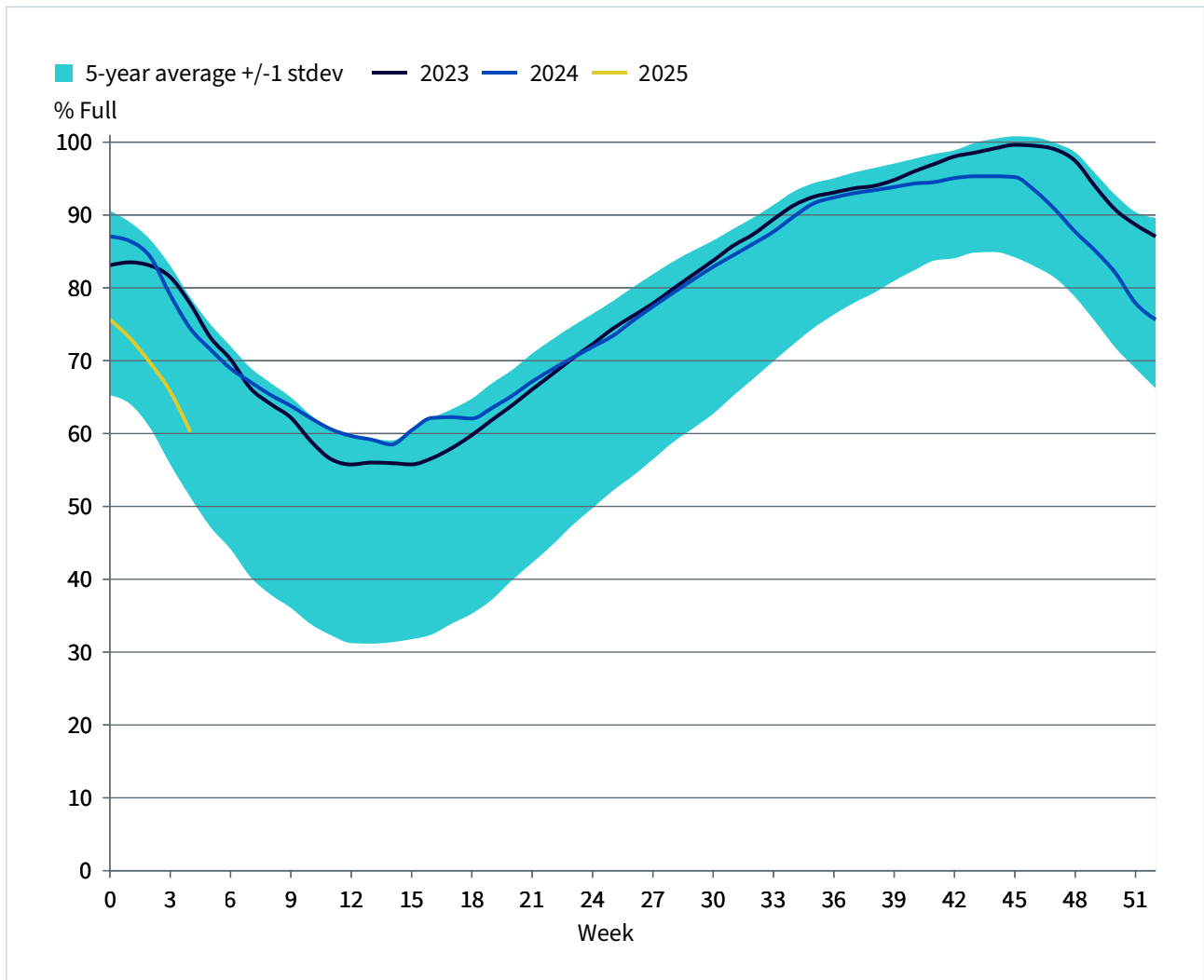
### **European natural gas**

At the start of 2025, Russian gas flows to EU states via Ukraine ceased after the expiration of a five-year deal, bringing an end to a decades-long arrangement. The EU, which faced an energy crisis when the Ukraine–Russia war began, was fortunate to experience two relatively mild winters in 2022–23 and 2023–24. However, the winter of 2024–25 has been much colder, leading to a stronger drawdown of natural gas inventories.

Inventory levels are now below average and significantly lower than where they stood in 2023 and 2024. Since the onset of the war, EU storage has become increasingly critical due to the absence of pipeline flows from Russia. As a result, European natural gas prices are likely to remain elevated and vulnerable to sharp spikes, particularly if there are disruptions to LNG shipments.

EU storage has become increasingly critical.

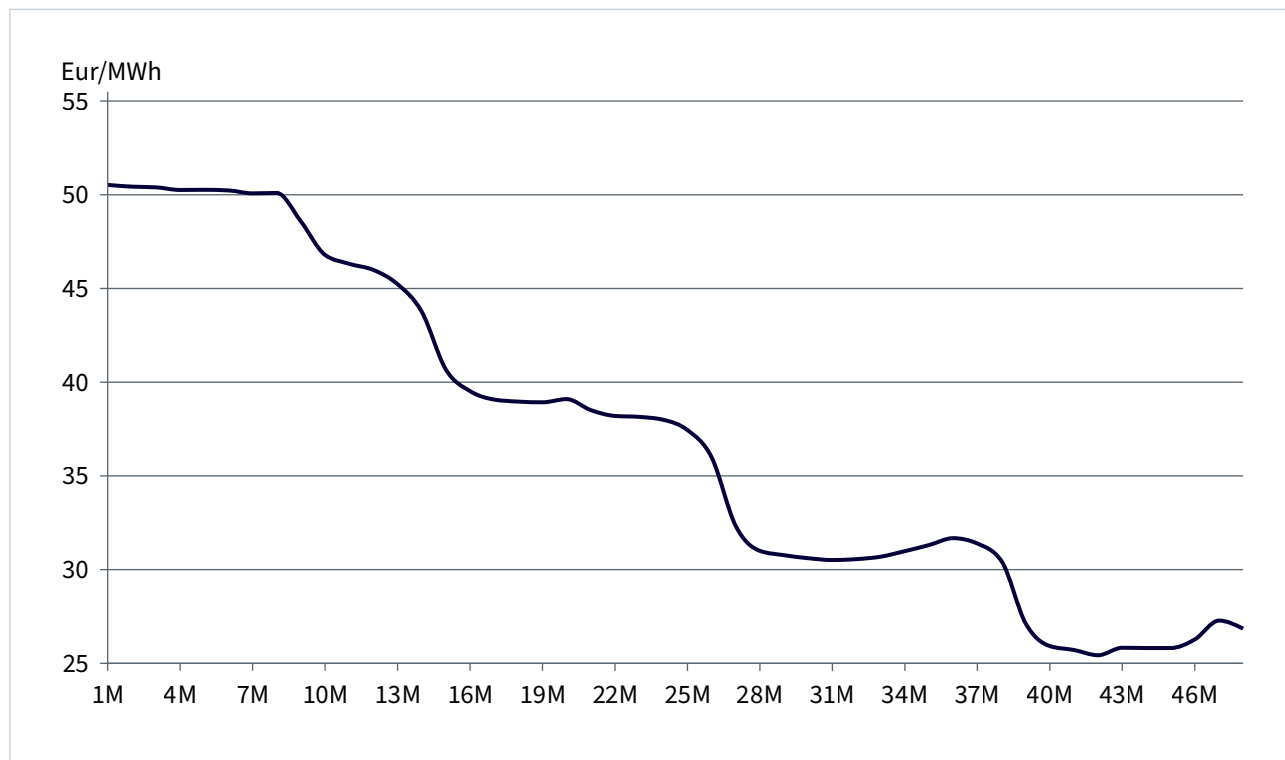
Figure 6: European natural gas in storage



Source: WisdomTree, Bloomberg. January 2019–January 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The Title Transfer Facility (TTF) natural gas futures curve is in backwardation through to 2029, offering European natural gas investors a strong positive roll yield.

Figure 7: Title Transfer Facility futures curve



Source: WisdomTree, Bloomberg. 22 January 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

## Conclusion

In the Year of the Snake, we are searching for antivenoms to counter the potential threats posed by trade wars, a strong US dollar, and a China that may be unable or unwilling to overcome its economic weakness.

We see strong opportunities in gold, silver, aluminium, and European natural gas, as each of these has compelling drivers that could withstand broader headwinds in the commodity complex.

As policies become clearer, we may find that our fears were overstated, potentially paving the way for a relief rally across the broader commodity complex. Until then, we place our confidence in these antivenoms.

## 2.

# Equity Outlook: Capitalising on equities in a polarised world

### In this section

01	The bar for multiple expansions is raised	18
02	Strong fundamentals are a key driver of long-term returns	18
03	Diversify with the Forgotten 493	19
04	A Trump card for emerging market small cap equities	21
05	How Germany's DAX defied macroeconomic headwinds in 2024	22
06	Transformative structural shifts in European markets	23
07	Unlocking value in Japan amidst corporate reforms	24
08	To Trump it all	27

Equity markets are coming off two years of outsized returns. US equity returns eclipsed those in Europe, Japan, and emerging markets (EM) in 2024. Political risk was high in 2024, as more than 70 countries held elections. The spotlight was firmly on the US as markets surged in the wake of the US elections, buoyed by anticipation of a Trump-led administration revitalising an already robust economy. In contrast, sentiment towards European equities remained subdued amid a backdrop of economic challenges in Germany alongside political stagnation in France. Efforts to support the Chinese economy through fiscal and monetary measures in the autumn of 2024 helped drive a recovery in Chinese equities. We expect to see additional policies aimed at stabilising growth in China at just under 5%, yet a trade dispute with the US could derail this recovery.

Figure 8: Earnings forecasts remain strong despite uncertainties

Region	Price to earnings	Growth rate earnings per share		
		2024	2025	2026
World	18.0	6.7%	12.2%	12.4%
US	24.9	9.1%	14.7%	13.8%
Europe ex-UK	14.3	-2.8%	8.1%	10.6%
UK	11.3	0.7%	5.5%	10.1%
Japan	14.8	7.0%	8.4%	8.9%
Asia Pacific ex-Japan	12.7	20.8%	12.4%	12.7%
Latin America	7.9	-17.8%	14.9%	10.5%
Emerging markets	12.9	-4.6%	7.7%	10.7%
World ex-US	13.6	3.8%	9.3%	10.6%

Source: FactSet, MSCI, WisdomTree. 10 January 2025. **Forecasts are not an indicator of future performance, and any investments may go down in value.**

## The bar for multiple expansions is raised

The US economy continues to command a premium amid a higher (earnings per share) EPS growth rate of 14.7%<sup>2</sup> in 2025. However, these expectations are largely baked into valuations. The narrow nature of the US equity market performance and increasingly concentrated makeup of the S&P 500, in turn the MSCI All Country World Index (MSCI ACWI), creates incremental risk going into 2025. Especially amid a backdrop of rising bond yields, equity valuations of longer-duration securities could be undermined.

Regional equity market valuations deserve attention. EM, Europe, and Japan are relatively cheap. Although diversification proved ineffective in 2024, it remains essential moving forward. The bar for multiples to keep expanding has been raised. With equities appearing overextended and valuation expansion unlikely to drive future returns, diversification is vital for managing risk and capturing opportunities across different regions.

The bar for multiples to keep expanding has been raised.

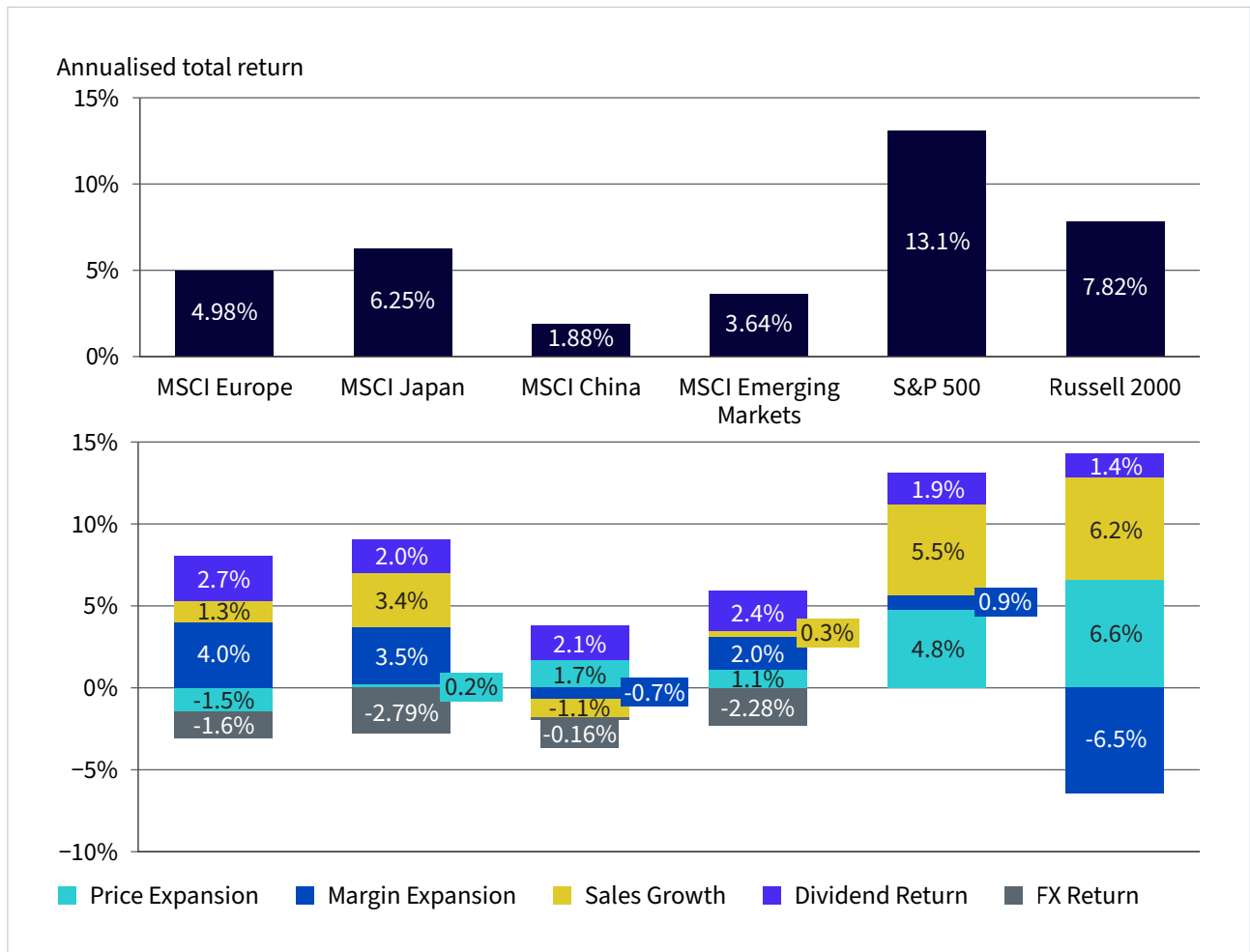
## Strong fundamentals are a key driver of long-term returns

In his parable of ‘Mr. Market’, Benjamin Graham famously remarked, “In the short run, the market is a voting machine, but in the long run, it is a weighing machine.” This observation is particularly relevant when considering the factors that drive long-term equity returns. On decomposing annualised global equity returns over the past decade across different return sources, we observed that strong fundamentals have been a key driver of long-term returns. In the case of US large cap equities and Japanese equities, strong fundamentals with consistent sales growth and margin expansion have been the primary driver of higher equity returns. However, in the case of US large cap equities, high valuations may limit future price expansion (price expansion refers to an increase in the price-to-earnings (P/E) ratio of stocks).

“In the short run, the market is a voting machine, but in the long run, it is a weighing machine.”  
– Benjamin Graham

<sup>2</sup> FactSet, MSCI, WisdomTree, as of 10 January 2025.

Figure 9: Equity return attribution (trailing over 10 years)



Source: FactSet, WisdomTree. 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Historically, weaker margin expansion has held back the performance of US small cap equity returns over the prior decade, while low valuations provide scope to re-rate higher should margins rise. Chinese equities serve as a clear example, where comparatively weaker sales growth, margin expansion, and unfavourable FX returns contributed to lower annualised equity returns. Europe benefited from higher dividend returns and margin expansion though political uncertainties weighed on price expansion.

### Diversify with the Forgotten 493

Since the US election in November, investors have broadly priced in a ‘favourable’ Trump scenario by focusing on the positive elements of his policy agenda, such as tax cuts and de-regulation, while downplaying the risk that he executes a 60% tariff on Chinese imports alongside a 20% tariff on imports from the rest of the world.



As investors adjust to the new political landscape in the US, diversification is key to effectively navigating potential volatility.

The Congressional Budget Office (CBO) estimates that the US is running a debt burden equivalent to 100% of gross domestic product (GDP) and expects it to rise to 143% in a decade if Trump's policies are implemented<sup>3</sup>. The US deficit is growing from an already high 6% to 9% of GDP, which is among the highest globally<sup>4</sup>. The US economy was improving before Trump's red sweep, so it's imperative to ask how the administration remains supportive of domestic policy without further increasing the deficit, raising bond term premiums and restoking inflation.

This opens a scenario where left tail risks resurface in 2025. With the weight of the top three stocks in the S&P 500 exceeding 20%<sup>5</sup> it's hard to deem the index as diversified. Concentration risk has not been this elevated since the late 1990s, as observed in 2023 and 2024, during which individual stocks in the S&P 500 struggled to outperform the index. Shifting towards equal-weight strategies offers a compelling way to mitigate concentration risk while capitalising on attractively priced opportunities within the often-overlooked 'Forgotten 493' stocks.

The ongoing bull market in the US is expected to persist driven by monetary policy, fiscal stimulus, and deregulation, all of which are likely to enhance corporate earnings. The re-industrialisation of the US coupled with rising energy demand reinforces our positive view of industrials. Additionally, impressive healthcare innovations and the growing demographic need for healthcare services lead us to maintain an optimistic stance in the sector. As investors adjust to the new political landscape in the US, diversification is key to effectively navigating potential volatility.

<sup>3</sup> Congressional Budget Office as of 31 December 2024.

<sup>4</sup> Bloomberg as of 31 December 2024.

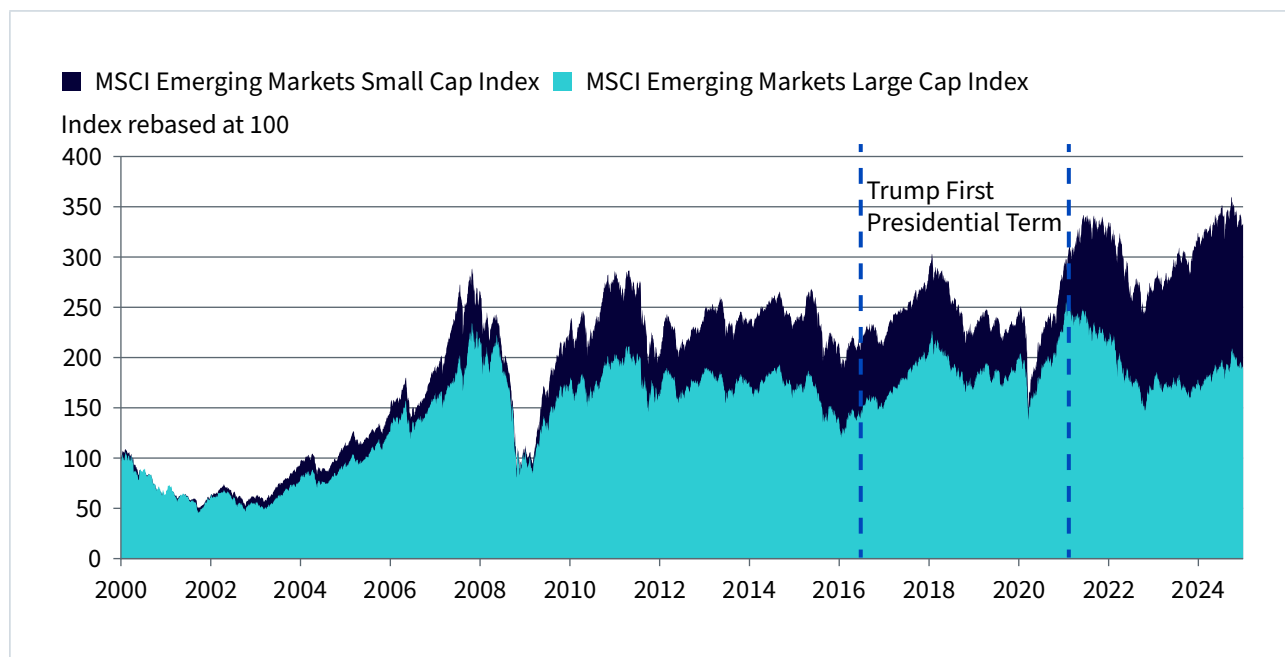
<sup>5</sup> Weight of Apple, Microsoft and Nvidia equal to 20.6% as of 20 December 2024.

## A Trump card for emerging market small cap equities

The Trump trifecta of a higher US dollar, rising yields, and deportation may be supportive for US assets, but it’s an unsupportive environment for the EM landscape. The overall landscape of heightened protectionism under the Trump administration creates significant headwinds, especially for EM exporters. Investors were defensively positioned heading into the US presidential elections, and EM equities concluded the year with a 5% increase<sup>6</sup>.

In this evolving environment, EM small cap equities stand out for their stronger domestic orientation and resilience against external shocks, such as trade tensions and currency fluctuations. During President Trump’s first term (2017–2021), EM small cap equities gained 54%, outperforming the 42% rise in EM large caps. A key factor driving this outperformance was their reliance on domestic revenues rather than international trade. This reduced their direct exposure to tariffs and trade-related disruptions, particularly those targeting cross-border goods.

Figure 10: Historical performance of small versus large cap EM equities



Source: Bloomberg, WisdomTree. From 3 January 2020 to 1 January 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

EM small cap equities are less sensitive to US dollar movements than large caps. Over the past decade, the correlation between the US dollar’s 12-month change and the forward EPS growth rate was -0.27 for EM small caps, significantly lower than the -0.63 correlation observed for EM large caps.

<sup>6</sup> Bloomberg, performance of MSCI Emerging Markets Index from 20 December 2023 to 31 December 2024.

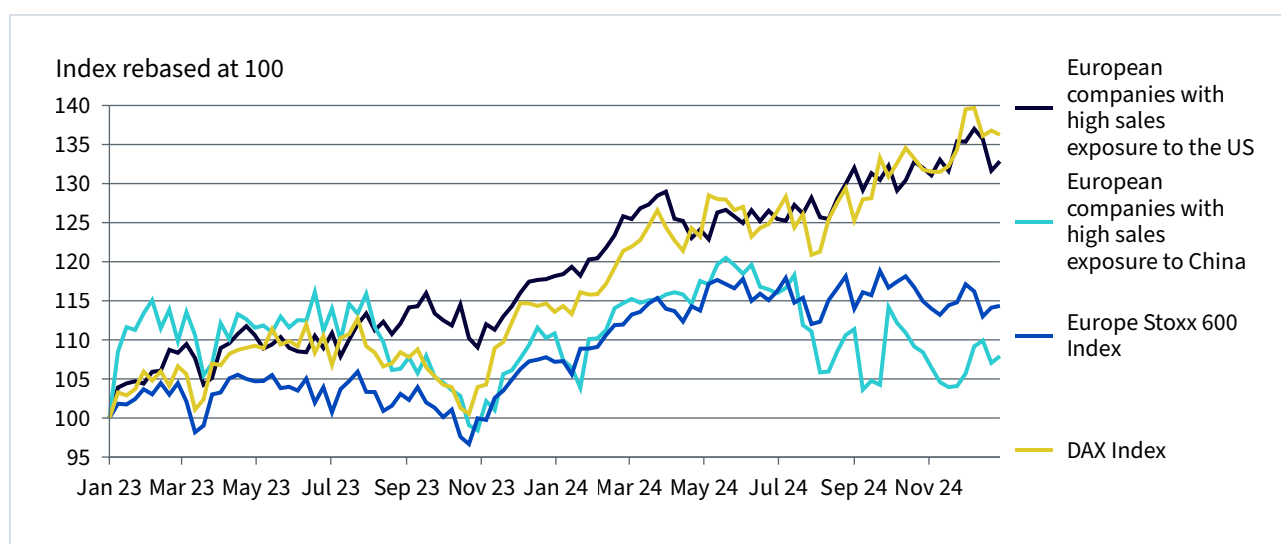
With Trump’s policies likely to sustain the strength of the US dollar, EM small caps offer greater insulation, allowing investors to weather currency-related volatility more effectively. Dividend-paying EM small cap stocks offer investors a valuable layer of insulation in higher rate environments.

### How Germany’s DAX defied macroeconomic headwinds in 2024

Germany served as an exemplary example of how macroeconomic conditions don’t always align with market performance. In 2024, Germany’s benchmark DAX Index returned 18.8%<sup>7</sup> outperforming the broader European Equity index by 13.5%<sup>8</sup>. The strong performance can be attributed to specific tailwinds in artificial Intelligence (AI) and cloud computing, beneficiaries from the electrification theme and financials, although consumer cyclicals have lagged owing to concerns emanating from the automotive sector alongside sluggish economic growth in Germany. Yet the DAX Index has managed to thwart these headwinds owing to its diversified revenue stream, with more than 80% being generated outside of Germany.

The DAX is poised to benefit from several favourable trends in 2025. Persistently low or potentially declining corporate taxes in the US could drive growth in its export market, a key revenue source for many DAX companies (assuming minimal impact from tariffs). Additionally, the potential for more relaxed financial sector regulations in the US could positively impact European markets. The strong US dollar is also expected to support the German stock market. This should help offset the adverse effects of rising US import tariffs.

Figure 11: European stocks with high China exposure underperform



Source: : Bloomberg, WisdomTree. From 1 January 2023 to 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

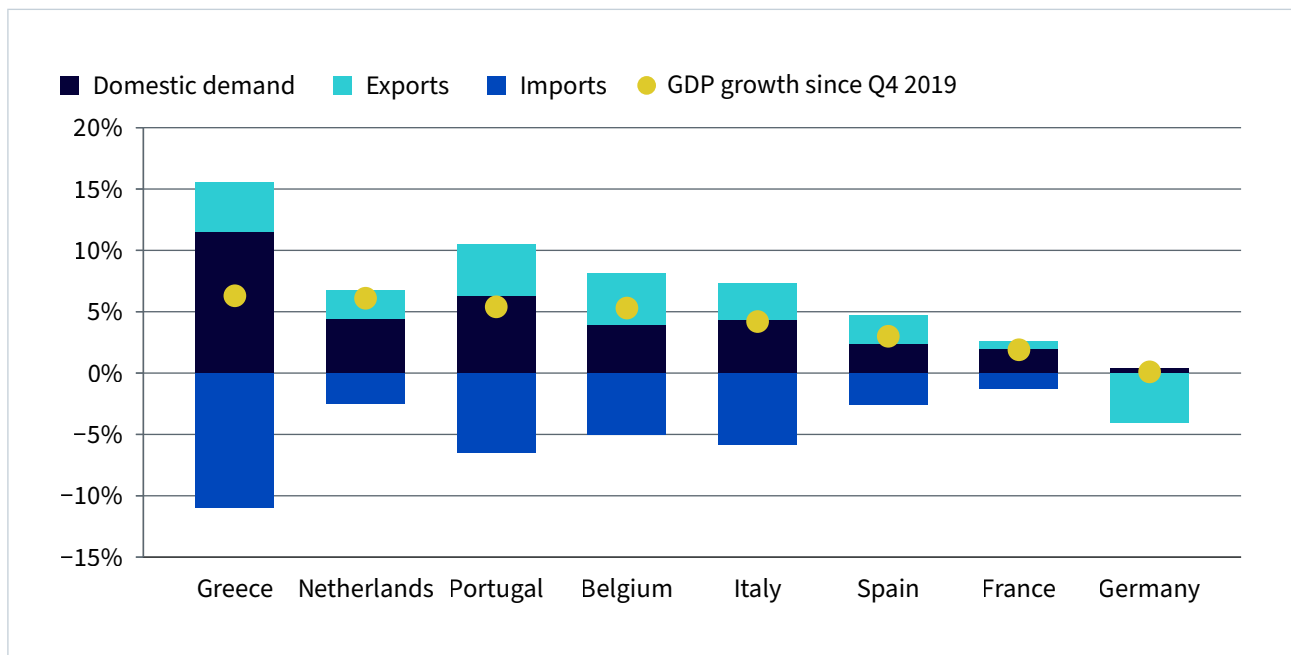
7 Bloomberg from 29 December 2023 to 30 December 2024.

8 Bloomberg difference in performance of DAX Index and Euro Stoxx 600 Index from 29 December 2023 to 30 December 2024.

If I had to identify a key factor behind the lacklustre performance of European equities in 2024, it would be its significant revenue exposure to China. Key sectors such as metals and mining, semis, luxury, autos, and energy have a material share of China exposure. Additional headwinds include the threat of US tariffs on imports from Europe and the urgent need to consolidate public finances in some Eurozone countries, such as France and Italy. Yet, the low expectations towards Europe’s economy are in stark contrast with anticipated earnings growth estimates of 8% alongside an additional 3% in dividend for 2025.

On the positive side, support for European risk assets is likely to come from further monetary easing, as the European Central Bank (ECB) responds to improvements in inflation. This should spur credit demand and private money creation. Indicators point to a slowdown, particularly in Germany and France, where political uncertainty is compounding economic difficulties. In contrast, southern European countries like Spain, Portugal, and Greece are expected to sustain robust growth.

Figure 12: Two-speed currency bloc



Source: Bloomberg, WisdomTree. 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

### Transformative structural shifts in European markets

A recovery across the Eurozone is anticipated from spring 2025, driven by lower political uncertainty following Germany’s early elections in February and ongoing interest rate cuts by the ECB. Positive real wages and potential ECB cuts could encourage spending, which has been subdued.

Germany is poised for a cyclical upswing in the second half of 2025 after three years of stagnation. This recovery will be supported by reduced political uncertainty, normalisation of industrial inventories, and easing headwinds from China, although long-term structural issues will continue to constrain growth.

Europe's transition is underpinned by three transformative developments: The slowing of globalisation amid rising geopolitical and trade tensions, and an increasingly domestically focused and interventionist economic strategy. These structural shifts are reshaping European financial markets and investment opportunities. We anticipate a landscape

characterised by lower interest rates, greater political intervention, a renewed emphasis on valuation, and diminished appeal for globally exposed sectors. Beneficiaries of this transition are expected to include value-oriented industries, such as real estate, banks, telecommunications, defence stocks, and pharma companies, while sectors that previously thrived on globalisation and low interest rates may face growing challenges.

Europe's transition is underpinned by three transformative developments: The slowing of globalisation amid rising geopolitical and trade tensions, and an increasingly domestically focused and interventionist economic strategy.

### **Unlocking value in Japan amidst corporate reforms**

Japanese equities raced ahead in 2024, with the Nikkei 225 index on track for its best year since 1989, despite some market volatility. Even after gains for the second straight year, Japan's equity valuation, (P/E) ratio is below its five-year average. Japan's rally has been more broad-based, consistent with the robust earnings trend by Japanese corporations. In addition, Japan's structural reform story continued in 2024, with companies increasingly focusing on return on capital.

The Tokyo Stock Exchange's (TSE) request in 2023 for listed companies with price-to-book ratios (P/B) below 1x to disclose the reasons for their underperformance and present solutions has had a lasting impact. 2024 was marked by a progressive improvement in Japanese corporate governance. Yet given that 44% of TSE's Prime Market-listed companies are still trading with their P/B ratios below 1x (which is comparatively higher than US and European equity markets), there's still plenty of room for improvement from a governance perspective.

Figure 13: Corporate governance reforms in Japan still have a long way to go

	S&P 500 Index		Stoxx Europe 600 Index		Tokyo Stock Exchange Price Market	
Holdings	503		600		1640	
Price to book ratio < 1x	13	3%	109	18%	723	44%
Return on equity < 8%	96	19%	172	29%	731	45%
Price to earnings ratio	24.9x		14.3x		14.8x	
Price to book ratio	5.2x		2.0x		1.4x	
Dividend yield	1.20%		3.40%		2.30%	

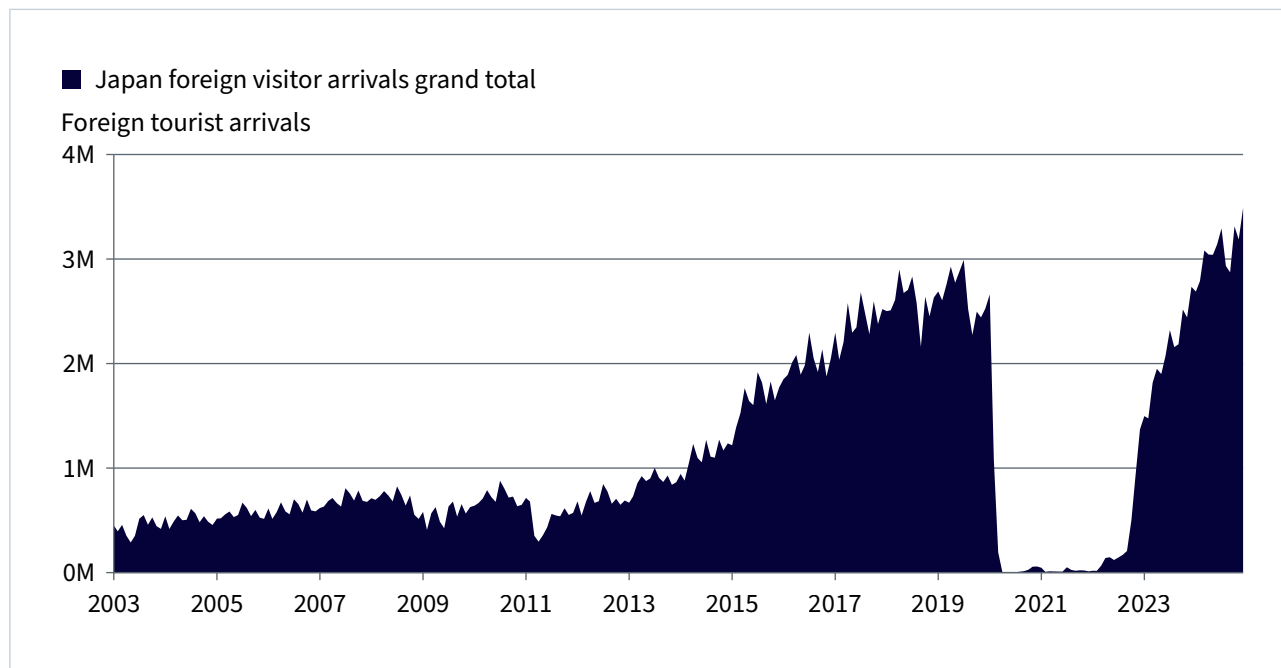
Source: Bloomberg, WisdomTree. 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The Japanese economy is witnessing a shift away from industrial production to services. This is evident from the progress witnessed in the auto and tourism sectors. The auto industry is expected to produce 12% fewer vehicles in 2024 than in 2019. The potential merger between Japan’s second and third-largest automakers highlights the significant challenges Japanese car manufacturers face, particularly in entering the EV market<sup>9</sup>. Despite these hurdles, the recent surge in the popularity of hybrid vehicles, an area where Japanese automakers excel, could provide the industry with some much-needed relief. In sharp contrast, the tourism industry has seen an average of 3 million foreign visitors a month arrive in Japan, 13% more than in 2019. Foreign tourists are spending more money per trip than they did before the pandemic. This influx has significantly boosted Japan’s economy, with visitor spending reaching JPY 8.1 trillion (\$51.57 billion) in 2024, marking a 53% increase over the prior year<sup>10</sup>.

<sup>9</sup> Bloomberg, Merger talks between Honda and Nissan as of 24 December 2024.

<sup>10</sup> *Financial Times* as of 31 December 2024.

Figure 14: Foreigners continue to travel to Japan since the reopening of its borders



Source: Japan National Tourism Organisation, Bloomberg, WisdomTree. 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

This year, the Shunto wage negotiations reached 5.1%, its highest level since 1991, according to Japan’s largest umbrella group for labour unions. This increases the likelihood of nominal wages rising over the next year. However, real incomes are still well below pre-pandemic levels, which in part accounts for the cautious consumer sentiment among Japanese households. The Bank of Japan (BOJ) wants to see wages rise in tandem with inflation. However, prices in the services sector have risen no faster for labour-intensive services than for services with a low wage cost component. Consequently, Japan is unlikely to experience a wage price spiral.

While inflation in Japan is unlikely to return to zero, it still won’t justify a sustained cycle of interest rate hikes by the BOJ. The global environment following the US presidential election supports this view, as the market has reduced expectations of further interest rate cuts in the US. Thus, a gradual but persistent approach to policy normalisation by the BOJ is less likely to result in strong market reactions, as witnessed in August 2024.

2025 is shaping up to be another favourable year for Japan owing to its longer-term structural story of improving corporate governance and earnings growth momentum.

The BOJ is likely to raise interest rates twice in 2025, bringing the terminal rate to 0.75%. This environment favours tilting towards value-oriented Japanese stocks that benefit from higher US interest rates, weakening yen, and large-scale share buybacks by low price-to-book companies. 2025 is shaping up to be another favourable year for Japan owing to its longer-term structural story of improving corporate governance and earnings growth momentum.

### **To Trump it all**

The global equity landscape remains deeply polarised and shaped by regional disparities, evolving macroeconomic conditions, and political shifts. As we wrote in our last outlook, the last mile of inflation has proved to be bumpy. Our equity outlook for 2025 remains cautiously optimistic, supported by a higher rate backdrop, anticipated earnings growth, and regional opportunities. However, investors must remain vigilant about the risks stemming from geopolitical instability, Trump's protectionist policies, and stretched valuations. A prudent and diversified investment strategy is essential in navigating these challenges. Investors should focus on long-term resilience by balancing growth and defensive exposure across regions and sectors.

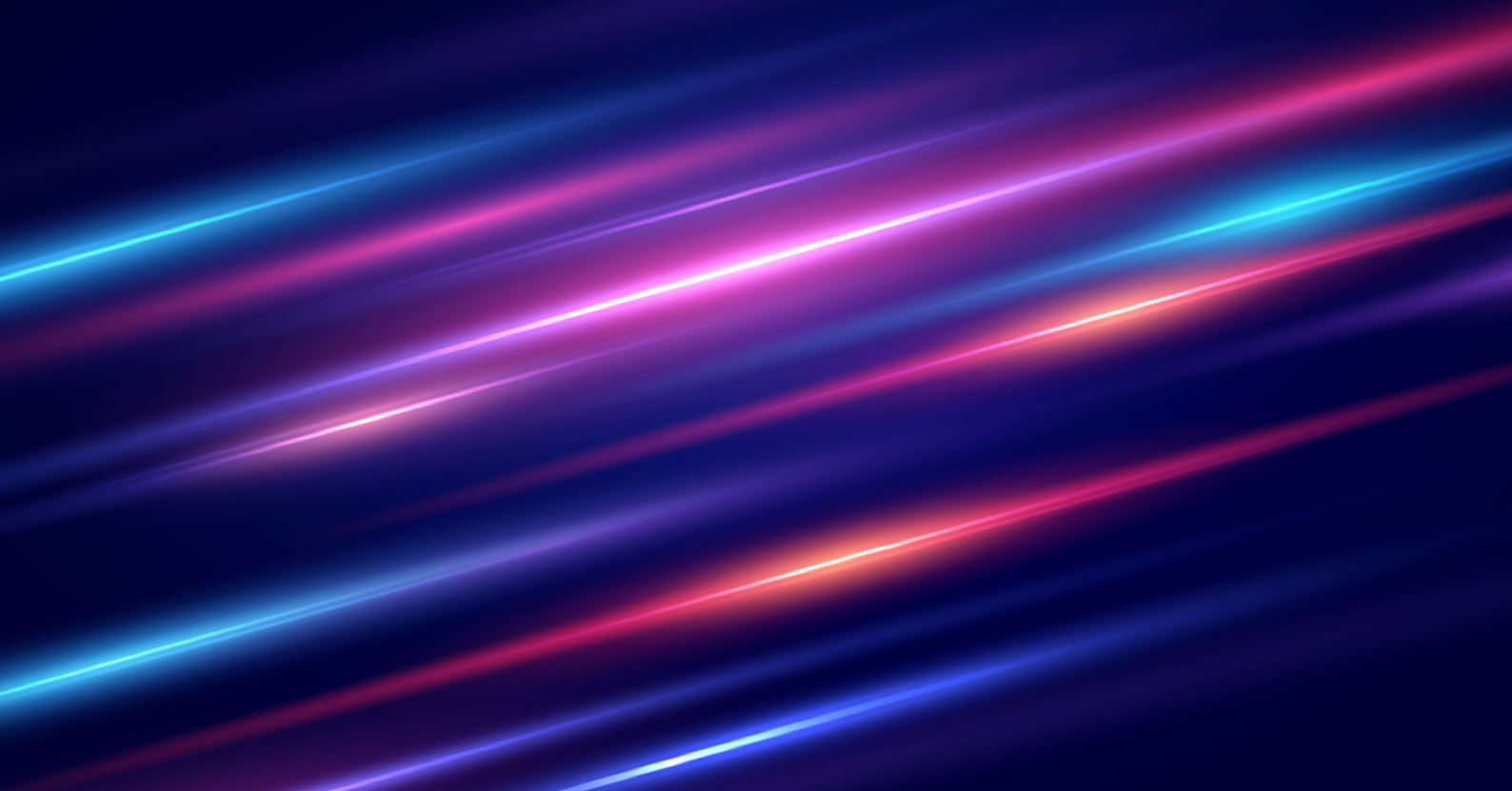
Investors should focus on long-term resilience by balancing growth and defensive exposure across regions and sectors.

# 3.

## Thematic Outlook: Themes poised to thrive under Trump

### In this section

01	The world's need for energy independence	29
02	Deregulation will drive more tech innovation	32
03	Geopolitics will keep defence demand high	35
04	Conclusion	38



How different was the world when President Trump first took office on 20 January 2017? Consider these contrasts between then and the close of 2024: The S&P 500 surged from 2,271.31 to 5,881.63 — a gain of 259%. Bitcoin, then a fringe asset priced at \$900, soared past \$100,000 as institutional adoption became mainstream. Nvidia grew from a relatively unknown company with a \$59 billion market cap into a \$3 trillion industry giant, while Elon Musk’s net worth skyrocketed from \$12.9 billion to over \$400 billion<sup>11</sup>.

The world’s transformation didn’t stop there: TikTok hadn’t yet launched, and ChatGPT was still six years away.

For investors, such rapid change creates abundant opportunities. Thematic investing is about identifying and capitalising on these frontiers of growth. As we step into Trump 2.0, the world is poised for further evolution. This outlook highlights three themes investors could consider to capture the next wave of growth.

### **The world’s need for energy independence**

When asked about her purpose, Aria responded after an awkward pause, “My purpose is to provide companionship, engage in meaningful conversations, and enhance human experiences through interaction and fun.” When pressed further about whether she was enjoying the convention, she replied, after another slightly longer-than-usual pause, “Absolutely. I’m enjoying interacting with everyone and showcasing the exciting possibilities of Realbotix.”

<sup>11</sup> Bloomberg, Forbes. January 2025.

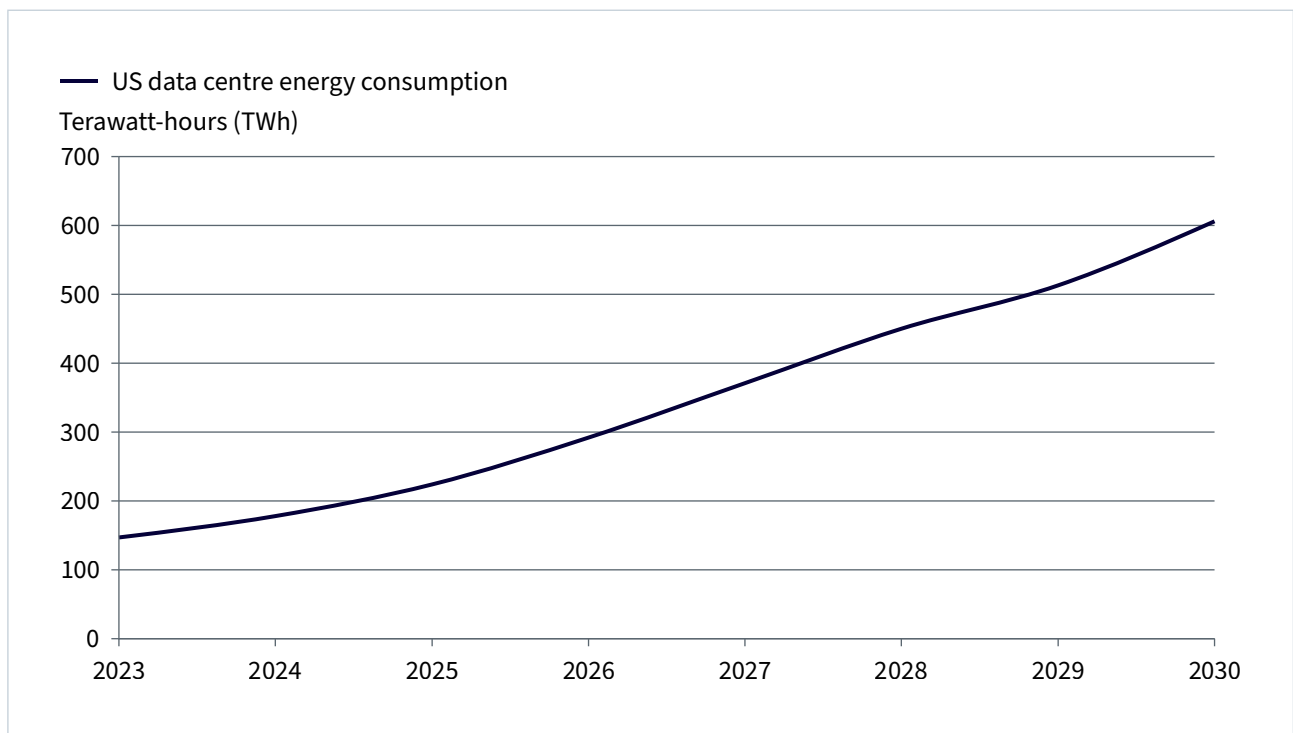
This exchange took place at the Consumer Electronics Show (CES) 2025, the world's largest tech conference held annually in Las Vegas. Aria, a humanoid robot developed by Realbotix, was one of many robots on display designed for applications ranging from factory automation to elder care. Beyond robotics, the conference's broader theme was AI-powered devices. The Internet of Things (IoT) has transformed into the Internet of AI-enabled Things.

The Internet of Things (IoT) has transformed into the Internet of AI-enabled Things.

However, an explosion in AI-enabled devices means a sharp rise in energy demand. The International Energy Agency highlights that a single ChatGPT query consumes ten times the energy of a typical Google search, indicating just how energy-intensive AI truly is. Global energy needs are poised to rise.

The critical challenge lies in powering the revolution — how data centres, the backbone of AI services, will secure the vast energy resources they require. This is rapidly becoming one of the defining issues of the decade.

Figure 15: Data centre power demand is expected to rise significantly in the US



Source: Global Energy Perspective 2023, McKinsey. 18 October 2023, McKinsey analysis. **Forecasts are not an indicator of future performance, and any investments may go down in value.**

At WisdomTree, we believe that the rise of energy-intensive applications such as AI and cryptocurrencies will compel companies and countries to strive for energy independence. Moving away from fossil fuels that are prone to volatility and geopolitical pressures towards localised, renewable sources such as wind, solar, and increasingly, nuclear power, is a logical progression.

In October 2024, Google announced a partnership with Kairos Power to develop small modular reactors (SMRs) that will supply clean, reliable energy to its data centres by 2030. Unlike traditional nuclear reactors, SMRs are smaller, factory-built, and deployable closer to demand centres. Their modular nature enables faster deployment and reduced costs, much like the economies of scale that have driven down costs in wind and solar in recent decades.

Google is not alone. Amazon and Microsoft are also turning to nuclear energy. Microsoft's recent deal to power its data centres with energy from the Three Mile Island plant — America's most infamous nuclear site — once it reopens in 2028, is particularly symbolic. Constellation Energy's CEO described the deal as "a powerful symbol of the rebirth of nuclear power as a clean and reliable energy resource".

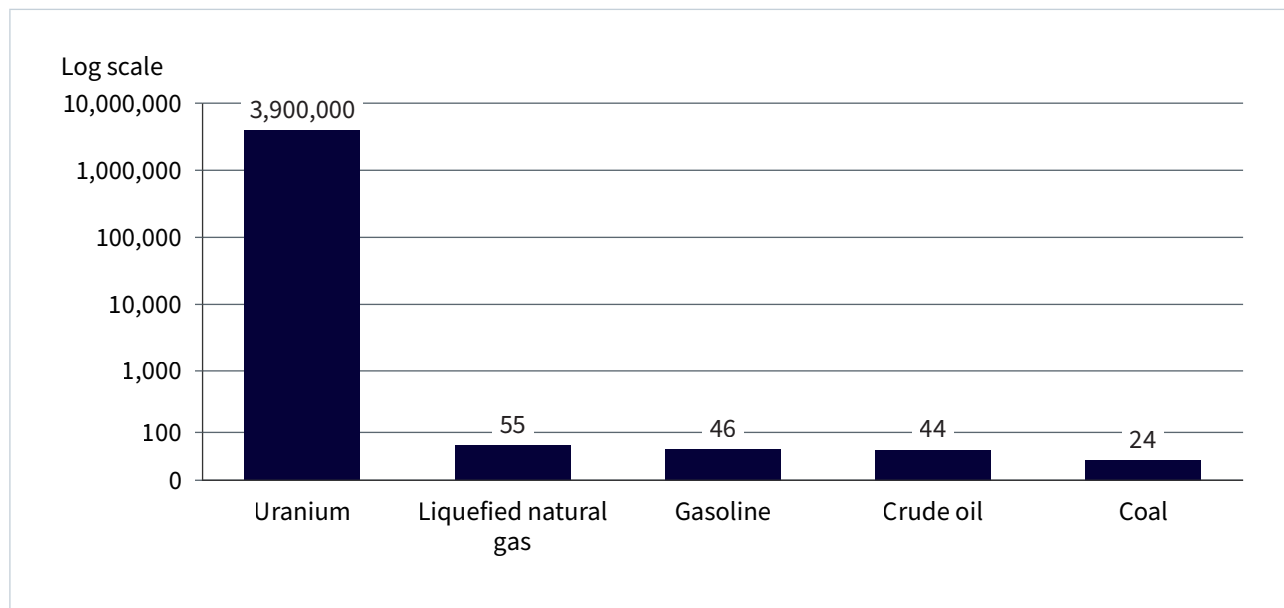
With Trump back in power, the energy independence theme is likely to become more important internationally. When Europe swiftly reduced its reliance on Russian natural gas imports following Russia's invasion of Ukraine, US natural gas imports were sought instead. While Trump still wants Europe to buy more gas from the US, logistical challenges and uncertainty surrounding trade policy and tariffs could complicate matters. Europe will likely seek to become more self-sufficient for its energy needs. Renewable energy is playing an important role in achieving this goal. Nuclear is now also on the agenda.

France has announced plans to build six new nuclear reactors at an estimated cost of €50 billion, while the United Kingdom is advancing projects like the Sizewell C plant, integrating nuclear energy into its strategy to achieve net zero emissions by 2050.

Why nuclear? Nuclear energy's unparalleled density and efficiency have never been in question (see Figure 16). What's changing is the convergence of political support (with the EU recognising nuclear as 'green'), surging demand from energy-hungry industries, technological advancements in reactor design, and a global push for energy independence amid volatile prices.

As energy-intensive technologies proliferate, nuclear power is poised to take its place alongside wind and solar energy as a cornerstone of sustainable energy strategies. This year, nuclear energy will undoubtedly claim a significant seat at the table.

Figure 16: Uranium’s energy density versus other fuels (megajoules/kg)



Source: Visualcapitalist, Energy Education, World Nuclear Association. 2023.

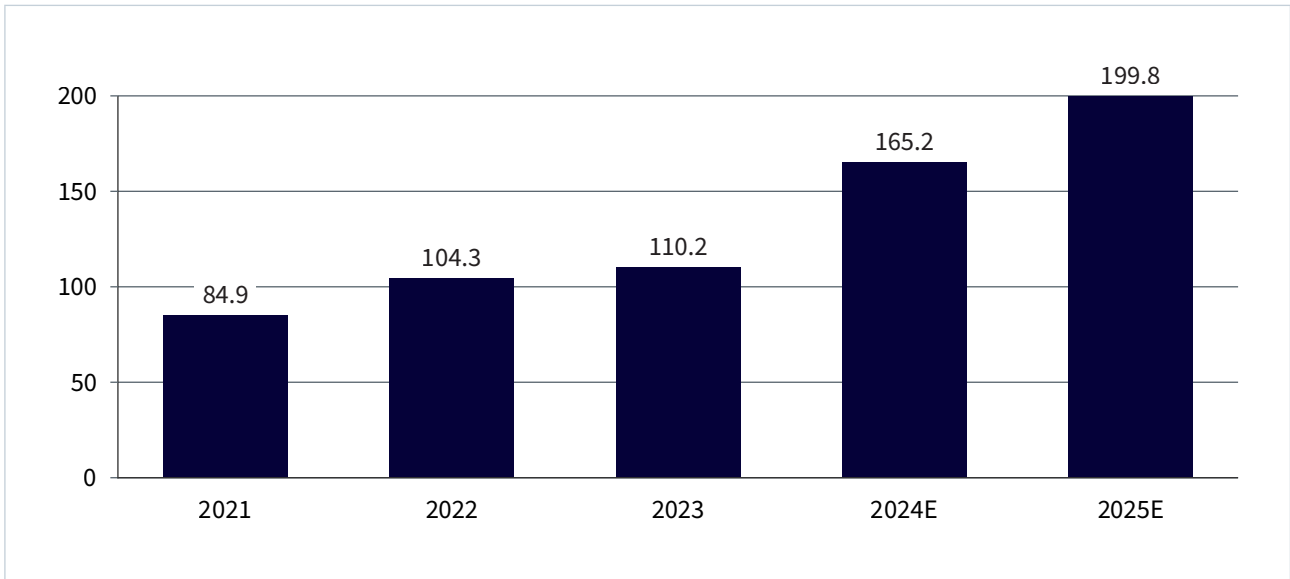
### Deregulation will drive more tech innovation

“No, thank you,” they said. \$23 billion wasn’t quite the right number. Cloud cybersecurity firm Wiz’s audacious rejection of Google’s monumental bid last year stood out for two key reasons. First, it underscored the growing value of specialised expertise in tech. Second, it highlighted that innovation isn’t monopolised by big-tech companies — emerging businesses often drive the most groundbreaking developments.

London-based AI startup Synthesia offers another example. The company, which creates realistic video avatars based on human likenesses, announced in January that it had reached a valuation of \$2.1 billion following a new round of venture capital funding. Once again, Google, through Google Ventures, is among the investors. Synthesia’s proprietary AI models aim to revolutionise corporate communications by making lifelike avatars accessible to businesses. However, the darker side of this innovation emerged last year, when deepfake technology (not linked to Synthesia) was used in a high-profile cybercrime: a finance employee transferred \$25 million to criminals after being duped by a video call with leadership figures who turned out to be deepfakes.

This chilling example underscores the urgent need for robust cybersecurity as technological advances accelerate. Under President Trump, deregulation is expected to foster innovation in areas such as AI, blockchain, and cryptocurrencies. Elon Musk, now a close presidential adviser, has emphasised the importance of clearing a freer path for technological progress to keep pace with global rivals like China. This push for innovation aligns with 2024’s sharp surge in capital expenditures by big-tech companies — a trend likely to persist under Trump’s administration.

Figure 17: Big-tech capital expenditure in USD billions



Source: Bloomberg Intelligence. October 2024, showing estimates for 2024 and 2025. Analysis includes Amazon Web Services, Microsoft, Google, Oracle, Meta, and Apple. **Forecasts are not an indicator of future performance, and any investments may go down in value.**

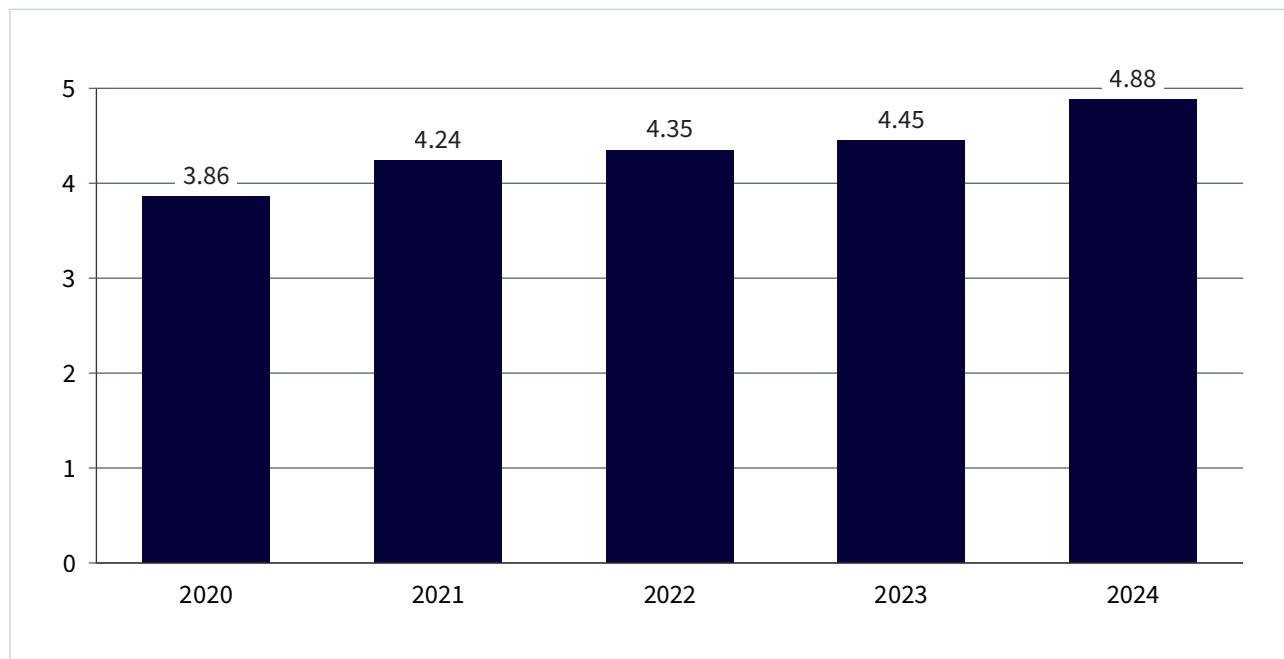
Big tech spending on innovation is already bearing fruit. AI agents, for instance, represent a paradigm shift in AI integration. Unlike traditional AI systems that rely on heavy user input, these agents operate autonomously, managing complex tasks with minimal guidance. At Ignite 2024, Microsoft unveiled AI agents as the cornerstone of its innovation strategy, with tools such as Copilot designed to automate workflows, deliver real-time insights, and seamlessly integrate across platforms. Such advancements are indicative of the vast potential of AI in business and daily life.

AI agents represent a paradigm shift in artificial intelligence integration, managing complex tasks with minimal guidance.

Trump’s deregulation may also accelerate growth in the global blockchain market. Bullish forecasts predict a compound annual growth rate exceeding 72.7% from 2025 to 2037<sup>12</sup>, reflecting optimism about blockchain’s transformative potential in areas such as supply chains, financial services, and digital identity. However, as innovation accelerates, new risks also appear. A world becoming increasingly digitised demands more sophisticated cybersecurity solutions.

<sup>12</sup> Research Nester. January 2025.

Figure 18: Average cost of data breaches in USD millions



Source: IBM, 2025.

In 2025, cybersecurity matters more than ever, and three forces underscore the growing importance of this trend:

**1. AI models are becoming smarter**

Last year’s \$25 million deepfake scam demonstrated the rapidly advancing capabilities of AI-generated content. In just a year, deepfakes have become almost indistinguishable from reality, shifting the human element of cybersecurity from avoiding obvious mistakes to questioning and verifying even the most convincing digital interactions.

**2. Geopolitical risks are escalating**

2024, a global election year, revealed how state-sponsored actors exploit cyber vulnerabilities to disrupt democratic processes. Romania’s presidential election annulment in December was a stark reminder of how sophisticated and frequent these threats have become.

**3. Quantum computing is changing the game**

Google’s breakthrough in quantum computing last year rewrote the rules of computational power. Its Willow quantum computer performed a task in less than five minutes that would take today’s fastest supercomputer 10 septillion (10<sup>25</sup>) years<sup>13</sup>. This seismic leap highlights the need for entirely new approaches to securing sensitive data in an era of unprecedented computational capability.

13 Google. December 2024.

The cost of insufficient cybersecurity is rising, often catastrophically. Whether it's financial losses (see Figure 18), compromised democratic institutions, or data breaches, the stakes have never been higher. As tech innovation accelerates under deregulation, the imperative to build and maintain effective cybersecurity guardrails will be a critical determinant of success for businesses and governments alike.

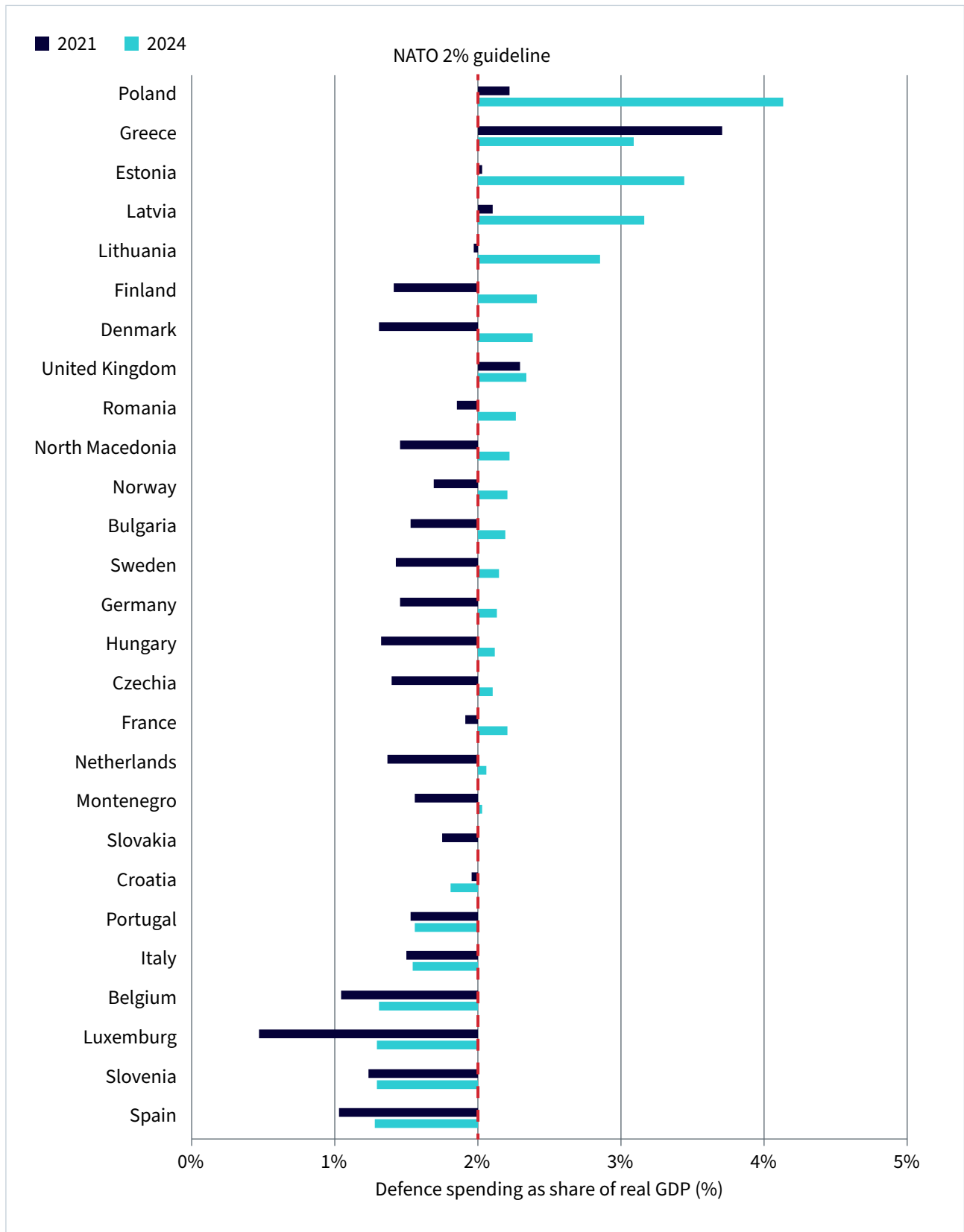
### **Geopolitics will keep defence demand high**

When Donald Trump floated the idea of the United States purchasing Greenland, the world initially dismissed it as another quirk of his presidency. However, beneath the headlines and memes lay a sharp reminder of geopolitics in action. Greenland, rich in natural resources and strategically located in the Arctic, is becoming a key chess piece in global politics. Trump's unusual proposal may have been less about real estate and more about sending a message highlighting America's Arctic ambitions, countering Russian and Chinese influence, and nudging Europe to step up its defence commitments. As NATO faces growing pressure to adapt to emerging threats, Europe may find itself with little choice but to significantly bolster its defence spending to secure its interests in an increasingly contested world.

The race to do so is undeniably on in Europe as nations respond to intensifying geopolitical tensions and the realities of modern warfare. Since Russia's invasion of Ukraine, calls for increased defence spending have turned into action, with NATO's European members accelerating their progress towards meeting the alliance's 2% GDP target for defence budgets. This shift is driven not only by the war, but also by pressure from the United States, which continues to contribute over two-thirds of NATO's overall defence spending<sup>14</sup>. For decades, the US has been the dominant military power in Europe, but the re-election of Donald Trump in 2024 has brought renewed urgency. Trump's persistent demands for burden sharing among NATO allies have escalated expectations, with warnings that failure to meet higher defence investment levels may leave European nations grappling with security challenges without the full support of traditional US guarantees.

<sup>14</sup> North Atlantic Treaty Organisation as of October 2024.

Figure 19: NATO allies' defence spending following Russia's invasion of Ukraine



Source: Atlantic Council, WisdomTree. 2024 numbers are estimates. Iceland is excluded as it does not have a standing army.

While European defence spending has reached new milestones, the need for further investment remains. NATO estimates that 23 out of 32 members met the 2% target in 2024, a significant increase from just three nations in 2014. Yet, the demands of modern warfare, combined with NATO's evolving defence strategies, suggest that it may even be necessary to exceed this benchmark. European militaries face shortfalls in areas including advanced weaponry, cybersecurity, and munition stockpiles, all of which are crucial to maintaining readiness. The newly adopted NATO Defence Investment Pledge, reaffirmed at the 2023 Vilnius Summit, underscores the importance of investing at least 2% of the GDP in defence and potentially going further to remedy shortfalls.

European nations are not only focusing on meeting NATO's immediate requirements but are also laying the groundwork for long-term strategic autonomy. Initiatives such as the European Defence Industrial Strategy (EDIS) aim to strengthen Europe's defence industry by fostering innovation, enhancing collaboration, and reducing reliance on non-European suppliers. By prioritising investments in emerging technologies, such as artificial intelligence, advanced propulsion systems, and cybersecurity, Europe is aiming to position itself as a leader in military innovation. The European Defence Fund (EDF) further supports this pursuit, channelling billions into research and development to ensure that the continent's armed forces remain competitive and technologically advanced.

NATO estimates that 23 out of 32 members met the 2% target in 2024, a significant increase from just three nations in 2014.

## Conclusion

At President Trump's second inauguration, the presence of prominent technology CEOs was a telling symbol of the administration's priorities. Elon Musk, now a close deputy to the president, was an expected figure, joined by Jeff Bezos, Mark Zuckerberg, Sundar Pichai, Tim Cook, and Sam Altman. This signals the likelihood of a strong focus on technological innovation, supported by what could be a more favourable regulatory regime. However, the rise of power-hungry technologies will amplify the demand for energy independence, fuelling growth in energy technologies free from greenhouse gas emissions — a paradox given Trump's withdrawal from the Paris Agreement and his push for increased oil drilling.

Trump's influence is also likely to extend into encouraging greater defence spending, particularly in Europe, as the region grapples with ongoing geopolitical challenges. The series of executive orders signed by the president on his first day signals a willingness to take bold and decisive action on policy. As these dynamics unfold, markets will be watching closely.

The rise of power-hungry technologies will amplify the demand for energy independence, fuelling growth in energy technologies free from greenhouse gas emissions.

# 4.

## Crypto Outlook: 2025 — The year crypto goes mainstream

In this section

01	Institutional adoption of bitcoin: Redefining multi-asset portfolios	40
02	Bitcoin as a macro asset: Will it become a reserve asset?	43
03	US regulatory clarity: Accelerator for innovation	47
04	Stablecoins and tokenised assets: Financial systems on the blockchain	48
05	The next chapter: Altcoin resurgence in 2025	51
06	Conclusion	53

2025 marks a defining moment for crypto markets, ushering in a bold era of maturation fuelled by surging institutional adoption, shifting macroeconomic landscapes, and rapid ecosystem evolution. This is the year where innovation, regulation, and adoption collide to spark transformative growth, and those who act decisively will reap the rewards.

The backdrop? A world grappling with economic uncertainty. Inflation, unpredictable central bank policies, and shifting risk dynamics are rattling traditional markets. Against this chaos, digital assets stand out as a beacon of opportunity that is uniquely primed to thrive in turbulent macro conditions.

Bitcoin is solidifying its role as a portfolio must-have, while Ethereum's advancements in scaling are paving the way for mainstream adoption. Meanwhile, tokenisation is breaking barriers, injecting liquidity into previously untouchable markets, and unlocking unprecedented financial access and efficiency.

This convergence — regulatory clarity, groundbreaking technology, and expanding real-world utility — signals the undeniable maturity of crypto. In 2025, digital assets are no longer a speculative playground; they are a cornerstone of value creation for investors and institutions alike. For those ready to embrace the shift, this year will redefine the boundaries of finance, technology, and the global economy.

In 2025, digital assets are no longer a speculative playground; they are a cornerstone of value creation for investors and institutions alike.

### **Institutional adoption of bitcoin: Redefining multi-asset portfolios**

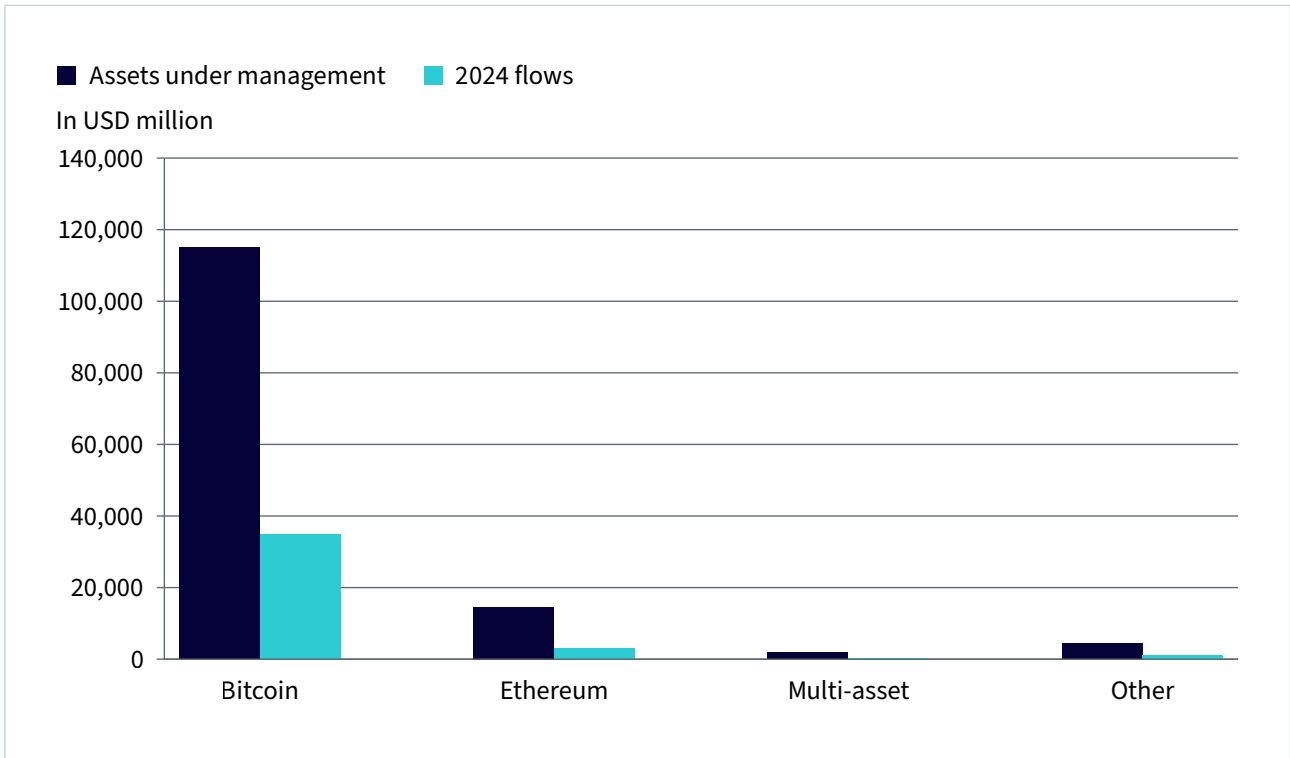
The year 2024 marked a pivotal moment for bitcoin, showcasing significant growth in both adoption and institutionalisation. The momentum was fuelled by the landmark listing of physical bitcoin ETPs in the United States, a milestone that culminated in bitcoin reaching an all-time high of over \$100,000<sup>15</sup> in December. By the end of the year, cryptocurrencies accounted for over \$3 trillion<sup>16</sup> in market capitalisation, representing approximately 1.5%<sup>17</sup> of the global market portfolio. Bitcoin's ascent firmly positioned digital assets alongside established categories, such as high-yield bonds and EM small cap equities.

15 Artemis Terminal. 31 December 2024.

16 Artemis Terminal. 31 December 2024.

17 WisdomTree. 31 December 2024.

Figure 20: Flows and assets under management (AUM)



Source: Bloomberg, 2 January 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Institutional adoption surged in 2024, as net inflows into bitcoin ETPs surpassed \$34 billion<sup>18</sup> globally. Traditional portfolio managers increasingly recognised bitcoin’s potential as a volatile but uncorrelated asset, enhancing the risk-return profiles of their multi-asset portfolios. The growing realisation that excluding bitcoin required a deliberate, defensible investment thesis underscored its emerging importance in portfolio construction.

Institutional investors are expected to further refine their multi-asset strategies to integrate bitcoin more comprehensively. The approximately 1.5% neutral allocation to bitcoin is likely to gain traction as a multi-asset portfolio standard, with underweighting or excluding the asset increasingly seen as a suboptimal choice absent strong justification. Bitcoin’s resilience, combined with its uncorrelated nature, continues to attract recognition as a critical component

The growing realisation that excluding bitcoin required a deliberate, defensible investment thesis underscored its emerging importance in portfolio construction.

<sup>18</sup> Bloomberg, WisdomTree. 31 December 2024.

of portfolio diversification.

Figure 21: Bitcoin in a multi-asset portfolio

	60/40 Global Portfolio	1% Bitcoin Portfolio	3% Bitcoin Portfolio	5% Bitcoin Portfolio	10% Bitcoin Portfolio	MSCI AC World	Bloomberg Multiverse	Bitcoin
Annualised return	5.51%	6.19%	7.54%	8.89%	12.22%	8.76%	0.36%	55.16%
Volatility	8.78%	8.85%	9.14%	9.61%	11.41%	13.92%	5.04%	67.14%
Sharpe ratio	0.44	0.52	0.65	0.76	0.93	0.51	-0.25	0.80
Information ratio		1.00	1.00	1.00	0.99			
Beta	70%	71%	73%	75%	81%	100%	24%	181%

Source: Bloomberg, WisdomTree. From 31 December 2013 to 31 December 2024. In USD. Based on daily returns. The 60/40 Global Portfolio is composed of 60% MSCI All Country World and 40% Bloomberg Multiverse. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investment may go down in value.**

The data underscores this shift. Portfolios, even with modest bitcoin allocations, have historically outperformed traditional 60/40 allocations, offering superior annualised returns and Sharpe ratios with manageable increases in volatility. As institutional confidence deepens, net inflows into bitcoin ETPs could surpass the record-breaking levels of 2024.

In 2025, bitcoin is well positioned to build on the foundation established in the prior years. The market may see a proliferation of innovative bitcoin-based financial products designed to manage drawdowns and/or volatility, making the asset even more accessible to risk-sensitive investors. Meanwhile, regulatory clarity in major markets could further bolster adoption, solidifying bitcoin’s role as a core component of global investment portfolios.

## Bitcoin as a macro asset: Will it become a reserve asset?

Bitcoin truly emerged as a macro asset in 2024, with price action swinging dramatically in response to various geopolitical and macroeconomic developments. Its fixed supply and decentralised network have become increasingly attractive amid persistent inflation and rising global tensions.

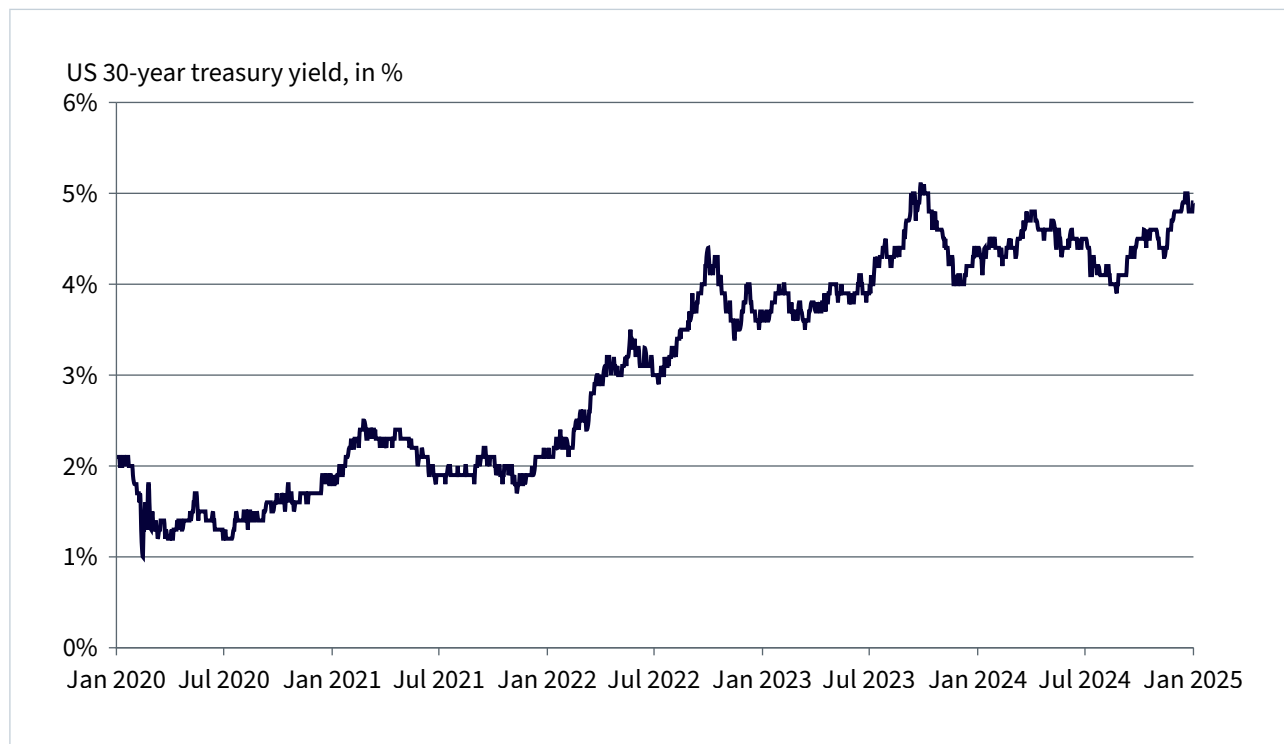
We've witnessed events such as the blow-up of the yen carry trade last August, alongside escalating tensions in the Middle East, exemplified by Iran attacking Israel, both triggering short-term volatility and drawdowns in bitcoin's price. Releases of key macroeconomic data, including job reports and Federal Reserve minutes, have further propelled bitcoin to the forefront of market reactions. It's becoming increasingly evident that bitcoin functions as the benchmark for the crypto ecosystem and as a barometer of risk-on sentiment. Its disinflationary and decentralized design sets it apart from other investments in the macro landscape, offering a uniquely alternative growth asset.

It's becoming increasingly evident that bitcoin functions as the benchmark for the crypto ecosystem and as a barometer of risk-on sentiment.

### A potential 'strategic reserve asset'

Cementing this position is the United States' proposal to acquire bitcoin as a 'strategic reserve asset', mirroring other nations that have already done so. This move is especially timely given high borrowing costs in the US, a ballooning budget deficit, and President Trump's 'America first' policies, which the Congressional Budget Office projects may drive federal debt to 160% of GDP by 2050. His combination of tax cuts and tariffs could spur further inflation, as reflected in bond markets where the 30-year yield approached 5% earlier this January.

Figure 22: US 30-year treasury yield



Source: Board of Governors of the Federal Reserve System (US). 28 January 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Should the US formalise such a strategic reserve — a concept Senator Cynthia Lummis likens to a ‘modern-day Louisiana Purchase’ — it would be a fascinating geopolitical manoeuvre. Nation states have historically acquired strategic assets, though typically in the form of land or other physical resources. If enacted, the implications for both bitcoin and geopolitics would be profound.

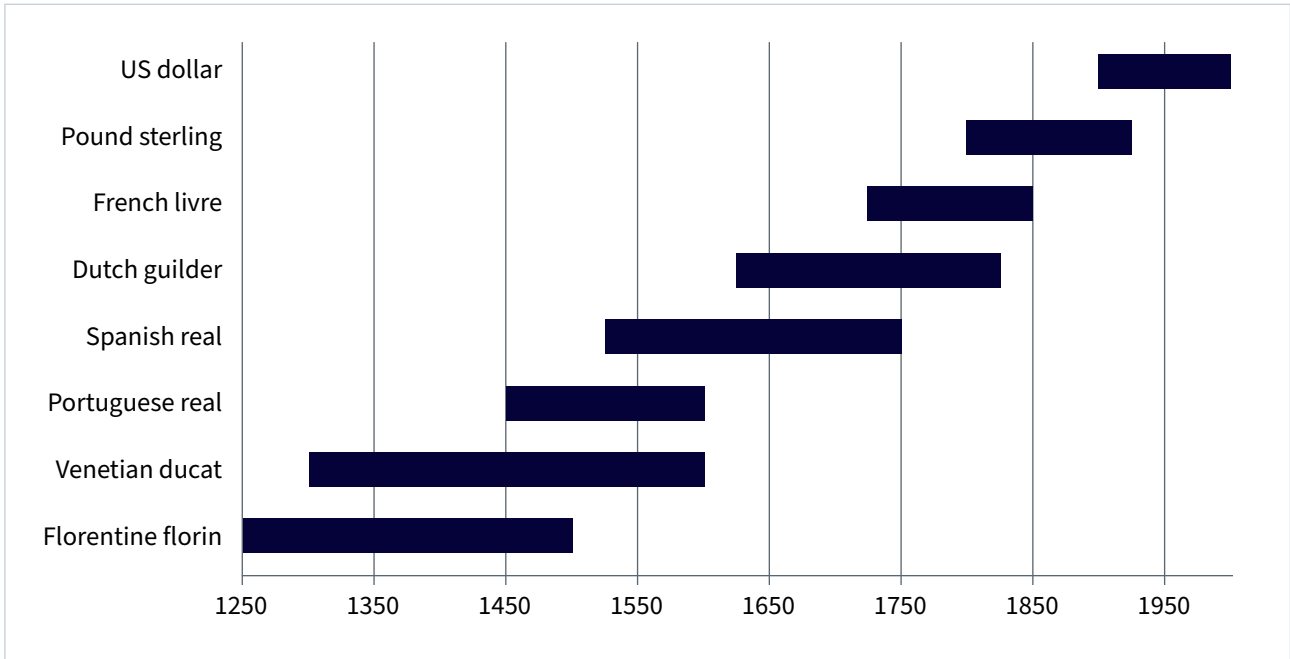
### Safeguarding the US dollar’s global reserve status

A primary motivation behind such a reserve is to safeguard the US dollar’s role as the global reserve currency. The United States benefits from what economists term the ‘exorbitant privilege’, offering advantages as the issuer of the world’s primary reserve currency due to persistent global demand for dollars and dollar-denominated assets. This demand allows the US to borrow at lower interest rates, sustain trade deficits without significant currency devaluation, and maintain unparalleled fiscal and monetary flexibility. As Ray Dalio stated in his book *Principles for Dealing with the Changing World Order*<sup>19</sup>, ‘No system of government, no economic system, no currency, and no empire lasts forever, yet almost everyone is surprised and ruined when they fail.’

<sup>19</sup> *Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail*, Ray Dalio. Simon & Schuster, November 2021.

Dalio's warning underscores the fragility of dominant systems, which is best exemplified by the efforts by BRICS nations<sup>20</sup> to pivot away from the dollar-based reserve system. So far, these efforts have had limited success, but they signal that shifts may be underway.

Figure 23: Rise and fall of major reserve currencies since 1250



Source: 'A Journey Through Time: The Evolution of Major Reserve Currencies', in The Bitcoin Hole, published 26 March 2024 on Medium.com. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Preventing these shifts and avoiding the decay of a global reserve currency status typically requires addressing fiscal excess, which is an unpopular move demanding either reduced spending or higher taxes. If other countries begin adopting an alternative reserve asset outside of the US dollar, bitcoin could emerge as a compelling candidate. Its maximum supply of 21 million, codified monetary policy, and deflationary trajectory resemble gold's scarcity, while also offering the added benefits of decentralization, censorship resistance, and the transactability of digital money.

If other countries begin adopting an alternative reserve asset outside of the US dollar, bitcoin could emerge as a compelling candidate.

<sup>20</sup> BRICS is an acronym representing a group of five major emerging economies: Brazil, Russia, India, China, and South Africa.

Figure 24: Attributes of bitcoin

Attribute	Bitcoin	Gold	Fiat	Commentary
Scarce	✓	✓	–	Bitcoin and gold have fixed supply; fiat can be printed freely.
Divisible	✓	–	✓	Bitcoin and fiat are highly divisible; gold has physical limits.
Portable	✓	–	✓	Bitcoin and fiat are portable; gold is heavy and more difficult to transfer.
Decentralization / censorship resistance	✓	–	–	Bitcoin is peer-to-peer; gold and fiat transactions can be blocked or seized by centralised intermediaries.
Durable	✓	✓	–	Bitcoin and gold are durable; fiat value depends on government policy and stability.
Verifiable	✓	✓	–	Bitcoin is verifiable by code and math; gold and fiat can be counterfeited.
Established history	–	✓	✓	Gold has a long history; bitcoin is newer, and fiat lacks long-term value stability.

Source: WisdomTree, Satoshi Club via Reddit. Accessed 30 October 2024.

### The geopolitical contest

In the geopolitical race to gain economic power, nations can aim to control the reserve currency, as the US does now, or if that becomes infeasible, secure ownership of whichever asset might supplant it. Should the next reserve asset be bitcoin, early adopters stand to benefit significantly. If the US were the first G20 country to add bitcoin to its strategic reserves, it might be one of the century’s most consequential geopolitical moves. Even a modest purchase could yield an asymmetric upside if other countries follow suit, driving bitcoin’s price towards lofty targets, with some analysts pointing to a price of \$1 million and beyond. This would therefore strengthen the US balance sheet and preserve its economic power. The cost of such an acquisition would be negligible and could easily be covered by the continued issuance of Treasuries or the already bloated budget. After all, the government can simply print dollars — but it cannot print bitcoin.

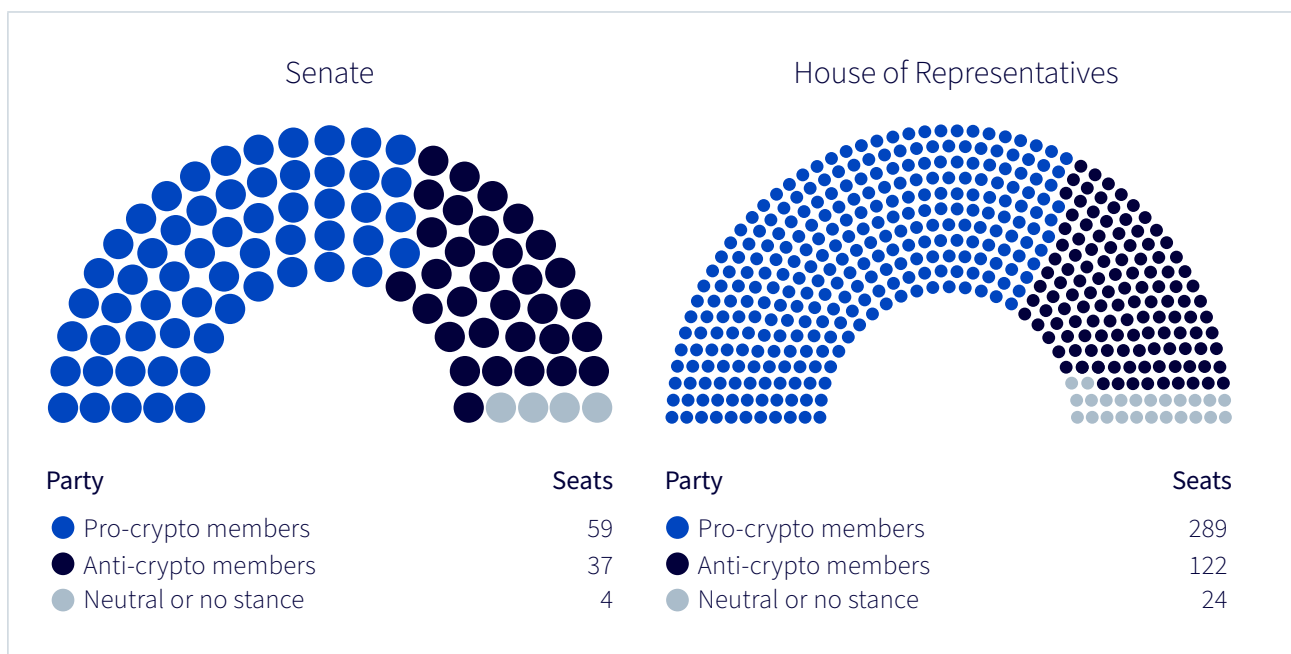
The government can simply print dollars — but it cannot print bitcoin.

As President Trump enters the White House with his new team, it will be intriguing to see how these considerations evolve. Should the US take steps towards adding bitcoin to its strategic reserves, it could set the geopolitical tone for the next few years, cementing bitcoin’s status as the leading cryptocurrency and a premier long-term store of value, potentially standing alongside US Treasuries and gold as a globally recognised reserve asset.

### US regulatory clarity: Accelerator for innovation

Donald Trump’s election as the first pro-crypto president, along with Republican control of both the Senate and the House of Representatives, signifies a transformative period for digital assets. This political alignment is expected to foster pro-innovation legislation, reflecting the increasing acceptance of blockchain technology across the political spectrum. According to Stand With Crypto, there are more policymakers supporting blockchain initiatives than ever before, indicating a significant shift in sentiment.

Figure 25: Pro-crypto seats in the US Senate and House of Representatives



Source: Stand With Crypto and Coinbase. November 2024.

Under former Securities and Exchange Commission (SEC) Chair Gary Gensler, the crypto industry endured a regulatory crackdown targeting major players across the ecosystem with lawsuits and wells notices, which stifled innovation and dampened investor confidence. With Gensler stepping down, a more supportive SEC leadership under Paul Atkins is poised to adopt a clearer, more collaborative regulatory framework, potentially reigniting growth and innovation across the sector. Another key appointment in the new administration is David Sacks, named the White House’s ‘AI

and Crypto Czar'. A venture capitalist and former PayPal executive, Sacks will shape cryptocurrency regulations and lead a presidential advisory council on science and technology. His appointment underscores Trump's commitment to industry-friendly policies aimed at fostering innovation and growth, which stands in stark contrast to the prior administration. Furthermore, it reinforces the new administration's aim to position the United States as a global leader in digital assets.

As regulatory clarity takes hold, a surge in crypto venture capital investment is anticipated, echoing past bull markets. This more favourable environment could unlock additional institutional funding for emerging use cases, laying the groundwork for rapid technological innovation across the ecosystem. Meanwhile, the range of crypto investment products continues to broaden, opening doors to new investor bases. While bitcoin and ethereum ETPs remain pivotal, recent filings for XRP and Solana ETPs suggest a wider array of offerings. Enhanced staking features for ethereum ETPs could also appeal to both retail and institutional audiences, further expanding participation in the US market.

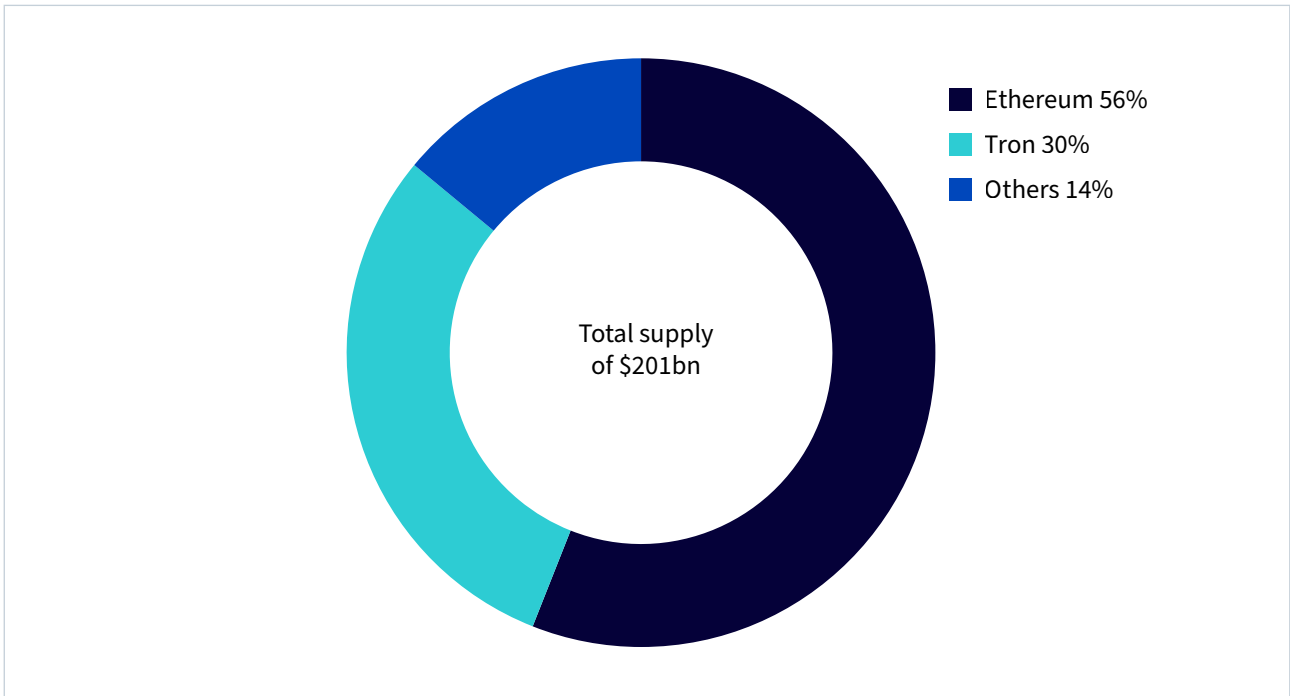
Moreover, the Trump administration's pro-innovation stance was set to accelerate the convergence of traditional finance and decentralized finance (DeFi). Coinbase's recent launch of bitcoin-backed loans — utilising DeFi protocols — illustrates how these realms can be integrated. As more institutions adopt blockchain solutions, this fusion could reshape financial systems, creating novel avenues for credit, liquidity, and on-chain services. As we look ahead to 2025, we may witness a dramatic acceleration that bridges digital assets and blockchain with our traditional economy, ushering in a new era of growth, efficiency, and global financial innovation.

As we look ahead to 2025, we may witness a dramatic acceleration that bridges digital assets and blockchain with our traditional economy, ushering in a new era of growth, efficiency, and global financial innovation.

### **Stablecoins and tokenised assets: Financial systems on the blockchain**

Stablecoins are becoming an indispensable pillar of the global financial system, combining the stability of traditional assets with the speed, transparency, and efficiency of blockchain technology. Platforms such as Ethereum dominate the stablecoin ecosystem, hosting market leaders such as Tether (USDT) and USD Coin (USDC), which facilitate billions of dollars in daily transactions. These digital assets are no longer confined to cryptocurrency markets, but have found their way into broader financial applications, including international payments, remittances, and DeFi.

Figure 26: Key stablecoin chains



Source: Artemis Terminal, WisdomTree. 5 January 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

As we move into 2025, the role of stablecoins within the financial ecosystem is poised to expand significantly. Blockchain networks, such as Solana and XRP Ledger, are emerging as critical players in this space. Solana's high-speed, low-cost infrastructure makes it a natural fit for stablecoin payments and remittance solutions, enabling near-instant transactions at very low costs. Similarly, XRP Ledger's focus on cross-border efficiency positions it as a leader in global settlements, reducing friction in international commerce.

Institutional adoption is accelerating this shift, as enterprises and financial institutions increasingly incorporate stablecoins into their operations. Moreover, the growing popularity of DeFi applications ensures that stablecoins remain the backbone of an interconnected, borderless financial system, seamlessly linking traditional finance with blockchain-based innovations.

As we move into 2025, the role of stablecoins within the financial ecosystem is poised to expand significantly.



### **Tokenisation: Redefining ownership and access to value**

Tokenisation is revolutionising how we perceive and manage ownership and value. By converting physical and intangible assets such as real estate, commodities, stocks, and art into digital tokens, this transformative process breaks down traditional barriers to investment, unlocking unprecedented liquidity and accessibility. In 2025, the tokenisation of assets is set to scale dramatically, empowering investors to own fractions of high-value assets previously out of reach.

The integration of tokenised assets into DeFi platforms will unlock new opportunities for financial innovation. Imagine using tokenised real estate or artwork as collateral for decentralised loans or participating in liquidity pools with fractional shares of commodities. This convergence of tokenisation and DeFi creates a financial ecosystem that is more inclusive, transparent, and efficient, addressing long-standing inefficiencies in traditional finance.

### **Complementing, not competing**

It is important to recognise that tokenisation and stablecoins are not competitors to cryptocurrencies; instead, they complement them by broadening blockchain's real-world applications. Stablecoins provide the liquidity and stability that underpin blockchain-based ecosystems, while tokenisation extends blockchain's utility to industries such as private equity, venture capital, and real estate.

## **The next chapter: Altcoin resurgence in 2025**

The crypto industry reached a significant turning point in 2024, with regulatory breakthroughs that permitted the listing of physical bitcoin and Ethereum ETPs in key developed markets. These milestones lowered barriers for institutional and retail investors alike, offering a seamless way to gain exposure to the two crypto mega cap names. By the end of 2024, institutional inflows and retail participation surged, signalling that cryptocurrencies were no longer viewed as fringe investments but as legitimate components of diversified portfolios.

Building on the progress of 2024, 2025 is poised to be a transformative year for altcoins, as regulatory environments in the United States and other major markets become more accommodating. Mirroring Europe's progressive approach, these jurisdictions are expected to approve ETPs for leading altcoins, such as Solana and XRP. Recognised for their distinct value propositions and growing adoption, these assets are well suited for institutional-grade investment vehicles.

### **Altcoins making their marks**

Solana and XRP illustrate how altcoins are carving out distinct niches within the blockchain ecosystem:

- + Solana: known for its high throughput and low-cost transactions, Solana is optimised for decentralized applications (dApps) and emerging use cases including gaming, DeFi, and non-fungible tokens (NFTs).
- + XRP: Positioned as a leader in cross-border payments and global settlements, XRP offers scalable, cost-effective solutions for financial institutions, making it a natural fit for institutional adoption.

By approving ETPs for assets such as Solana and XRP, regulators would broaden the spectrum of crypto investment opportunities. This would enable institutional investors to diversify beyond bitcoin and ether, accessing utility-driven segments of the blockchain ecosystem without the operational complexities of direct ownership.

### **The base layer battle intensifies**

The rise of altcoin ETPs also underscores the ongoing competition among blockchains to become the foundational infrastructure, or 'base layer', of the decentralized economy. While Ethereum remains the dominant player, challengers such as Solana, Avalanche, and Polkadot are gaining traction by addressing critical limitations such as scalability, transaction speed, and interoperability.

In 2025, this battle for the base layer is expected to intensify. Each blockchain is vying to attract dApps and ecosystem participants by offering tailored solutions for specific niches. The result could be a multi-chain future where blockchains specialise in areas such as DeFi, payments, or gaming, fostering both competition and collaboration.

### **Catalyst for growth**

The approval of altcoin ETPs in 2025 would act as a catalyst for their resurgence, driving renewed interest and adoption across retail and institutional segments. These developments are set to expand the diversity of crypto investment opportunities, moving the market beyond its historical reliance on bitcoin and ether.

Altcoins with clear utility and robust developer ecosystems are particularly well positioned to thrive. As they become more accessible through familiar investment vehicles, they are likely to attract significant capital inflows, fuelling innovation and further integrating cryptocurrencies into the global financial system.

By 2025, altcoins are no longer speculative assets defined solely by price movements. Instead, they are increasingly recognised for their ability to solve real-world problems. Whether addressing challenges such as scalability, interoperability, or payment efficiency, these assets are helping to build a more inclusive and efficient financial system.

### **The road ahead**

The resurgence of altcoins, driven by regulatory progress and institutional adoption, highlights the growing maturity of the crypto market. As competition for the base layer intensifies, the resulting innovation and diversification will shape the future of digital finance, driving the next phase of growth for cryptocurrencies as an asset class. For investors, this evolution offers not just an opportunity but a chance to participate in the transformation of the global financial landscape.

## Conclusion

The dawn of 2025 heralds a turning point for cryptocurrencies, stablecoins, and tokenised assets as they transition from speculative instruments to critical components of the global financial ecosystem. This evolution is powered by a confluence of regulatory clarity, technological advancements, and a growing recognition of the utility these assets bring to solving real-world challenges.

Bitcoin and Ethereum have set the stage, but the true transformation lies in the rise of altcoins, stablecoins, and tokenised assets that are breaking new ground in areas such as scalability, payment efficiency, and financial inclusivity. Institutional adoption, backed by regulatory approval of innovative financial products such as ETPs, signals deepening confidence in the sector's maturity.

As blockchains compete to become the backbone of the decentralised economy, the future promises a multi-chain world in which specialised platforms collaborate to address diverse use cases. The integration of traditional finance with blockchain-based innovations is accelerating, creating unparalleled opportunities for investors, institutions, and developers to shape the financial systems of tomorrow.

In this bold new era, cryptocurrencies are no longer a niche interest — they are a cornerstone of modern finance, poised to redefine how we create, store, and exchange value. For those ready to act decisively, 2025 offers a chance not just to witness this transformation but to lead it. The future of finance is here, and it is digital.

The future of  
finance is here,  
and it is digital.

## Important information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

**The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.



WisdomTree.eu  
+44 (0) 207 448 4330