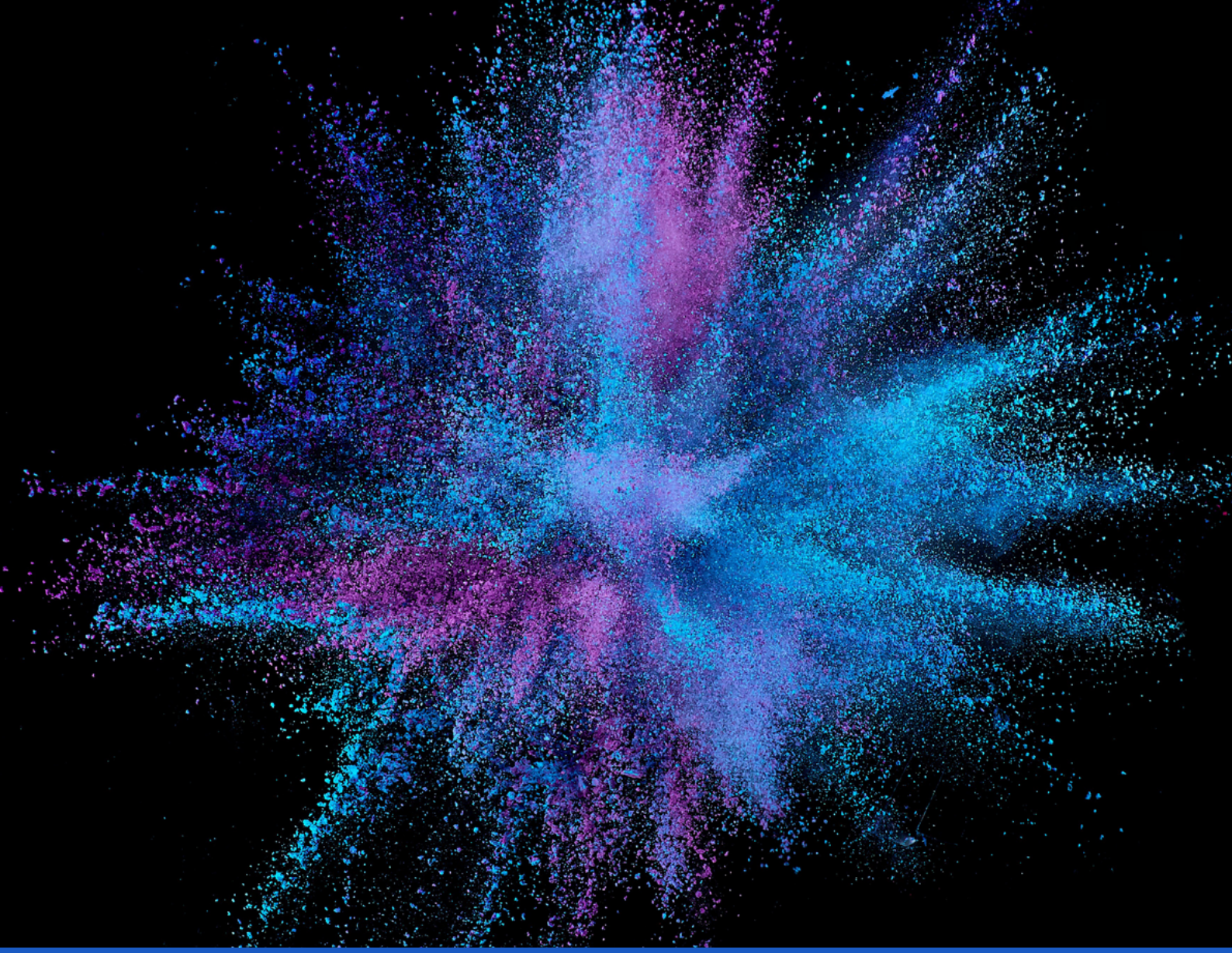

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WisdomTree Market Outlook: Opportunity in Dispersion

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Commodity Outlook: Late cycle, new regimes

In this section

The global economy enters 2026 in the late stages of the post-pandemic business cycle. More than five years after the COVID-19 recession, growth has moderated, but remains resilient, supported by policy accommodation, fiscal incentives, and continued investment in strategic technologies such as artificial intelligence. Neither market consensus nor WisdomTree's central scenario anticipates an imminent recession, suggesting that much of the year is likely to be spent in a late-cycle expansion rather than a downturn.

Historically, this phase of the cycle has been constructive for commodities. As capacity utilisation rises and supply constraints become more binding, commodities have tended to outperform traditional risk assets. Importantly, commodity and equity cycles are not synchronised. While equities are driven primarily by earnings expectations and financial conditions, commodities respond more directly to physical supply–demand balances. As a result, commodities have historically provided meaningful diversification benefits within multi-asset portfolios, particularly late in the cycle.

The macro outlook for 2026 is increasingly two-sided. On the downside, front-loaded trade flows are likely to fade, trade diversion is encountering resistance, and optimism around artificial intelligence-driven productivity gains can be reassessed. On the upside, tariff outcomes may prove less severe than initially feared, legal uncertainty could slow the pace of new trade restrictions, monetary conditions may continue to ease in the United States, the United Kingdom, and a few other jurisdictions, and the United States political cycle ahead of mid-term elections may encourage additional fiscal support. This balance of risks favours assets that can participate in continued expansion while offering resilience if growth deteriorates.

The US dollar faces renewed structural headwinds. Persistent fiscal and current account deficits, combined with a perceived erosion of geopolitical reliability, point to ongoing downward pressure over the medium term. Historically, dollar weakness has been supportive for commodities, reinforcing their late-cycle appeal.

Within commodities, metals stand out as the clearest expression of structural change. Precious metals, led by gold, appear to be undergoing a regime shift rather than a cyclical rally. Gold's strongest annual performance since 1979 reflects trade fragmentation, rising concerns around fiscal dominance, pressure on central bank independence, and a reassessment of global security arrangements. These forces have been reinforced by new, structurally durable sources of demand, including central banks, Chinese insurance companies, Indian pension funds, and non-traditional institutional buyers. Silver has acted as a high-beta extension of this trend, reflecting its much smaller and less liquid market.

In industrial metals, the composition of demand has shifted decisively. The era of China's property-led commodity supercycle has ended, but it has been replaced by sustained demand from electrification, the energy transition, and data centre infrastructure. Copper exemplifies this dynamic, with structurally rising demand colliding with fragile and highly concentrated supply. Aluminium and battery metals (such as lithium, cobalt, and nickel) increasingly reflect policy-constrained or policy-managed supply, reinforcing the case for tighter balances over time.

By contrast, oil markets appear structurally well-buffered. Despite elevated geopolitical risk and recent supply disruptions, substantial inventory builds in 2025 and robust non-Organization of the Petroleum Exporting Countries (non-OPEC) supply growth limit the scope for sustained upside in the base case.

Overall, the commodity outlook for 2026 is defined less by cyclical swings and more by structural realignment. Late-cycle macro conditions, dollar headwinds, geopolitical fragmentation, and persistent supply constraints collectively favour commodities, particularly metals, as both return-seeking assets and strategic portfolio diversifiers.

Macro backdrop: Late cycle, but not late game

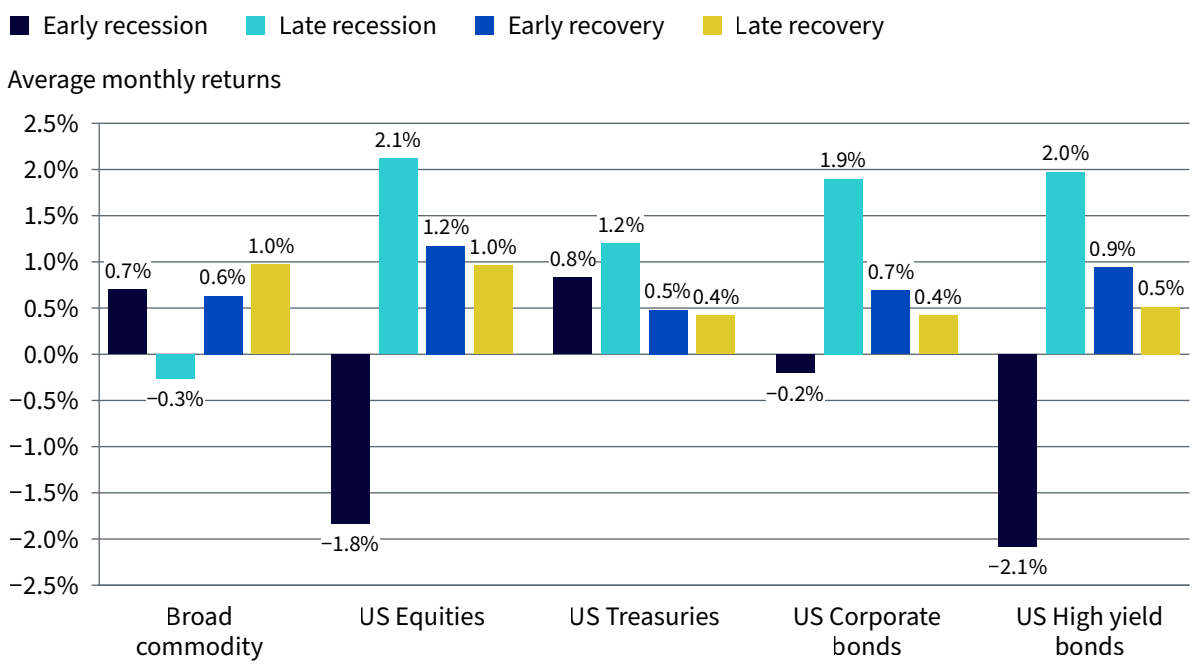
The global economy enters 2026 firmly in the late stages of the post-pandemic business cycle. More than five years after the COVID-19 recession, growth has moderated but remains resilient. Labour markets are still relatively tight, inflation pressures have eased, but not fully receded, and financial conditions, while no longer loosening aggressively, remain broadly supportive. Neither market consensus nor WisdomTree's central scenario anticipates an imminent recession, suggesting that much of the year is likely to be spent in a late-cycle expansion rather than transitioning into a downturn.

Historically, this phase of the cycle has been constructive for commodities (see Figure 1). As expansions mature, spare capacity diminishes, underinvestment in new supply becomes more apparent, and marginal production costs rise. These conditions tend to favour commodity prices relative to other financial assets, particularly when growth remains positive but slows from peak rates. Unlike equities, which are heavily influenced by earnings expectations and valuation multiples, commodities respond more directly to physical supply–demand balances.

Although both commodities and equities are cyclical, their cycles are not synchronised. Equity markets tend to struggle as growth slows and earnings expectations are revised lower, whereas commodities often perform best when demand remains firm, but supply constraints begin to bind. As a result, combining commodities and equities has historically delivered diversification benefits, particularly late in the business cycle.

Historically, this phase of the cycle has been constructive for commodities.

Figure 1: Performance across different parts of the business cycle



Source: WisdomTree, Bloomberg, S&P. From January 1960 to December 2025. Calculations are based on monthly returns in USD. Broad commodities (Bloomberg Commodity Total Return Index) and US Equities (S&P 500 Gross Total Return Index) data began in January 1960. US Treasuries (Bloomberg US Treasury Total Return Unhedged USD Index) and US corporate bonds (Bloomberg US Corporate Total Return Unhedged USD Index) data began in January 1973. US high-yield bond data (Bloomberg US corporate high-yield total return unhedged USD index) began in July 1983. Expansion and recession phases are defined using the National Bureau of Economic Research (NBER) website. To define early and late expansion/recession, the periods are split in half timewise.
Historical performance is not an indication of future performance, and any investments may go down in value.

Importantly, commodities also offer asymmetric protection if the macro outlook deteriorates more abruptly than expected. Should the global economy slip into recession during 2026, the initial phase would likely be negative for equities, as risk appetite fades and profits come under pressure. By contrast, commodities have historically performed relatively well during the early stages of recessions, delivering returns comparable to United States Treasuries over similar phases of the cycle. This reflects a combination of currency effects, policy responses, and the tendency for supply adjustments to lag demand slowdowns.

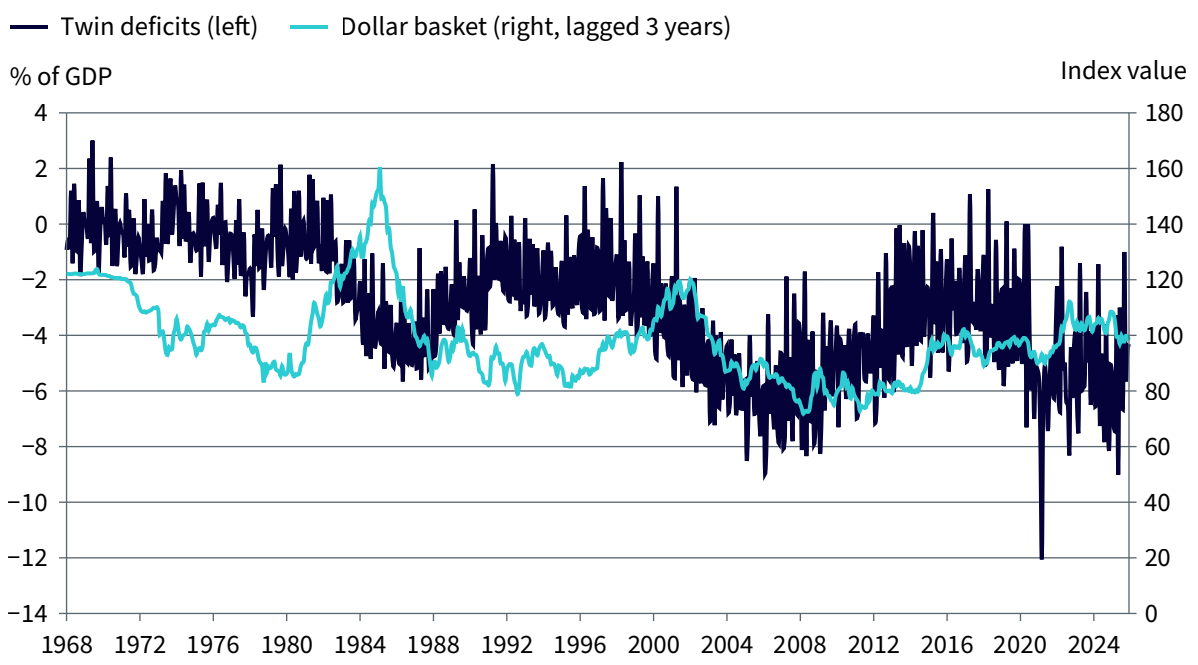
In short, whether the global economy remains in a prolonged late-cycle expansion or transitions unexpectedly into recession, the macro backdrop remains supportive for commodities relative to traditional risk assets, such as equities. This combination of late-cycle participation and early-recession resilience underpins our continued strategic conviction in the asset class.

The US dollar: Structural headwinds reassert themselves

After depreciating by close to 11% between January and September 2025, the US dollar staged a modest year-end recovery. However, from mid-January 2026, the currency resumed its downward trajectory. While short-term moves have been influenced by shifting interest rate expectations, the broader trend reflects structural rather than cyclical pressures.

Persistent 'twin deficits' (widening fiscal and current account shortfalls) remain central to the US dollar's medium-term outlook. The growing burden of interest expenses on the Federal Budget is likely to become constraining. Historically, sustained deficit expansion has been associated with currency depreciation (see Figure 2), albeit with a lag. Excluding the pandemic-related spike in 2020, the past three years have been characterised by continued fiscal loosening and external imbalances, suggesting ongoing downward pressure if these trends persist.

Figure 2: US dollar and US twin deficits



Source: WisdomTree, Bloomberg. From January 1968 to December 2025. Twin Deficit = Current Account + Budget Deficit as a % of GDP. Dollar Basket (DXY). **Historical performance is not an indication of future performance, and any investments may go down in value.**

Beyond macro fundamentals, confidence in the United States as a reliable geopolitical and economic anchor has been eroded. Greater use of trade policy as a strategic tool and increased uncertainty around security commitments have encouraged diversification away from US-centric assets. While this shift is gradual, it reinforces existing structural headwinds.

For commodities, a weaker US dollar is typically supportive. As most commodities are priced in dollars, currency depreciation tends to ease financial conditions for non-United States consumers and investors, supporting demand and prices at the margin. In the current environment, dollar weakness acts as a cross-asset tailwind, reinforcing the constructive case for commodities, particularly those already characterised by tight physical balances.

For commodities, a weaker US dollar is typically supportive.

Gold: Entering a new regime

Thesis: From diversifier to pseudo-currency

Gold delivered its strongest annual performance since 1979 in 2025, rising by roughly 65%[1]. While gold has historically benefited from cyclical tailwinds, such as falling real yields or episodic risk aversion, the scale and persistence of the recent rally increasingly point to a structural regime shift rather than a late-cycle overshoot. Trade fragmentation, rising public debt burdens, pressure on central bank independence, and a reassessment of geopolitical security have collectively expanded gold's role from portfolio diversifier to pseudo-currency. These forces appear durable, suggesting that gold may be transitioning towards a higher long-term equilibrium.

Evidence and mechanics: The drivers behind the shift

Trade fragmentation and deglobalisation

The introduction of the so-called 'Liberation Day' tariffs in April 2025 marked an inflection point in how markets perceived global trade. Rather than pricing a temporary disruption, investors increasingly began to discount the risk that the globally integrated economic framework that had underpinned growth for much of the past half century was being structurally weakened. Rising uncertainty around supply chains, retaliatory trade measures, and inward-looking industrial policy supported demand for assets outside the traditional trade and financial system. Gold benefited from its unique position as a neutral asset untethered to any single political or economic bloc.

1 Bloomberg, 10 January 2026.

Fiscal dominance and gold as a store of value

Concerns around rising public debt have intensified across advanced economies. As debt stocks grow, the probability that fiscal considerations will begin to constrain monetary policy increases. Under such a regime (commonly referred to as fiscal dominance), central banks may tolerate looser financial conditions to preserve market stability, even if inflation risks persist.

As debt stocks grow, the probability that fiscal considerations will begin to constrain monetary policy increases.

Gold is structurally well-positioned in this environment. With limited supply growth and no associated credit risk, it acts as a hedge against the potential debasement of fiat currencies issued by heavily indebted sovereigns. Importantly, this dynamic extends beyond private investors. Central banks themselves have increasingly turned to gold to enhance the resilience of their reserve portfolios, particularly those holding large quantities of foreign currency assets.

Central bank independence and political pressure

Gold's appeal has also been reinforced by rising concerns about central bank independence. Repeated public criticism of the United States Federal Reserve by President Trump has not materially altered policy outcomes to date, but it has weakened perceptions of institutional insulation from political pressure. Leadership transitions matter in this context. When Chair Jerome Powell steps down in May, the next chair may prove less resistant to fiscal or political influence at the margin.

Markets need not anticipate a wholesale return to pre-Volcker monetary policy for gold to respond. Even a modest increase in perceived fiscal dominance has historically been sufficient to drive material changes in gold pricing, particularly when combined with elevated debt levels.

Geopolitical risk and the erosion of security guarantees

Gold's rise also reflects a broader reassessment of geopolitical risk. In 2025, the United States signalled a material retreat from its traditional role as guarantor of North Atlantic Treaty Organization (NATO) security, prompting allies to question longstanding assumptions around collective defence. This uncertainty deepened in early 2026 as direct threats were made against alliance members, most notably during the recent Greenland episode.

For markets, this represents a shift from a world anchored by predictable security commitments to one characterised by transactional power and strategic ambiguity. In such an environment, gold's status as a reserve asset outside any single sovereign security framework has regained prominence.

Is gold leaving its 'steady state'?

WisdomTree's gold valuation framework has been calibrated using data from 1995 to 2025, a period characterised by relatively credible monetary policy, stable security arrangements, and an open global trading system. Earlier data are unavailable for several key inputs, particularly futures market positioning.

The experience of 2025 raises the possibility that this period represented a steady-state regime that may now be ending. A global trade reset, heightened fears of fiscal dominance, a partial withdrawal of the United States security umbrella from Europe, and the emergence of new institutional buyers all suggest that gold may be transitioning to a structurally different environment. If so, models calibrated on the past three decades may systematically underestimate gold's equilibrium price.

A global trade reset, heightened fears of fiscal dominance, a partial withdrawal of the United States security umbrella from Europe, and the emergence of new institutional buyers all suggest that gold may be transitioning to a structurally different environment.

Boundary conditions: What would change the outlook?

A sustained reversal in gold's trajectory would likely require a combination of credible fiscal consolidation, a durable strengthening of the US dollar, and a restoration of confidence in both central bank independence and global security guarantees. While short-term corrections are likely, given the magnitude of recent gains, none of these conditions currently appear imminent.

Investment implications

Gold should no longer be viewed solely as a late-cycle hedge or tactical inflation protector. Instead, it increasingly functions as a strategic reserve asset, supported by structural shifts in fiscal policy, geopolitics, and institutional behaviour. In a world defined by fragmentation and policy uncertainty, gold's relevance, and its long-term equilibrium, appears materially higher than in the pre-2020 era.

Silver: A high-beta expression of the precious metal regime

Thesis: Gold's momentum in a much smaller market

Silver prices surged beyond US $100 per ounce in late January 2026, more than tripling in less than 12 months[2]. Unlike gold, silver does not play a formal monetary role and is not held as a reserve asset by central banks. Its recent performance is therefore best understood not as an independent phenomenon but as a high-beta extension of gold's regime shift into a structurally smaller and less liquid market.

Evidence and mechanics: Why silver moves faster

As gold prices have risen sharply, some investors have sought alternative exposure to precious metals perceived as relatively undervalued. Silver has historically filled this role during periods of heightened monetary and geopolitical uncertainty. While it lacks gold's monetary credibility, silver shares several characteristics that become relevant during regime shifts: durability and limited supply growth.

Crucially, silver's price behaviour is shaped by the small size of its investable market. The annual mining value of silver is estimated to be roughly one-eighth that of gold, while the investable silver market, after accounting for industrial consumption and long-term holdings, is likely less than one-tenth the size of the investable gold market. Liquidity across over-the-counter and exchange-traded silver markets is also substantially lower than in gold markets.

These structural differences mean that relatively modest capital inflows can generate disproportionately large price moves. As demand accelerates, prices must adjust sharply to rebalance the market, producing rapid, non-linear rallies that have historically characterised silver bull phases.

Silver's hybrid nature adds a further constraint. A significant share of demand is tied to industrial uses, including electronics and energy transition technologies, reducing the volume available to investors and amplifying price sensitivity during periods of rising investment demand.

Investment implications

Silver should be viewed as a high convexity complement to gold rather than a substitute. Its smaller market size and lower liquidity make it an efficient vehicle for expressing regime-change dynamics in precious metals, albeit with substantially higher volatility. For investors able to tolerate that volatility, silver offers leveraged exposure to the same structural forces reshaping the gold market.

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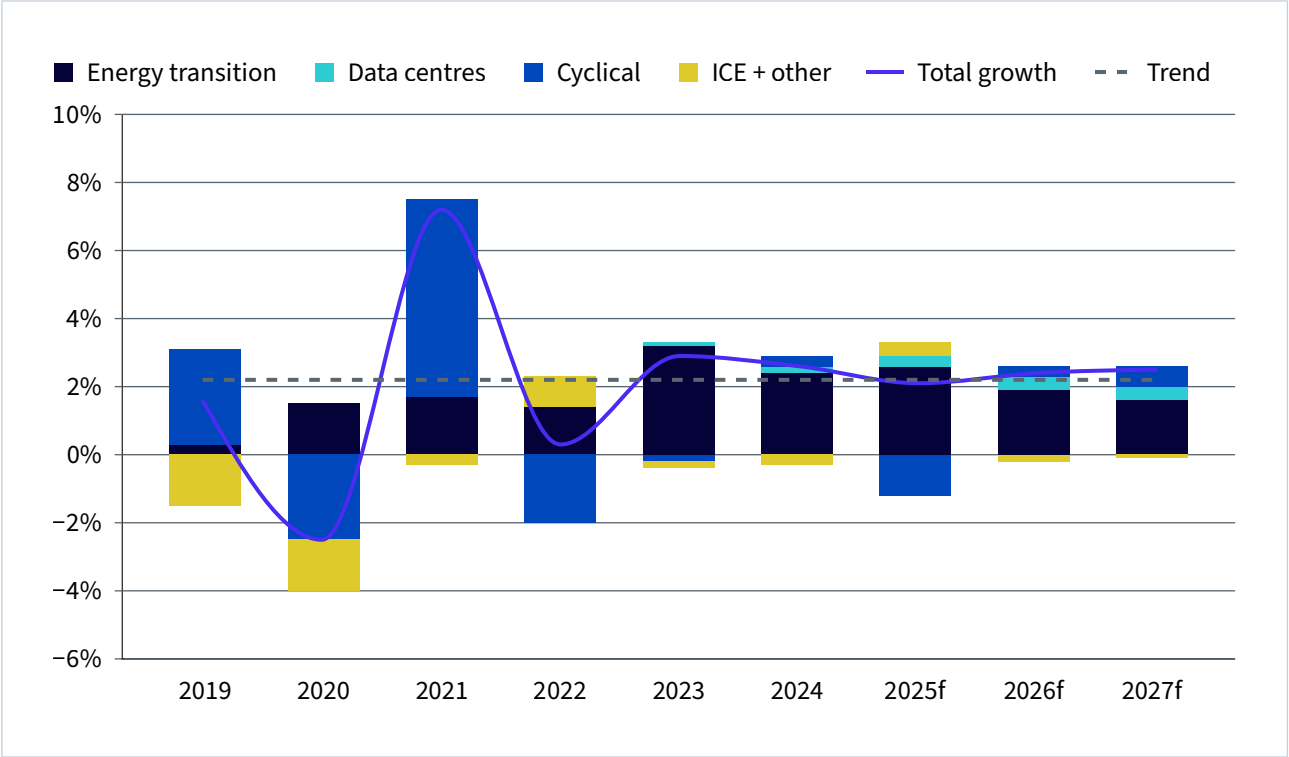
2 Bloomberg, 25 January 2026.

Copper: Tight today, tighter tomorrow

Thesis: The backbone of electrification

Copper is increasingly defined by structural demand and fragile supply rather than by short-term fluctuations in global growth. Its unique electrical and thermal conductivity makes it indispensable to electrification, renewable energy, electric vehicles, grid expansion, and data centre infrastructure (see Figure 3). As a result, copper demand is now driven less by traditional cyclical sectors and more by policy-supported, capital-intensive investments. With supply growth struggling to keep pace, copper markets appear structurally tight heading into 2026, with risks skewed towards persistent deficits.

Figure 3: Contributions to global copper end use



Source: WisdomTree, Bloomberg, International Copper Study Group, Wood Mackenzie, Citi Group. From 2019 to 2027. ICE = internal combustion vehicles. Cyclical includes property sector demand. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Evidence and mechanics: Demand shifts meet supply fragility

From China property to energy transition demand

The Chinese property sector once dominated global copper demand. Following the collapse of China's real estate bubble in 2020, it would have been reasonable to expect a sustained downturn in copper consumption. Instead, demand proved far more resilient than anticipated.

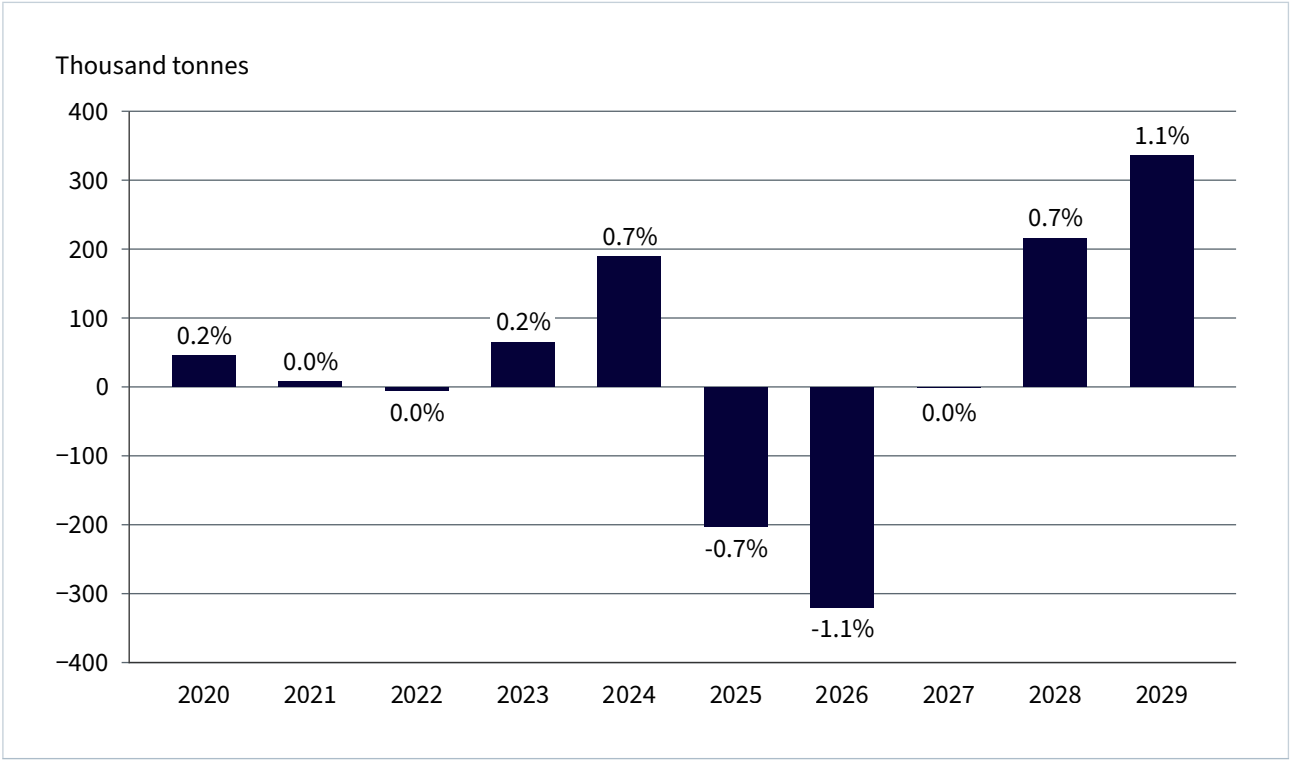
During the 2020 recession, cyclical uses of copper fell sharply, but demand linked to the energy transition remained positive. From 2021 onwards, the global recovery boosted cyclical demand, while Chinese policy support for real estate was deliberately limited to completing existing projects rather than initiating new ones. Importantly, the completion phase of construction, namely, wiring, cabling, and electrical fittings, is among the most copper-intensive stages, cushioning the impact of the property slowdown.

From 2022 onward, cyclical demand increasingly became a drag on growth. However, overall copper consumption continued to rise, driven by sustained expansion in energy transition applications, including renewable power generation, electric vehicles, and electric grid investment (all copper-intensive trends). More recently, data centre construction linked to AI has emerged as an additional source of demand. While smaller than energy transition uses, data centre demand compounds pressure in an already tight market.

Supply disruptions and concentration risk

On the supply side, copper markets tightened sharply in 2025 as production setbacks accumulated across multiple regions. Global concentrate supply undershot expectations, pushing the market into a material deficit (see Figure 4).

Figure 4: Copper market balance



Source: Wood Mackenzie, WisdomTree, as of 31 December 2025. Forecasts from December 2025, using base case forecasts (not net zero cases). Labels show market balance as a percentage of demand. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

The most consequential event occurred at the Grasberg mine in Indonesia, one of the world's largest copper producers. In September 2025, a severe mudslide struck the underground Block Cave operation, resulting in fatalities and forcing the operator, Freeport-McMoRan, to declare force majeure. The mine is not expected to return to full production until 2027.

Analysts estimate that the disruption could remove approximately 250,000 to 260,000 tonnes of copper output in both 2025 and 2026, with the total lost supply potentially exceeding 500,000 tonnes. This single-asset shock alone is sufficient to materially tighten global balances.

Grasberg was not an isolated incident. Chile experienced power outages and a fatal tunnel collapse at El Teniente, Peru faced temporary closures linked to social unrest, and operations in Kazakhstan, China, Canada, and North America were also disrupted by accidents and wildfires. Collectively, these events highlight the growing vulnerability of copper supply to geological, social, and climatic risks, particularly in a market where production is increasingly concentrated in a small number of large assets.

Boundary conditions: What could ease the tightness?

A sharp global slowdown could dampen cyclical copper demand and temporarily ease market tightness. Over the longer term, substitution[3], efficiency gains, or technological change could reduce copper intensity at the margin.

However, the scope for a rapid supply response remains limited. New copper projects face long development timelines, declining ore grades, rising capital costs, and increasing regulatory scrutiny. As a result, even a moderation in demand growth is unlikely to eliminate deficits in the near term.

Investment implications

Copper is increasingly best viewed as a strategic asset linked to electrification and energy security rather than a pure play on the global business cycle. Structural demand from the energy transition and data centre expansion is colliding with fragile and concentrated supply, creating conditions conducive to persistent deficits and price support. While volatility is inevitable, the medium-term balance of risks for copper prices remains skewed to the upside.

Copper is increasingly best viewed as a strategic asset linked to electrification and energy security rather than a pure play on the global business cycle.

Policy-constrained and policy-managed metals: Aluminium, cobalt and nickel

Thesis: When supply becomes an administrative decision

Aluminium and battery metals increasingly sit outside the traditional commodity framework, in which higher prices reliably elicit higher supply. In both cases, supply growth is being constrained not by geology alone, but by policy decisions and structural bottlenecks, most notably access to electricity and sovereign control over resources. As these metals become strategically important for electrification, energy security, and industrial policy, governments have shown a growing willingness to intervene directly. The result is a shift away from market-driven equilibria towards administratively managed supply, increasing the likelihood of tighter balances and higher volatility.

3 However, we note that substitutes for copper are limited. For distribution and transmission cabling, aluminium is viewed as substitute, but it also faces cost pressures, so it is difficult in practice to see large switches.

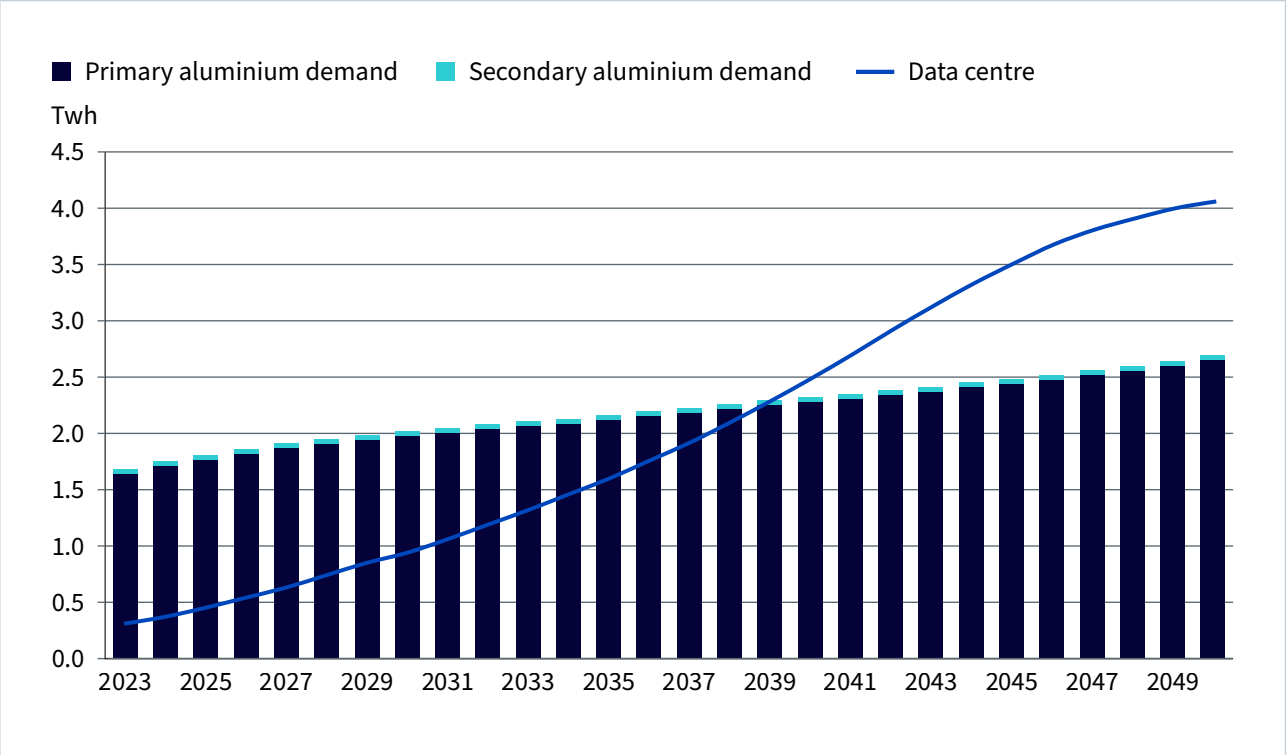
Aluminium: Policy caps and power scarcity

Aluminium demand continues to broaden across transport, construction, packaging and, critically, electrification and grid expansion. However, supply growth is increasingly constrained.

China, the world's dominant producer, has maintained a production ceiling on primary aluminium of around 45 million tonnes per year since 2017. Output has been running close to this limit, leaving little scope for expansion without a clear policy shift. This cap has effectively removed China's role as the global swing producer, materially reducing supply flexibility at the global level.

Outside China, the binding constraint is electricity availability. Aluminium smelting is among the most power-intensive industrial processes, and the economics are highly sensitive to energy prices and grid reliability. In 2026, this constraint has become more acute as incremental power demand from data centres and AI infrastructure has accelerated (see Figure 5). These sectors are often willing to pay a premium for electricity and grid access, crowding out potential industrial users at the margins.

Figure 5: Global power demand from data centres and aluminium production



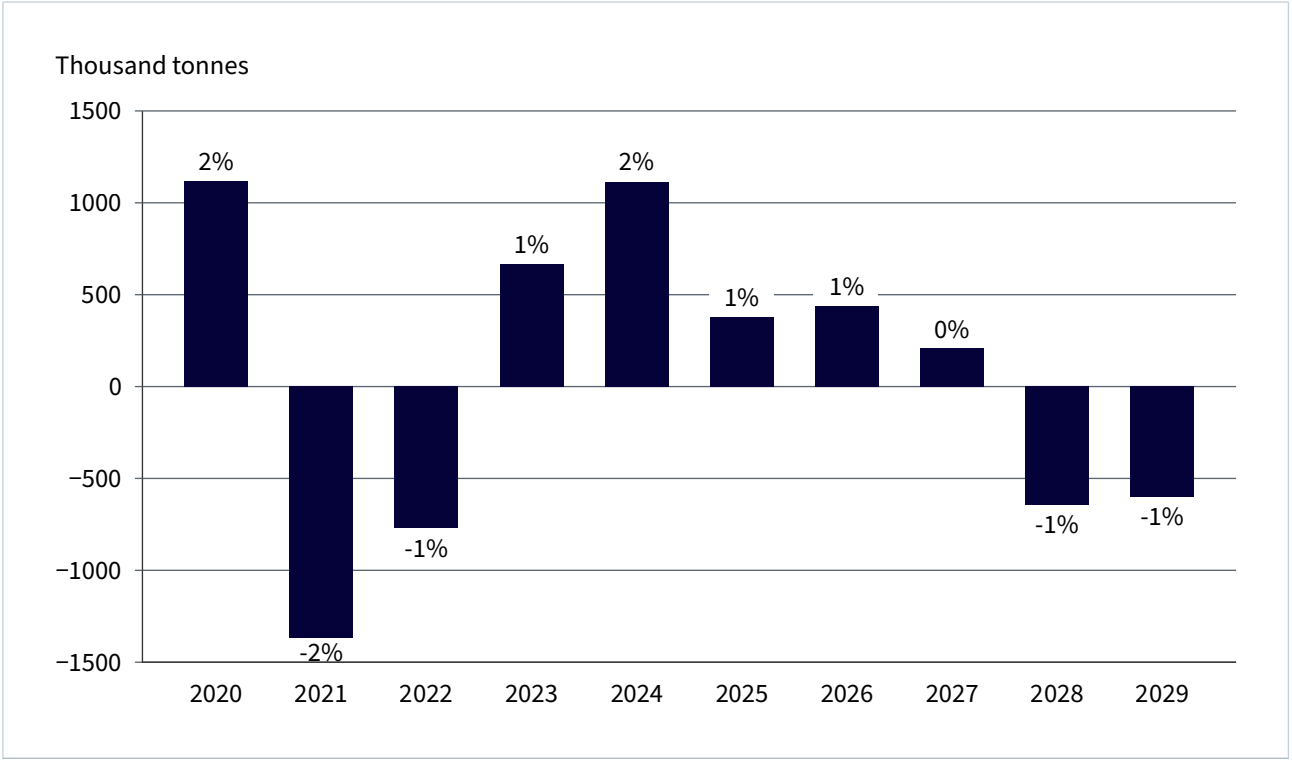
Source: Bloomberg New Energy Finance. Forecasts from January 2026, using base case forecasts (not net zero cases). **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

In the United States, tariffs can improve the relative economics for domestic smelting, but they do not resolve the core issue. Smelters require long-lived capital investment and stable access to competitively priced power, while tariff regimes can shift with the political cycle. This asymmetry continues to deter new capacity despite policy support.

As a result, aluminium surpluses are eroding, with forecasts increasingly pointing towards deficits later in the decade (see Figure 6). With a limited scope for rapid supply response, aluminium markets are becoming more sensitive to marginal demand shocks and power-related disruptions.

Aluminium surpluses are eroding, with forecasts increasingly pointing towards deficits later in the decade.

Figure 6: Aluminium market balance



Source: Wood Mackenzie, WisdomTree, as of 31 December 2025. Forecasts from December 2025, using base case forecasts (not net zero cases). Labels show market balance as a percentage of demand. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Battery metals: Strategic resources, managed supply

Cobalt: Export quotas as a supply valve

Cobalt supply is now explicitly policy managed. The Democratic Republic of the Congo, which accounts for most of the global production, imposed a total export ban in early 2025 before replacing it with a quota-based system in October 2025. The stated objective was to stabilise prices, manage oversupply, and promote domestic processing.

Administrative and logistical bottlenecks slowed shipments, prompting authorities to extend the validity of 2025 export quotas into March 2026. While officials have indicated that exports have resumed, transparency around volumes remains limited. More important than near-term flows is the signal: supply is no longer allowed to adjust freely in response to price signals alone.

This framework reduces downside risk during periods of weak demand but increases uncertainty around timing and volatility. Even partial enforcement materially alters market expectations, anchoring prices above levels that would prevail in a purely market-driven regime.

Nickel: Indonesia reasserts control

Nickel is undergoing a similar transition. Indonesia, which now accounts for roughly 65% of global nickel production, has signalled a deliberate slowdown in output growth for 2026, following years of rapid expansion that drove oversupply and depressed prices.

Senior officials have confirmed plans to reduce production through adjustments to the Rencana Kerja dan Anggaran Biaya (RKAB, the mining work plan and budget that caps output). Reports suggest that approved nickel ore quotas for 2026 could be reduced to around 250 million tonnes, approximately 30–35% below 2025 target levels. If implemented, this would mark a decisive shift from volume maximisation to price and resource management.

While implementation risk remains, Indonesia has clearly positioned itself as a marginal policy setter in the nickel market. Even partial restraint would materially tighten balances.

Indonesia, which now accounts for roughly 65% of global nickel production, has signalled a deliberate slowdown in output growth for 2026, following years of rapid expansion that drove oversupply and depressed prices.

Investment implications

Aluminium and battery metals increasingly behave as policy-sensitive assets rather than as conventional industrial commodities. Power constraints, production caps, and export controls reduce supply elasticity and raise the probability that prices do more of the work in balancing markets. While this introduces episodic volatility, it also limits sustained downside and strengthens the case for structurally higher price floors over the medium term.

Oil: Geopolitical noise, structural buffers

Thesis: Shocks matter less when inventories are high

Oil markets entered 2026 with elevated geopolitical risk and a modest price recovery following supply disruptions in Venezuela and Iran. While these developments have tightened near-term availability, the broader market remains shaped by the large surplus accumulated in 2025 and the substantial volume of oil held in inventories and floating storage. As a result, the oil market appears well buffered against near-term shocks, limiting the scope for sustained upside, unless disruptions are both large and persistent.

Evidence and mechanics: Why the market can absorb disruptions

Supply disruptions in early 2026 have been meaningful but contained. Iranian crude loadings fell by roughly 350 thousand barrels per day from their October 2025 peak to around 1.6 million barrels per day towards year end[4], with increasing volumes reportedly accumulating at sea. Venezuelan exports deteriorated more sharply, dropping from around 880 thousand barrels per day in December 2025 to roughly 300 thousand barrels per day in early January 2026, as United States restrictions on sanctioned oil tankers disrupted flows.

Disruptions have occurred against a backdrop of substantial excess supply.

These disruptions have occurred against a backdrop of substantial excess supply. Global oil inventories rose by approximately 470 million barrels in 2025, equivalent to an average build of around 1.3 million barrels per day. The increase was visible across rising volumes held on water, higher crude inventories in China, and a build in United States natural gas liquids[5] stocks. With such a large inventory overhang, near-term supply losses must first draw down excess stocks before sustained price pressure can emerge.

4 Bloomberg, 10 January 2026.

5 Natural gas liquids are liquids recovered from natural gas processing that are used as fuels and petrochemical feedstocks (and hence compete with oil-related products).

Supply growth remains robust. Producers outside the Organization of the Petroleum Exporting Countries plus (OPEC+) alliance accounted for close to 60% of the roughly 3 million barrels per day increase in global supply during 2025. The recovery in output from OPEC+, led by Saudi Arabia, further added to supply. Looking ahead, absent major disruptions or a sharp slowdown in United States shale activity, global oil supply could increase by a further 2.5 million barrels per day in 2026, comfortably outpacing expected demand growth of around 930 thousand barrels per day.

Investment implications

Oil is best characterised as a market with headline-driven volatility but balance sheet stability. Geopolitical events can generate sharp short-term price moves, but elevated inventories and strong supply growth limit the probability of sustained upside in the base case. Relative to metals, where structural demand shifts and supply constraints dominate, oil remains more anchored by excess capacity and accumulated stocks.

Conclusion

The defining feature of the commodity landscape in 2026 is not cyclical recovery but structural transformation. While the global economy appears set to remain in a late-cycle expansion for much of the year, the forces shaping commodity markets increasingly lie outside traditional business cycle dynamics.

Across metals, supply has become more constrained, more concentrated, and more politicised. Demand, meanwhile, is being reshaped by electrification, energy transition investment, strategic stockpiling, and institutional behaviour. These forces reduce supply elasticity and increase the likelihood that price adjustments will do more of the work in rebalancing markets.

Precious metals, particularly gold, have evolved from tactical hedges into strategic reserve assets, reflecting rising concerns about fiscal dominance, geopolitical fragmentation, and institutional credibility. Industrial metals, led by copper and aluminium, are increasingly linked to long-duration investment cycles rather than short-term fluctuations in growth. Battery metals underscore a broader trend: as materials become strategically important, governments are more willing to intervene directly in supply.

Oil stands apart. Despite elevated geopolitical risk, the market enters 2026 with substantial inventories and spare supply, limiting the scope for sustained upside in the absence of major disruptions.

Taken together, these dynamics argue for a strategic, rather than purely tactical, allocation to commodities. In a world characterised by late-cycle macro conditions, structural US dollar headwinds, and growing policy intervention, commodities (particularly metals) offer diversification benefits and exposure to long-term structural change that are increasingly difficult to replicate elsewhere in portfolios.

2.
Equity Outlook: Catching the tailwinds and respecting the crosswinds

In this section

The global economy opens 2026 in a sweet spot. Investors are more optimistic about growth and less concerned about inflation. After a stellar streak for global equities in 2025, the conditions remain in place for continued gains, backed by moderate growth for most major economies, easier monetary policy (some 85% of central banks expected to ease policy), and steady corporate earnings growth.

Modern mercantilism changes the opportunity set and the risk map.

The global backdrop is shifting towards a form of modern mercantilism, a more adversarial multipolar system where trade, technology, and security are increasingly negotiated as part of a broader strategic bargain. The main axis is the US–China power contest, but the ripple effects are wider. For equity investors, this changes the opportunity set and the risk map as policy choices, supply chain realignment, and national industrial strategies play a bigger role in shaping corporate winners and losers. The shifting pattern of global equity market performance in 2025 is a useful precursor reminding us that return dispersion across regions is likely to remain a defining feature of 2026.

Figure 7: Equity earnings growth outlook remains resilient to challenges so far

Region	P/E fwd 12 mths	Earnings per share growth rate (%)		
		2025	2026	2027
World	19.0	12.0	14.1	13.8
US	22.3	11.5	15.0	15.2
Europe ex UK	15.6	14.5	11.5	12.4
UK	13.2	7.7	10.0	11.3
Japan	16.3	4.8	9.5	8.9
Asia Pacific ex Japan	14.4	10.7	19.6	14.7
Latin America	10.5	51.8	2.3	14.3
Emerging Markets	14.9	14.0	14.1	12.8
World ex USA	14.0	12.4	13.0	12.2

Source: MSCI, FactSet, WisdomTree as of 31 December 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

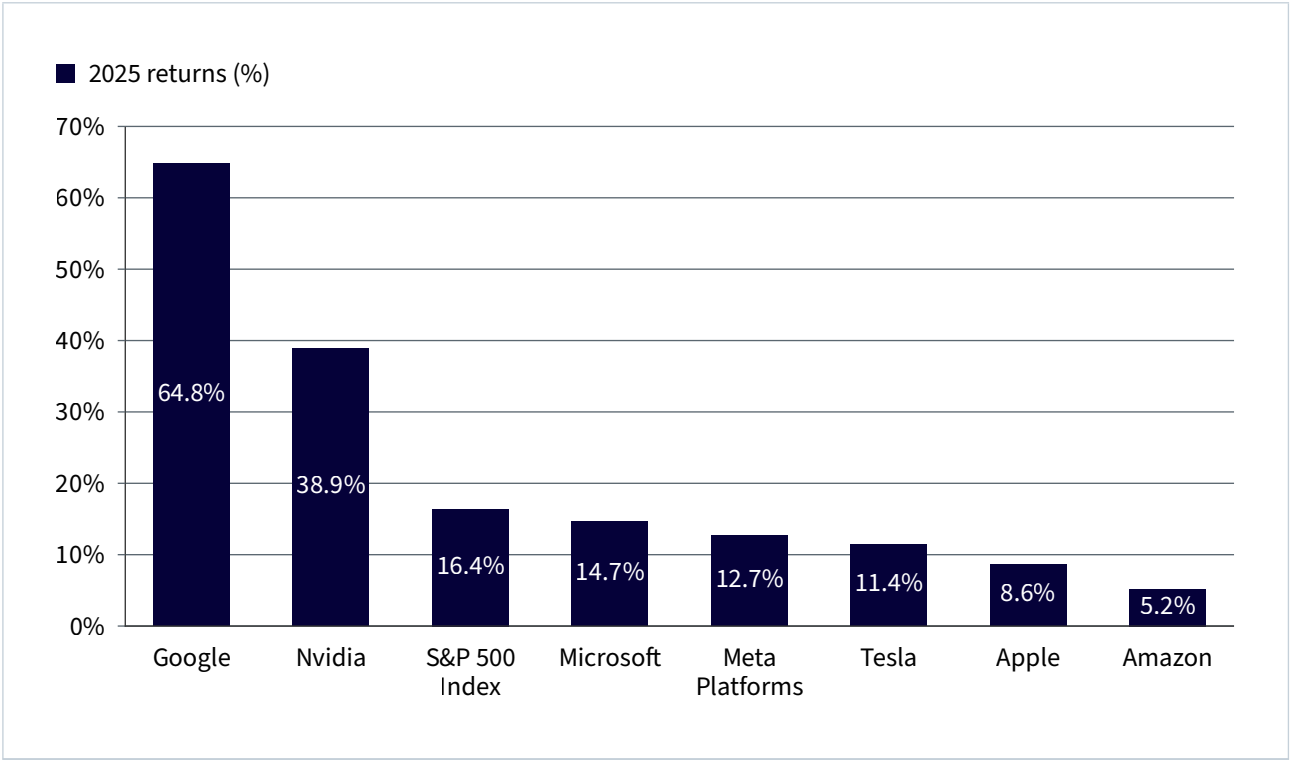
Against that backdrop, the 2026 question is less 'Will equities work?' and more 'Where will leadership sit, and how broad will it be?' We start with the US because it still sets the tone for global risk appetite, rates, and equity style leadership.

US: Leadership broadens, but the bar is higher

US equities head into 2026 after another year where the headline index masked a meaningful shift under the surface. The defining development in 2025 was the market's gradual rotation away from the near-total dominance of the 'Magnificent 7'[6]. In 2023, all seven beat the broader market, and in 2024, six of the seven still outperformed. In 2025, by contrast, only Alphabet and Nvidia outpaced the S&P 500 (see Figure 8), supported by AI-driven revenue momentum in the cloud and sustained demand for advanced semiconductors.

The 2026 question is less 'Will equities work?' and more 'Where will leadership sit, and how broad will it be?'.

Figure 8: Most of the Magnificent 7 lagged the market



Source: Bloomberg, WisdomTree, as of 31 December 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

6 'Magnificent 7' refers to Google, Nvidia, Microsoft, Meta, Tesla, Apple, and Amazon.

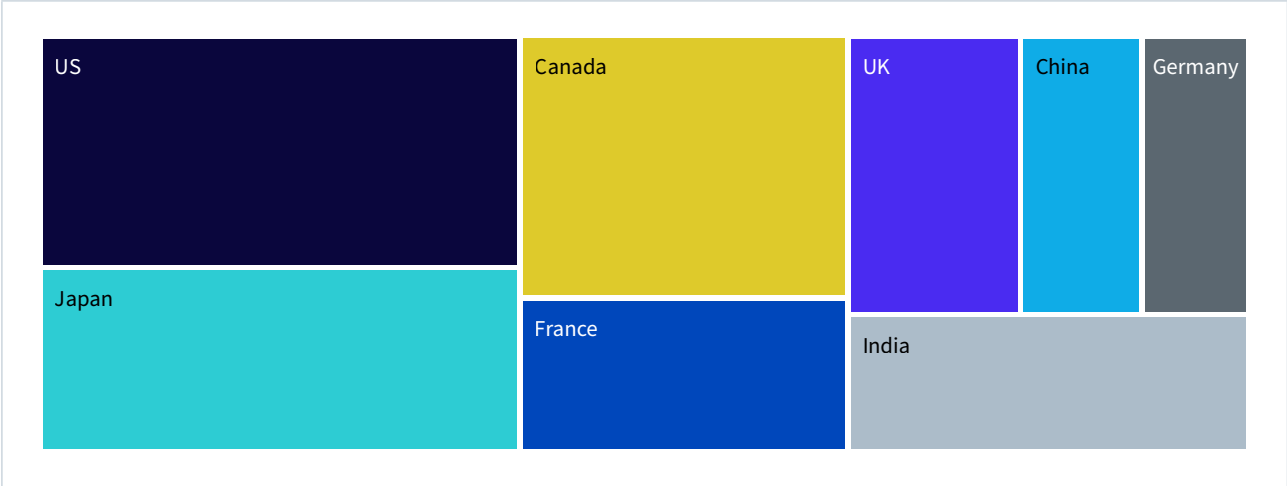
The practical takeaway is not that AI has faded, but that the market has started to differentiate more aggressively between 'AI enablers' with clear earnings visibility and the broader cohort of mega-cap growth where expectations were already stretched.

The market has started to differentiate more aggressively between AI enablers and stretched mega-cap growth.

This matters because the US equity market concentration remains near historically elevated levels. By late 2025, the top 10 names accounted for roughly 40% of the S&P 500 Index market capitalisation[7].

High concentration amplifies index sensitivity to the fundamentals, positioning, and valuation of a small set of stocks, raising the risk of volatility even when the median company is behaving normally.

Figure 9: US stock market valuations remain high



Source: Bloomberg, WisdomTree, as of 31 December 2025. Please note that gross domestic product (GDP) values are as of 31 December 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

High concentration amplifies index sensitivity to a small set of stocks.

7 Bloomberg, as of 31 December 2025.

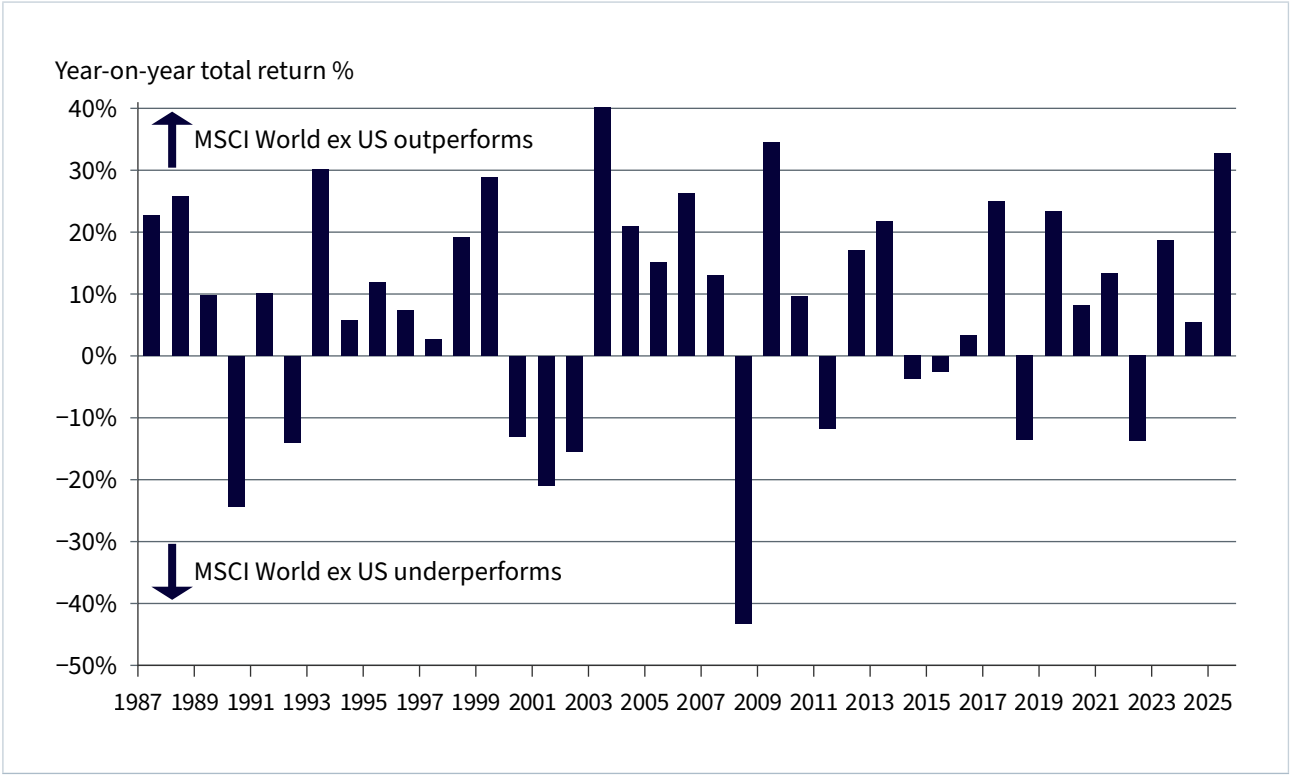
It can also create a misleading impression of a narrow opportunity set. That historical pattern is consistent with what we are starting to see: earnings momentum for the median stock improved with small and mid-cap earnings growth rebounding more convincingly across the market cap spectrum.

Broadening leadership is not just a style story. Investors may be better served by emphasising diversification within US equities, focusing on balance sheet strength and cash flow durability, and being selective in cyclicals where pricing power and order visibility can carry earnings through a slower growth patch.

Investors may be better served by emphasising diversification within US equities, focusing on balance sheet strength and cash flow durability.

2025 was the year when US stock markets underperformed their international rivals by the widest margin since 1993. Even after lagging non-US markets last year, US equities remain expensive versus global peers.

Figure 10: Comparison of global equities versus US equities



Source: Bloomberg, MSCI, WisdomTree. From 1 January 1987 to 31 December 2025. Year-on-year total return difference between MSCI World ex US Index versus MSCI US Index. **Historical performance is not an indication of future performance, and any investment may go down in value.**

That valuation gap makes the US less forgiving if growth surprises to the downside or if rates stay higher for longer. In that sense, the global opportunity set looks more balanced than it has for much of the past decade, which brings Europe back into focus.

Europe: Fiscal impulse and a more balanced cycle

European equities enter 2026 with a more constructive backdrop than in prior years. The region is being pulled in two directions. Externally, US tariffs, a strong euro, and intensifying Chinese competition are squeezing parts of the export complex, particularly in industrial heavy markets such as Germany and Italy. Internally, however, Europe is building something closer to a domestic reflation story: easier monetary conditions, a meaningful turn towards fiscal expansion in key countries, and gradual progress on structural reforms. On balance, evidence points to domestic forces winning. This matters, as equity returns tend to follow earnings momentum and confidence more than headlines.

Modest European growth with an improving mix

The Eurozone has shown resilience through 2025 despite geopolitical and trade headwinds, and the baseline for 2026 remains one of trend-like growth supported by domestic demand. What is changing is the composition of growth. Europe is moving from a model heavily reliant on external demand to one where domestic drivers do more of the heavy lifting: real income gains as inflation normalises, a steadier labour market, and improving credit transmission after earlier rate cuts.

The European Central Bank's (ECB) rate cuts from 4% (June 2024) to a 2% deposit rate (July 2025) are now flowing through to the real economy with the typical lag, including a rebound in mortgage lending and scope for a recovery in residential construction after a multi-year downturn. The energy shock is no longer the same drag as it was in 2022–23. As energy prices have eased and Europe has adapted (including efficiency gains and some industrial mix shift), the region's energy import burden has normalised, freeing up the capacity for spending at home.

Fiscal: Germany's shift is the headline, but spillovers are the story

Europe's strategic autonomy push is increasingly showing up in fiscal policy. Defence spending is a key component, but the more investable implication is broader: industrial capacity, infrastructure, digitisation, and innovation. Germany is central here. We expect the additional fiscal spending following the relaxation of Germany's constitutional debt brake to add roughly 0.4% to German growth in both 2026 and 2027, even with near-term bottlenecks such as approvals and labour constraints. The spillover potential is meaningful. Germany is a key trading partner for much of the region, so a turn from stagnation towards modest growth can lift confidence and spending beyond its borders.

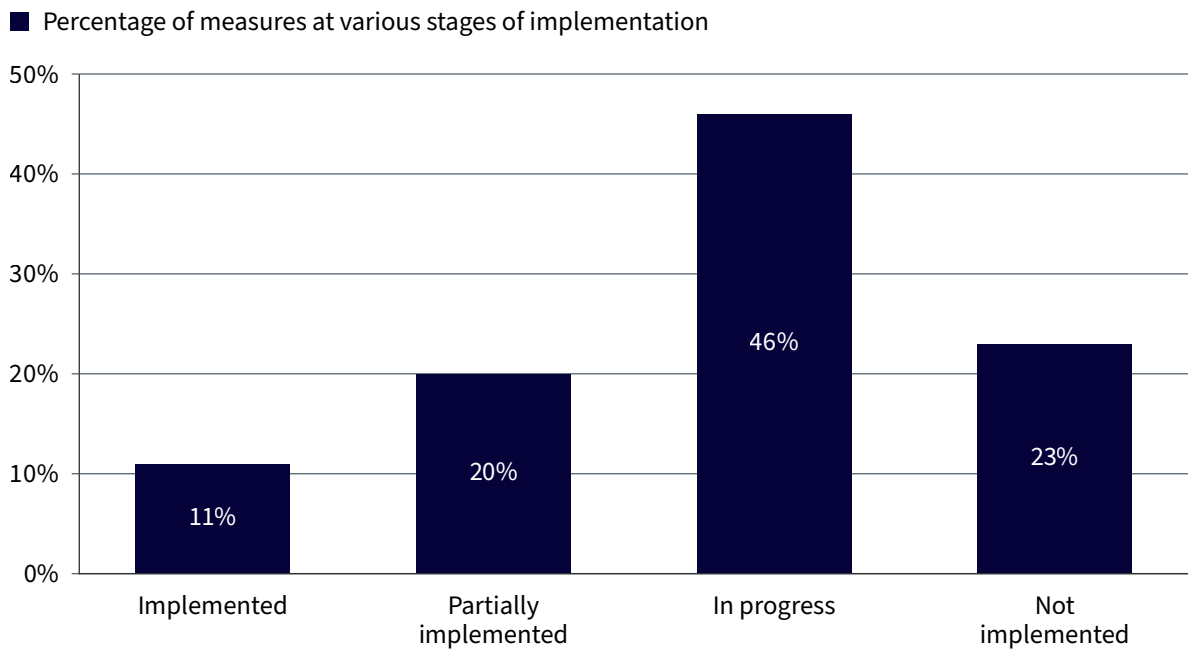
Monetary policy: Supportive now

With inflation broadly under control, monetary policy is no longer the dominant headwind. The base case is for the ECB to hold the deposit rate at around 2% through 2026, with gradual hikes beginning only from mid-2027 as wage pressures re-emerge and growth runs above trend. This matters for equities in two ways. First, it reduces the risk of a near-term discount rate shock. Second, it creates policy optionality: if growth disappoints, the ECB has room to lean supportive again rather than being forced into tightening.

Structural reform: Progress is real but incomplete

Reflation is more durable when it is paired with productivity improvement. The Draghi reform agenda remains the right map, but progress is uneven. Based on the European Policy Innovation Council's tracking, only about 11% of Draghi's recommendations have been fully implemented, with a further 20% partially implemented (and the remainder in progress or not implemented). This highlights both the opportunity (room for upside if reforms accelerate and the constraint (political constraints can delay delivery). France is an obvious swing factor here: fiscal and political instability could slow EU-level initiatives, including common borrowing discussions tied to defence and strategic investment.

Figure 11: Less than a third of Draghi's reforms have been fully or partially implemented



Source: European Policy Innovation Council (EPIC), WisdomTree, as of 31 December 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Europe's case versus the US

From an equity market perspective, Europe continues to offer two structural advantages.

Less concentration risk: Unlike the US, where index returns are dominated by a narrow cohort of mega caps, Europe provides a broader opportunity set across sectors and styles. This matters in late-cycle or policy-volatile environments, where dispersion rises and breadth becomes valuable.

More forgiving valuations: Europe ex UK trades around 15.6 x 2026 consensus earnings[8]. That is modestly above long-run averages, but a premium can be justified if fiscal policy improves the medium-term growth profile and if earnings breadth expands beyond a small set of winners. In contrast, US equities have rebounded sharply, but the combination of rich valuations and near-record concentration argues for selectivity.

8 Bloomberg, WisdomTree. Price to earnings ratio as of 31 December 2025.

Sector preferences: Align with stimulus and better growth mix

In a Europe-led reflation scenario, we continue to prefer areas with the clearest link to fiscal spending, grid and infrastructure buildout, and improving domestic demand.

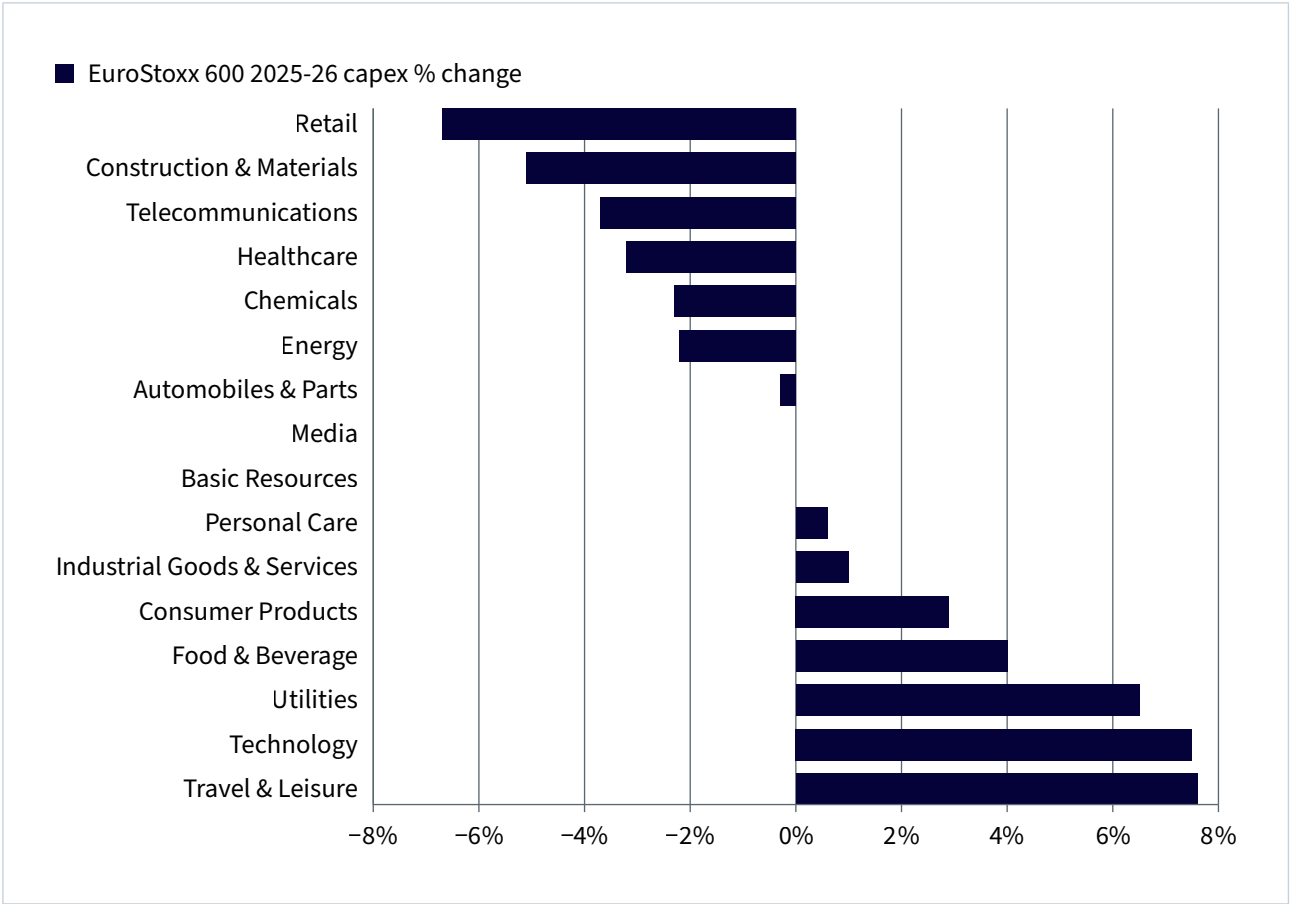
Banks: Well-positioned if the growth outlook improves and credit demand recovers, while many still offer attractive dividends and buybacks.

Industrials: Beneficiaries of the investment cycle and rearmament, with additional tailwinds from reshoring and capacity buildout.

Materials: A levered play on infrastructure and capex, with pricing power dependent on cycle momentum and energy inputs.

Utilities: A direct beneficiary of the energy transition and electrification agenda, with grid investment emerging as a key capex driver into 2026. Utilities are expected to lead capex growth within the Euro Stoxx 600 as networks are upgraded and expanded to accommodate renewables, electrification, and resilience spending.

Figure 12: Utilities to be an important driver of 2026 capex on grid investments



Source: Bloomberg, WisdomTree, as of 31 December 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

UK offers a good hunting ground for yield

UK equities posted strong returns in 2025, but with a clear divide. Global earners were rewarded alongside companies with resilient cashflows, while domestic-oriented companies lagged. While the UK economic backdrop enters 2026 on a weaker footing, the easier monetary policy stance of the Bank of England (BOE) should provide an important tailwind for UK equities. Lower rates are likely to benefit life assurance, property, and construction companies whose valuations are at decade lows and offer dividend yields above 8%, effectively compensating investors for uncertainty.

The relative stability of sterling increases the appeal of UK assets and provides a supportive backdrop for the market. It's important to remember that while the UK represents only around one tenth of world equity capitalisation, its dividend culture remains unmatched.

While the UK represents only around one tenth of world equity capitalisation, its dividend culture remains unmatched.

While the UK case is anchored in dividends and valuation support, Japan offers a different kind of appeal: a reform story that is becoming more embedded, supported by governance pressure and a clearer domestic policy direction.

Japan: Policy clarity meets governance momentum

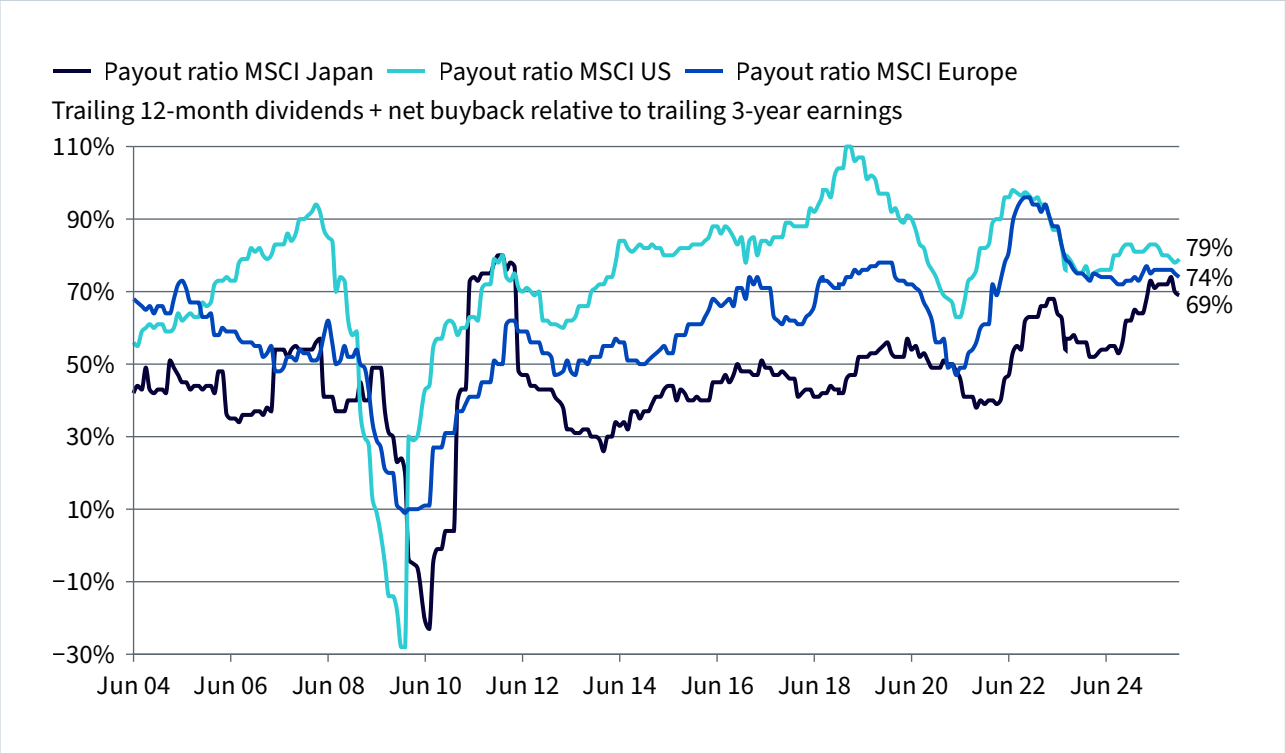
Japanese equities head into 2026 with a rare combination of supportive policies, a steadier policy mix, and improving corporate behaviour. The surprise arrival of the Takaichi administration in late 2025 has lifted domestic confidence and reinforced expectations for purposeful governance. At the same time, closer US–Japan ties are helping anchor the external backdrop at a moment when global trade is becoming more transactional and security led. Layer on deepening governance reform, rising shareholder engagement, and a more active mergers and acquisitions (M&A) environment, and the set-up points to another constructive year for Japanese stocks.

Japan: A market that did what it promised

> Japan's reform process looks compounding rather than fading.

This time last year, the key question was whether corporate leaders would follow through on the capital efficiency agenda in a meaningful way. Broadly, they did. Market performance reflected that progress, helped by a resilient global risk appetite and a powerful AI capex cycle. The Nikkei 225 Index rose 26.2% last year despite recurring concerns about US trade policy and the global macro outlook [9]. The performance has been underpinned by gradual but tangible improvement in corporate behaviour: higher payouts, more balance sheet scrutiny, and a growing willingness to restructure. That matters for 2026 because it suggests that the reform process is compounding rather than fading.

Figure 13: Payout ratios in Japan begin to catch up to US and Europe



Source: FactSet, MSCI, WisdomTree as of 31 December 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

9 Bloomberg, 30 December 2024 to 31 December 2025.

Formal discussions on the next revision of the Corporate Governance Code began in late 2025 [10]. If prior patterns repeat, a June 2026 announcement is plausible, making governance a key first-half theme. The most consequential focus is likely to be cash. Japan still has many companies with large cash balances that depress returns and, in some cases, valuations. As boards face greater pressure to justify surplus cash, we expect more corporate actions: higher dividends and buybacks, accelerated capex where it is value-accretive, or restructuring and divestments. The market's experience since the post-2023 inflation shift is instructive: companies actively using cash (and therefore running smaller net cash positions) have tended to outperform. A revised Code that strengthens accountability could institutionalise that preference.

Politics and policy: A more purposeful domestic narrative

The Takaichi administration has shifted expectations regarding Japan's policy direction. The new coalition has signalled a willingness to support demand through fiscal measures while also emphasising supply-side strengthening, including public–private investment initiatives across a wide set of strategic areas.

Figure 14: Japan's new growth strategy

17 Strategic areas of focus	
AI and semiconductors	Disaster prevention and national resilience
Ship building	Drug discovery and advanced medicine
Quantum technology	Fusion energy
Synthetic biology and biotechnology	Materials (critical minerals and component materials)
Aerospace and space	Port logistics
Digital cybersecurity	Defence industry
Content industry	Information and communications
Food tech	Marine and ocean
Resource/energy security and green transformation (GX)	Balancing stable supply with decarbonisation through massive public-private investment

Source: Cabinet Secretariat of Japan, WisdomTree, as of 31 December 2025.

The coalition arrangement with the reform-minded Ishin party adds a pro-reform tilt, particularly on regulatory easing and measures designed to appeal to younger households and workers.

Coordination with the Bank of Japan (BOJ) is another stabilising feature. The BOJ has reduced lingering uncertainty by clarifying its longer-term approach to unwinding exchange-traded fund (ETF) holdings, allowing investors to focus more on fundamentals. Policy normalisation is still the direction of travel, but the key point is that fiscal and monetary authorities appear aligned in prioritising sustainable growth rather than financial shock therapy.

10 Financial Services Agency, 21 October 2025.

Leadership and rotation: Dividend support, AI optionality

Japan's inflationary turn has reinforced market polarisation, with a preference for pricing power and high market share. That has favoured AI infrastructure beneficiaries and domestic inflation winners such as financials, construction, real estate, and railways. If inflation slows in 2026 and real wages improve, breadth could expand towards consumer-linked areas and small and mid- (SMID) caps. Separately, if US consumption and non-AI investment regain momentum and the 'K-shaped' dynamic normalises, opportunities could also re-emerge in US-exposed cyclicals such as autos and machinery.

Value's momentum may cool if earnings revisions peak, but seasonality and dividend demand through mid-March typically provide support. A rotation back towards AI-related names is also plausible around key US macro data and Fed expectations, particularly if the market starts to price a clearer rate-cut path.

Risks: Geopolitics and the bond market matter

A constructive outlook doesn't mean low risk. Japan sits in a complex geopolitical neighbourhood, and Japan–China tensions remain a key tail risk, particularly if they intersect with Taiwan-related uncertainty or trade and technology restrictions. Any escalation could hit sentiment, supply chains, and the currency, even if domestic fundamentals remain intact.

The other major risk is rising Japanese bond yields. As the BOJ continues to normalise policy, higher long-term yields could raise discount rates and pressure equity valuations, especially in higher-duration parts of the market. Rising yields can also expose balance sheet weaknesses in highly leveraged sectors and change investor preference towards cash-generative dividend-paying companies.

From developed markets, the final leg is emerging markets, where the macro tailwinds can be powerful, but outcomes depend far more on country selection and where earnings durability sits within the AI and commodity cycles.

Emerging markets: Momentum is back, dispersion still rules

> EM is not a single trade. Dispersion across countries and sectors remains high.

Emerging markets (EM) raced ahead of developed markets in 2025, topping the league tables with Korea, China, Mexico, Brazil, and South Africa among the standout gainers. Korea led the way, up by more than 70% in the year in dollar terms, as global investors leaned into the AI supply chain and the semiconductor and related hardware upswing. The rally was broad enough to reopen the EM conversation for allocators who had spent much of the past decade underweighting the asset class. The key question now is whether 2025 was a one-off catch-up year, or the start of a more durable phase for EM.

We think the setup for 2026 is constructive, but more nuanced than the headline numbers imply. The macro backdrop is shifting in a direction that typically supports EM via a weaker US dollar, lower (or at least falling) real interest rates, and firmer commodity prices. If the Fed moves from 'restrictive' toward 'less restrictive', it usually reduces the carry advantage of the US and eases financial conditions globally. Historically, that combination has tended to improve risk appetite for higher beta markets. That said, EM is not a single trade. Dispersion across countries and sectors remains high.

Asia momentum is building, but expectations are higher

Investor sentiment improved as the second half of 2025 played out. Two developments mattered: first, a 'DeepSeek moment' that helped reignite enthusiasm around Chinese innovation and second, a gradual stabilisation in US–China trade tensions as both sides stepped back from aggressive policy paths. These factors supported Asian equity momentum alongside expectations of easier Fed policy and signs of resilience in key regional economies.

The structural case for Asia remains compelling. Long-term growth drivers such as AI, the energy transition, and healthcare innovation continue to shift capital towards growth-oriented markets. The latest International Monetary Fund (IMF) report[11] has also reinforced the region's role as the fastest-growing globally, with Asia and the Pacific expected to contribute a large share of world growth.

The AI supply chain: Still powerful, but watch capex and pricing

Technology remains central to the EM equity story. Taiwan's benchmark is heavily tilted towards tech, and Korea's market is close to half technology, so the AI cycle has an outsized impact on headline EM performance. AI hardware spending was a key driver in 2025, and commentary from management teams has largely stayed upbeat. Resilient earnings trends and a meaningful step-up in capex guidance support the view that AI-related demand can remain strong through 2026.

Beyond that, visibility becomes less clear, as 2027 capex intentions are more uncertain, and investors are likely to focus on when AI revenues meaningfully ramp, whether hyperscaler returns are diluted by the scale of investment, and whether power generation and grid constraints become a binding limit. For now, we still see a case for overweighting information technology on earnings momentum, but valuations have re-rated. Positioning needs discipline, with a preference for firms with clear pricing power, differentiated capabilities, and a credible path to sustaining margins.

11 International Monetary Fund's October 2025 Regional Economic Outlook for Asia and Pacific.

China: Innovation and liquidity support offset a weak property cycle

China's outlook has improved at the margin, even as the property sector continues to weaken. We do not view property as a systemic risk in the way it once was, but it remains a headwind for confidence and pockets of activity. The growth engine is shifting towards digital services, advanced manufacturing, and AI, with exports still holding up better than many expected. Externally, trade relations with the US appear more stable than the market feared earlier in 2025, and China has demonstrated that it retains bargaining chips, while US political priorities have been increasingly focused on domestic affordability.

That said, earnings are the key swing factor for 2026. Part of last year's rally relied on multiple expansions, so the market now needs earnings resilience, especially in a deflationary environment where pricing power is uneven.

Within China, we remain constructive in areas tied to innovation and industrial competitiveness. Healthcare has benefited from drug licensing activities and policy efforts to stabilise domestic competition. Technology sentiment has been supported by the push to increase domestic semiconductor capacity and the continuous launches of large language models by major platforms and startups. In industry, global demand for power is rising, accelerated by data centre energy needs. This is driving the demand for energy storage and related equipment, where Chinese firms have become globally competitive. Electric vehicles (EVs) and, increasingly, robotics add another leg to the region's manufacturing advantage.

India: Domestic engines matter more

India remains one of the most compelling long-term EM stories, anchored in policy continuity, reforms, and domestic demand. Macro conditions remain supportive, with a banking system that has improved balance sheet health and the capacity to extend credit alongside a multi-year investment cycle in infrastructure and renewable energy. Valuations still warrant selectivity, but India's runway looks intact. A meaningful shift is the strength of local participation in equities. Domestic investors now account for a high share of 18.5% of the equity market (the highest in over two decades), exceeding foreign portfolio investment. This reduces reliance on volatile foreign flows and can temper drawdowns during global risk-off episodes.

Domestic investors now account for a high share of 18.5% of the equity market (the highest in over two decades), exceeding foreign portfolio investment.

Latin America: Brazil's asymmetry, Mexico's nearshoring

In Latin America, Brazil offers attractive valuations, a cheap effective exchange rate, and unusually high real rates. Politics adds optionality. Looking ahead to the October 2026 elections, there is a plausible path to a centre-right administration replacing President Luiz Inacio Lula da Silva. A more fiscally orthodox government would likely ease concerns around debt dynamics and fiscal sustainability, creating the scope for a meaningful fall in real rates. That combination could lower the cost of capital, drive a clear equity rerating, support the currency, and encourage a rebuild in domestic equity allocation from depressed starting levels. While some of this is already in the price, we still see the risk/reward as skewed in investors' favour. Nearer term, benign inflation should allow some monetary easing in 2026, and any Fed cuts alongside a softer US dollar would lend another tailwind. Mexico remains a beneficiary of nearshoring dynamics and proximity to the US, although trade policy noise can still drive short-term swings.

Conclusion

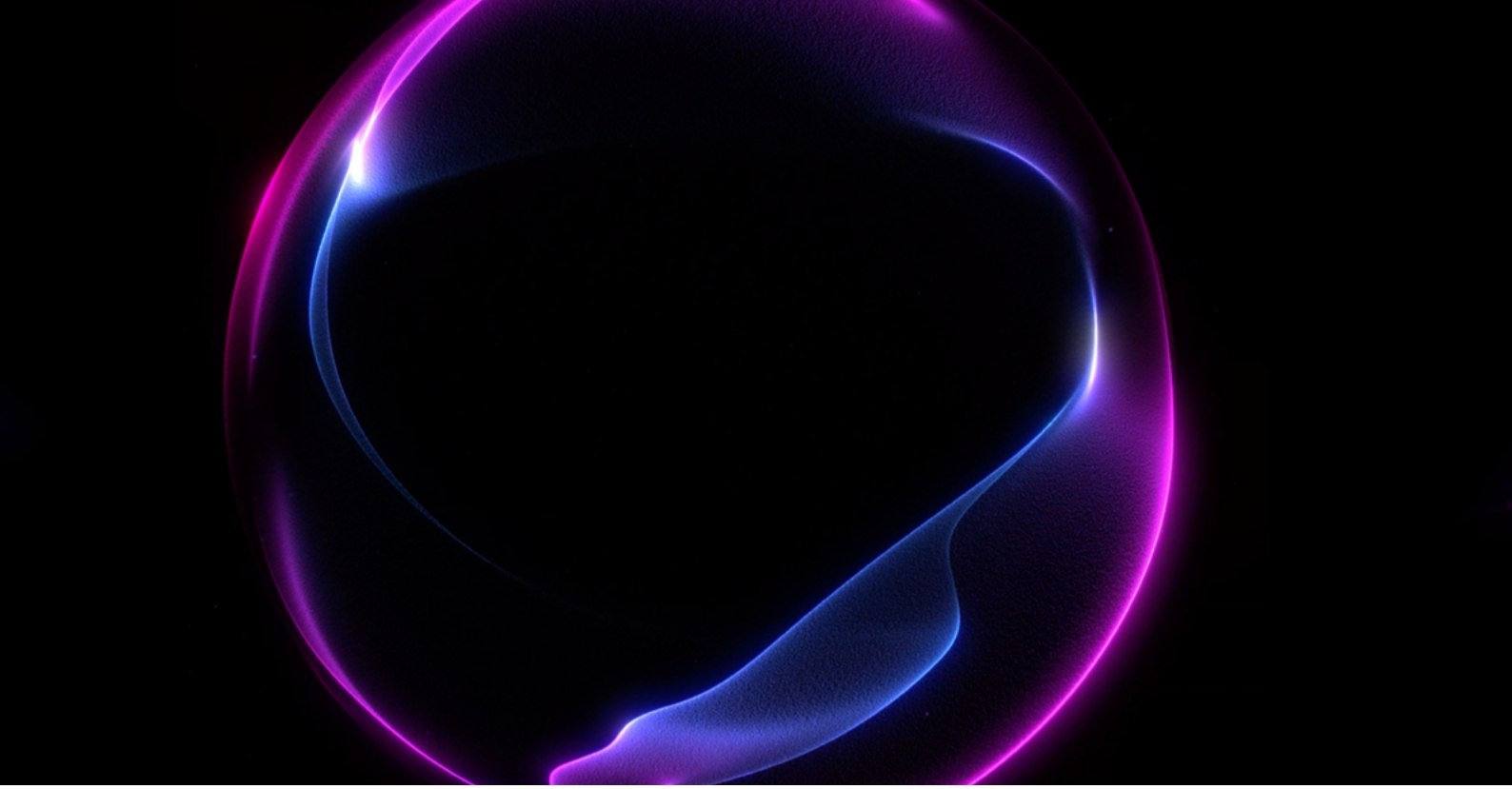
Overall, 2026 looks like a year in which the cycle stays supportive, but the market becomes less forgiving. Easier monetary policy across much of the world, resilient earnings expectations, and improving domestic demand in parts of Europe and Japan support a constructive baseline. However, the distribution of outcomes is likely to widen. In a more mercantilist world, policy choices and geopolitics increasingly feed directly into earnings durability, supply chains, capex, and discount rates. That is a recipe for dispersion-led returns rather than broad index-led dominance.

In that environment, diversification is not just a risk-control tool; it is a return driver. The US still matters most for global sentiment, but elevated concentration and richer valuations raise the bar for another straightforward year of gains. Europe's fiscal turn and improving growth mix are increasingly investable, the UK offers a differentiated income opportunity, and Japan's governance and policy alignment remain underappreciated structural tailwinds. In EMs, macro conditions may help, but outcomes will hinge on discipline around valuation, AI cycle durability, and country-level political and policy crosscurrents.

Diversification is not just a risk-control tool; it is a return driver.

3.
Thematic Outlook: Look closely, opportunities abound

In this section



It is the mid-15th century. In a small workshop in Mainz, Johannes Gutenberg combines existing ideas including moveable metal type, ink, and a wine press to invent something radically new: the printing press. Like any innovation, its power becomes clear over time. Knowledge is no longer copied by hand. It multiplies and spreads uncontrollably. New intellectual pursuits emerge. From science and literature to philosophy and politics, the printing press does not just transform the print medium; it changes the world.

Today, it can feel as though innovations such as artificial intelligence are creating unprecedented change. That may be true. It may also be true that we simply did not live through past shifts of a similar scale. Perhaps the printing press, electricity, the internal combustion engine, or the telephone felt just as disruptive in their time. Change itself is not necessarily new.

What is new, however, is access. Today, the average investor can gain exposure to world-changing innovations early in their development. In the 15th century, there was no such thing as a printing press exchange-traded fund. But now, there is an expanding universe of investable themes. According to WisdomTree's analysis, thematic investing in European-domiciled funds represented $351.9 billion in assets across 213 exchange-traded and 540 open-ended funds as of the end of December 2025. This vast and growing menu of opportunities is what makes the current period so compelling.

After a year such as 2025, when many themes delivered eye-catching gains, investors have been spoilt for choice. In such an environment, writing a thematic outlook is both challenging and exciting.

This report focuses on three broad themes: energy addition, geopolitics, and technology. Within each, we highlight three areas that we believe deserve close attention. At the end, we also reveal our top picks.

1. Energy addition: The world will build vast new clean energy capacity

1a. Clean technologies will drive rising demand for rare earths

The importance of rare earth elements in clean energy technologies has moved rapidly up the investment agenda. By the end of November, energy transition materials, a theme that includes rare earths alongside other critical commodities, was the top-performing thematic category of 2025 [12].

Rare earths sit quietly at the heart of many clean technologies. In wind turbines, their magnetic properties improve efficiency, allowing more electricity to be generated from the same wind. In electric vehicles, they extend the driving range by improving motor efficiency. In solar panels, they help increase the rate at which sunlight is converted into electricity. Battery storage systems benefit through higher energy density, longer lifespans, and improved safety. Rare earths are also used in the production of green hydrogen through electrolysis, and in catalytic converters that help reduce emissions[13].

Figure 15: Cleantech demand for rare earths will require significantly higher primary supply

	2021	2024	2030	2040
Cleantech demand	11	19	38	47
Other uses	67	72	85	103
Total demand	**78**	**91**	**123**	**150**
Secondary supply and reuse	22	27	32	43
Primary supply requirement	**57**	**64**	**91**	**107**

Source: International Energy Agency Global Critical Minerals Outlook 2025. All figures are in kilo tonnes (kt). **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

12 WisdomTree's thematic universe classification, November 2025.

13 Stanford Advanced Materials, 2026.

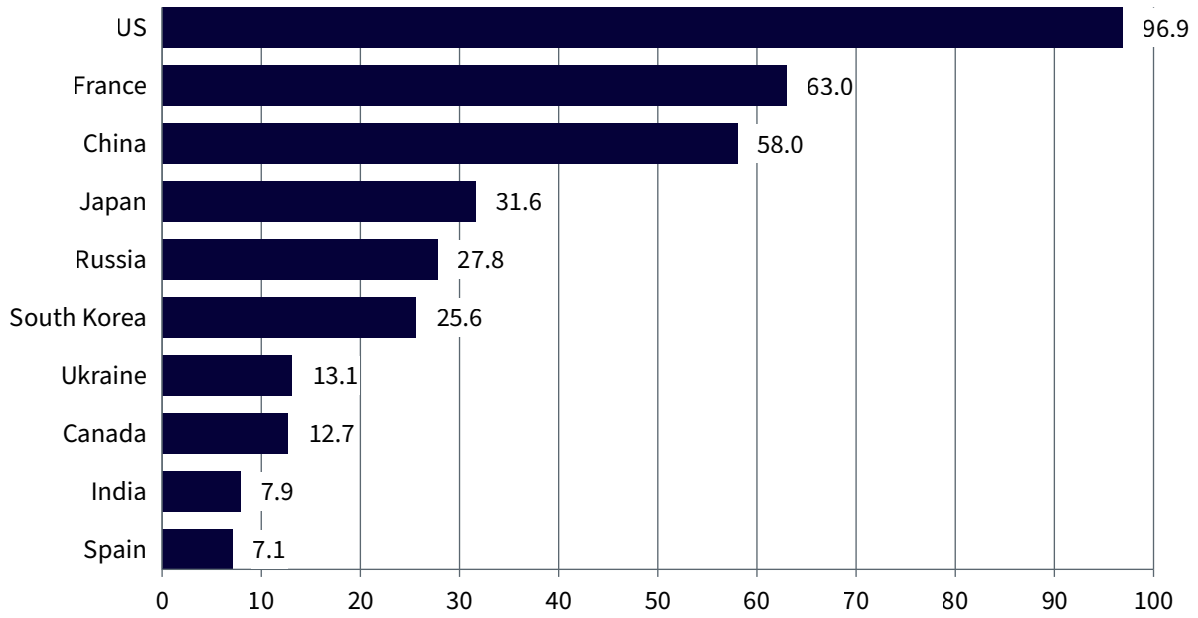
Looking ahead, demand for rare earths is set to rise further. Analysis by the International Energy Agency supports a constructive outlook for demand growth driven by clean technologies. That demand, however, collides with a hard constraint. Supply is highly concentrated, and scaling production or diversifying supply chains is neither quick nor easy. We return to this challenge later in our outlook. For now, rare earths remain a theme where structural demand growth will be forced to contend with a concentrated, tight supply. This is a key theme for investors to consider in 2026.

Rare earths remain a theme where structural demand growth will be forced to contend with a concentrated, tight supply.

1b. Nuclear will move from renaissance to mainstream growth

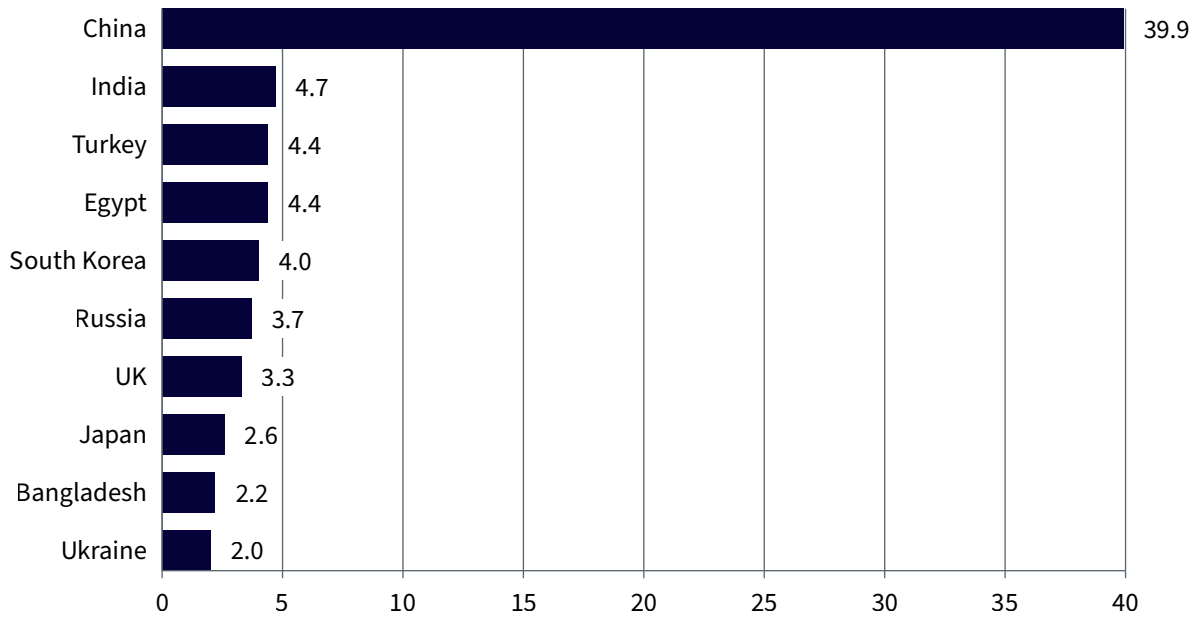
Ambitious nuclear capacity targets are now starting to translate into concrete commercial activity, and markets are only beginning to grapple with what that means for the uranium and nuclear value chains. A clear example came on 27 October 2025, when the United States Government, Brookfield, and Cameco announced a strategic partnership centred on Westinghouse reactor technology. The agreement envisages that new nuclear reactors worth at least $80 billion will be built across the United States, positioning nuclear power as a core pillar of both energy security and AI infrastructure. What is important to note is the market reaction. Cameco's share price rose by nearly 24% the following day, a reminder that large credible deals can still catch investors off guard. Similar dynamics played out with Centrus Energy rallying in the first week of January 2026, after the US government announced support for the domestic uranium fuel supply chain. These examples highlight how policy ambitions can quickly turn into earnings-relevant outcomes for companies exposed to critical parts of the nuclear ecosystem.

Figure 16: Total operable reactor net capacity (MWe)



Source: World Nuclear Association, January 2026. MWe is megawatt electrical.

Figure 17: Reactor capacity under construction (MWe)



Source: World Nuclear Association, January 2026. MWe is megawatt electrical.

This matters because, while current capacity under construction is meaningful, the gap between political ambition and current project pipelines remains vast. Thirty-one countries have now pledged to triple their global nuclear capacity by 2050[14], while the United States has set out plans to quadruple its own capacity[15]. However, the existing pipeline of approved projects falls well short of what would be required to meet those goals. That gap creates uncertainty, but it also creates opportunities. Markets cannot price in deals that have not yet been designed, approved, or announced. As governments work through how to deliver on their targets, new partnerships, policy shifts, and supply chain decisions will continue to emerge. Sweden's recent move to lift its uranium mining ban, in effect since 2018, is one such example. We expect more in 2026. Despite the strong gains across uranium and nuclear energy stocks in 2025, the pathway to 2050 is not priced in. It cannot be. The theme is now moving from renaissance to roadmap, and as that roadmap takes shape, markets are likely to keep reacting to the news along the way.

Despite the strong gains across uranium and nuclear energy stocks in 2025, the pathway to 2050 is not priced in.

1c. The renewable energy boom will reveal new winners and new use cases

The renewable energy boom is beginning to show new facets as demand shifts towards solutions that can deliver both clean and reliable power. Bloom Energy's 2025 story captures this evolution. It culminated on 29 December, when the company secured a $600 million multicurrency credit facility, strengthening its balance sheet to fund global expansion. Earlier, on 30 October 2025, Bloom reported record third-quarter results and confirmed it was on track to reach 2 GW of annual production capacity by the end of 2026, driven by surging demand from AI data centres. On 13 October 2025, Bloom announced a landmark US $5 billion strategic partnership with Brookfield to support the global AI infrastructure. The momentum had begun earlier in the year, on 20 February, when Bloom announced its partnership with Equinix to deploy hydrogen fuel cells beyond 100 MW at data centres[16]. Reflecting this run of milestones, Bloom Energy's share price rose by more than 290% in 2025[17].

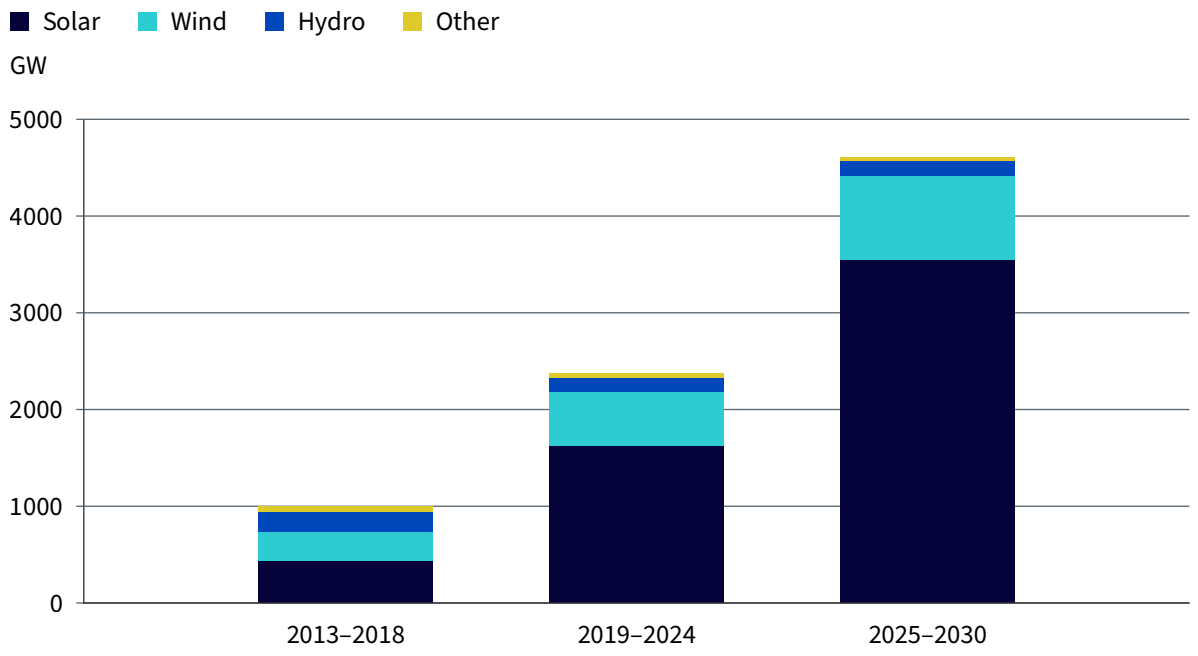
14 This was announced at the United Nations Climate Change Conference (COP) 2024.

15 US President Trump's executive orders of May 2025.

16 Bloom Energy Corp, 2025.

17 Bloomberg, January 2026.

Figure 18: Global renewable energy capacity addition



Source: IEA, Renewables October 2025 report. 'Other' includes hydropower, bioenergy, geothermal, concentrated solar power, and ocean. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.** https://www.iea.org/data-and-statistics/charts/renewable-electricity-capacity-growth-by-technology-segment-and-solar-pv-share-main-case-2013-2030

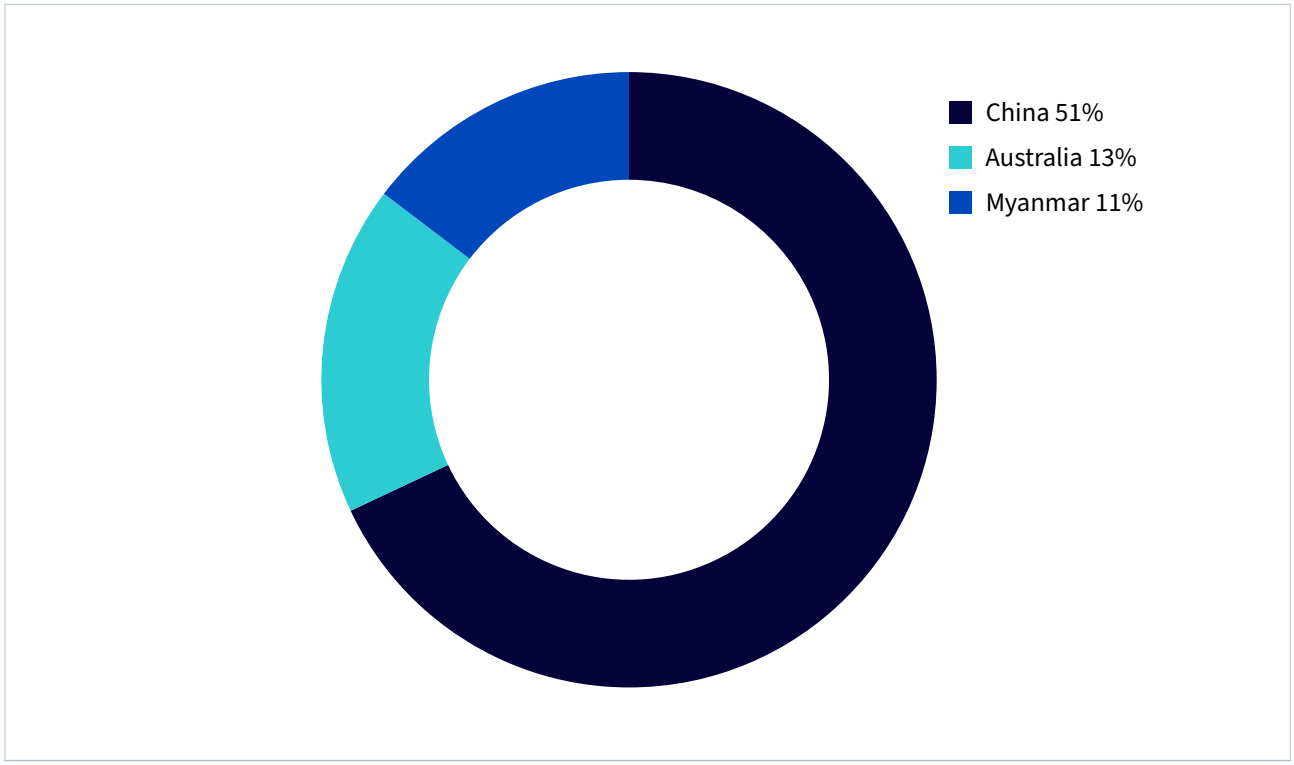
Hydrogen fuel cells emerged as an unexpected leader within the renewable energy mix in 2025. However, this is understandable. Like small modular nuclear reactors, hydrogen fuel cells provide off-grid, clean energy with an uninterrupted power supply. This combination is increasingly attractive for AI data centres and other energy-intensive industries seeking energy independence. This is likely to remain a key trend in the year ahead. As global power demand continues to rise, renewable solutions that can reliably meet that demand will become more appealing. Renewable energy capacity is set to rise rapidly in the coming years. This new frontier of demand will continue to create unexpected winners. If interest rates continue to ease, another important catalyst for the theme in 2025, momentum could be reinforced further.

2. Geopolitics: Global fragmentation will reshape where growth emerges

2a. Critical mineral supply chains will be redrawn on geopolitical lines

On 20 October 2025, the United States and Australia agreed on a joint framework to secure the mining and processing of critical minerals and rare earths essential for defence and advanced technologies. The agreement targets more resilient supply chains across mining, separation, and processing, supported by coordinated public and private investment. Within six months, both countries aim to mobilise at least US $1 billion in project financing, fast-track permitting, and jointly identify priority projects. The framework also includes stockpiling, recycling initiatives, price safeguards, and a rapid-response taskforce, all designed to reduce reliance on fragile or distorted global supply chains[18].

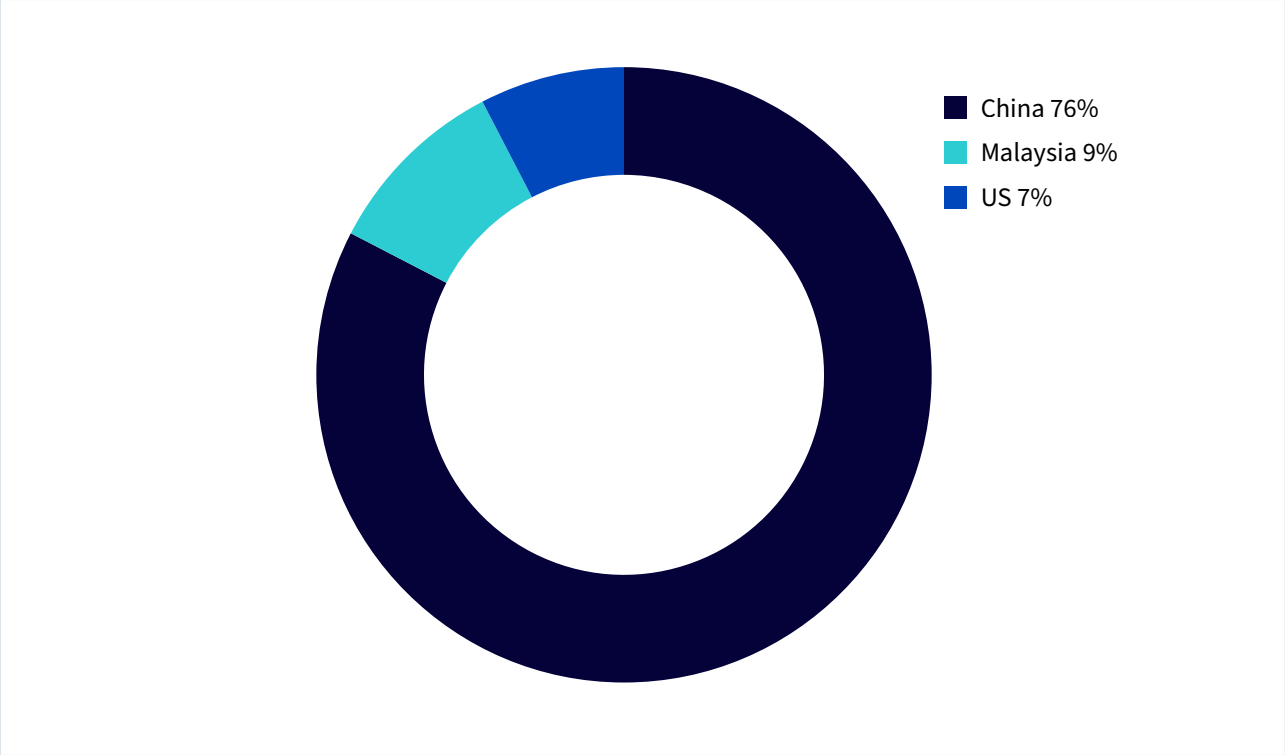
Figure 19: Top three rare earths miners in 2030



Source: International Energy Agency Global Critical Minerals Outlook 2025. All figures are in kilo tonnes (kt). **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

18 The White House, October 2025. United States-Australia Framework For Securing of Supply in the Mining and Processing of Critical Minerals and Rare Earths – The White House.

Figure 20: Top three rare earths refiners in 2030



Source: International Energy Agency Global Critical Minerals Outlook 2025. All figures are in kilo tonnes (kt). **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

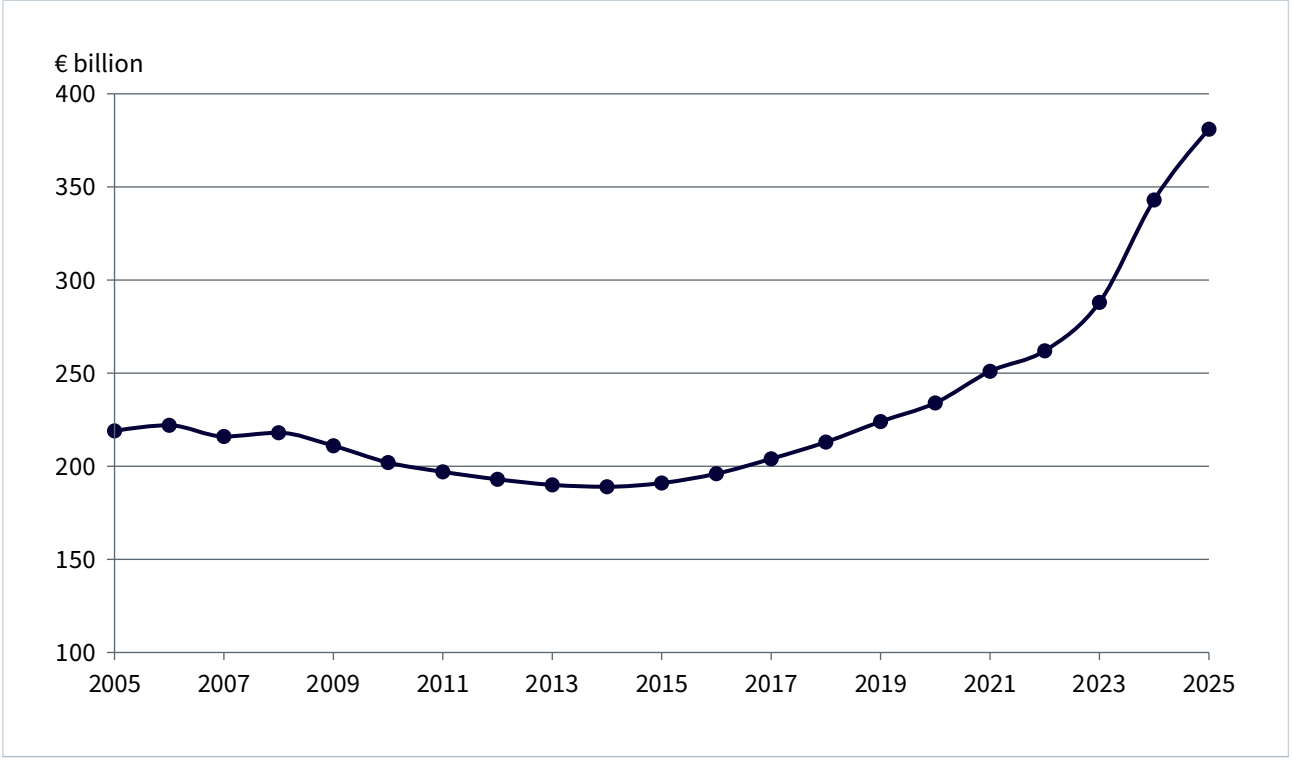
The strategic motivation of the US is clear. China dominates the global supply of rare earths, a dynamic that is likely to remain in place for the foreseeable future. For the United States, which depends on rare earths for AI, clean energy, and defence, to name a few sectors, this concentration represents a critical vulnerability. China's dominance has been built steadily over the past three to four decades, beginning in the 1980s and accelerating through the 1990s, as it captured not just mining capacity, but also the far more complex processing stage, while others exited the market. That dominance will not unwind quickly. As a result, rare earths are likely to remain a powerful lever in trade negotiations for years to come.

This is why rare earths sit at the intersection of two thematic categories in this outlook. Demand is being driven by energy addition, while supply is being reshaped by geopolitics. That combination explains their double mention, and why they remain one of the most strategically important materials to watch in 2026 and beyond.

2b. Europe's focus on defence will remain an enduring theme

Fincantieri's chief executive, Pierroberto Folgiero, who joined us on *The Next Big Thing* podcast, described modern naval defence as entering an era of hybrid and asymmetric warfare. In this environment, ships must counter traditional threats while evolving into 'systems of systems', increasingly acting as motherships that deploy unmanned surface and underwater drones to extend reach and protect critical seabed infrastructure. It appears that Fincantieri's systems of systems are in high demand. In its November 2025 nine-month update, Fincantieri reported an order intake of €16.0bn, up 88% year on year, implying a book-to-bill ratio of 2.4 x. Backlog rose to €41.0bn, with total backlog reaching a record €61.1bn, around 7.5 times 2024 revenues. With roughly 100 ships scheduled for delivery through 2036, the company has long-term visibility for its business prospects. The strong demand today from governments in Europe and beyond for the products being developed by Fincantieri and other defence companies will, therefore, result in higher earnings for the sector for years to come.

Figure 21: Defence spending by EU member states rose 62.8% between 2020 and 2025



Source: European Defence Agency, data sourced in January 2026. https://www.consilium.europa.eu/en/policies/defence-numbers/
Historical performance is not an indication of future performance and any investments may go down in value.

The European defence theme moved firmly into the spotlight in 2025, catalysed in large part by President Trump's rhetoric around reducing US security commitments and signalling that Europe would need to stand on its own. That message spurred European governments into action. Early 2026 has reinforced this trend. US actions in Venezuela, renewed claims over Greenland, and Denmark's stark warning that an attack on Greenland would put NATO's future in question have further sharpened European resolve [19]. While governments have avoided direct confrontation with Washington, their support for Denmark signals a deeper commitment to defence autonomy. In 2026, this backdrop is likely to continue, strengthening the fundamental case for sustained investment in Europe's defence capabilities.

US actions in Venezuela, renewed claims over Greenland, and Denmark's stark warning that an attack on Greenland would put NATO's future in question have further sharpened European resolve.

2c. The defence theme will extend well beyond Europe

On 1 January 2026, Poland signed a $4 billion deal with South Korea's Hanwha Aerospace to procure Chunmoo guided missile systems, with production localised in Poland and deliveries beginning in 2030. The agreement builds on earlier contracts and highlights why Poland has increasingly turned to Hanwha. Competitive pricing, faster delivery timelines, and a willingness to transfer technology and support domestic manufacturing have given the South Korean group a clear advantage at a time when Europe faces both urgent security needs and capacity constraints[20].

There are several reasons why defence opportunities extend beyond Europe. In 2025, all NATO members committed to defence spending of at least 2% of GDP[21], with countries such as Poland already well above that threshold and others now targeting levels closer to 3.5%. Even as Europe seeks greater self-reliance, policies such as the European Defence Industrial Strategy (EDIS), which aims for 50% of European defence procurement to come from within Europe by 2030, still leave substantial room for sourcing from global partners. South Korea is one such beneficiary. Strategic collaboration is also deepening elsewhere, as seen in the Global Combat

19 The North Atlantic Treaty Organization is an intergovernmental military alliance between 32 member states: 30 in Europe and 2 in North America.

20 South Korea seals US$4 billion arms deal with Poland amid 'daunting' EU bloc trade threat | South China Morning Post.

21 Reported by Reuters in August 2025.

Air Programme linking the UK's BAE Systems, Italy's Leonardo, and Japan's Mitsubishi on a sixth-generation fighter jet. At the same time, Asian defence budgets are rising, with Japan approving a record US $58 billion defence budget amid heightened regional tensions[22].

As global fragmentation and geopolitical rivalry continue to shape policy decisions, defence spending is likely to remain structurally elevated. Europe remains central to the theme, but new and increasingly attractive opportunities are other markets, such as Asia, where the ability to scale technological capability at speed is becoming a clear competitive advantage.

3. Technology: The buildout of infrastructure will continue

3a. AI will leave the screen and enter the physical world

At CES 2026[23], Jensen Huang declared that "the ChatGPT moment for physical AI is here". Unveiling Nvidia's new Alpamayo platform, he described a shift from AI that predicts text to AI that reasons, acts, and explains itself in the real world. From autonomous cars that can think through rare scenarios to robots that learn directly from human behaviour, Huang's message, quite clearly, is that AI is moving off the screen and into physical space.

This evolution matters for investors because AI's growth is not confined to one company or one chip. Nvidia remains central, but the semiconductor boom in 2025 shows how broad the opportunity set has become. Micron Technology was the best-performing major semiconductor stock[24], reflecting the importance of high-speed memory that keeps AI systems running smoothly. Nvidia, with its GPUs[25], builds the engines, and Micron supplies the fuel system.

Together, they highlight that, as AI advances, demand across multiple layers of hardware continues to rise.

At WisdomTree, we do not see AI as a bubble nearing collapse. The infrastructure buildout is real, applications are expanding, and the next phase is physical. Until now, we have spoken about the internet of things. The next chapter is the internet of AI-enabled things, machines that see, move, decide, and operate alongside humans. That is why physical AI, spanning humanoid robotics, drones, autonomous mobility, smart factories, and logistics automation, is an exciting new frontier to watch.

At CES 2026, Jensen Huang declared that "the ChatGPT moment for physical AI is here".

22 https://www.aljazeera.com/news/2025/12/26/japan-govt-greenlights-record-58bn-defence-budget-amid-regional-tension.

23 Consumer Electronics Show, Las Vegas. January 2026.

24 In the PHLX Semiconductor Index in 2025, source Bloomberg. January 2026.

25 Graphics processing units.

Now, declaring anything to be a ChatGPT moment for any industry is a bold claim. But there are a couple of things to consider. First, if Jensen Huang makes an assertion, the world takes it seriously. Second, Jensen Huang is not alone. In a recent interview with CNBC, the CEO of AMD Lisa Su also proclaimed that physical AI could be the "next big thing". And so, in 2026, we will certainly be paying attention to physical AI as an exciting new dimension of the AI megatrend.

3b. There will be further excitement surrounding quantum computing

In October 2025, IonQ set a new world record by achieving near-perfect accuracy in key quantum computing operations[26]. Higher accuracy matters because it reduces errors, and fewer errors are what allow quantum computers to tackle far more complex problems, bringing practical, large-scale quantum computing closer to real-world use.

IonQ is not alone in its optimism. IBM's quantum computing roadmap, first published in 2020 and since updated, points to 2029 as the year when the first fault-tolerant, and therefore practically usable, quantum computer could be made available to customers. There is, of course, considerable uncertainty around the timelines of IBM and other players pursuing different approaches, including Microsoft, Google, Amazon, Rigetti, and IonQ itself. However, a growing sentiment across the industry is that quantum computing today may be where artificial intelligence was in 2018. In other words, we are potentially four or five years away from a major breakthrough.

Figure 22: IBM's quantum computing roadmap suggests a quantum era is almost here

2026

IBM aims to show, for the first time, a real scientific problem where a quantum computer, working alongside today's supercomputers, can do something meaningfully better than classical machines.

2027

IBM aims to scale up its quantum systems so they can handle much bigger and more complex problems, moving from early demonstrations to a broader range of useful quantum tasks.

2029

IBM plans to deliver the first truly fault-tolerant quantum computer, meaning errors are actively corrected and the machine can run very long, complex calculations reliably.

Source: IBM, 2026

For AI, the inflection point came with the viral adoption of ChatGPT following its release in November 2022. That moment, however, was the result of years of steady progress along a well-defined roadmap. Quantum computing is perhaps slightly different. Unlike past computing breakthroughs, there is already broad global awareness of its potential to reshape industries. That awareness helped propel quantum computing into a popular investment theme in 2025, even without a clear 'ChatGPT moment'.

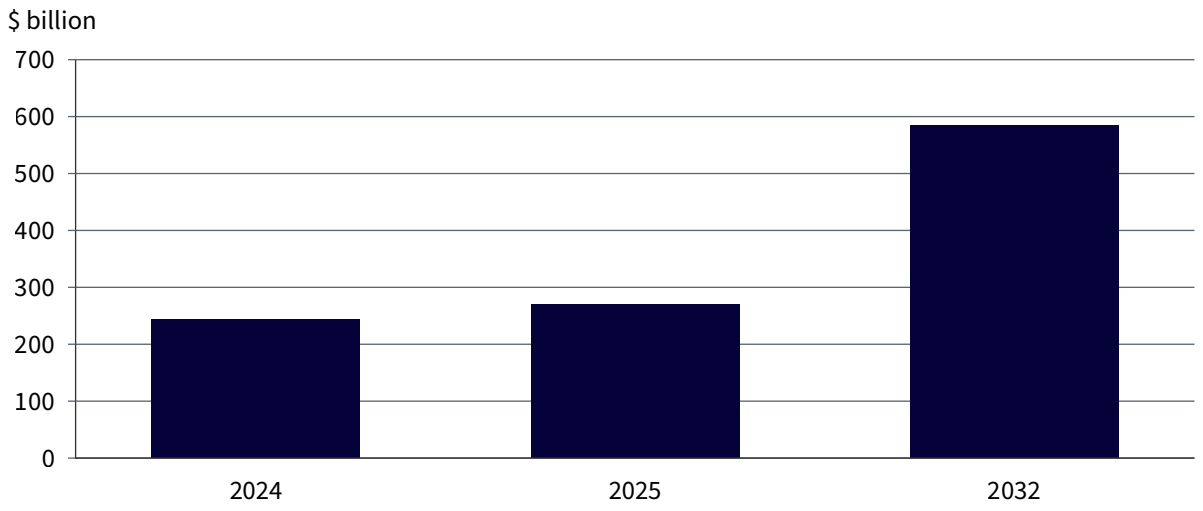
26 IonQ, October 2025.

The consequence of this awareness is inevitable hype cycles. The path to a quantum world remains highly uncertain, and markets will react sharply to both technical breakthroughs and setbacks. While price action is therefore likely to remain volatile, as one would expect from a cutting-edge emerging theme, steady progress across the quantum roadmap should continue to capture investor attention in 2026.

3c. The data centre boom will continue to create real opportunities

On 29 December 2025, SoftBank agreed a US $4bn deal to acquire DigitalBridge, a US investor that owns and manages critical digital infrastructure, including data centres, telecom towers, and fibre networks. The deal matters because AI does not run on data alone; it runs on physical infrastructure. By acquiring DigitalBridge, SoftBank is securing the backbone required to power the next phase of AI growth.

Figure 23: Global data centre market could see a compound annual growth rate of 11.7% from 2025 to 2032



Source: Fortune Business Insights, December 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties**. https://www.visualcapitalist.com/sp/uranium-the-fuel-for-a-utopian-energy-economy/

The data centre boom can be accessed from multiple angles. Investors can look upstream through the energy that powers AI, or through the materials and chips that sit inside the machines. They can also invest directly in the real estate that houses the computer. Companies such as Digital Realty, Equinix, and Keppel DC REIT are pure-play data centre owners and operators. Others, including Goodman, Prologis, Segro, and Mapletree, are increasingly developing data centre assets alongside traditional logistics property. DigitalBridge sits at the centre of this ecosystem, backing data centres and digital infrastructure globally, highlighting that the AI buildout is as much a property story as a technology one.

Like renewable energy, data centre development is capital intensive and has been constrained in recent years by higher interest rates. In 2025, rate cuts from major central banks helped unlock financing and supported a rebound in activity. If that easing cycle continues, 2026 could see further momentum, reinforcing the structural case for data centre investment.

Conclusion: Be picky but open-minded

2025 was a strong year for thematic investors. Many well-reasoned ideas delivered compelling returns. 2026 is shaping up to offer a similarly rich opportunity set. That is why this edition of our thematic outlook includes the broadest range of ideas we have ever presented.

We place energy addition first, reflecting our strongest conviction, followed by geopolitically driven global fragmentation, and then technology infrastructure. At the individual theme level, strategic metals and rare earths rank highest on our conviction list, alongside uranium and nuclear energy. That said, every idea included in this outlook has potential. We also remain open to new themes emerging as the year unfolds.

Figure 24: Our highest conviction thematic ideas right now

Theme	Category	Conviction
Strategic metals and rare earths	Energy addition/global fragmentation	Very high
Uranium and nuclear energy	Energy addition	Very high
Europe defence	Global fragmentation	High
Asia defence	Global fragmentation	High
Physical AI	Technology	High
Renewable energy	Energy addition	Medium
Quantum computing	Technology	Medium
Data centre real estate	Technology	Medium

Source: WisdomTree.

We live in exciting times. Not because change itself is unprecedented but because the ability to invest in that change is. Opportunities that were unavailable to Johannes Gutenberg's contemporaries are now accessible to modern investors. At WisdomTree, we wish investors well in 2026, and for all your thematic investing needs, we are here to help.

4.
Crypto Outlook: Discipline wins

In this section

Crypto's next phase is not about survival. It is about the portfolio function.

Heading into 2026, the advantage no longer lies in having a view on 'the future of money'. It is implementing crypto like an allocator: robust access, deliberate sizing, and rules-based governance.

Crypto has moved beyond its formative, retail-led years of narrative churn and violent boom–bust cycles. What remains is more durable: market infrastructure that works, regulation that is tightening, and capital that is increasingly behaving like capital.

Implementation over narrative

Investor advantage now comes from doing three unglamorous things consistently well:

+ Accessing crypto through institutionally robust wrappers (for example, exchange-traded products (ETPs)), rather than improvising operational set-ups designed for retail or technology-native participants.
+ Sizing exposure deliberately as a genuine allocation aligned to a portfolio's risk budget and objectives, not as a binary bet.
+ Rebalancing systematically, using rules-based processes that reduce behavioural drift rather than reacting to headlines and price moves.

This does not guarantee outperformance. Nothing does. However, it improves the probability distribution of outcomes. It turns crypto from a high-volatility narrative trade into a sleeve that can be held, justified, monitored, and rebalanced inside an institutional framework. And increasingly, the market is structured to reward exactly that.

Three themes that matter

Looking ahead over the next 12 to 18 months, three themes dominate the institutional crypto investment landscape:

1. Institutional normalisation accelerates. Crypto will not become boring, but it will become more predictable in how it is accessed, sized, governed, and rebalanced. The primary shift is away from 'Should we?' and towards 'How do we implement this responsibly?'
2. Income moves to the centre stage. Staking and yield strategies are likely to become more prominent as investors migrate from pure price speculation to total return frameworks. Crypto begins to look less like a one-dimensional bet on appreciation and more like a spectrum of exposures with different return drivers.
3. Portfolio integration deepens. Crypto continues migrating out of 'alternatives' buckets and into mainstream asset allocation debates alongside commodities, gold, inflation hedges, and other diversifiers as investors search for differentiated return drivers.

The objective is not maximal, but optimal exposure. Enough to matter, not enough to threaten.

Traditional multi-asset playbook is under strain

Crypto's maturation is not happening in a vacuum. It is unfolding as the traditional multi-asset portfolio model is under pressure.

The post-2020 regime has forced allocators to relearn uncomfortable truths:

+ Inflation is not dead. It does not need to be extreme to cause damage. Persistent inflation risk changes discount rates, compresses valuations, and forces central banks into credibility trade-offs.
+ Fiscal dominance is back. Governments are running large debt loads and deficits; monetary policy increasingly operates within political constraints. That can weaken central bank signalling and complicate any return to 'normal' rates.
+ Geopolitical fragmentation is structural. Supply chains are being re-routed. Energy security has re-emerged as a strategic objective. Payment rails and financial infrastructure are increasingly politicised. The world is regionalising.
+ Equity–bond correlations are less reliable. In stress regimes driven by inflation expectations and rate volatility, correlations can flip. Diversification benefits that were assumed to be structural can reveal themselves to be conditional.

The portfolio implication is that many investors are short of exactly what they need more of: differentiated return drivers and return asymmetry.

Many investors are short of exactly what they need more of: differentiated return drivers and return asymmetry.

Crypto is not a silver bullet. It is not a magic hedge. It will behave badly in certain environments, particularly those dominated by liquidity shocks and broad risk-off behaviours.

However, crypto remains an asset class that is simultaneously:

+ Non-sovereign: that is, not issued by any government.
+ Global and digitally native, with continuous trading and a borderless market structure.
+ Increasingly accessible through ETPs, avoiding operational lifts that most institutions do not want.
+ Driven by adoption, usage, and protocol economics, rather than earnings cycles or central bank projections.

That does not mean crypto is uncorrelated. This means it is different enough to matter, and in a world where traditional diversification assumptions are being tested, 'different enough' has value.

The difference, however, expresses itself through volatility. Volatility is real, and it will remain real. However, volatility is not automatically a reason to avoid an asset. It is a signal that the exposure must be deliberately seized and properly governed.

Theme 1: Institutional normalisation accelerates

Crypto is moving from 'Should we?' to 'How do we?'

For professional investors, the question is increasingly: 'How does crypto function within a portfolio?' That is the difference between treating crypto as a tactical edge-of-portfolio trade, and treating it as an allocation with defined objectives, governance standards, and rebalancing rules.

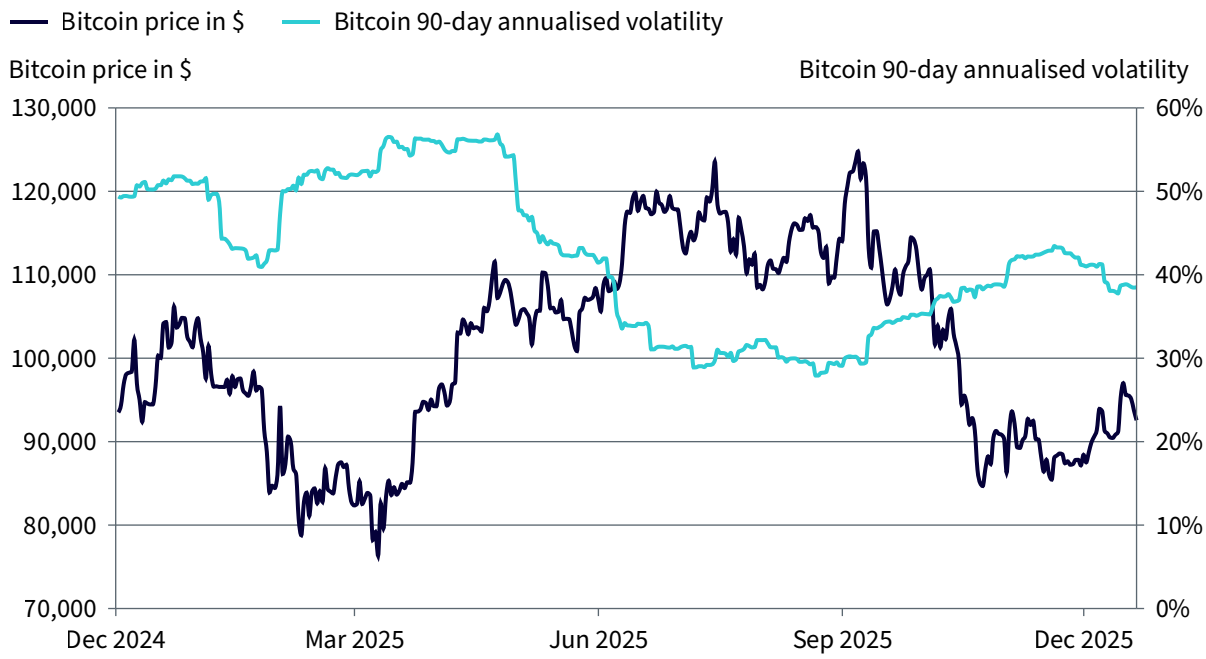
> Crypto is moving from 'Should we?' to 'How do we?'

This shift is driven by:

+ Improving access. Physical crypto ETPs have embedded digital assets into institutional infrastructure, allowing exposure through familiar instruments that integrate into existing platforms, models, and reporting systems.
+ Maturing volatility. Bitcoin remains volatile relative to traditional assets, but its realised volatility has compressed materially versus earlier cycles. The direction of travel matters, as volatility that can be governed is volatility that can be allocated.

+ Regulation shifting from headwind to filter. Regulation is not suppressing crypto markets; it is sorting them. Capital is concentrating into a narrower universe of assets and structures that meet institutional standards around transparency, custody, governance, and compliance visibility.

Figure 25: As bitcoin ownership consolidates into institutional hands, its realised volatility compresses



Category	Number of bitcoins	Per cent of total bitcoin supply
ETPs	1,502,560	7.2%
Public companies	1,108,080	5.3%
Governments	647,042	3.1%
Decentralised finance (DeFi)	372,377	1.8%
Private companies	288,012	1.4%
Exchanges/custodians	145,993	0.7%
Total	**4,064,064**	**19.4%**

Source: Bitcoin Treasuries, Artemis Terminal. 19 January 2026. Bitcoin's total supply is 21,000,000. **Historical performance is not an indication of future performance, and any investment may go down in value.**

This is what mature asset classes do: they consolidate around assets that meet institutional standards. The result is that crypto is becoming less narrative-driven and more portfolio-shaped.

As that institutionalisation deepens, the market's internal reward system shifts accordingly. Durable capital flows increasingly concentrate on assets and strategies that fit governance frameworks:

+ Clear role in allocation
+ Clear method of access
+ Clear risk control and rebalancing discipline

The era of 'this token has a great story' is being replaced by one question: 'Does this belong in a portfolio?'

Theme 2: Income moves to centre stage

Staking turns crypto from pure beta into total return.

Staking turns crypto from pure beta into total return.

For years, one of the most credible institutional objections to crypto was simple: 'Where is the income?'

Equities pay dividends. Bonds pay coupons. Real assets generate rents. Crypto was often pitched as pure price appreciation, which is a tough sell to allocators trained to think in total-return terms and to operate within liability-aware frameworks.

That objection is fading because of staking.

Staking is protocol-native income, not manufactured yield. Ethereum and Solana run on proof-of-stake systems and are secured by participants who stake tokens to validators that process transactions and maintain consensus. In return, stakers earn rewards.

For investors, the key point is that staking is a protocol-native income. It is paid for a real network function. It is structurally embedded in how these networks operate. It is not a manufactured yield created by leverage or complex credit structures, and it is not lending.

Historically, staking has been operationally messy. Native staking can require:

+ Running validator infrastructure
+ Managing slashing risk (penalties for misbehaviour or downtime)
+ Accepting lock-ups
+ Owning technical processes that most investment teams do not want to own

Liquid staking instruments reduce operational and liquidity friction, enabling investors to earn staking returns while retaining portfolio flexibility. That is the bridge from 'an interesting idea' to investable exposure.

Liquid staking instruments reduce operational and liquidity friction, enabling investors to earn staking returns while retaining portfolio flexibility.

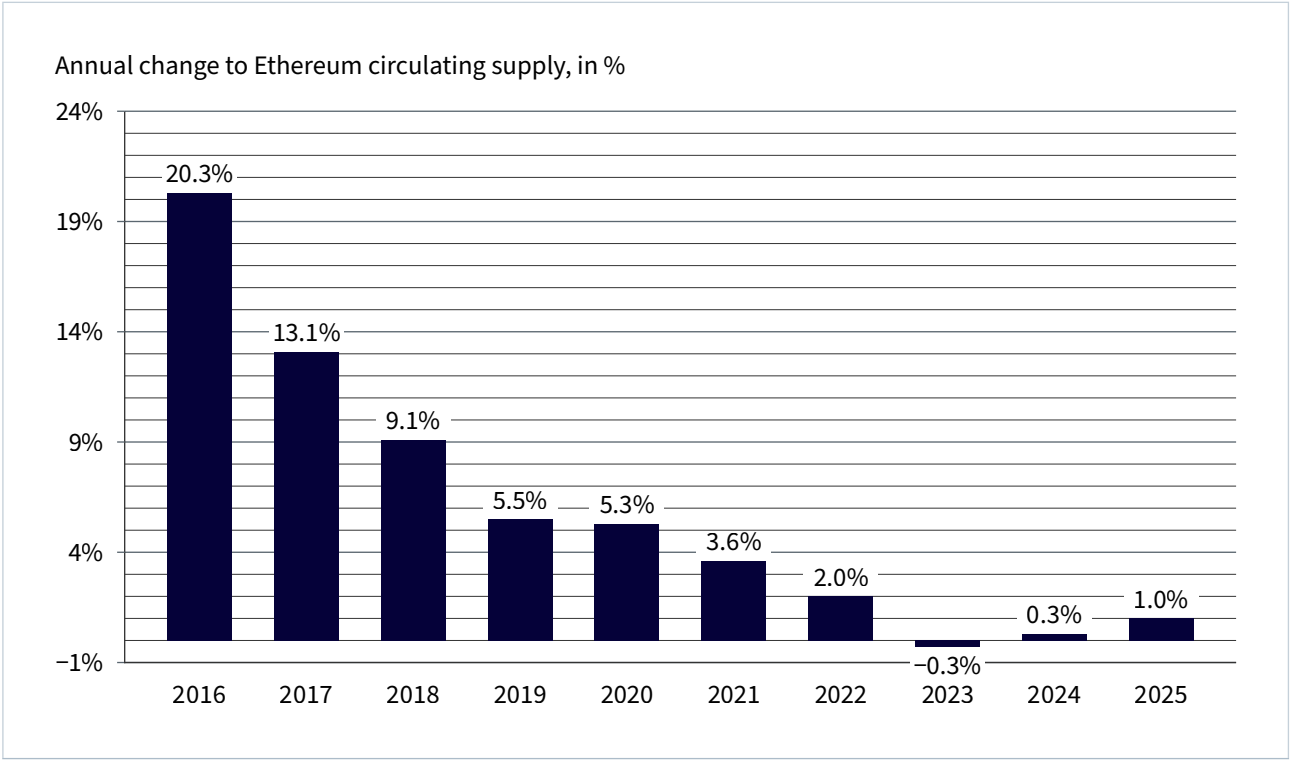
Ethereum: Productive digital capital

Ethereum's economic model increasingly resembles something allocators recognise because it combines:

+ Usage-linked fee revenue
+ Staking yields
+ Fee-burn mechanisms that can reduce circulating supply

This creates a quasi-equity profile: a system with economically relevant cashflow-like dynamics rather than a purely speculative token.

Figure 26: Ethereum circulating supply tends to be inflationary, but inflation rate has reduced significantly over time



Source: Artemis Terminal. 19 January 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

In 2026, short-term headlines matter less, as follows:

+ Ethereum remains the main platform where value is ultimately settled and secured.
+ When activity moves to so-called layer-2 networks, it does not undermine Ethereum. Instead, it can strengthen Ethereum's role as the base layer that provides security and final settlement.
+ Demand from institutional investors for staking income is expected to rise, particularly through familiar vehicles, such as ETPs.

In practice, this shift towards income is most clearly illustrated through liquid staking instruments. A leading example is Lido Staked Ether (stETH), which represents staked Ether plus accrued staking rewards. From a portfolio perspective, it matters for three reasons:

+ Liquidity: Investors can buy, sell, and rebalance without being locked into illiquid staking positions.
+ Operational simplicity: Staking becomes an investment decision, not a technology project.
+ Integration: Staked Ether becomes a tradable asset that can fit into portfolio frameworks.

Figure 27: Lido dominates liquid staking activity on Ethereum

~$31bn Total value locked (TVL)	**$215m** Lido Staked Ether (stETH) trading volume*	**$10bn** stETH used as collateral
~8.5 ETH Lido is the largest Ether (ETH) staking pool	**$150m** Liquidity within 2% depth	**~23%** Of all ETH deposited to Beacon Chain is through the Lido middleware

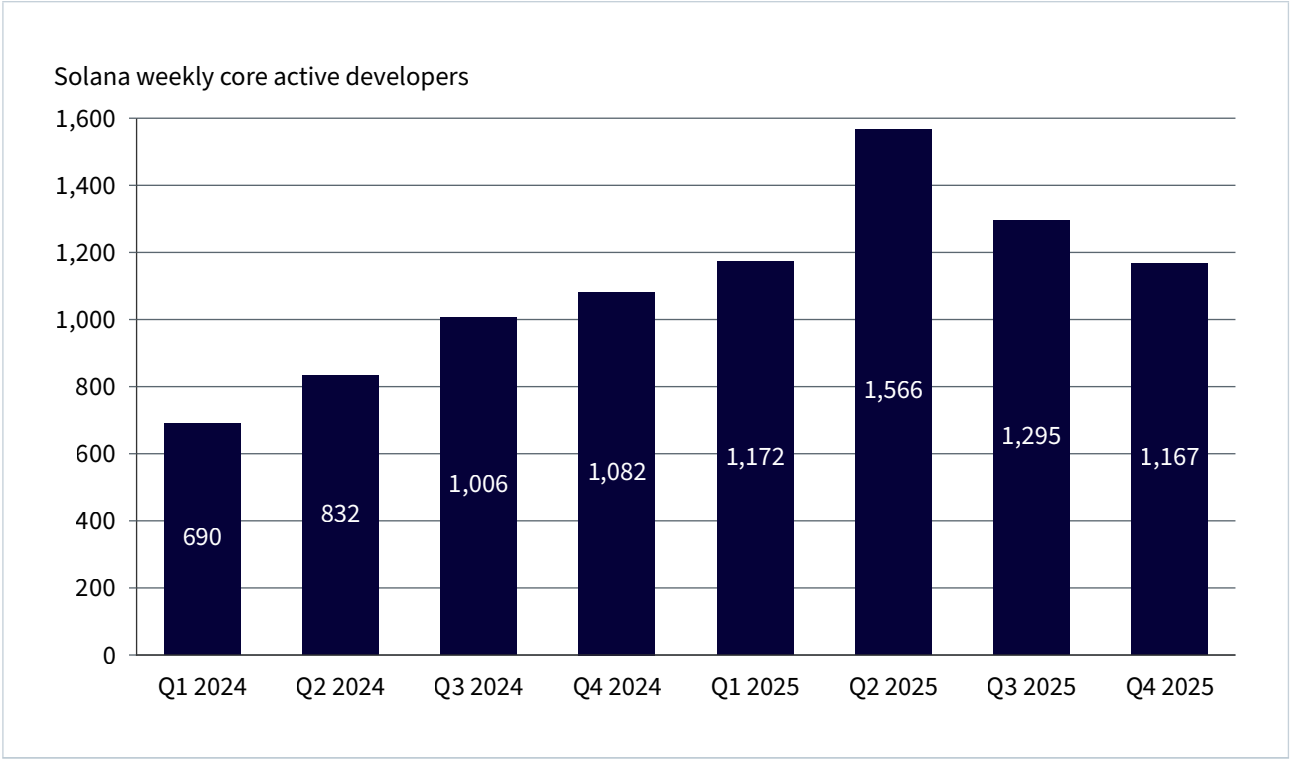
Source: Lido Institutional. December 2025. *Trailing 12-month daily average centralised exchange (CEX) volume. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Allocators should therefore ask a simple question: 'If protocol-level income is available, why hold crypto exposure that generates no yield or settles for less than what liquid staking structures can deliver?'

Solana: Cyclical income with higher beta

Solana's defining question in 2026 is no longer credibility. It is scale: usage, throughput, and developer momentum.

Figure 28: The number of Solana weekly core active developers has grown significantly over the past couple of years



Source: Artemis Terminal. 19 January 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

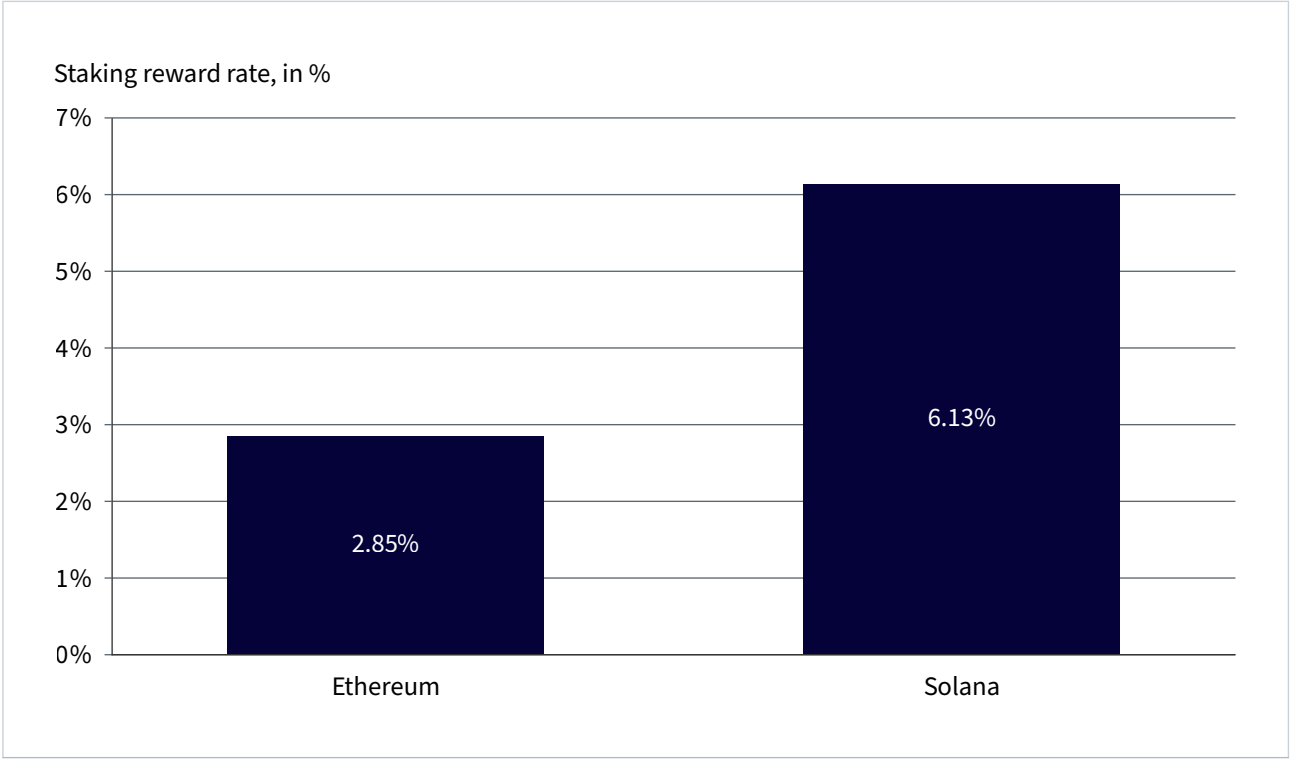
Solana's architecture is optimised for speed and low transaction costs, positioning it for high-frequency use cases such as:

+ Decentralised exchanges
+ Payment activity
+ Consumer-facing applications
+ On-chain trading venues

From an investment standpoint, Solana often behaves like an institutional beta for on-chain activity. When on-chain activity accelerates, Solana tends to respond strongly.

Solana's staking yields are often higher than Ethereum's, but that is not a free lunch. Higher yields reflect faster token inflation.

Figure 29: Staking reward comparison



Source: Staking Rewards. 20 January 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Portfolio implications: Layered crypto income

Ethereum and Solana staking exposures can coexist, but they serve different roles:

+ Staked Ether: deeper liquidity and stronger institutional anchoring.
+ Staked Solana: higher income potential, but stronger sensitivity to adoption velocity.

Together, they introduce layered crypto income: one anchored in infrastructure maturity and the other in adoption momentum.

Theme 3: Portfolio integration deepens

Crypto can improve portfolio efficiency if sized correctly.

Multi-asset investing has become harder. Correlations spike when diversification is most needed. Traditional hedges can fail when inflation risk dominates. Investors need additional tools.

Crypto can improve portfolio efficiency if sized correctly.

Crypto's role is increasingly framed as follows:

+ Non-sovereign exposure
+ A potential hedge against monetary credibility erosion
+ A source of differentiated risk premia
+ A sleeve that can improve portfolio efficiency at small sizes

The evidence base continues to build that small allocations can improve risk-adjusted returns over time, although the results are regime-dependent and implementation-sensitive. The emphasis is deliberate: small, intentional, disciplined.

Crypto is not a default core holding. It is an efficiency tool when sized correctly.

Bitcoin: The anchor, now defined by function

Bitcoin's transition is emblematic. The 2024–2025 phase was about access. 2026 is about function.

Bitcoin is increasingly analysed alongside gold and inflation hedges rather than growth equities: scarcity, decentralisation, global liquidity, and continuous trading are all embedded within institutional infrastructure.

The narrative is shifting away from 'numbers go up' and towards bitcoin-specific risk premia:

+ Scarcity
+ Decentralisation
+ Protection against monetary debasement

A crucial nuance is that bitcoin does not require inflation to rise. It requires confidence in fiat to erode. Many inflation hedges require inflation to show up in the realised data. Bitcoin's sensitivity is often to credibility, expectations, and regime shifts.

Bitcoin is volatile. The question is whether that volatility is compensated and whether it improves portfolio outcomes when properly sized.

Figure 30: Small bitcoin allocations have historically improved portfolio risk/return metrics

	60/40 Global Portfolio	1% Bitcoin Portfolio	3% Bitcoin Portfolio	5% Bitcoin Portfolio	10% Bitcoin Portfolio	MSCI AC World	Bloomberg Multiverse	Bitcoin
Annualised return	6.40%	7.01%	8.23%	9.44%	12.43%	9.83%	1.01%	48.75%
Volatility	8.76%	8.83%	9.12%	9.57%	11.30%	13.90%	4.99%	65.30%
Sharpe ratio	0.52	0.59	0.70	0.80	0.94	0.58	-0.16	0.72
Information ratio		0.93	0.93	0.92	0.92			
Sortino ratio	0.63	0.71	0.86	0.98	1.20	0.68	-0.22	0.97
Beta	69%	71%	73%	75%	80%	100%	24%	178%

Source: Bloomberg, WisdomTree. From 31 December 2013 to 31 December 2025. Based on daily USD 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.**

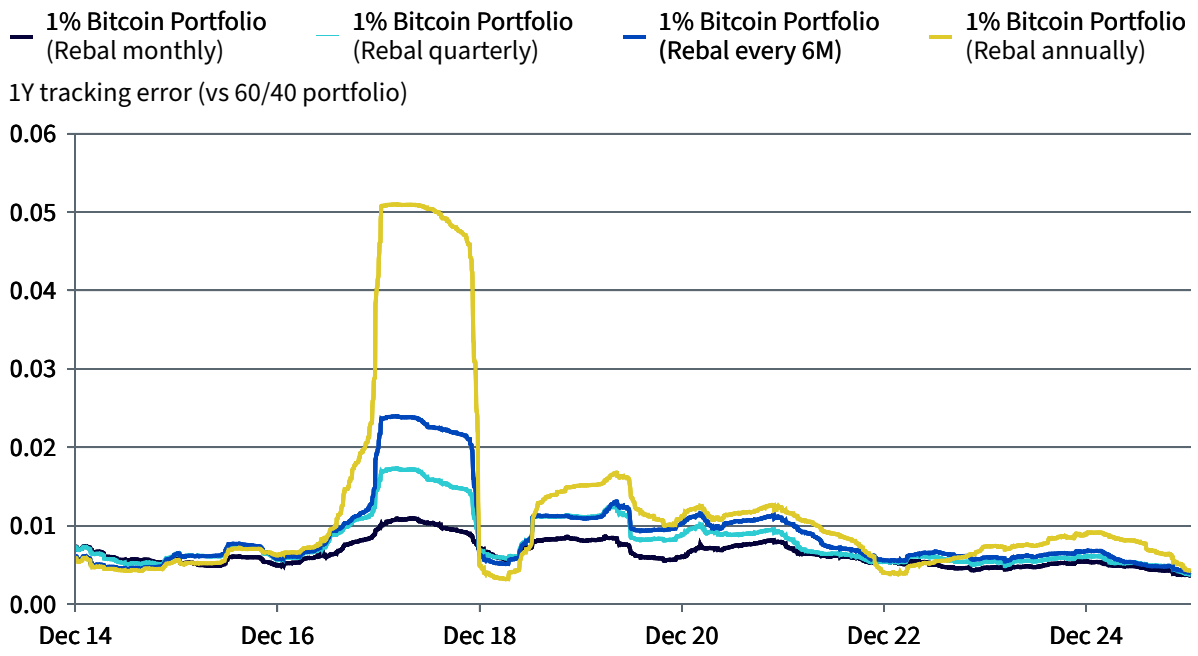
Historically, small allocations (often cited in the 1–2% range) have been shown in multiple portfolio studies to deliver disproportionate contributions to returns while only marginally increasing volatility. The core idea is convexity: small exposure can matter.

However, that asymmetry is fragile. It only holds when investors behave like allocators, not gamblers:

+ Allocate small.
+ Rebalance systematically.
+ Avoid momentum chasing.

Investors who chase bitcoin after rallies tend to buy high and sell low. Investors who rebalance can harvest volatility instead of suffering it.

Figure 31: Bitcoin allocations drift materially as rebalancing becomes less frequent



Source: Bloomberg, WisdomTree. From 31 December 2013 to 31 December 2025. Based on daily USD 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.**

XRP and XLM: Payment infrastructure as a complement

XRP and Stellar Lumens (XLM) should not be framed as rival monetary assets to bitcoin. That misses the point.

They matter as exposure to payments and settlement infrastructure: transaction networks optimised for cross-border value transfer. Their relevance is tied more to adoption and usage than to scarcity narratives.

From a portfolio lens, these are different exposures:

+ Bitcoin is macro-sensitive and store-of-value oriented.
+ XRP and XLM are more flow driven; utility is tied to transaction volumes, payment corridors, and network usage.

XRP is associated with Ripple's efforts to modernise cross-border payments for banks and regulated institutions. XLM targets low-cost payments, remittances, and interoperability, with an emphasis on accessibility.

Diversification logic (not a promise) is that in regimes where bitcoin consolidates, payment networks can still benefit from incremental adoption. This is not guaranteed, but it is a coherent portfolio rationale.

Regulation as a sorting mechanism

One of the most underappreciated shifts is that regulation is becoming a sorting mechanism.

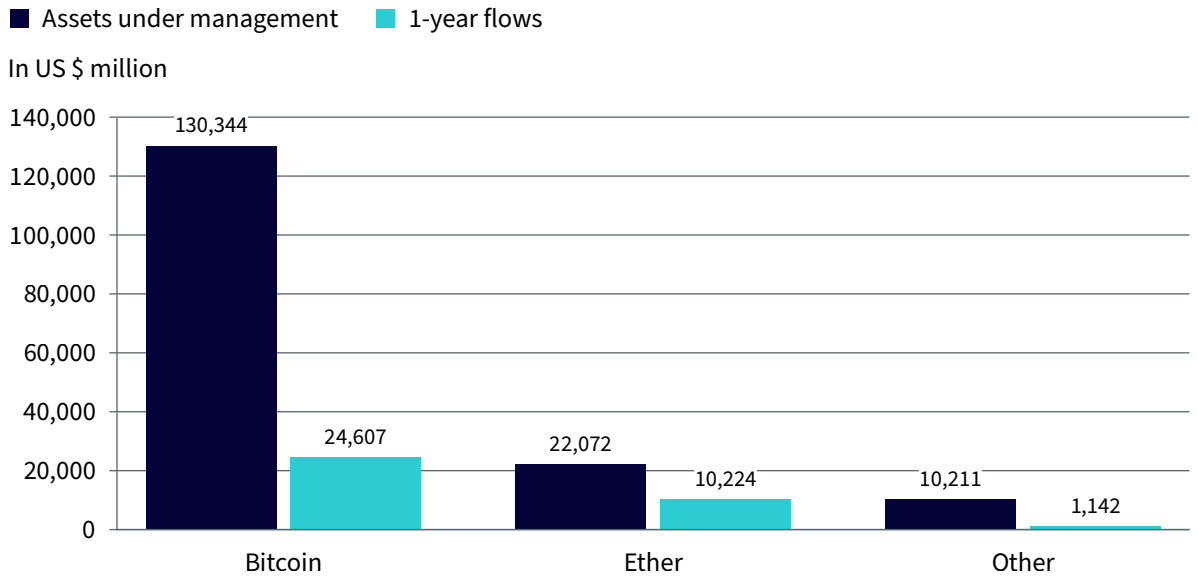
Regulation is becoming a sorting mechanism.

Regulatory clarity is expected to improve across major jurisdictions. Europe's Markets in Crypto-Assets (MiCA) regime, evolving ETP frameworks in the United States, and clearer global custody standards collectively shift regulation from a blunt constraint to a competitive filter.

Implications for investors:

+ Compliance becomes a moat: governance, transparency, and operational robustness determine access to institutional capital.
+ The investable universe narrows: many tokens and platforms fail minimum thresholds for institutional investability.
+ Capital concentrates: flows are likely to focus on assets accessible through globally listed structures, particularly ETPs.

Figure 32: Physical bitcoin ETP exposure continues to dominate the market



Source: Bloomberg, WisdomTree. 5 January 2026. Actively managed crypto ETPs are excluded. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Political risk, especially regulatory reversals, cannot be dismissed. But the direction is clear: regulation is increasingly shaping crypto markets in a way that allocators can work with.

The 'wild west' phase is fading. This makes crypto less exciting but more investable.

Crypto baskets: Solving overconfidence and paralysis

As crypto matures, portfolio construction overtakes token selection.

Institutional investors are increasingly prioritising diversified exposure over single-asset bets for a simple reason: single-token risk is harder to justify under governance scrutiny.

Rules-based crypto basket ETPs introduce structure into a market that has historically rewarded sentiment:

+ Index methodology
+ Systematic rebalancing
+ Governance screens and eligibility rules
+ Transparent exposures aligned with asset allocation norms

This is where crypto is heading. This mirrors the evolution of equities: early equity investing was dominated by stock picking; over time, index-based exposure became a default because it is scalable, transparent, and governance-friendly.

Figure 33: Crypto baskets offer differentiated exposure across the market spectrum

Index	Exposure
CoinDesk 20	Broad crypto market
CoinDesk 5	Core crypto market
CoinDesk 5 Equal Weight	Balancing the leaders
CoinDesk 10 Capped ex Bitcoin	The growth frontier

Source: WisdomTree. January 2026.

Non-specialist investors often face two errors:

+ Overconfidence: picking a single token and treating it like a high-conviction bet.
+ Paralysis: doing nothing because the market feels too complex.

Baskets solve both by offering a rules-based, diversified entry point. The advantages that crypto portfolios provide include the following:

+ Reducing ups and downs: diversification helps limit the impact when a single network or project runs into problems.
+ Participating in long-term growth: broad exposure allows investors to benefit from the overall expansion of the crypto market, including future winners that are not yet obvious.
+ Easing decision making: investment committees are typically more comfortable approving diversified, index-style exposure than taking concentrated bets.

The trade-off is obvious: baskets may underperform the top-performing single asset in a given cycle. That's fine. The goal is not to win a lottery. The goal is repeatable, risk-adjusted participation.

The goal is repeatable, risk-adjusted participation.

Conclusion

Crypto in 2026 is no longer defined by survival. It is defined by integration.

The asset class is moving from an early stage dominated by retail behaviour to a more institutional stage defined by portfolio frameworks. This pushes the market towards assets and structures that can be held, governed, and justified.

The opportunity is not to chase the loudest narrative. It is to build exposure robust enough to endure volatility without compromising governance.

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