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WisdomTree Market Outlook: Investing in the Age of Realignment



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1. Commodity Outlook: Tariffs, tensions, and tailwinds in a realigning world

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When we published “Finding Antivenoms in the Year of the Snake” in March 2025, we correctly identified trade and geopolitics as critical pressure points for commodity markets. Our scepticism towards claims that President Trump would swiftly end the Russia–Ukraine and Israel– Hamas–Iran conflicts proved justified. However, the scale of the “Liberation Day” trade shock exceeded even our most cautious expectations. Conversely, our concern over continued US dollar appreciation turned out to be misplaced — what followed instead was a sharp reversal.

Commodities have, in fact, performed well so far in the Year of the Snake, with precious metals leading the charge. This strength reflects heightened market anxiety over geopolitical and trade risks, prompting investors to seek the defensive protection of gold. Industrial metals have also delivered strong returns, bolstered in part by the distortionary effects of both announced and anticipated tariffs. Yet, their momentum extends beyond these short-term factors, and we see further upside in the medium term.

While the energy sector may appear underwhelming based on YTD performance — especially compared to metals — this masks significant volatility beneath the surface. In June alone, oil prices surged 19% from the start of the month through June 18, only to retreat by 11% by month-end. Similar swings occurred at multiple points earlier this year, underscoring the sector’s unpredictability.

Figure 1: Asset performance compared

	2015	2016	2017	2018	2019	2020
1	Cash 0%	Comm 12%	Equities 22%	Cash 2%	Equities 28%	Equities 16%
2	RE 0%	Equities 8%	RE 11%	Bonds -2%	RE 23%	Bonds 10%
3	Equities -1%	RE 5%	Bonds 10%	RE -5%	Bonds 14%	Cash 0%
4	Bonds -3%	Bonds 4%	Comm 2%	Equities -9%	Comm 8%	Comm -3%
5	Comm -25%	Cash 1%	Cash 1%	Comm -11%	Cash 2%	RE -8%

	2021	2022	2023	2024	2025 YTD
1	RE 27%	Comm 16%	Equities 24%	Equities 19%	Equities 11%
2	Comm 27%	Cash 2%	RE 11%	Comm 5%	Comm 9%
3	Equities 22%	Equities -18%	Bonds 8%	Cash 4%	Bonds 7%
4	Cash 0%	Bonds -21%	Cash 4%	RE 2%	RE 6%
5	Bonds -3%	RE -24%	Comm -8%	Bonds -1%	Cash 2%

Source: WisdomTree, Bloomberg, Data until 18 July 2025. All returns are in USD. Data: Equity = MSCI World, Bonds = Bloomberg Barclays Agg Sovereign TR Unhedged, RE = Real Estate – EPRA/NAREIT Global, Broad Commodities = Bloomberg Commodity Total Return Index, Cash = US T-Bill 3 month. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Figure 2: Commodity sector performance

	2015	2016	2017	2018	2019	2020
1	PM	IM	IM	PM	PM	PM
	-11%	20%	29%	-5%	17%	26%
2	Ags	Energy	PM	Ags	Energy	Ags
	-16%	16%	11%	-11%	12%	16%
3	Broad	Broad	Broad	Broad	Broad	IM
	-25%	12%	2%	-11%	8%	16%
4	IM	PM	Energy	Energy	IM	Broad
	-27%	10%	-4%	-13%	7%	-3%
5	Energy	Ags	Ags	IM	Ags	Energy
	-39%	2%	-11%	-19%	2%	-43%

	2021	2022	2023	2024	2025 YTD
1	Energy	Energy	PM	PM	PM
	52%	36%	10%	25%	28%
2	IM	Broad	Ags	Broad	IM
	30%	16%	-4%	5%	13%
3	Broad	Ags	Broad	IM	Broad
	27%	16%	-8%	4%	9%
4	Ags	PM	IM	Energy	Energy
	27%	0%	-9%	1%	3%
5	PM	IM	Energy	Ags	Ags
	-6%	-2%	-22%	-4%	0%

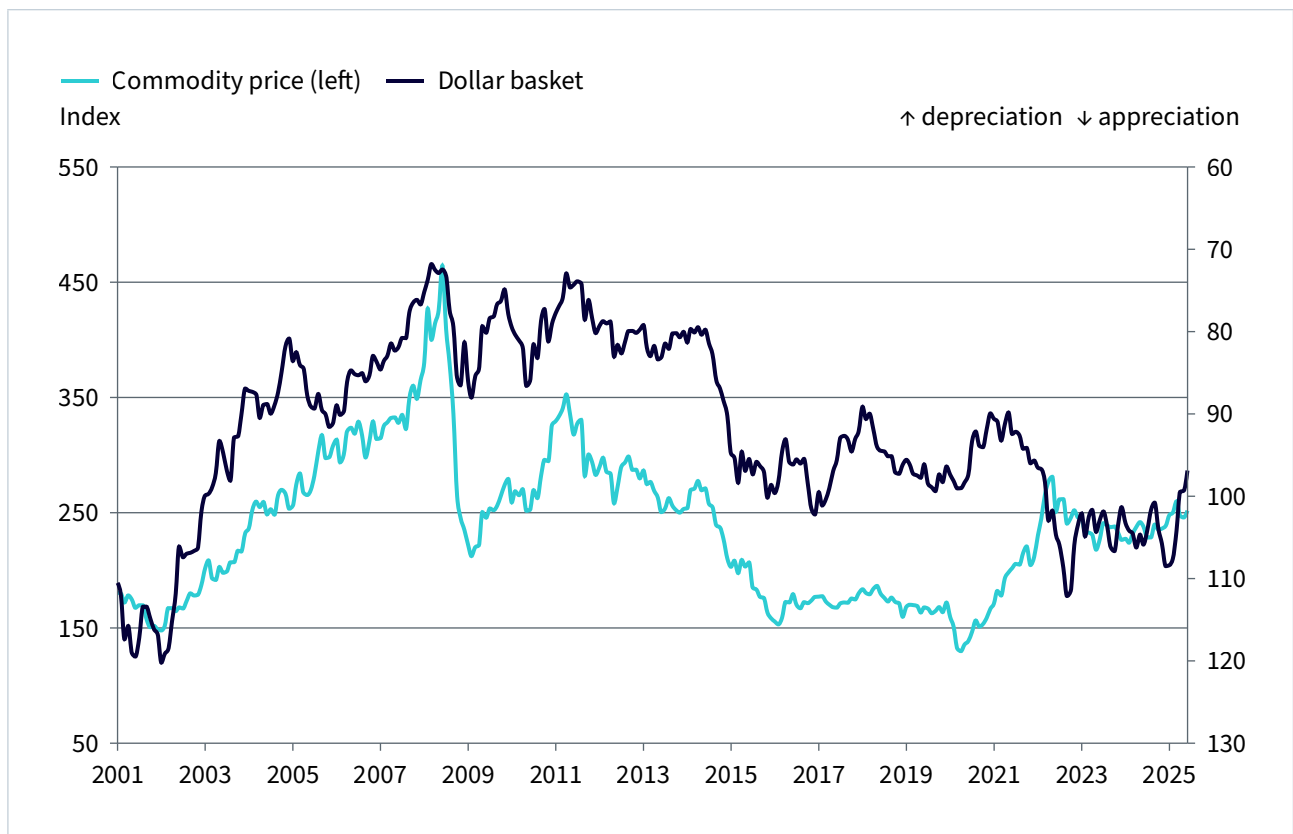
Source: WisdomTree, Bloomberg, Data until 18 July 2025. All returns are in USD. Data: Data Proxies for each commodity sector using Bloomberg sub-sector indices TR. PM = Precious Metals, IM = Industrial Metals, Ags = Agriculture. **Historical performance is not an indication of future performance, and any investments may go down in value.**

US Dollar: Soft dollar, hard consequences

The recent depreciation of the US dollar has supported broad strength across the commodity complex. After rising to a peak of 110 in mid-January — its highest level since July 2022 and marking three consecutive months of appreciation — the Dollar Basket fell sharply to 97 by July 2025, a 12% decline. This represents the most pronounced bout of dollar weakness since 2020, during the onset of the COVID-19 pandemic. Notably, the pace of the 2025 depreciation has been even more rapid.

Historically, commodities priced in US dollars have tended to perform well during periods of dollar weakness. Notable bull cycles, such as 2002–2008, 2010–2011, and 2020–2021, coincided with sustained dollar declines. However, there are exceptions — most notably from 2016 to 2018 — when commodity prices remained largely flat despite dollar softness.

Figure 3: Commodities and the US dollar



Source: WisdomTree, Bloomberg, January 2001–June 2025. Bloomberg Commodity Index Total Return and Dollar Basket (DXY). **Historical performance is not an indication of future performance, and any investments may go down in value.**

There are several key mechanisms through which a weaker US dollar benefits the commodity complex:

Mechanism	Effect
USD Pricing	Commodities become cheaper in local currencies, driving higher global demand.
Global affordability	Especially beneficial for emerging markets, where purchasing power improves.
Inflation hedge appeal	A weaker dollar boosts investment flows into real assets such as commodities.
Speculative positioning	Investors typically seek higher returns from commodities during dollar downtrends.
Producer margins	Lower dollar revenues can limit supply growth, which supports prices.

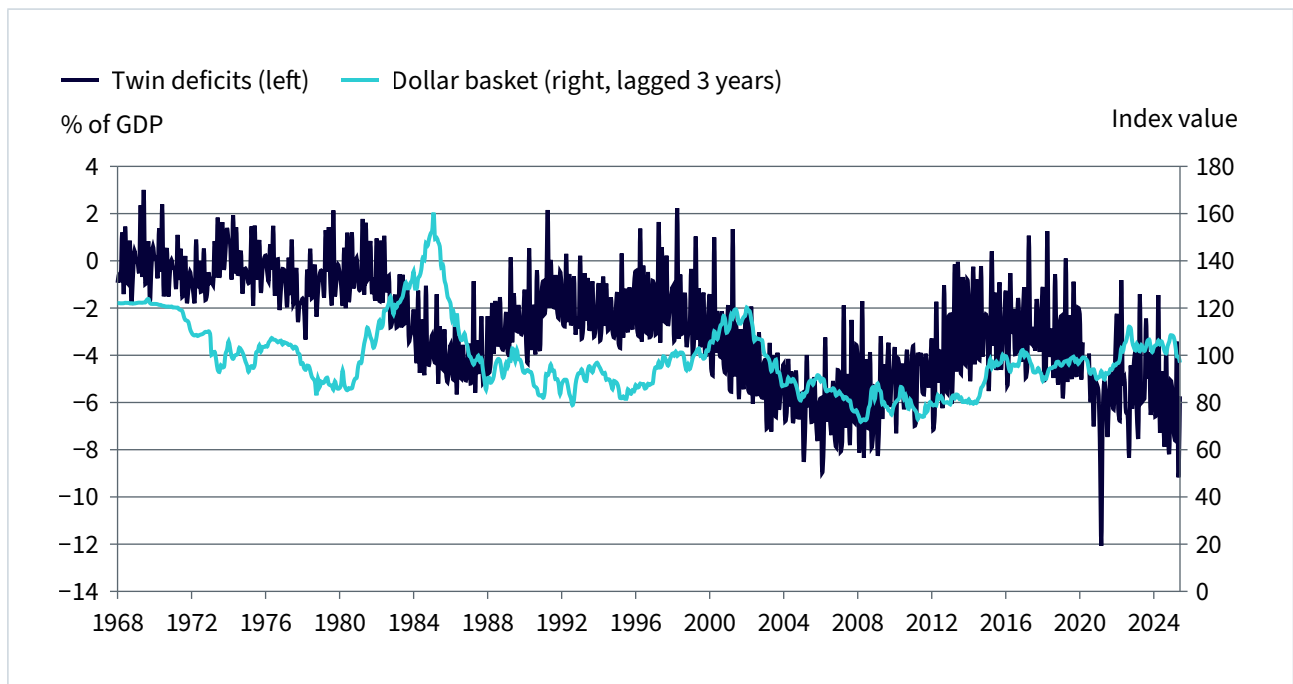
Market consensus suggests further downside for the US dollar, with forecasts pointing to a decline in the Dollar Basket to 93.8 by 2026 (Bloomberg Survey, July 2025). While there is no formal policy of dollar debasement, recent administrative actions strongly imply a soft-dollar orientation — an environment that continues to be supportive for commodities.

Some commentators have floated the idea of a more deliberate depreciation strategy, drawing parallels to the 1985 Plaza Accord, a coordinated effort by the US, France, West Germany, Japan, and the UK to weaken the dollar. In that context, we have introduced the hypothetical concept of a “Mar-a-Lago Accord” (see [The Mar-a-Lago Accord: A hypothetical strategy for dollar depreciation](#)), a modern analogue that, if implemented, could deliver a profound shock to the global financial system. Recent comments from Treasury Secretary Bessent indicate no desire to change future Treasury coupon auctions and thus seem to distance the Trump Administration from this point of view. We certainly do not have a Mar-a-Lago Accord as a base case, but if such a scenario were to materialise, it would be decisively bullish for gold, especially if it undermines US debt credibility and triggers bond market volatility.

Recent administrative actions strongly imply a soft-dollar orientation.

Beyond explicit policy manoeuvres, the structural forces at play also favour continued dollar weakness. Historically, twin deficits — a combination of widening current account and budget deficits — have been associated with dollar depreciation, albeit with a time lag. Excluding the 2020 spike linked to pandemic-related fiscal stimulus, the trend over the past three years has been one of persistent deficit expansion. If sustained, this could place additional downward pressure on the dollar and offer ongoing tailwinds to the commodity complex.

Figure 4: US dollar and twin deficits



Source: WisdomTree, Bloomberg, January 1968–June 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.**

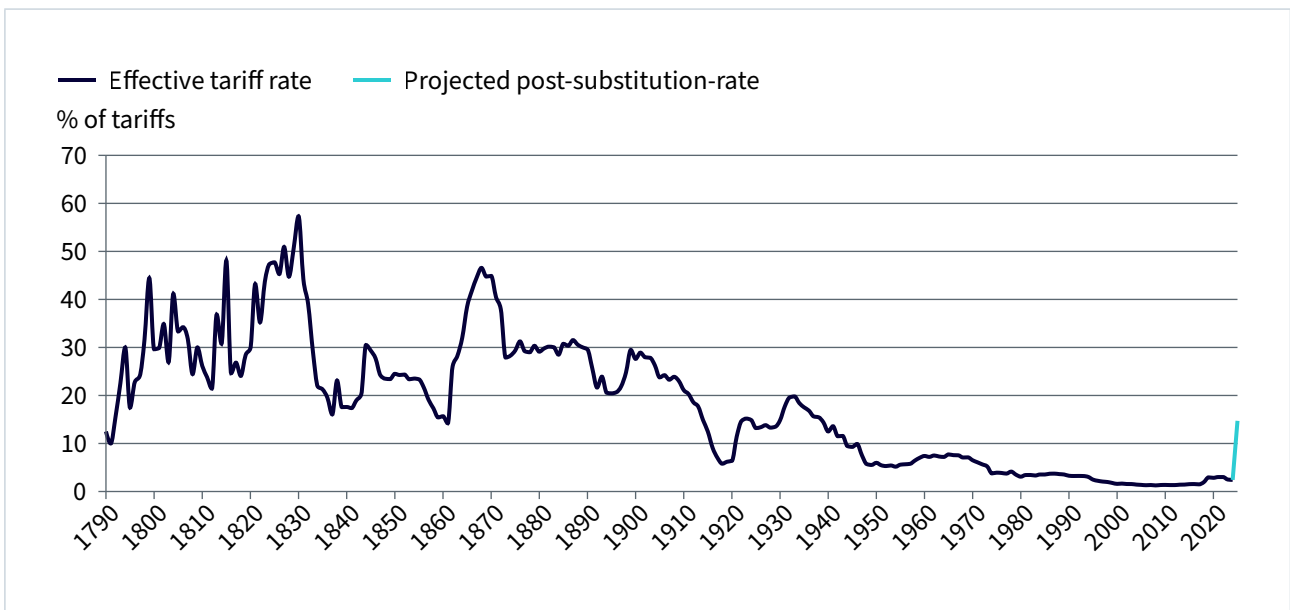
Strangling supply chains: The serpent of tariffs bites back

The US current account deficit reflects a combination of trade deficit, net income from abroad, and transfer payments. Trade policy remains a cornerstone of the Trump Administration’s economic agenda. Whether these policies will successfully narrow the trade deficit, however, remains uncertain.

The US is on course for the most significant escalation in tariffs in over a century.

What is clear is that the unorthodox measures announced on “Liberation Day” have sent shockwaves through commodity markets — and indeed, across all asset classes. While trade negotiations are still underway and the eventual effective tariff rate may shift by the time of publication, current projections suggest that the US is on course for the most significant escalation in tariffs in over a century. The implications for global trade flows and commodity markets are profound and far-reaching.

Figure 5: Average effective tariff rates since 1790



Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. It factors in some product substitution to domestic sources and lower tariff sources. **Historical performance is not an indication of future performance, and any investments may go down in value.**

So far, commodities have largely weathered the turbulence of the evolving trade war. Among the clear beneficiaries has been gold, a classic defensive asset that investors turn to during periods of uncertainty and policy disruption.

Energy commodities have, for the most part, escaped the brunt of tariff measures. The Trump Administration appears keen to cushion the inflationary impact of tariffs by ensuring affordable energy access for American consumers. With the US broadly self-sufficient in energy — being a net exporter of oil and gas — domestic energy flows have not been targeted. In fact, President Trump has actively lobbied key OPEC producers to lower oil and

Commodities have largely weathered the turbulence of the evolving trade war.

gas prices. Nonetheless, trade disruptions are having knock-on effects on refined products. Ultra-Low Sulphur Diesel (ULSD) markets, for instance, are tightening as Canadian exports to the US come under scrutiny. Diesel production relies on the heavier fractions of crude, whereas US oil output is skewed towards lighter grades, making the country dependent on imported feedstocks for diesel refining.

In contrast to broader tariff structures, base metals are facing a more fragmented and complex trade environment. While they are exempt from sweeping reciprocal tariffs, they remain exposed to sector-specific ('sectoral') tariffs. At the time of writing, the following measures are in place:

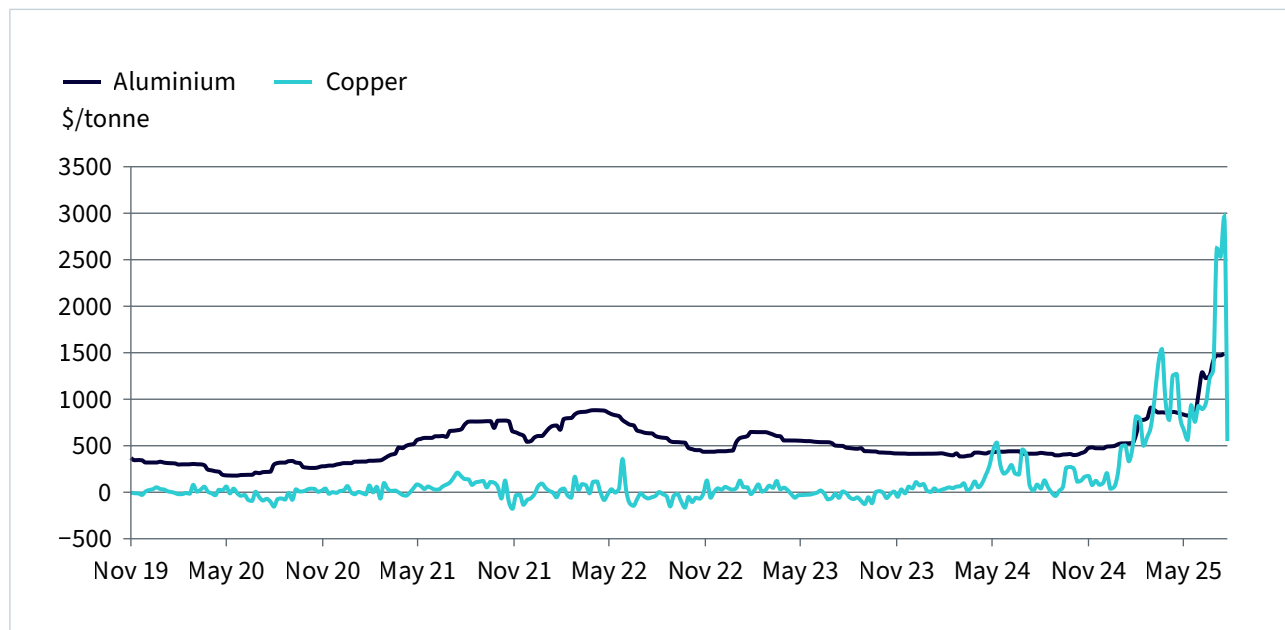
- + Aluminium and steel are subject to 50% tariffs, continuing policies from President Trump's first term.
- + Semi-finished copper is now also subject to a 50% tariff⁶.

However, the trajectory of sectoral tariffs remains unpredictable and has caught many market participants off-guard. In the case of copper, the market had anticipated that refined copper would also be included — based on social media comments by Trump in June. Contrary to expectations, the official announcement on 30 July 2025 excluded refined copper, pending a follow-up study in June 2026. Based on that review, the US may implement a phased tariff starting at 15% in 2027, rising to 30% in 2028.

US prices for base metals rose sharply ahead of these tariff announcements, reflecting anticipated increases in import costs. COMEX copper climbed nearly 40% year-to-date through July 30, significantly outpacing the London Metal Exchange's (LME) copper's 12% gain. However, following the announcement that refined copper would be excluded, US copper prices fell close to 20%, erasing much of the premium over global prices.

⁶ Tariff figures as at 30/07/2025.

Figure 6: US metal premium over global prices



Source: WisdomTree, Bloomberg, November 2019–July 2025. LME Aluminium Premium Duty Paid US Midwest (Platts) is a data series based on a contract already priced as a premium over the LME London price. Copper was calculated by WisdomTree by looking at the difference between COMEX and LME copper (converting the weight units). **Historical performance is not an indication of future performance, and any investments may go down in value.**

In anticipation of the tariff hikes, metal imports surged as buyers rushed to build inventory. This has led to bloated US stockpiles, particularly in copper. As a result, we expect a short-term dip in demand as inventories are drawn down, though the long-term fundamentals for copper and aluminium remain robust.

Following the copper tariff surprise, markets are now reassessing risks for other metals. Prices for platinum, palladium, and silver have rallied in recent months on speculation that they may also fall under future tariff actions.

In April 2025, the US initiated a Section 232 investigation to assess national security risks stemming from dependence on imported processed critical minerals and their derivatives. This is the same legal framework previously used to justify tariffs on aluminium. The Executive Order required an interim report within 90 days — which has yet to be released — and a final report within 180 days. The lack of visibility has further heightened market uncertainty.

The investigation is expected to evaluate nickel, zinc, tin, platinum, and palladium. By contrast, lead and silver are unlikely to be included, as they do not appear on the US Geological Survey's 2022 Critical Minerals List.

Brazil, a major global exporter of agricultural products, is now subject to a 30% tariff imposed by the United States. One of the most notable implications is the potential rise in the cost of Arabica coffee for US consumers.

However, the impact on financial markets may be more muted. The ICE US Arabica coffee futures contract is unlikely to mirror the sharp price appreciation seen in COMEX copper (prior to the actual announcement), due to a key structural difference: while COMEX copper reflects post-tariff pricing, the coffee contract does not. As a result, although consumers may face higher retail prices, futures prices may not fully capture the tariff effect in the same way.

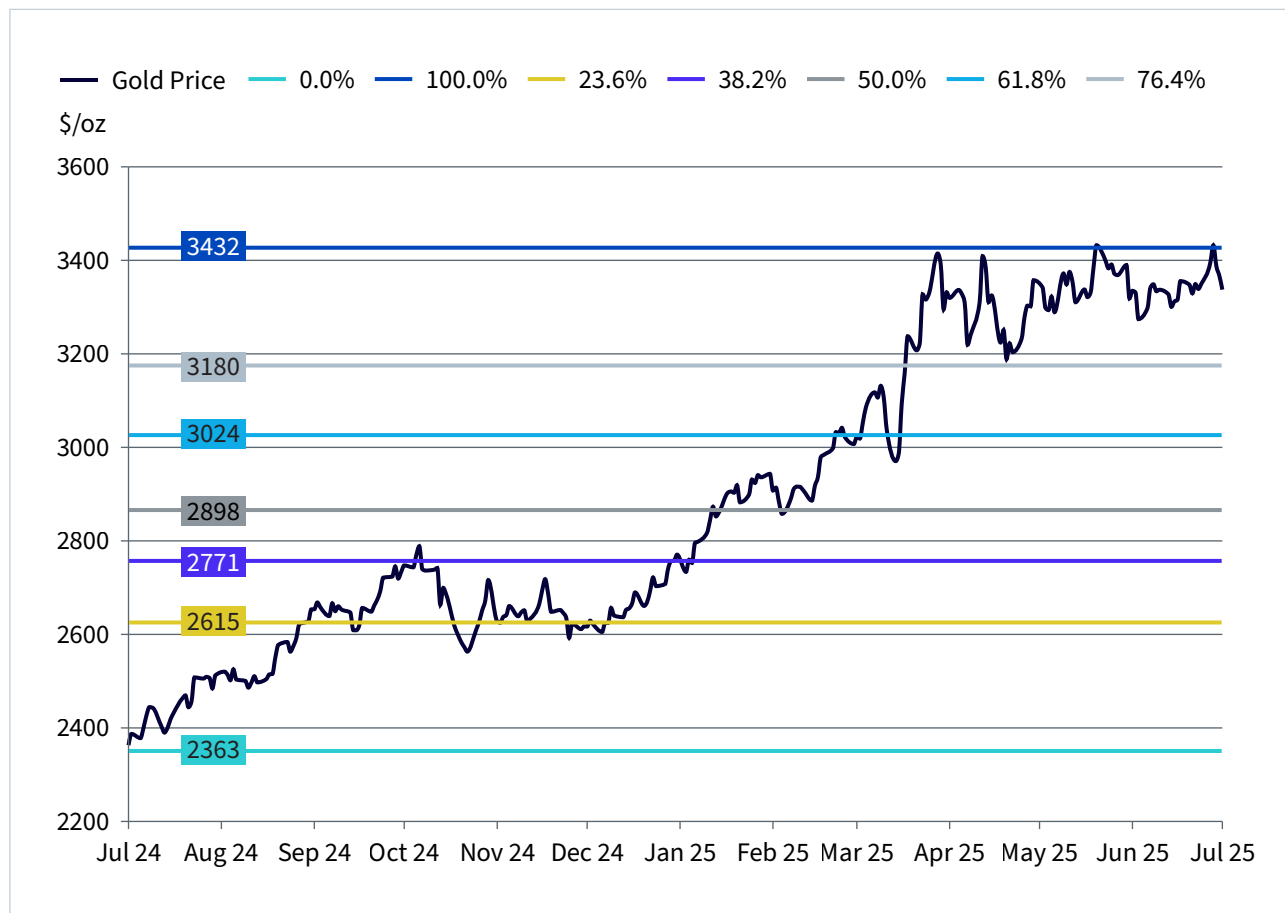
Gold: Coiled for a breakout

Following its intraday peak of US \$3,500/oz on April 22, 2025, gold has traded within a relatively tight range of US \$3,180 to US \$3,400/oz. The lower bound of this range coincides with the 76.4% Fibonacci retracement level, a key technical support. While our short-term models suggest a possible dip below this threshold, we expect robust support near the 61.8% retracement level at US \$3,024/oz, creating a strong basis for a rebound.

Looking ahead, we forecast that gold could climb to US \$3,850/oz by Q2 2026, supported by consensus macroeconomic assumptions. We interpret the current period as a 'loading the spring' phase — a consolidation pattern that often precedes powerful directional moves, particularly in asset classes underpinned by systemic uncertainty and macro tailwinds.

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Figure 7: Gold price with Fibonacci retracement lines



Source: WisdomTree, Bloomberg. 24 July 2024–24 July 2025. Fibonacci retracement is a technical analysis tool used to identify potential support and resistance levels on price charts. It uses horizontal lines drawn at key Fibonacci ratios (23.6%, 38.2%, 61.8%, and 76.4%) after identifying a significant price swing. These levels are believed to be areas where price may stall or reverse direction. Labels on the chart represent the gold price of the support levels. Legend indicates the standard Fibonacci ratios. **Historical performance is not an indication of future performance, and any investments may go down in value.**

There are multiple macro risks that are supportive of gold prices:

1. Trade uncertainty
2. Debt trajectory
3. Institutional quality
4. Geopolitical risks
5. Ambiguous dollar policy

Trade uncertainty

Gold remains a hedge against the adverse trade developments discussed above.

Debt trajectory

The newly passed One Big Beautiful Bill Act provides unfunded tax cuts projected to expand US deficits by US \$2.4 trillion between 2025 and 2034 (excluding debt-service effects)⁷. Including interest payments, the cumulative deficit exceeds US \$3.0 trillion. Debt as a share of GDP is expected to rise from 117.1% in 2025 to 123.8% by 2034. The US is not alone in facing unsustainable increases in government debt. Historically, rising government indebtedness has correlated with higher gold prices, particularly as concerns mount over debt sustainability and potential policy interventions.

Institutional quality

Pressure on the Federal Reserve is intensifying. President Trump's repeated criticisms of Chair Jerome Powell⁸, whose term expires in May 2026, have heightened concerns over central bank independence. With mounting debt-service obligations, there is a growing risk of political influence over monetary policy. A scenario reminiscent of the 1978–1979 G. William Miller era — marked by institutional weakening and high inflation during which gold posted historic gains — could unfold.

It took the might of Chair Paul Volcker to reverse the damage to the Fed, but his bold efforts induced recessions. Yes, two recessions, a so-called double dip (January–July 1980 and July 1981–November 1982). Gold, as a defensive asset, does well in times of recession.

Geopolitical risks

The geopolitical landscape remains tense:

- + Iran has suspended cooperation with the IAEA⁹ following US and Israeli strikes. No diplomatic talks are currently scheduled (with a firm date), and US–Israeli coordination appears fragmented.
- + Russia–Ukraine Conflict: Trump's failed attempt to broker a peace deal within 24 hours of taking office has backfired. Deteriorating personal dynamics with both Putin and Zelenskyy reduces hope for near-term resolution.

⁷ [Estimated Budgetary Effects of H.R. 1, the One Big Beautiful Bill Act](#), Congressional Budget Office, 4 June 2025.

⁸ Trump stated: *"Powell's termination cannot come fast enough!"* (April 2025) and *"If I want him out, he'll be outta there real fast."* (April 2025).

⁹ International Atomic Energy Agency.

Soft dollar approach

As discussed earlier, a soft-dollar orientation will be beneficial to a broad range of commodities, including gold. A more potent dollar debasement strategy — if one were to emerge — would send gold notably higher, as it would be a hedge against unorthodox policies.

Energy: Crude calculations

OPEC+ has implemented multiple layers of production restraint over the years, as summarised below:

1. Group-wide cut (2.0 million barrels per day (mb/d)):

Announced in October 2022, this applies to all 22 OPEC+ members and is scheduled to remain in place through the end of 2026.

2. Voluntary cut (1.65 mb/d):

Introduced in April 2023 by a subset of eight countries — **Saudi Arabia, Iraq, Kuwait, Kazakhstan, Oman, Algeria, Russia, and the United Arab Emirates (UAE)** — also running through the end of 2026.

3. Additional voluntary cut (2.2 mb/d):

Initiated in November 2023, this additional cut is again borne by the same ‘Group of Eight’. It was initially planned to be gradually unwound at a pace of approximately 138 thousand barrels per day (kb/d) between April 2025 and September 2026.

OPEC+ has accelerated the unwind of the third layer and appears on track to complete by September 2025, a year ahead of schedule. OPEC+'S reasons for haste are multiple:

1. Geopolitical strategy

The group may be responding to **US President Donald Trump's** appeals for more oil supply to help offset inflationary pressures from tariffs. In return, OPEC+ nations, particularly Saudi Arabia and the UAE, might seek favourable outcomes in trade or bilateral agreements. Notably, Trump's June Middle East visit yielded arms and manufacturing deals with major OPEC members.

2. Quota enforcement

Saudi Arabia and other key members appear frustrated with **non-compliant producers** including Kazakhstan and Iraq. By increasing supply — and allowing prices to fall — Saudi Arabia can use its spare capacity to pressure these nations into compliance. The Kingdom prioritises total oil revenue, which can be preserved by boosting volumes even at lower prices.

3. Market share rebalancing

Over the past five years, production restraint has resulted in OPEC+ losing its market share to **non-OPEC** producers, including the **United States, Brazil, and Guyana**. The US now produces around **13 mb/d**, compared to Saudi Arabia's **9 mb/d** and Russia's **8 mb/d**. Recent declines in oil prices have already led the **US Energy Information Administration (EIA)** to revise its production growth forecasts downward.

OPEC+'s unwinding of restrictions has weighed on oil prices so far this year. High seasonal demand in summer has masked some of the underlying weaknesses in oil markets. In China — once the engine of oil demand — growth has stalled in the past two years, as electrification of vehicles and trains has crowded out demand for petroleum products and aviation fuel.

OPEC+ may continue unwind restraint, with the second layer (1.65 mb/d) at risk of early removal. We don't think that process will happen in earnest until the next OPEC and non-OPEC ministerial gathering scheduled for 30 November 2025. The core 2 mb/d restraint will likely remain in place until the end of 2026. So, there may be a window of time — between September 2025 and the end of November 2025 — when we won't get new supply increase announcements from OPEC+. This may provide some short-term relief.

We expect Brent oil to continue to range-trade between US \$60/bbl and \$70/bbl. Potential spikes above this range could result from geopolitical stress, but, as we saw in June, these episodes could be short-lived.

Base metals: The metal backbone of AI, energy, and defence

Once domestic stockpiles of aluminium and copper are depleted, the United States will inevitably need to return to international markets to secure supply. The country lacks both the ore reserves and the refining capacity to achieve self-sufficiency in these metals. Moreover, there is little near-term prospect of building such a capacity. Large-scale investment in domestic smelting and refining would require multi-cycle policy certainty — a level of protection that extends well beyond a single political term, which is unlikely under current conditions.

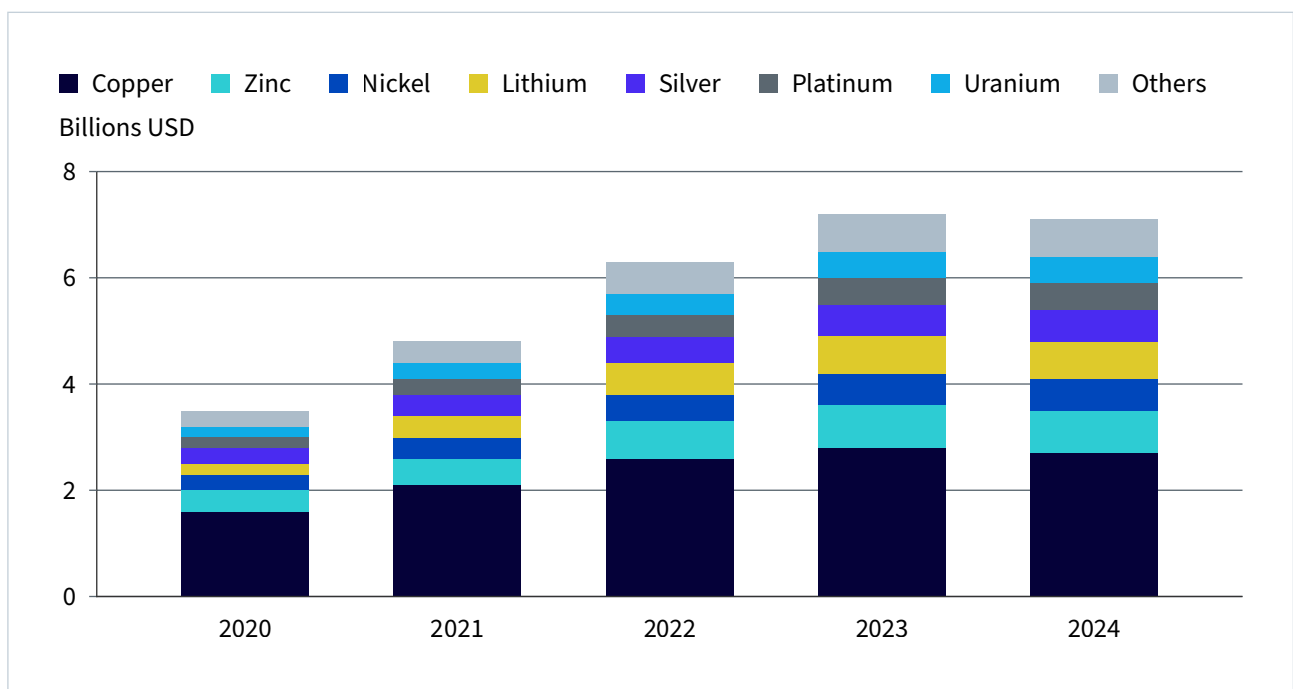
Aluminium production, in particular, faces acute structural challenges. It is one of the most energy-intensive industrial processes,

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and the US power grid is already under pressure from surging data centre electricity demand, driven by the rapid growth of AI and cloud infrastructure. In this environment, aluminium smelters will struggle to compete for increasingly scarce power resources.

Adding to the supply challenge, exploration spending for new metal resources stalled in 2024 after several years of expansion. This pause threatens to constrain the medium- to long-term project pipeline, even as the demand for base metals remains resilient — supported by structural drivers such as electrification, renewable energy deployment, and infrastructure upgrades.

Figure 8: Metal exploration spending



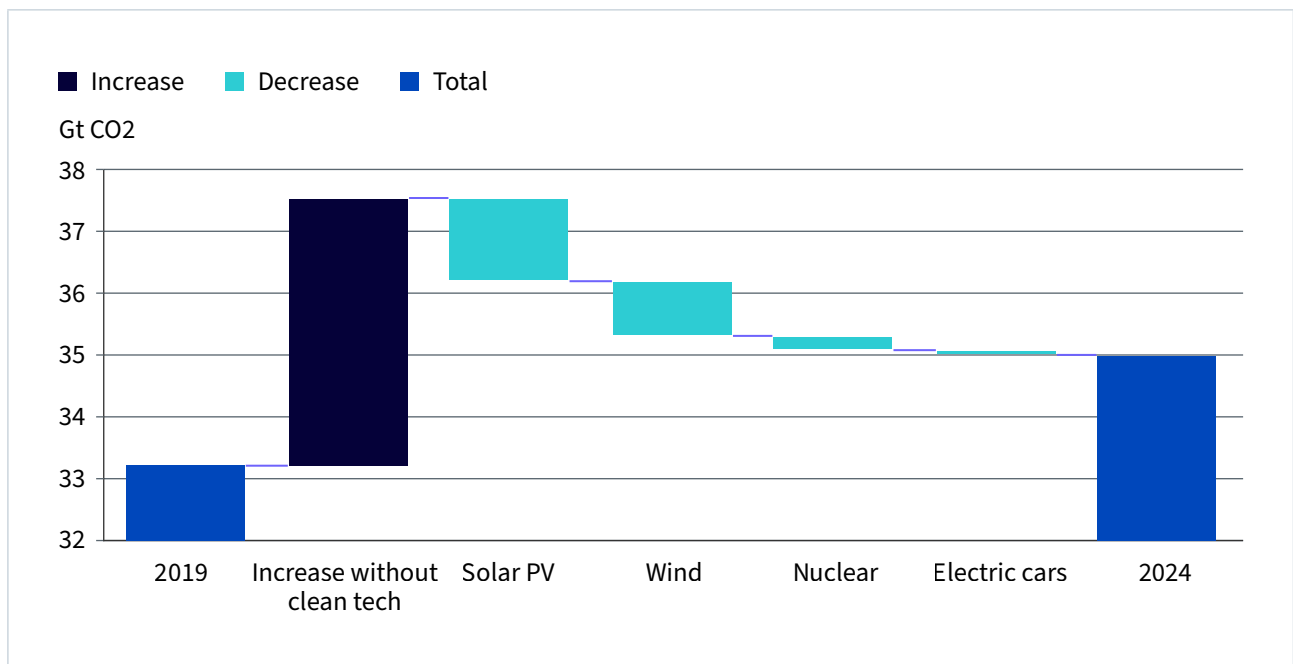
Source: WisdomTree, International Energy Agency, Global Critical Minerals Outlook 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Rising energy demand is expected to accelerate the deployment of metal-intensive renewable technologies. Despite widespread discourse around the energy transition, the global economy has yet to experience a true pivot: energy demand growth continues to outpace the expansion of renewable capacity. Consequently, reliance on traditional energy sources has persisted and has even grown in absolute terms.

Rising energy demand is expected to accelerate the deployment of metals-intensive renewable technologies.

That said, the composition of supply growth has increasingly tilted towards renewables — a trend that we expect to continue. Without a significant scale-up in renewable deployment, global greenhouse gas (GHG) emissions would be materially higher. As illustrated below, renewables have already played a key role in offsetting what would otherwise have been a much steeper emissions trajectory.

Figure 9: Change in GHG from fuel combustion and avoided emissions of select clean technologies

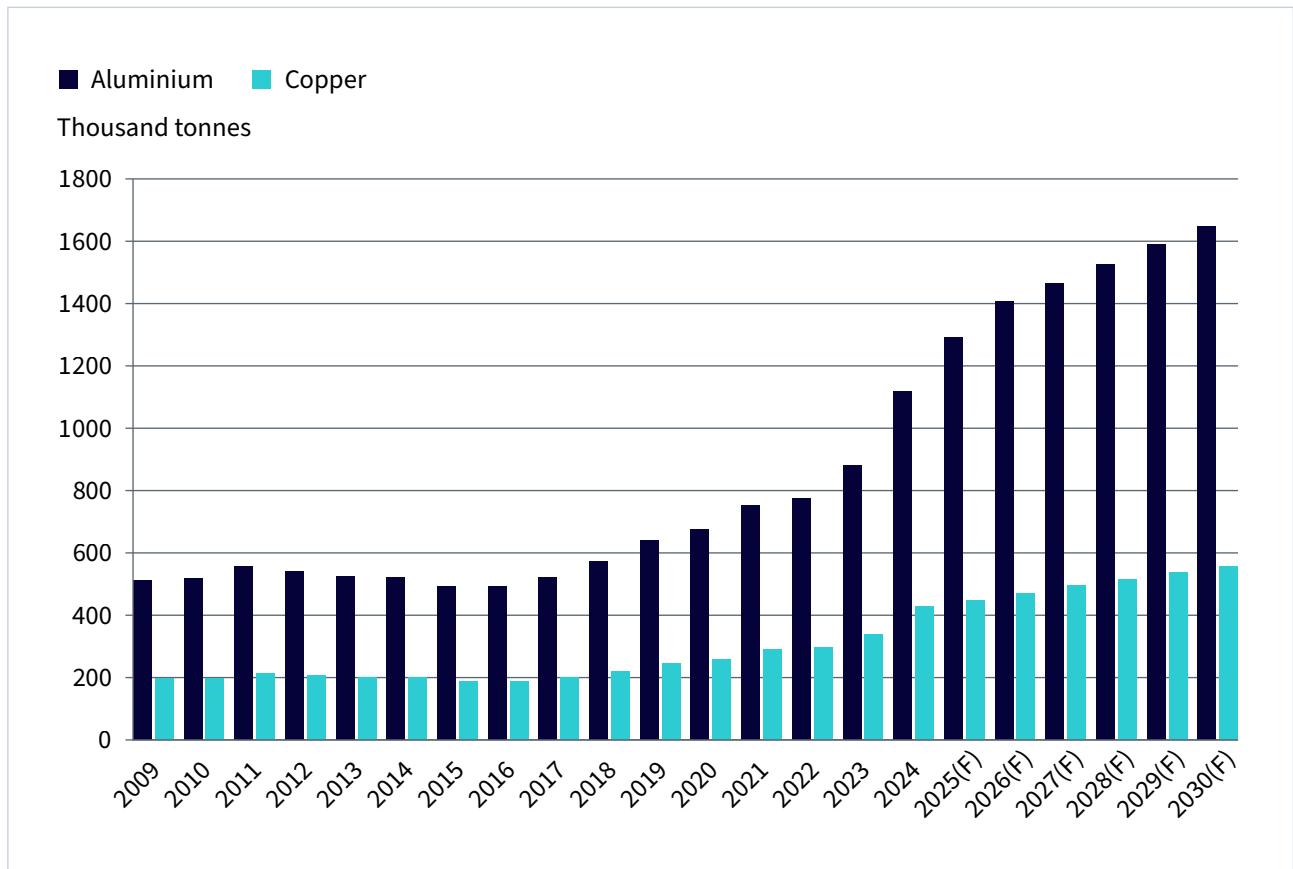


Source: WisdomTree, International Energy Agency, Global Energy Review 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Looking ahead, new and intensifying sources of energy demand — including AI, data centres, and defence spending — will further strain the energy system. The European Union’s recent ramp-up in military budgets will drive demand for infrastructure, equipment, and ammunition — all of which are highly metal-intensive, particularly for copper and aluminium.

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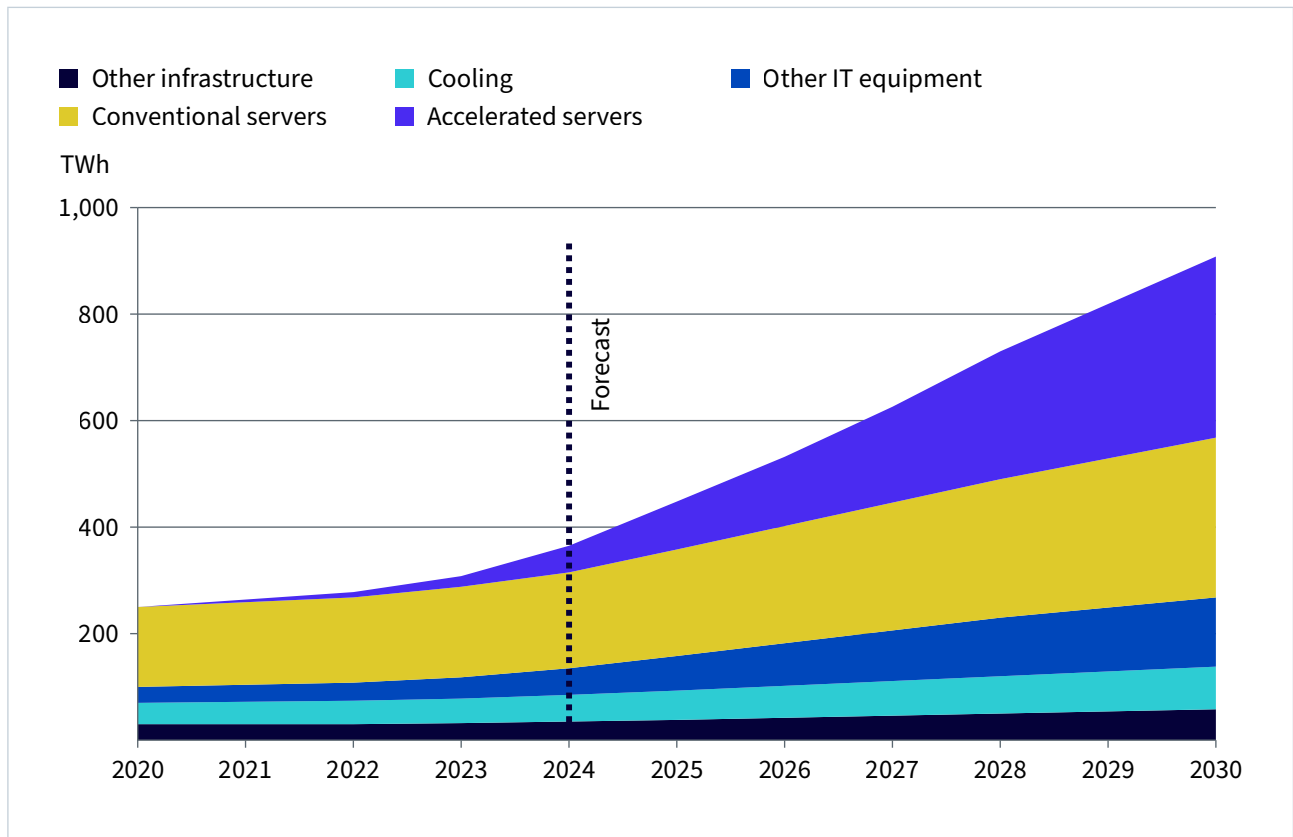
Figure 10: Global copper and aluminium demand from defence



Source: Bank of America, From mine to missile: The metals behind modern defence, 15 July 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

As AI adoption accelerates, its electricity requirements are projected to rise sharply over the next five years. Meeting this demand sustainably will require a substantial increase in renewable power generation, reinforcing the positive structural outlook for the industrial metals that underpin the transition.

Figure 11: Global data centre electricity consumption by equipment



Source: WisdomTree, International Energy Agency, Energy demand from AI, 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion: Coiled potential amid structural shifts

As we look ahead to the remainder of the Year of the Snake and into 2026, the commodity landscape stands at the intersection of powerful macroeconomic and geopolitical currents. The market has navigated unprecedented policy shifts — most notably the “Liberation Day” tariffs — and continues to price in uncertainty stemming from trade realignments, fragile geopolitics, and the ambiguous trajectory of US dollar policy.

Commodities have shown resilience through these disruptions. Gold has reasserted its role as a safe-haven asset, supported by concerns about institutional credibility, ballooning debt levels, and the potential erosion of central bank independence. Industrial metals have benefited from short-term price distortions caused by tariff acceleration, but their outlook is underpinned by deeper, longer-term forces: the energy transition, rearmament cycles, and the rise of AI-driven infrastructure demand.

Meanwhile, energy markets remain volatile, caught between OPEC+ production dynamics, geopolitical flashpoints, and shifting global consumption patterns. Even as the transition to renewables advances, it has yet to displace the growth in traditional energy demand, highlighting the complexities of a dual-track energy system.

Structural supply constraints — exacerbated by underinvestment, power bottlenecks, and limited domestic capacity — suggest that supply-side inflation may become a persistent feature in several commodity sectors. At the same time, the weakening US dollar provides a supportive backdrop for the complex as a whole, especially if trade tensions or fiscal imbalances deepen.

In this environment, investors must shed outdated assumptions and sharpen their understanding of commodity market drivers. The themes of scarcity, security, and strategy will define the next phase. With volatility as a given and structural imbalances in play, commodities are not merely reacting to the macro landscape — they are becoming its clearest expression.

2.

Equity Outlook: Navigating the crosscurrents of policy, profit, and premiums

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The first six months of 2025 delivered a lesson in juxtaposition. Macroeconomic visibility improved in some respects as the disinflationary trend re-established itself, yet political visibility deteriorated as the debate over a wholesale reshaping of US tariff policy dominated headlines. Markets responded in textbook late-cycle fashion as headline equity indices drifted higher, but internal breadth fractured.¹⁰ At the same time, long-dated rates traded in a volatile, range-bound pattern and the US dollar — under pressure as falling rate differentials reduced its yield advantage as the Fed signalled a slower policy path — ceded ground to most freely floating currencies.

The global equity landscape in 2026 finds itself at a pivotal crossroads, shaped by a maturing economic cycle, the aftershocks of aggressive policy interventions, and pronounced divergences across regions, sectors, and investment styles. Looking ahead, the interplay between higher bond yields, compressing equity risk premiums, evolving factor leadership, and persistent geopolitical risks underscores the need for dynamic, well-structured portfolio strategies as we move deeper into an era defined by lower and more volatile expected returns for equities and bonds.

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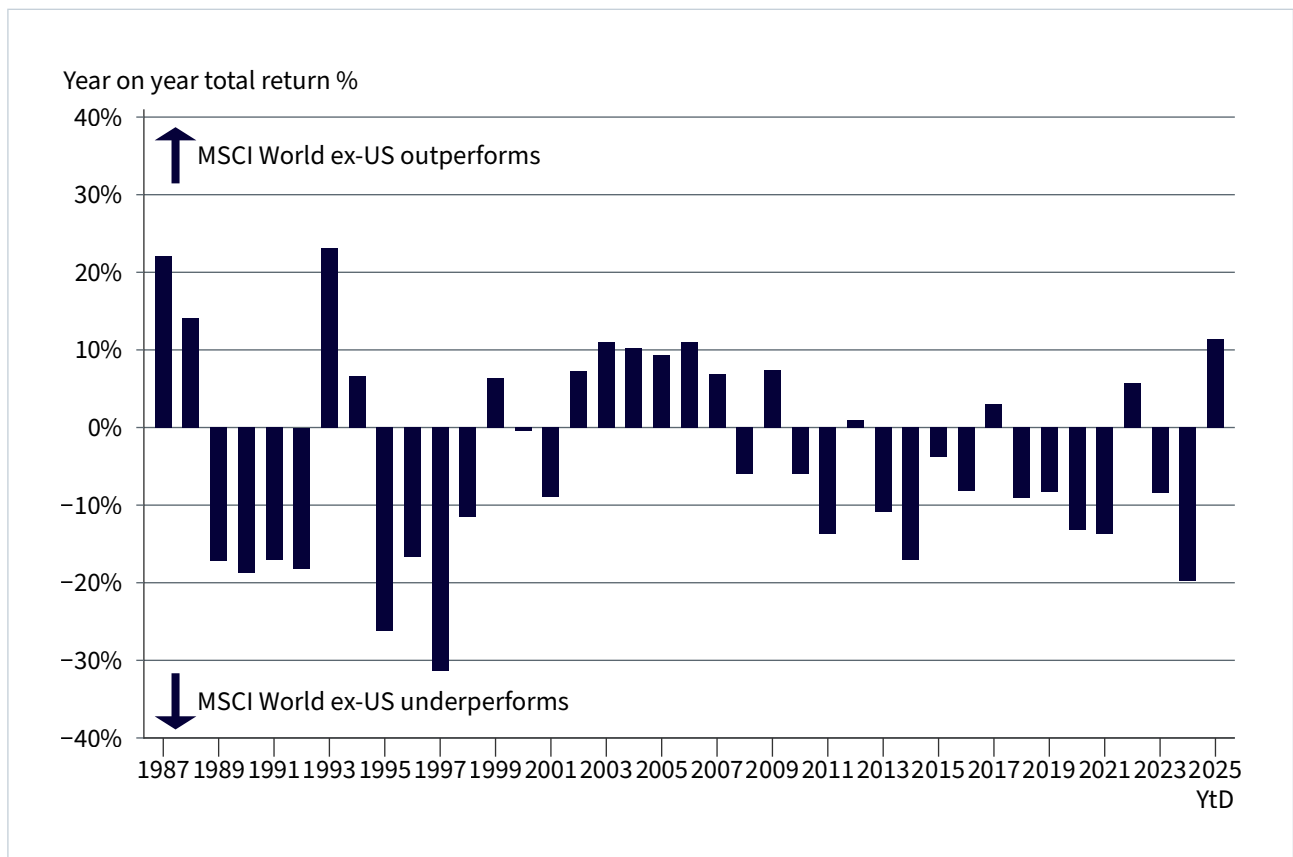
¹⁰ 'Internal breadth fractured' refers to a market condition where the headline indices rise, but only a narrow group of stocks drives those gains, while the majority of stocks lag or decline.

US: Narrow leadership, broad vulnerability

2025 was the year when US stock markets underperformed their international rivals by the widest margin since 1993. Suddenly, it became fashionable to talk about how the era of US exceptionalism was ending, as uncertainty around Trump’s tariff policies alongside the widening fiscal deficit rose, the US dollar weakened, and DeepSeek was unveiled.

The US market’s narrow leadership conceals a broader vulnerability: with ERP near 2%, future returns hinge not on valuation but on continued earnings surprises from a handful of mega-caps.

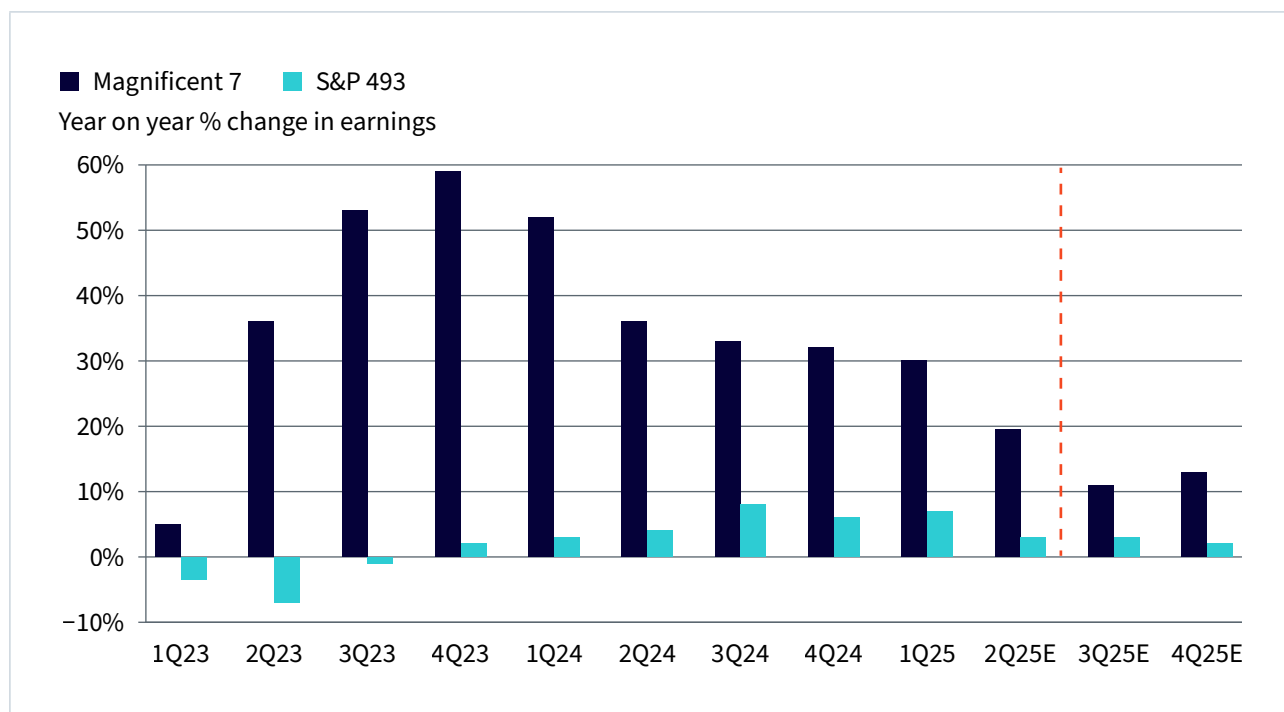
Figure 12: Global equities ex-US outperform US equities by the highest gap since 1993



Source: Bloomberg, WisdomTree from 1 January 1987 to 22 July 2025, Year-on-Year total return difference between MSCI World ex-US index versus MSCI USA Index. **Historical performance is not an indication of future performance, and any investments may go down in value.**

US equities fell 12% in under a week,¹¹ marking a three-standard-deviation decline following the tariff announcement on “Liberation Day”. Since then, US equities have seen a rotation back to growth factor leadership. As a result, the five top US tech firms (Nvidia, Microsoft, Apple, Broadcom, and Oracle) continue to dominate and account for 22%¹² of the US’s stock market value as the AI mania continues to reach new highs. Meanwhile, small caps and cyclical sectors lag under refinancing strain and import-cost inflation. Consensus estimates for S&P 500 earnings imply double-digit annual growth per share, supported by the enduring productivity boost from AI and selective fiscal backing.

Figure 13: The Magnificent 7’s earnings continue to outgrow the rest of the market



Source: Bloomberg, FactSet, WisdomTree as of 30 June 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

While the Fed began its rate-cutting cycle with 100 Bps of cuts in 2024, rate cuts have been on hold in H1 2025. We expect to see two rate cuts this year and one next year, as the dot plot suggests. The US dollar has declined 10.23% so far in 2025,¹³ which should be supportive of earnings for US-based multinationals as foreign revenues translate into higher dollar amounts when consolidated.

11 Bloomberg, week of 2 April 2025 to 4 April 2025.

12 Bloomberg, as of 22 July 2025.

13 Bloomberg, from 31 December 2024 to 22 July 2025.

With US equity markets now at record highs, a positive outcome for tariff negotiations is largely priced in. While tariff-driven volatility has receded recently, the broader trade dispute is far from resolved. This remains a key risk to US corporate earnings, with the overall jump in the effective tariff rate increasing from 3% in January to around 15%, making the trade tax hike one of the largest tax increases faced by US consumers in post-war history. Looking ahead, the evolving tariffs are likely to find their way via higher consumer prices unless foreign suppliers absorb the costs, which seems unlikely. So far, companies are circumventing the impact by diversifying or rationalising supply chains, concentrating suppliers for volume-based discounts, or raising domestic sourcing.

US corporations are choosing dividends and buybacks over investment. In Q1 2025 alone, companies announced US\$234bn in buybacks, with total repurchases expected to reach US\$1trn in 2025. This trend reflects more than just policy uncertainty and geopolitical tensions — it signals a calculated decision by firms to return capital to shareholders rather than commit to new spending in an uncertain economic environment.

Europe is back on the map

The outperformance of European equities was one of the most notable shifts in 2025. Europe was 2025's comeback story, with eight of the world's best-performing markets (Slovenia, Poland, Greece, Czech Republic, Hungary, Spain, Austria, and Germany) in Europe.¹⁴ European equities enter H2 2025 in a position of measured strength, shaped by a combination of diminished inflationary headwinds, proactive fiscal measures, and a renewed focus on strategic autonomy within the European Union.

The US outperformed Europe over the past five years by nearly 23.5% in USD terms, driven by higher earnings growth.¹⁵ On a sector level, a notable exception to the trend was financials. European financials posted an impressive EPS Compounded Annual Growth Rate (CAGR) of 9.3%, exceeding the 3.6% for US financials, thereby driving total outperformance versus US financials by 61.3% in USD terms. Barring financials, industrials, and utilities, the US has led Europe in earnings growth across all other sectors over the past five years.

¹⁴ Bloomberg, as of 6 June 2025.

¹⁵ Bloomberg, Performance of MSCI USA versus MSCI Europe from 30 June 2020 to 30 June 2025.



Figure 14: Comparison of Europe vs US — performance gap and 5Y EPS CAGR

	Difference in 5 Year Cumulative performance	Change in 5 Year Earnings per Share CAGR
Indices	-23%	-2%
Financials	60%	6%
Information Technology	-78%	-6%
Healthcare	-7%	1%
Consumer Discretionary	-36%	-5%
Consumer Staples	-43%	-4%
Industrials	10%	2%
Energy	-52%	-5%
Utilities	10%	1%
Materials	-8%	-12%
Communication Services	-17%	-10%

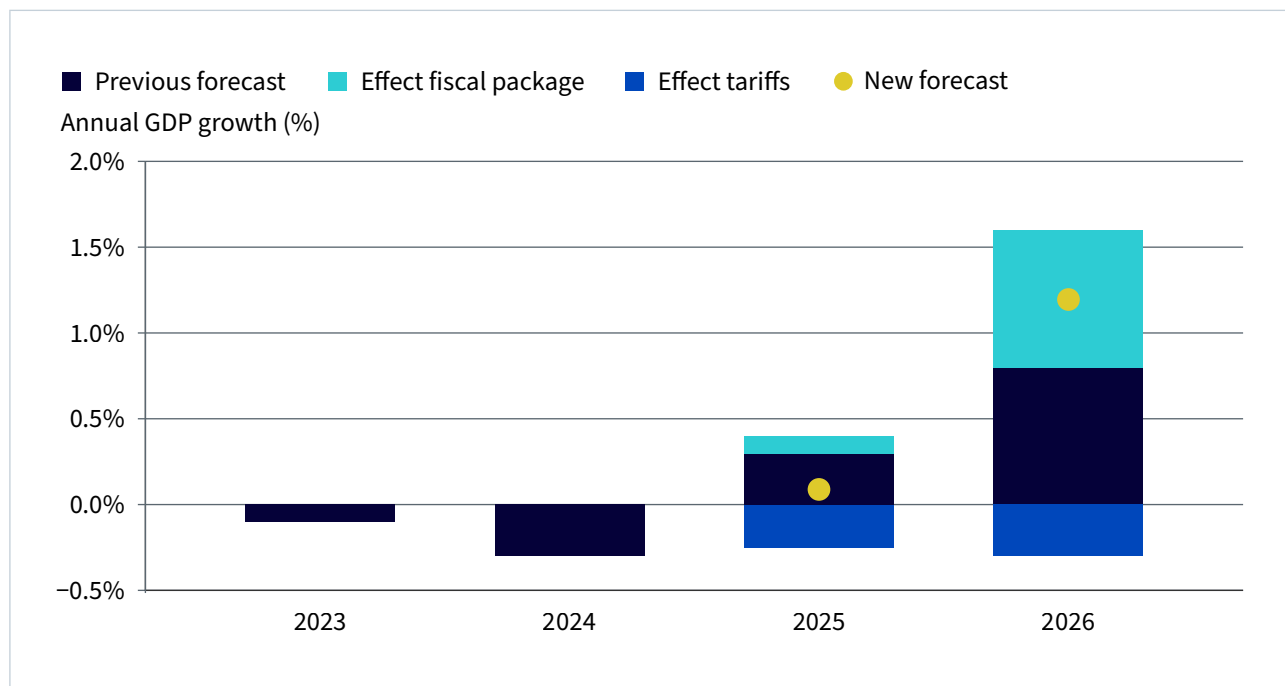
Source: Bloomberg, WisdomTree from 2 June 2020 to 2 June 2025, based on MSCI Indices, calculations in USD terms. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Since “Liberation Day”, European value stocks, especially those with low tariff exposure, have shown resilience in the face of tariff uncertainty. Strong performances from domestically oriented stocks such as financials, utilities, industrials, and materials have helped drive Europe’s outperformance versus the US 16.4%.¹⁶

¹⁶ Bloomberg, MSCI Europe vs MSCI USA Index in EUR terms as of 21 July 2025.

Looking ahead, while the Eurozone economy is unlikely to outperform the US, we do expect the earnings growth gap between the US and Europe to narrow. This is largely predicated on the first impact of fiscal stimulus emanating from Germany. The fiscal package is likely to provide a notable boost to economic activity in 2026 and 2027, mitigating the impact of tariffs.

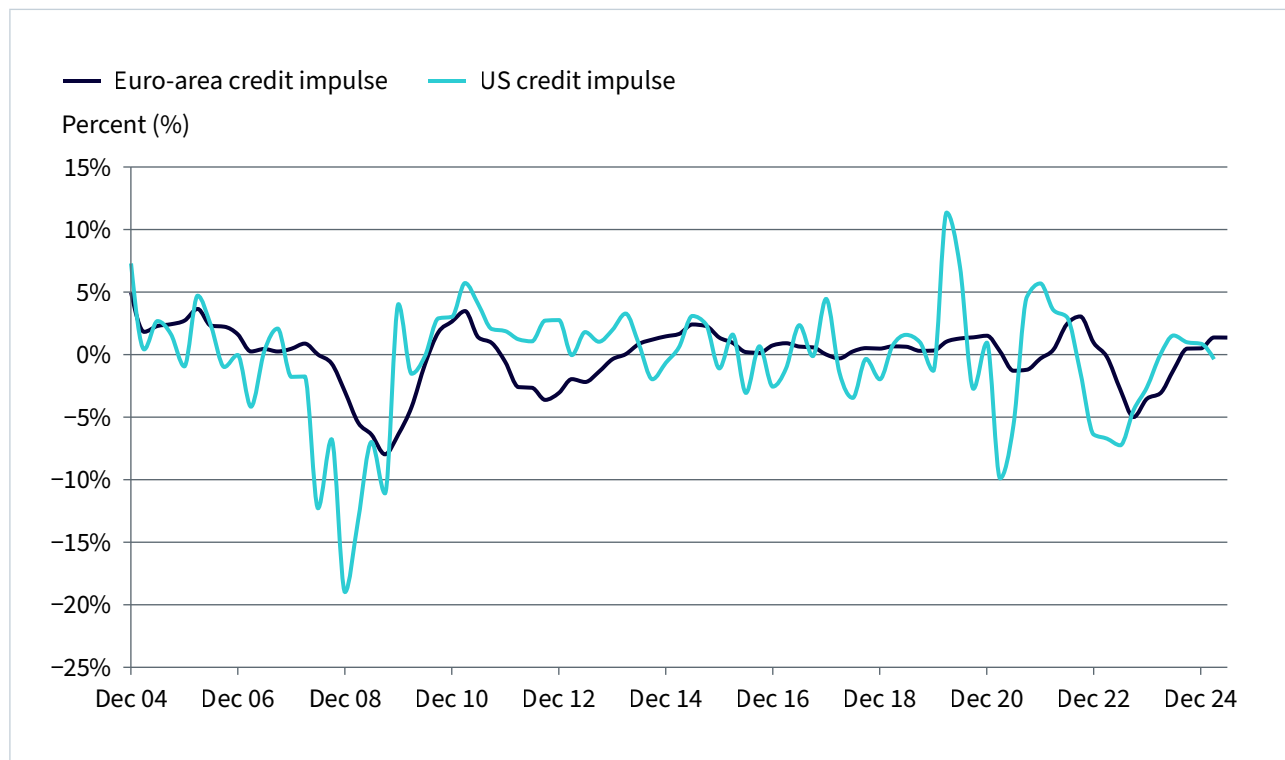
Figure 15: Germany: Fiscal boost vs tariff uncertainty



Source: Bloomberg, WisdomTree as of 30 June 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

A higher German spending plan is expected to boost business confidence, leading to increased capital investment. Forward-looking indicators suggest a turning point in Europe’s industrial cycle. Most notably, the ratio of new orders to inventories in the Eurozone has risen back above 1, signalling a shift towards restocking and potential recovery in the manufacturing sector after years of subdued activity. European consumers have accumulated sizeable excess savings, and household balance sheets are the strongest in more than two decades. Declining rates, higher house prices, and lower energy prices should support consumption and allow for a partial normalisation of the savings ratio.

Figure 16: Historical credit impulse in the US versus Europe



Source: European Central Bank, Bloomberg, WisdomTree as of 30 June 2025. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Pockets of value abound in Europe

Wages are now aligning with productivity-plus-target inflation, so the argument for keeping rates restrictive is fading. The Eurozone’s disinflation, coupled with early and credible central bank easing, has fostered an environment of constructive risk taking, particularly among domestic-focused companies and industries allied with digital and green transitions.

The European Central Bank’s (ECB) data-dependent approach, as emphasised by President Christine Lagarde, suggests flexibility for additional cuts if growth falters or trade tensions escalate. Lower interest rates enhance equity valuations, particularly for rate-sensitive sectors such as financials and real estate, and make European stocks more attractive relative to bonds.

The newly announced across-the-board US tariffs on Swiss imports further tilt the playing field in favour of certain EU exporters. With Swiss goods, ranging from precision machinery to pharmaceuticals and luxury watches, now facing steeper levy-adjusted prices in the US, comparable European producers (German capital-goods makers, French and Italian luxury houses, and pan-European pharma groups) gain relative price competitiveness.

This dynamic positions Europe to capture incremental US market share or wider margins, reinforcing the region's appeal as a value-plus-income equity allocation. That being said, a stronger euro poses the risk of eroding some of the global competitiveness of European exporters.

Structurally low starting valuations at price-to-earnings (P/E) ratio: 15.4x compared to the US at 26.3x P/E, combined with better-than-expected earnings upside (profit growth expectations set to fall 4% in 2025 but rise 11.5% in 2026), have improved the relative appeal of European equities.¹⁷ Investors are revisiting the region as a diversification play, given both its cyclical tilt and political stability. Active sector allocation — favouring industrial automation, select financials, and technology hardware — offers the promise of tactical alpha, especially as the pace of digital transformation and infrastructure investment gathers steam in the region. No region

encapsulates the concept of idiosyncratic alpha better than Europe in the mid-decade.

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Emerging markets: Divergence and selectivity in an era of reshoring

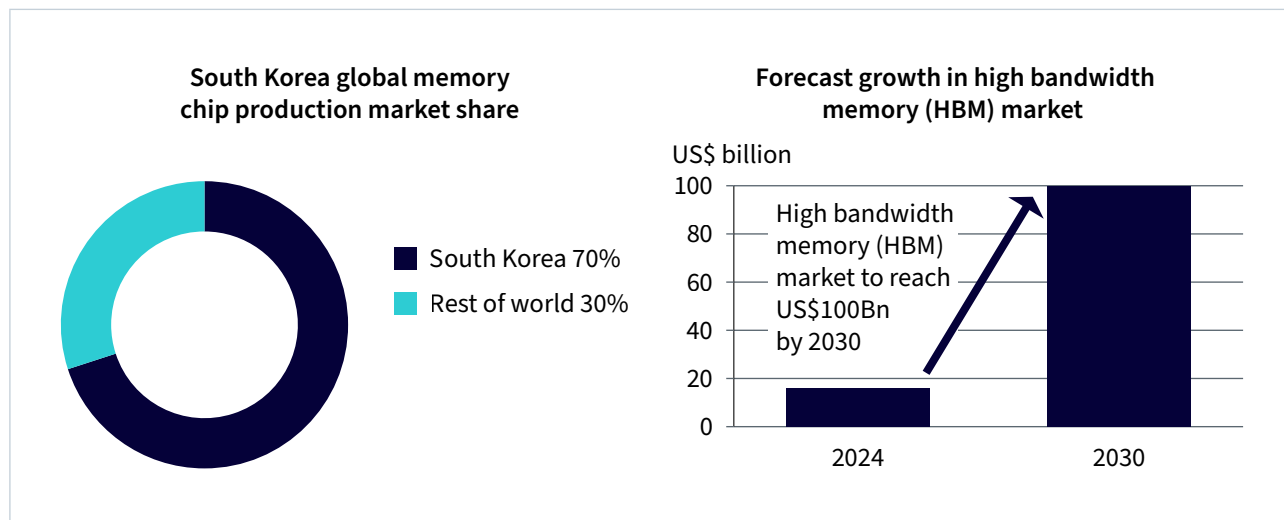
Emerging market (EM) equities have travelled a long arc over the past 15 months. After a decade in which earnings growth lagged developed markets, the asset class began to rerate in late 2023 as external balances improved, and early monetary tightening cycles left many EM central banks room to ease. By mid-2025, the MSCI EM index had advanced roughly 9% YTD, helped by a valuation gap that still sits at a 31% P/E discount to developed-market peers.

Latin America illustrates the swing. The region was EM's worst performer in 2024, but has rallied 26.3% in 2025,¹⁸ led by Colombia's 54% surge and 31% rebounds in Mexico and Chile. The rebound reflects mean-reversion from crisis-level valuations: forward P/Es still sit below the 5-year average, while dividend yields exceed 6% in Mexico and 8% in Colombia. In Asia, South Korea and Taiwan have outperformed on the back of an accelerating high-bandwidth memory and AI server build-out.

¹⁷ Bloomberg, as of 30 June 2025.

¹⁸ Bloomberg, MSCI Latin America Index from 31 December 2024 to 30 June 2025.

Figure 17: South Korea’s strength in the memory semiconductor business



Source: Boston Consulting Group, Semiconductor Industry Association, Memory market share based on combined revenue, Micron December 2024. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Asia hosts ‘the world’s leading semiconductor manufacturers’ and remains the centre of EV production. Meanwhile, Chinese equities rallied 17%¹⁹ backed by stabilisation of economic data and the unveiling of DeepSeek-R1, setting the stage for a potential market shock to the dominance of the “Magnificent 7”.²⁰ It is still cheap after a multi-year derating but capped by demographics and property overhang.

Four macro forces explain most of the advances. Starting with valuations: EM equities entered 2025 at discounts rarely seen outside outright crises with cash-flow yields in Brazil, Colombia, and South Africa double those of the S&P 500. Second, policy safety margins: Latin American central banks ran the highest real rates in the world and are now leading the global easing cycle, creating carry-friendly currencies and lowering discount rates for local equities.

19 Bloomberg, MSCI China from 31 December 2024 to 30 June 2025.

20 The Magnificent 7 is comprised of Alphabet (parent company of Google), Amazon, Apple, Meta Platforms (parent company of Facebook and Instagram), Microsoft, Nvidia, and Tesla.

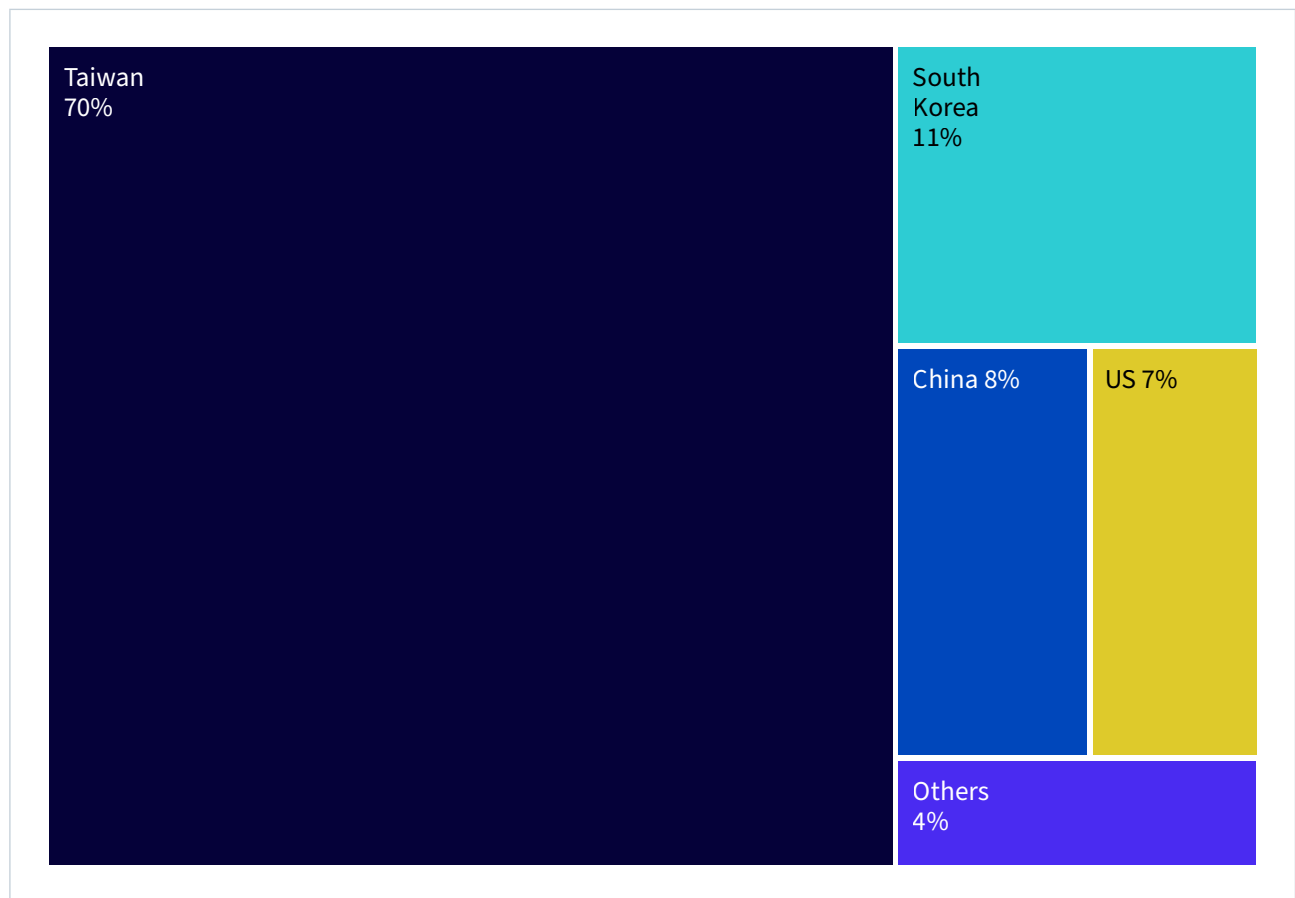
Third, tariff realignment: President Trump's April "Liberation Day" package imposed headline duties of 25–35% on many Asian finished goods, but capped Latin American levies at 10%, leaving the region a relative winner. Yet the tone has already softened in one critical niche: at the end of June, Washington and Beijing struck a limited deal that eases tariffs on rare earth mineral shipments, tacitly recognising China's leverage over a supply chain that it still dominates by more than 80%.²¹ The episode shows that selective détente is possible where the United States depends on Chinese inputs, and it underscores why tariff headlines will continue to shuffle winners and losers across EM equities. Finally, under-investment: international funds still allocate less than 1% of MSCI All Country World Index (ACWI) weight to Latin America, despite the region contributing 6% of global GDP.

EMs combine structural growth — young demographics, middle-class expansion, leadership in semiconductors, and electrification — with valuations that leave ample headroom for re-rating once earnings momentum is recognised. Against that backdrop, three blocs look best poised:

- + **Latin America's value-and-income complex.** Robust cashflows are anchored in copper, lithium, and agricultural exports, but the region is also riding digital-banking adoption and solar-powered re-industrialisation. Chile and Peru mine 35% of global copper output, and Chile another 25% of lithium, positioning them as core beneficiaries of the energy transition (and increasingly energy addition) build-out. Add in the lowest tariff brackets and an approaching shift towards more market-friendly governments, and the set-up for 2026 looks unusually attractive. Mexico's near-shoring story continues — 2024 foreign direct investment reached US\$37bn, almost half from the United States — but investors must price periodic volatility as the United States Mexico Canada Agreement (USMCA) talks, and reciprocal tariff threats unfold. The imposition of new US tariffs on Brazilian exports has introduced headline risk, but the broader equity thesis anchored in rates, valuation and energy-transition exposure, remains intact.
- + **North Asian technology champions.** South Korea and Taiwan sit at the epicentre of AI hardware. Their dominance in memory and logic fabrication aligns with an investment cycle in accelerated computing that is still in its early innings. The recent semiconductor agreement between the US and South Korea also reinforces policy support for North Asian technology exporters, reducing one of the key geopolitical overhangs. While export-control risk remains a swing factor, valuations already discount a meaningful policy premium.

²¹ International Mining and Resources Conference + Expo (IMARC), Rare Earths Exchanges.

Figure 18: Taiwan is a global leader in the logic semiconductor foundry market



Source: Boston Consulting Group, Semiconductor Industry Association, 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

- + **India’s growth engine remains intact:** GDP is still trending near 6%, and the country enjoys a demographic window unmatched elsewhere in EM. Valuations are no longer cheap, yet pockets of consumer finance and infrastructure should compound above 15% once the current capex-intensive budget phase passes.

The key risks to the constructive view are two-fold. A comprehensive, across-the-board US tariff that is still on the table would compress margins for export-heavy Asia and could stall the semiconductor cycle. Conversely, a disorderly rally in the US dollar, driven by fiscal or political shocks, would tighten EM financial conditions and test domestic demand stories. Yet on balance, moderating wage and price pressures in developed markets, coupled with still-ample valuation cushions in EMs, suggest that the earnings catch-up that began in 2024 has further to run.

In short, EMs enter H2 2025 with healthier balance sheets, stable dividend streams, and a rare mix of cyclical and structural tailwinds. Investors prepared to look past headline volatility and engage with the underlying fundamental, especially in Latin America's value engines and Asia's AI supply-chain nodes, are likely to find potential opportunities heading into 2026.

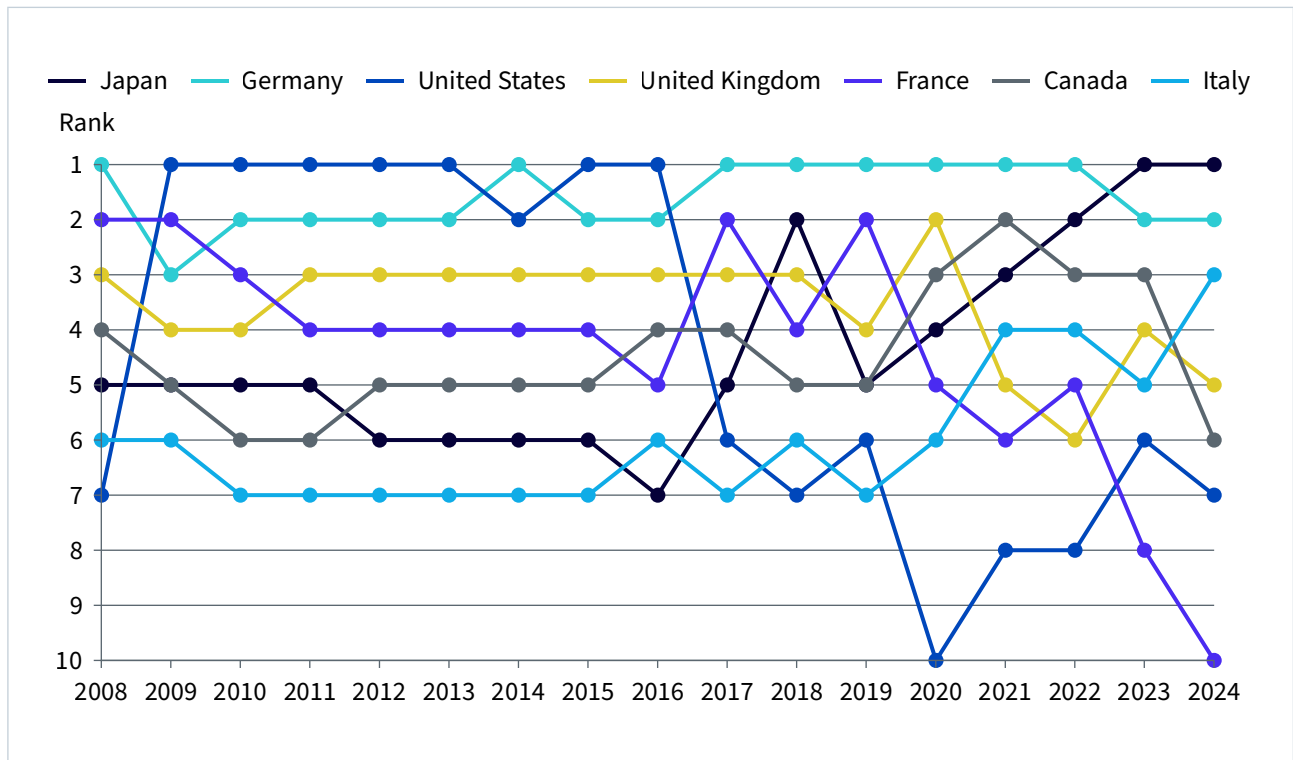
Japan: A quiet transformation, structural reform, and value realisation

Japan's economic narrative is shifting — less about what it has lost, and more about what it is becoming. Japan's recent fall from its 34-year position as the world's largest creditor is not a signal of decline, but a reflection of structural evolution. Despite increasing its net external assets to JPY 533 trillion, Japan was overtaken by Germany, highlighting that Japan's global economic footprint has shifted from trade surplus dominance to foreign direct investment, overseas production, and diversified corporate earnings.

In tandem, the country's soft-power profile has never been stronger: Japan topped the 2023 Anholt-Ipsos Nation Brands Index and retained that lead in 2024, signalling deep international trust in Japanese quality and governance. This is not just symbolic — it supports investor sentiment, trust in institutions, and long-term brand equity for Japanese corporates.

Emerging markets combine structural growth with valuation headroom — offering rare cyclical and secular tailwinds as earnings momentum builds.

Figure 19: Japan ranked first globally in the Nation Brands Index in 2023 and 2024



Source: Anholt-Ipsos, WisdomTree. The Nation Brands Index (NBI) has surveyed perceptions of 60 countries in six categories (exports, governance, culture, people, tourism and immigration/ investment) since 2008 to measure national brand strength. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Pick up in corporate reforms

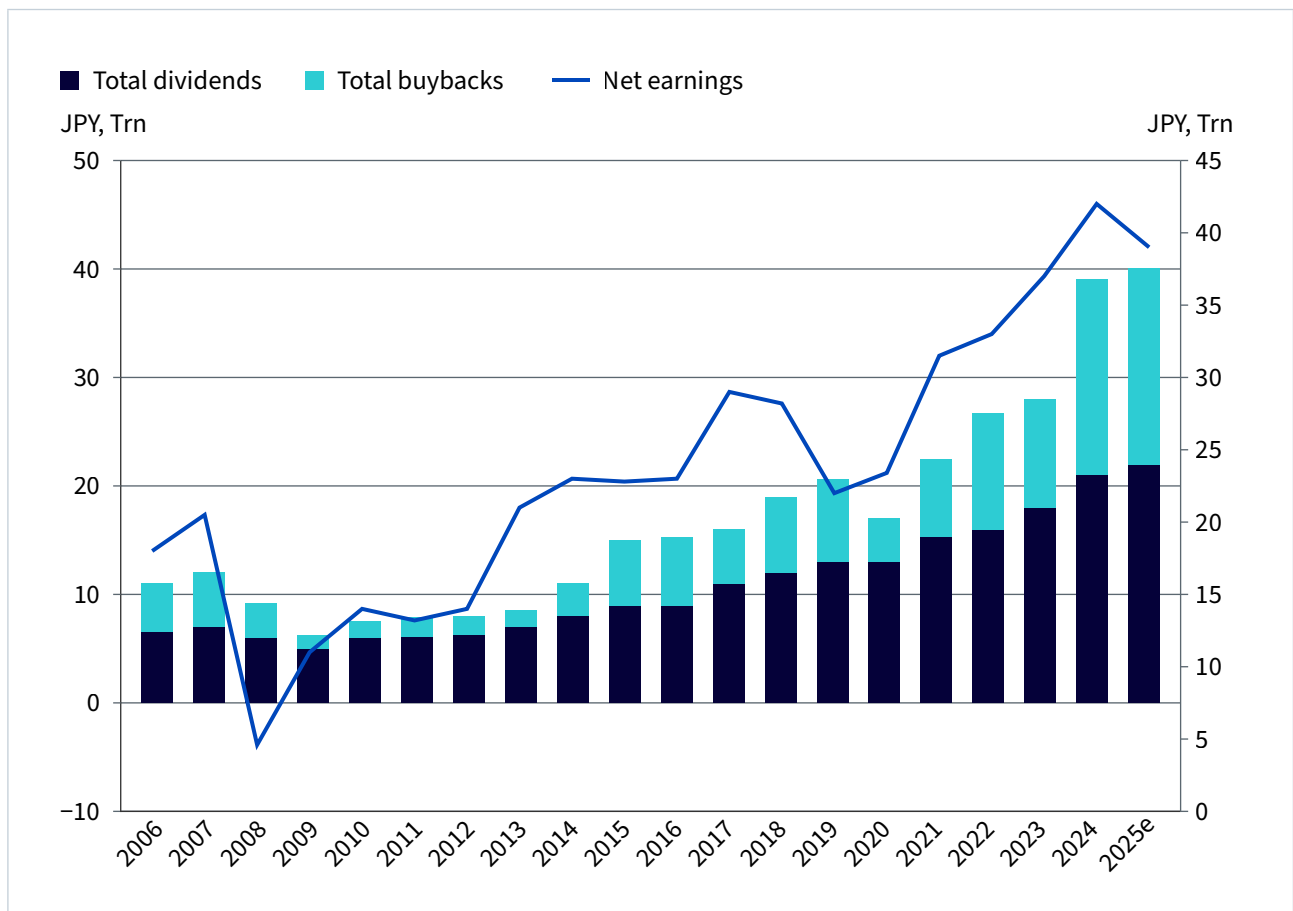
Japan stands out in 2026 as a market benefitting from a confluence of corporate governance reforms, a return of modest inflation, and a persistent focus on shareholder value creation. TOPIX²² companies announced about JPY17 trillion in buybacks between January and May 2025, already eclipsing the full-year 2024 record and running 20% above the comparable 2024 period.

Japan stands out in 2026 as a market benefitting from a confluence of corporate governance reforms, a return of modest inflation, and a persistent focus on shareholder value creation.

22 TOPIX = Tokyo Stock Price Index.

Trading and investment house Mitsubishi Corp. announced a JPY1 trillion buyback, Shin-Etsu Chemical and factory automation robot maker Fanuc announced buybacks of up to JPY500 bn each, with Japanese banks also buying back several hundreds of billions of yen. The course of corporate management reforms will remain the key to a sustained rally in Japanese stocks next year.

Figure 20: Total shareholder payout



Source: Universe of Tokyo Stock Exchange and Prime Market firms; net profits in FY25 based on latest Toyo Keizai forecasts, Bloomberg, FactSet as of 30 May 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

The decades-long discount on Japanese equities is steadily receding as companies embrace capital discipline, unwind legacy cross-shareholdings, and prioritise buybacks and dividends. Wage growth and improving domestic consumption are providing durability to earnings, even as external volatility remains a constant. The Bank of Japan's (BOJ) shift away from a hawkish stance remains supportive of Japanese equities. While US tariffs were the direct trigger, easing cost push inflation also played a role. The newly announced US–Japan strategic trade accord secured tariff free access for critical auto, battery, and semiconductor components while deepening joint R&D²³ incentives, thereby removing a key external overhang for Japan's export champions, and validating the market's governance led re pricing. We expect hikes to resume in April 2026, at a pace more in line with Japan's economic conditions. In the current macro environment, sectors poised to benefit from stronger domestic demand, a steeper yield curve, and improved corporate governance include banks, non-bank financial institutions, retailers, construction and building materials, as well as information and communication services.

Thematically, Japan's leadership in industrial automation, robotics, and green innovation positions the market favourably for medium-term capital allocation. Defensive sectors offer shelter in episodes of volatility, while the prevailing trend of domestic reforms and international re-engagement signals the country's re-emergence as a core holding for global portfolios.

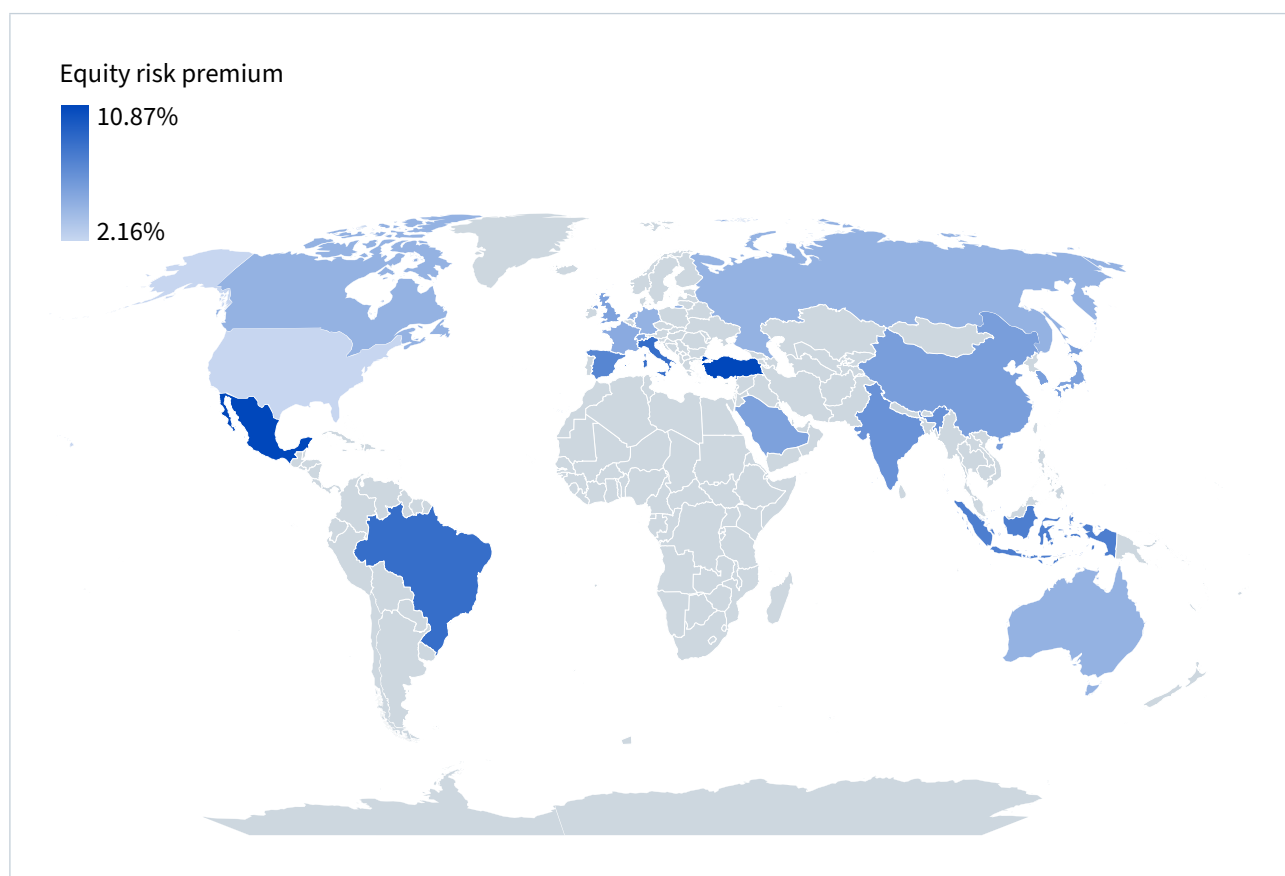
Equity versus bonds: A recalibration of the risk/reward trade-off

The normalisation of global bond yields has fundamentally altered the calculus for multi-asset investors. For the first time in over a decade, bonds present the potential opportunity for attractive real returns, offering both income and portfolio protection against equity volatility. In the United States, Europe, and the UK, 10-year yields have largely retraced to levels last seen before the financial crisis and are expected to remain supported as central banks' balance growth risks with persistent inflation concerns tied to tariff uncertainty.

²³ Research and development.

This is why global equities march into H2 2025 with risk premiums that now look radically uneven. The US, where a decade of multiple expansion has driven the equity risk premium (ERP) down to 2.2%, offers the least compensation for macro or policy shocks. In contrast, Europe’s ERP sits near 6%, Japan’s at 7%, and broad emerging markets approach 7.5%. That gulf argues for a barbell allocation, maintaining exposure to the US’s structural innovators but redeploying incremental capital towards higher-premium regions where much of the risk is already discounted. The upshot is an environment in which static, equity-heavy allocations are at greater risk of underperformance, especially in the event of unexpected macro or policy shocks.

Figure 21: Comparison of global equity risk premiums



Source: Bloomberg, WisdomTree as of 30 June 2025. Please note that the equity risk premium is defined as forward earnings yield minus 10-year real yield. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion

Bringing these threads together, we believe the optimal stance for an internationally diversified portfolio is an overweight in Europe, particularly Germany's fiscal-stimulus beneficiaries and value-oriented sectors. In addition, Japan's governance beneficiaries are balanced by a selective overweight in EMs geared to domestic demand. The equity-risk premium (ERP) hierarchy argues unequivocally for rebalancing towards Europe, Japan, and selected emerging economies, where investors are compensated materially for macro uncertainty. US exposure remains crucial, given depth and innovation leadership, yet capitalisation-weighted concentration risk can be tempered through equal-weight or value-based exposures. In contrast, we think that exposure to global exporters heavily dependent on unimpeded US market access should be sized with care, as tariff policy hangs in the balance. Factor overlays favour earnings-revision strength, low Price to Earnings (PEG) to growth ratios, and high dividend yield, as they offer greater insurance against unexpected policy or macro shocks.

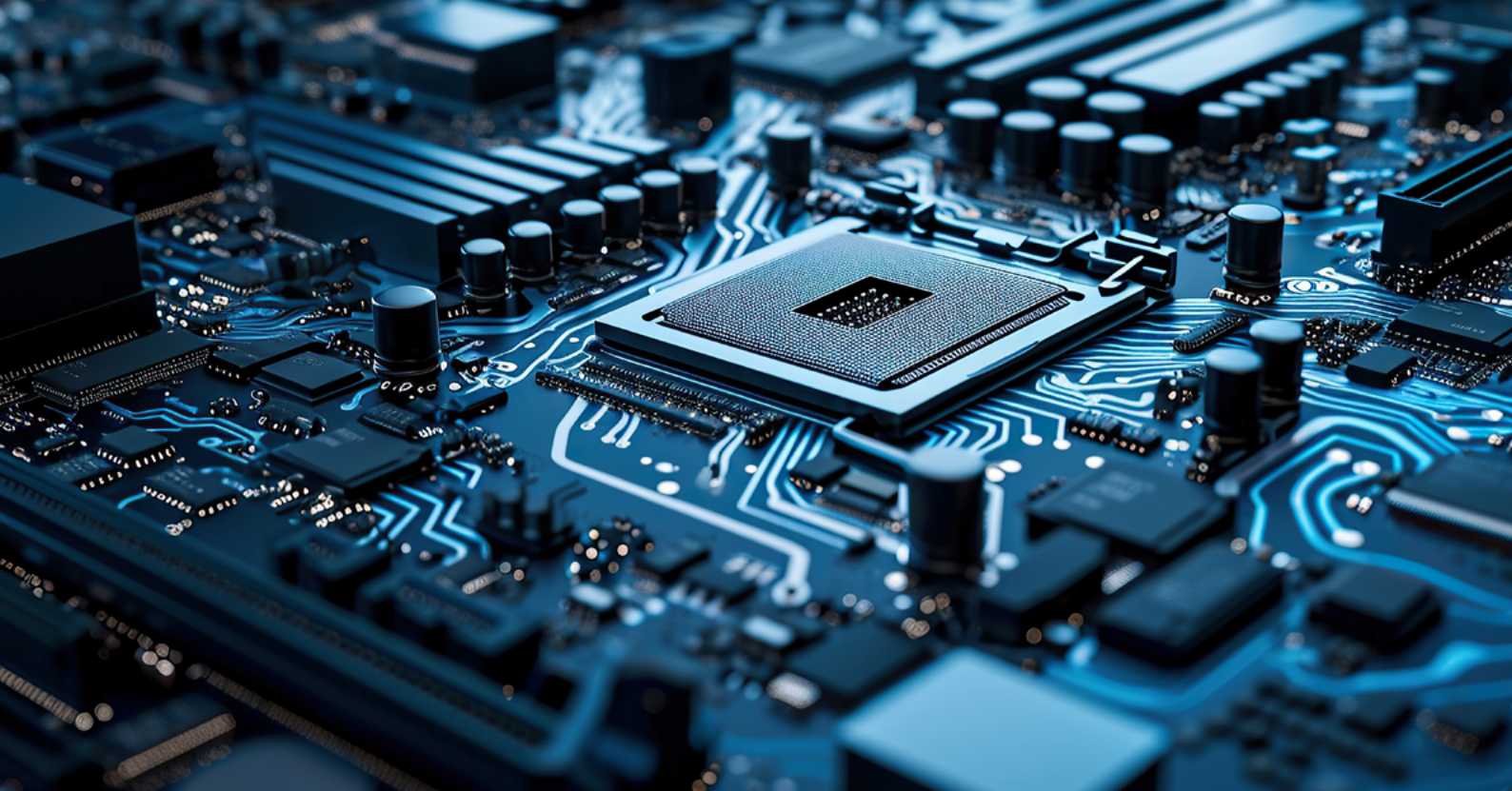
The ERP (equity-risk premium) hierarchy argues unequivocally for rebalancing toward Europe, Japan and selected emerging economies, where investors are compensated materially for macro uncertainty.

3.

Thematic Outlook: Finding growth in a fragmented world

In this section

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Every year, the World Economic Forum publishes a Global Risks Report that surveys risk professionals worldwide to gauge which risks the world should be paying attention to.

In 2021,²⁴ the top risks by likelihood (over the next 10 years) were deemed to be:

- 1.** Extreme weather
- 2.** Climate action failure
- 3.** Human environmental damage
- 4.** Infectious diseases
- 5.** Biodiversity loss
- 6.** Digital power concentration
- 7.** Digital inequality
- 8.** Interstate relations failure
- 9.** Cybersecurity failure
- 10.** Livelihood crises

Looking at the list, it's clear that many of the risks identified in 2021 were centred around collective global challenges such as climate change, pandemics (understandable given that COVID-19 was still rampant at the time), and inflation-linked livelihood concerns.

²⁴ World Economic Forum Global Risk Report, 2021.

Fast forward to 2025,²⁵ and the latest report paints a very different picture. These are the risks now considered most likely to present a material crisis in the current year:

1. State-based armed conflict
2. Extreme weather events
3. Geoeconomic confrontation
4. Misinformation and disinformation
5. Societal polarisation
6. Economic downturn
7. Critical change to Earth systems
8. Lack of economic opportunity or unemployment
9. Erosion of human rights and civic freedoms
10. Inequality

It is striking how many of the long-term, shared concerns from 2021 have been replaced by more immediate threats, such as conflict, polarisation, disinformation, and economic confrontation.

Even though this was not widely anticipated, the world has become fragmented.

But in the world of investing, where there are risks, there are also opportunities. This outlook outlines WisdomTree's predictions across five themes that are being catalysed by this new era of fragmentation.

Europe's pursuit of defence autonomy will accelerate as geopolitical trust erodes

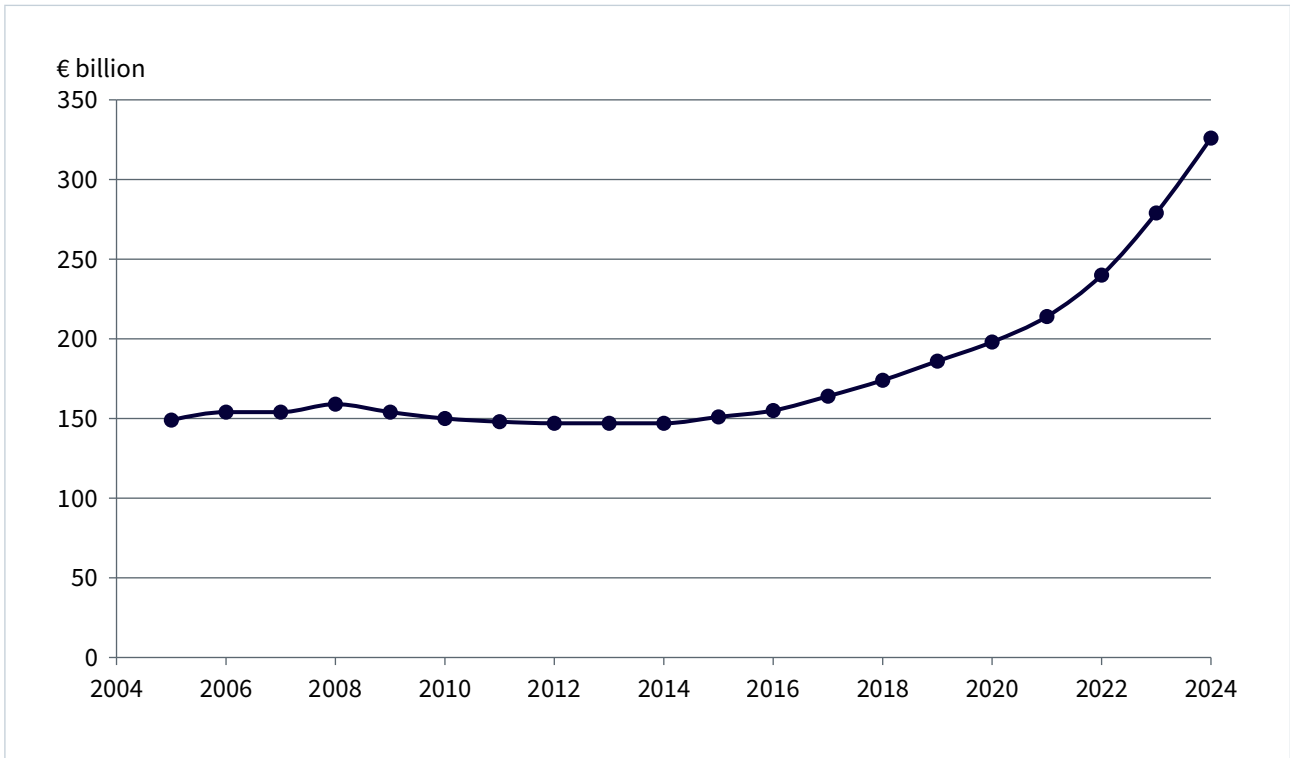
"We like to tone them down about 10% because, someday, maybe they're not our allies, right?"

These were the remarks of President Trump in March 2025 while unveiling details about the upcoming sixth generation F-47 fighter jet.²⁶ The idea of a kill switch was also mentioned in case relations with partners change. Trump's suggestion that the fighter's capabilities may be intentionally downgraded was received with raised eyebrows. It also symbolises the erosion of trust among America's partners and serves as a clear reminder for them to step up their defence self-sufficiency with greater urgency.

²⁵ World Economic Forum Global Risk Report, 2025.

²⁶ Defensemirror.com, March 2025.

Figure 22: Defence spending by EU member states rose 30% between 2021 and 2024



Source: European Defence Agency, data sourced in July 2025 <https://www.consilium.europa.eu/en/policies/defence-numbers/>

The European defence theme has hardly gone unnoticed in recent months. This section presents three predictions of what might lie ahead as the theme continues to unfold.

Defence tech champions will rise across Europe

When, on WisdomTree’s *The Next Big Thing* podcast, we asked about their partnership with US startup Anduril, German defence giant Rheinmetall highlighted how working with a disruptive technology company is a win-win for speed, industrialisation, and access to cutting-edge solutions.

We expect more defence tech champions to emerge from within Europe. One example is Helsing, a German drone and AI company that showcased its software, taking control of a Saab Gripen E fighter jet in two exercises in May and June this year. While these tests were

While the best human fighter pilots accrue 5,000 flight hours in their careers, its software gained a million hours of experience in just 72 hours.

carried out with a safety pilot present, the company claims that the adoption of its autonomous software by air forces could be years, not decades, away. Helsing also noted that while the best human fighter pilots accrue 5,000 flight hours in their careers, its software gained a million hours of experience in just 72 hours.²⁷

The intersection of tech and defence is likely to be a prominent theme in the coming months, and more European companies are likely to step in.

Political coordination will tighten around shared security goals

The headlines called it the first bilateral treaty between Germany and the UK since World War II. The Kensington Treaty, signed in July, includes clauses on mutual assistance in case of an external attack as well as joint campaigns to secure more export orders for weapons made jointly by the two countries, such as the Eurofighter Typhoon jet.

The deal is noteworthy for two reasons. First, selling jointly produced military equipment has been a point of attrition between the two countries in the past. In 2022, Germany blocked the sale of Typhoon jets to Turkey. Since the Treaty, however, Germany has agreed to proceed with Typhoon sales to Turkey. The reaffirmation to jointly promote defence exports marks a meaningful reset in strengthening ties. Second, it suggests that shared security concerns are bringing the UK closer to its European allies, despite post-Brexit political strain.

Defence coordination may extend beyond weapons to include cybersecurity, migration, and other shared challenges. We can expect to see more political announcements from European leaders in this space.

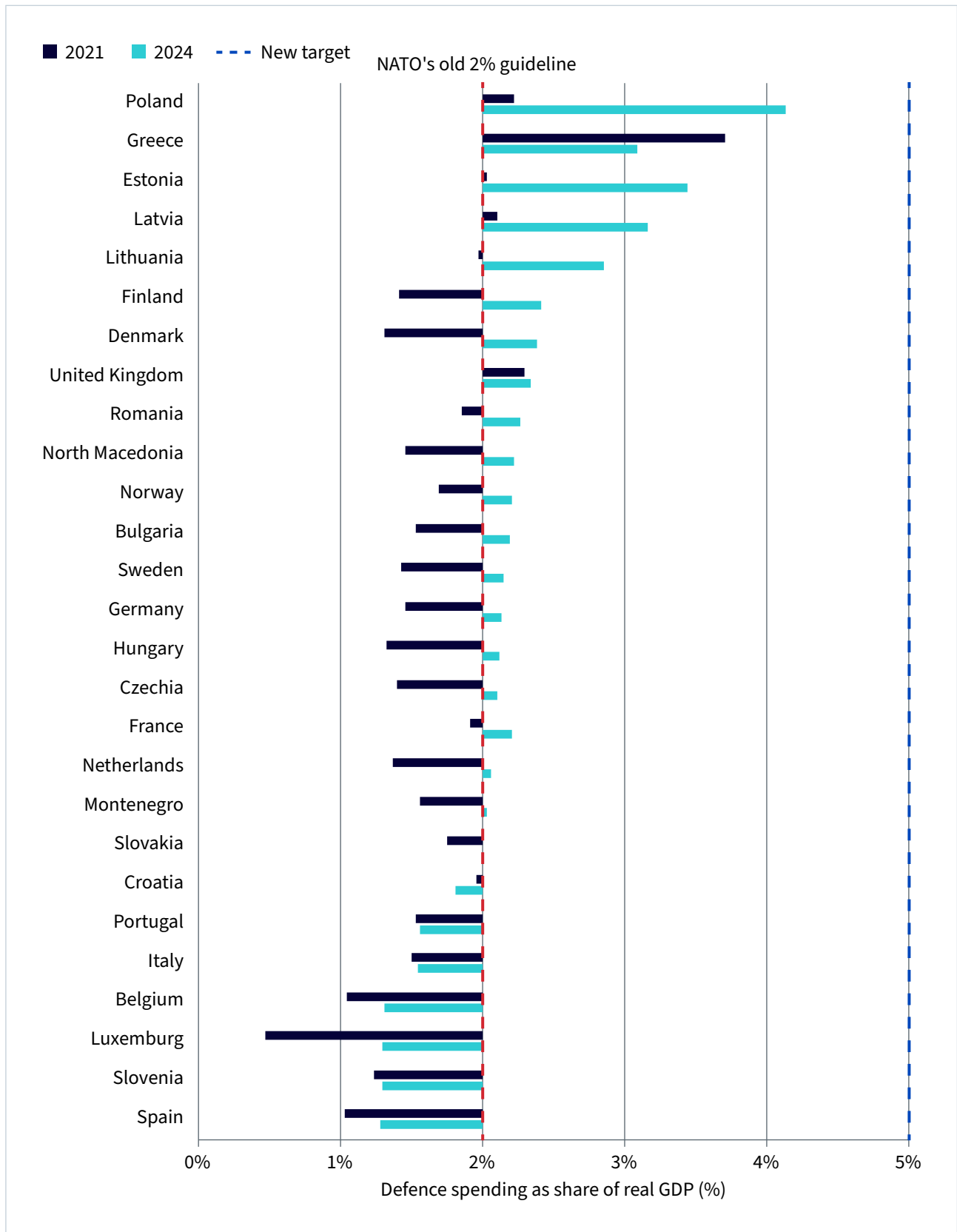
Financial innovation will fund Europe's defence investment surge

In June, NATO allies agreed to increase defence spending to 5% of GDP, a sharp rise from the current 2% target. The alliance has set a goal to reach this level by 2035, with a review planned for 2029. While the 5% figure includes 1.5% for defence-related investments such as cybersecurity and military mobility, and 3.5% for hard defence including weapons and troops, it still represents an ambitious jump from existing levels, many of which only rose after the Russia-Ukraine war.²⁸

²⁷ FT, July 2025.

²⁸ Politico, June 2025.

Figure 23: Defence budgets of NATO's European allies and the new 5% target



Source: WisdomTree, Atlantic Council, WisdomTree. 2024 numbers are estimates. Iceland is excluded as it does not have a standing army. NATO = the North Atlantic Treaty Organization.

The question is, where will the money come from? Post-COVID, Europe came together with joint financing initiatives including the Multiannual Financial Framework and NextGenerationEU, which delivered a total fiscal injection exceeding €2 trillion.²⁹ So Europe has done it before, and it can do it again.

The European Defence Industry Programme (EDIP) could be one piece of the puzzle.³⁰ While currently small, it could evolve into a larger fund backed by joint borrowing, much like defence bonds modelled on the COVID-19 bonds framework. Arguably, COVID-19 made joint borrowing acceptable. Security might make it necessary.

Arguably, COVID-19 made joint borrowing acceptable. Security might make it necessary.

The global push for energy independence will further catalyse the ongoing nuclear energy renaissance

From Russia's invasion of Ukraine and the ensuing crisis in Europe's gas markets to oil price volatility driven by conflict in the Middle East, fragmentation in global fossil fuel supply chains is creating a newfound urgency among countries and corporations alike to achieve energy independence. In the face of energy-hungry infrastructure — such as the data centres now proliferating around the world — nuclear power has made a resounding comeback and is increasingly seen as a sustainable solution.

This section outlines three predictions on what might lie ahead as interest in the nuclear energy theme continues to grow.

²⁹ https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en

³⁰ https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-dedicated-programme-defence_en

Small modular reactors will be fast tracked

President Trump's executive orders on nuclear energy in May 2025 created a strong tailwind for the theme. Prioritising advanced reactor deployment, including SMRs, was one of the core elements of the orders. Reforming the Nuclear Regulatory Commission to cap licensing timelines at 18 months also demonstrates that more regulatory support for nuclear power can be expected.

The US is not alone. Other countries are keen to swiftly deploy SMRs. In June, the UK selected Rolls Royce as its preferred SMR technology, with deployment targeted for the mid-2030s.

But if companies such as Oklo have their way, we may not have to wait that long. Oklo, a specialised developer of advanced nuclear technologies, aims to deploy its first commercial Aurora Powerhouse by late 2027 at the Idaho National Laboratory, having already made meaningful progress on regulatory approval. Market interest — reflected in Oklo's share price, as well as enthusiasm about other SMR developers — shows growing excitement about this technology and its potential to transform energy markets. We can expect more SMR announcements in the coming months.

Oklo, a specialised developer of advanced nuclear technologies, is aiming to deploy its first commercial Aurora Powerhouse by late 2027.

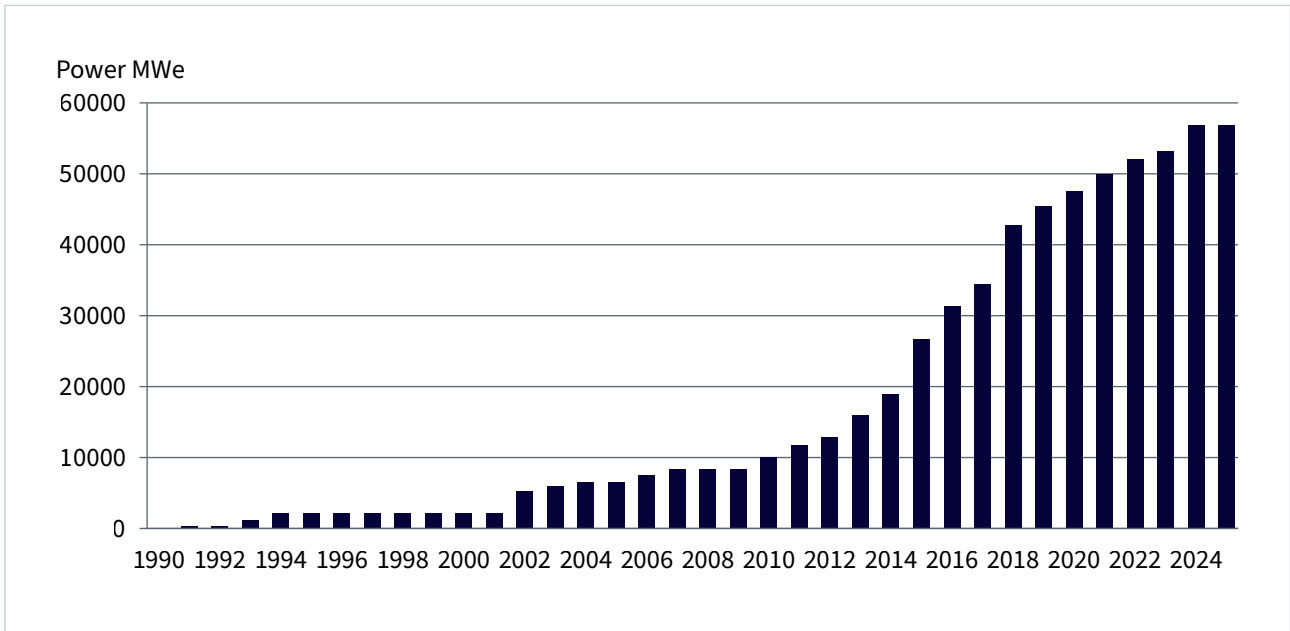
More large nuclear reactors will be reopened, extended, or announced

Large nuclear reactors are back. In June, Meta signed a 20-year deal with Constellation Energy to keep the Clinton nuclear plant in Illinois operating, expand its capacity, and support the company's data centre ambitions. The deal echoed Microsoft's agreement with Constellation last year to reopen Three Mile Island, which closed in 2019.

President Trump's executive orders, aimed at quadrupling US nuclear capacity by 2050, include plans to develop 10 new large reactors — a stark shift in direction for a country that spent much of the last decade shutting nuclear facilities. France, the second-largest country by nuclear capacity, and one that has kept its nuclear fleet steady for decades, has now announced plans to build six new reactors, and is considering another eight.³¹

³¹ World Nuclear Association, accessed July 2025.

Figure 24: China's operable nuclear capacity has increased 5 x in 15 years



Source: Visual Capitalist, Energy Education, World Nuclear Association, 2023.

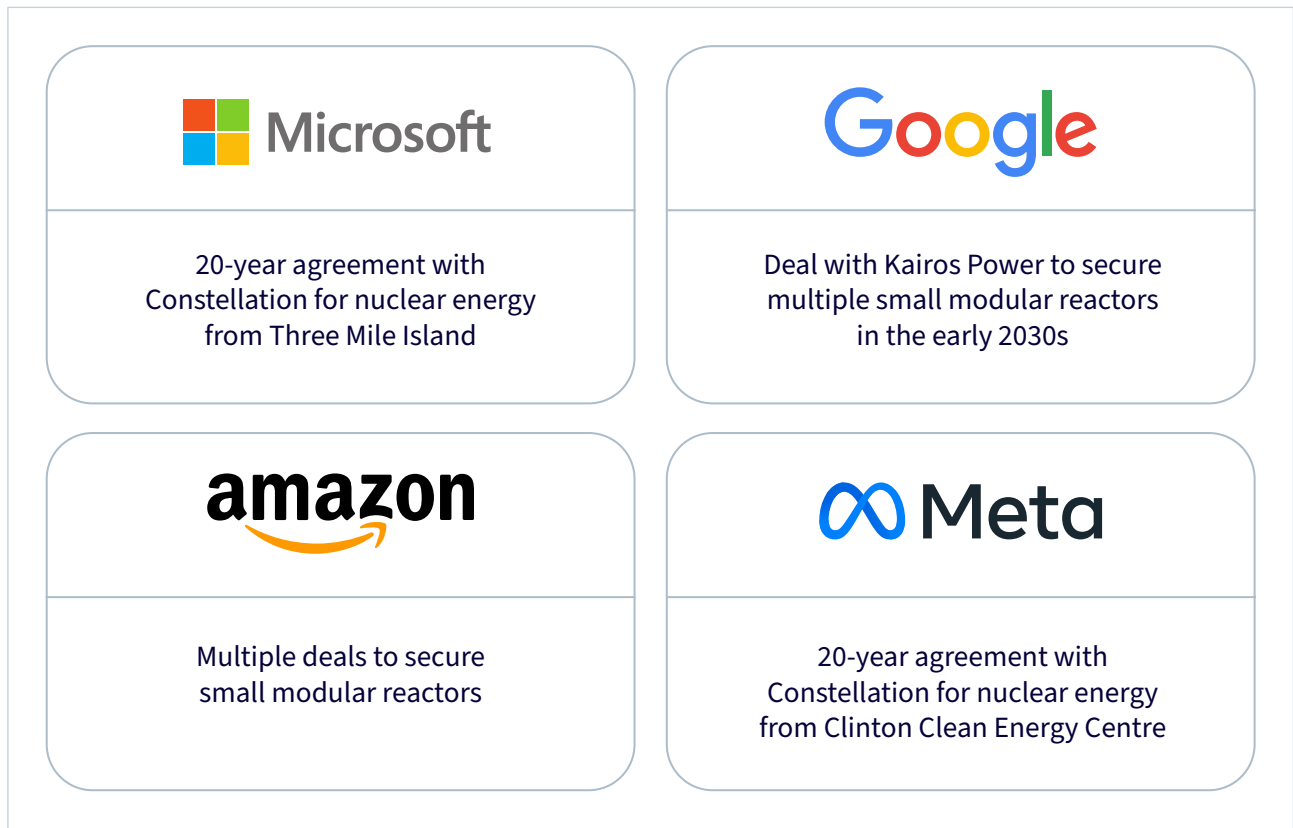
China’s nuclear capacity has expanded more than fivefold in the last 15 years, creating a blueprint that others may follow . It has shown that economies of scale are possible even with large reactors. In the coming months, we are likely to see more announcements about new large nuclear projects, highlighting that the future will be powered by both large and modular reactors.

More tech companies will jump on the nuclear bandwagon

One of the biggest challenges facing the nuclear industry is that projects often go over budget and fall behind schedule. Sensing an opportunity to help solve this, AI company Palantir announced a partnership in June with the Nuclear Company to develop Nuclear Operating System (NOS), an AI-driven platform built specifically for nuclear construction. The goal is to optimise construction workflows, streamline supply chains, reduce issues using sensors, and boost regulatory confidence through automated data reporting.

China’s nuclear capacity has expanded more than fivefold in the last 15 years, creating a blueprint that others may follow.

Figure 25: Big tech is making big bets on nuclear energy



Source: World Nuclear News, 2024, 2025.

Across the nuclear energy value chain — from uranium miners to component manufacturers and advanced technology developers — the adoption of AI could help expedite deployment, lower costs, and solve long-standing bottlenecks. Palantir’s entry into the nuclear industry is likely to inspire other tech firms to enter the space in the coming months.

Rising digital conflict will fuel greater cybersecurity investment

In July, Microsoft’s document-sharing software SharePoint servers were targeted in a significant cyberattack. The breach affected more than 50 organisations, including the US nuclear weapons agency. According to Microsoft, the attack was orchestrated by Chinese threat actors, including state-sponsored hackers. The company cited groups such as Linen Typhoon,

Palantir’s entry into the nuclear industry is likely to inspire other tech firms to enter the space in the coming months.

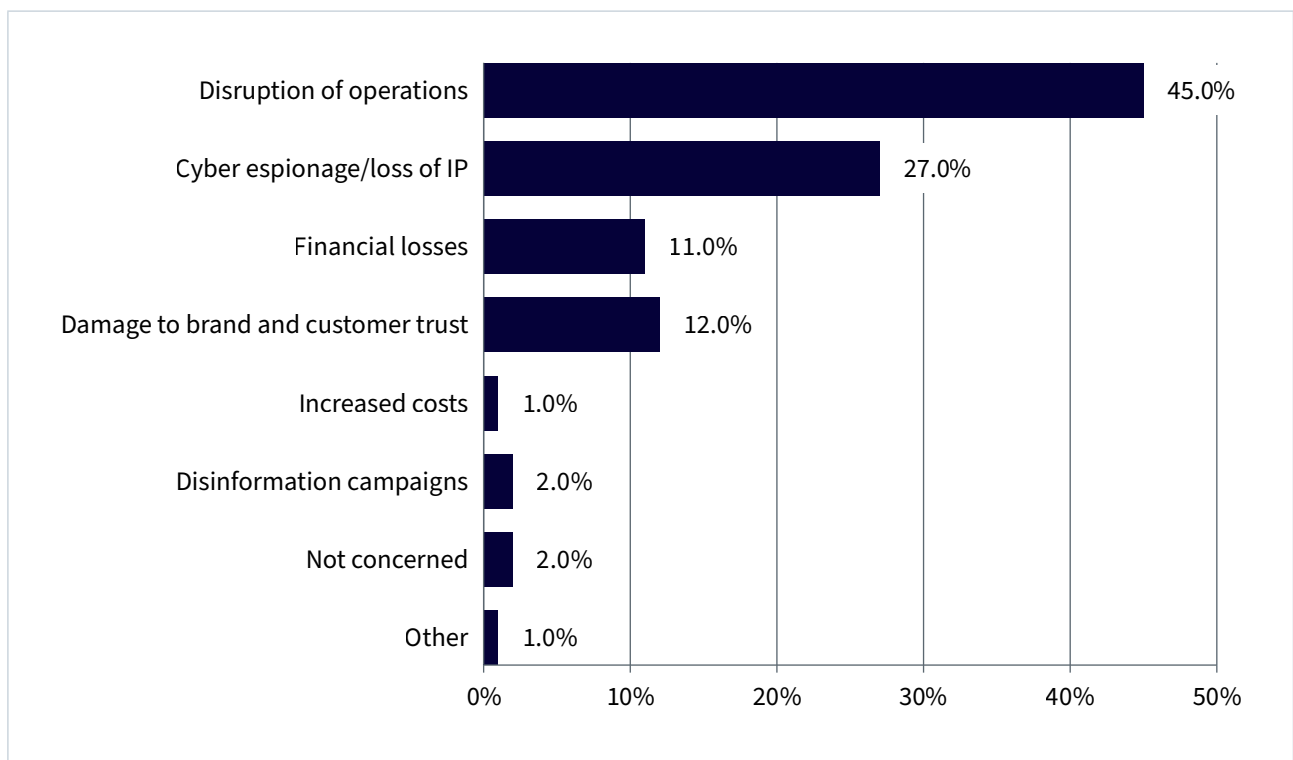
Violet Typhoon, and Storm-2603, noting that Linen Typhoon has been attempting to steal intellectual property since 2012, targeting government, defence, strategic planning, and human rights organisations.

Cyberattacks are becoming a new kind of battlefield in a fragmented world. We share two predictions about what might lie ahead in the coming months.

Cybersecurity will be recognised as a geopolitical risk, not just a technical one

As noted earlier, the 5% defence budget target set by NATO allies includes 1.5% earmarked for areas such as cybersecurity. This reflects a clear recognition that some future battlefields may be defined by data breaches rather than tanks.

Figure 26: Biggest cybersecurity concerns for companies in the context of geopolitics



Source: World Economic Forum Global Cybersecurity Outlook 2025. Survey results for chief information security officers worldwide. Note: IP means intellectual property.

The World Economic Forum’s Global Cybersecurity Outlook 2025 highlights how chief information security officers (CISOs) are developing a deeper appreciation for threats rooted in geopolitical tensions.

With more incidents like the Microsoft attack, organisations will increasingly recognise the need to defend against adversaries driven by political, rather than purely criminal, motives.

Global cybersecurity spending will rise as fragmentation raises risks

According to the IMF, cybercrime could cost the global economy US \$23 trillion by 2027 — an increase of 175% from 2022.³² At that scale, the cost could amount to nearly one-fifth of the global economy. Clearly, this is an unacceptable level of risk.

WisdomTree's cybersecurity partner Team8 reported that 52% of CISOs surveyed in 2025 indicated a budget increase. Although this is down from 70% in 2024, it still shows that more than half of organisations are raising cybersecurity spending despite macroeconomic pressure.

Hacks driven by geopolitics raise the stakes. They are likely to prompt more CISOs to take decisive action to mitigate a threat that could cause the world to lose trillions.

According to the IMF, cybercrime could cost the global economy US \$23 trillion by 2027 — an increase of 175% from 2022.

Critical minerals including rare earths will become more critical

Rare earth elements (REEs) are essential to the technologies that define modern power, including military strength, clean energy, and digital infrastructure. They are found in electric vehicles (EVs), wind turbines, smartphones, and advanced weapon systems. What makes them rare is not their abundance in the Earth's crust, but the difficulty of mining them at scale and the challenge of processing them.

China accounts for almost 70% of REE mining and nearly 90% of global processing.³³

In a fragmented world, with growing tensions between China and the US, access to rare earths is becoming a strategic concern. This section highlights two predictions that could shape the landscape in the coming months.

China accounts for almost 70% of REE mining and nearly 90% of global processing.

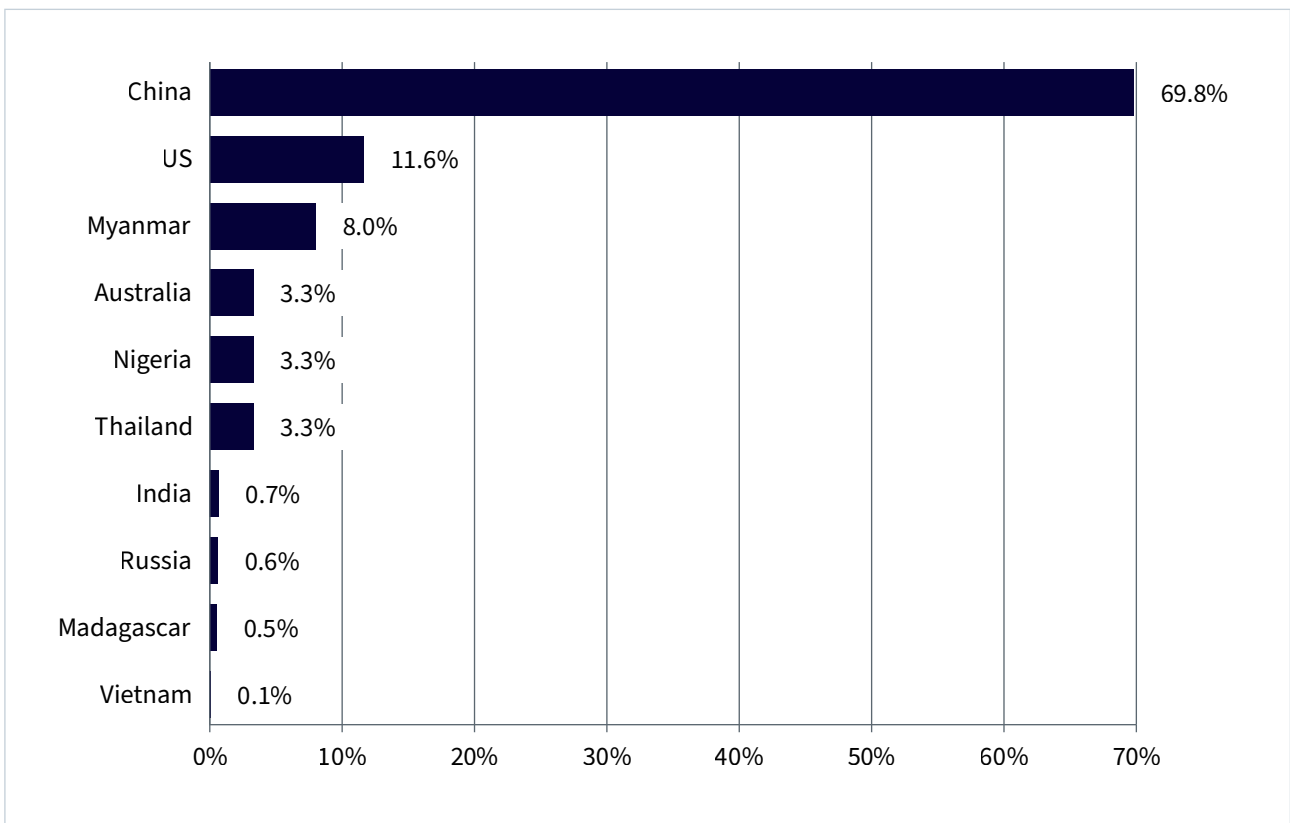
³² https://www.sentinelone.com/cybersecurity-101/cybersecurity/cyber-security-statistics/?utm_source=chatgpt.com

³³ Barrons, January 2025.

The US will be forced to reckon with China’s dominance

In July, Apple began phasing out rare earth components sourced from China, shifting to US-based MP materials. The move reflects growing pressure on companies to reduce exposure to Chinese supply chains, especially following new US legislation restricting the use of critical minerals from adversarial nations in federal contracts.

Figure 27: China dominates the production of rare earths worldwide



Source: Statista, 2025 showing the share of rare earth production by country in 2024.

However, the US still relies heavily on China for processing, even when the mining is done domestically. With limited refining capacity at home, efforts to build alternatives are still in the early stages. Given that rare earths remain one of China’s strongest bargaining chips in any trade negotiation, the US will continue to find ways to reduce, albeit slowly, its reliance on China.

Fragmentation will force new supply chains to open

Allied nations are working to build a parallel ecosystem for critical minerals. Canada is investing nearly CAN \$4 billion in its rare earth sector. Australia's Lynas is expanding operations both domestically and in the US. Through the Minerals Security Partnership, countries including the US, EU, UK, and Japan are coordinating investment and developing offtake agreements.

This isn't just about diversification. It's a strategic realignment. And there will likely be more of it in the coming months.

Blockchain's breakthrough will come in a fracturing financial world

The 2022 removal of Russia from the SWIFT³⁴ payment network was a stark reminder that the global financial system is not neutral: it is an instrument of geopolitical power. In response, BRICS³⁵ nations have accelerated efforts to build alternatives, increasing trade in local currencies and shifting reserves towards hard assets including gold.

For the US, this rising competition threatens its most strategic asset: the dollar's role as the global reserve currency. In 2025, demand for US assets has come under pressure, as policy uncertainty, tariffs, and sustained deficit spending drive global investors and governments to diversify. Amid a shifting monetary order, preserving financial leadership demands more than macroeconomic strength — it requires innovation.

Blockchain has long promised to deliver that innovation. In 2025, that promise is starting to materialise, as policymakers increasingly view blockchain not just as a technology, but as a strategic tool. With the US at the centre of this shift, here are two ways in which the blockchain-driven future may unfold.

Stablecoins will become a key lever of US financial power

In July, the US passed the GENIUS Act,³⁶ a landmark bill establishing the regulatory framework to give stablecoins the credibility and oversight required to scale globally. The bill requires stablecoins to be backed 1:1 by cash, short-term Treasuries, government money market funds, or similar investments.

34 SWIFT: Society for Worldwide Interbank Financial Telecommunication.

35 BRICS is an intergovernmental organisation comprising: Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates.

36 The Guiding and Establishing National Innovation for U.S. Stablecoins Act.

With demand for long-term Treasuries softening, stablecoins offer a faster, more flexible way to reinforce dollar dominance, particularly in markets with limited access to US financial infrastructure. Already processing trillions in monthly volume, they also present a new, digitally native channel for US Treasury demand, potentially easing borrowing costs. As BRICS nations advance non-dollar settlement systems, stablecoins help counterbalance that trend, entrenching USD usage while positioning the US to lead in open, blockchain-native payment rails.

Figure 28: Trump’s election has fuelled growth in stablecoins



Source: Stablecoin.com, as of 24 July 2025. **Historical performance is not an indication of future performance, and any investments may go down in value. Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Financial institutions will adopt blockchain to modernise infrastructure

Beyond stablecoins, over US \$25 billion in tokenised assets — from equities to commodities — are already live on public blockchains.³⁷ Circle's blockbuster IPO,³⁸ surging past US \$250 per share,³⁹ reflects investor belief in blockchain as the next frontier in market infrastructure. With near-zero transaction fees, real-time settlement, and improved transparency, blockchain is gaining traction as the foundation for a more efficient, interoperable financial system.

In a world of shifting alliances and regulatory fragmentation, the race to build the largest and most liquid markets is not just economic — it's geopolitical. Blockchain is rapidly becoming a strategic pillar in that race.

Beyond stablecoins, over US \$25 billion in tokenised assets — from equities to commodities — are already live on public blockchains.

Conclusion

In 2021, the world's biggest risks were about shared challenges, such as climate change and pandemics. By 2025, the focus has shifted to conflict, polarisation, and misinformation. The world hasn't just changed. It has become more fragmented.

However, markets are not standing still. From Europe's defence ambitions to the comeback of nuclear energy, and from the rise in cybersecurity spending to the growth of blockchain and critical minerals, fragmentation is driving new areas of investment.

The world may feel more divided. However, the forces shaping it are creating clear themes for the future.

³⁷ RWA.xyz | Analytics on Tokenized Real-World Assets, as of 21 July 2025.

³⁸ Initial public offering.

³⁹ Koyfin, as of 21 July 2025.

4.

Crypto Outlook: The real economy moment

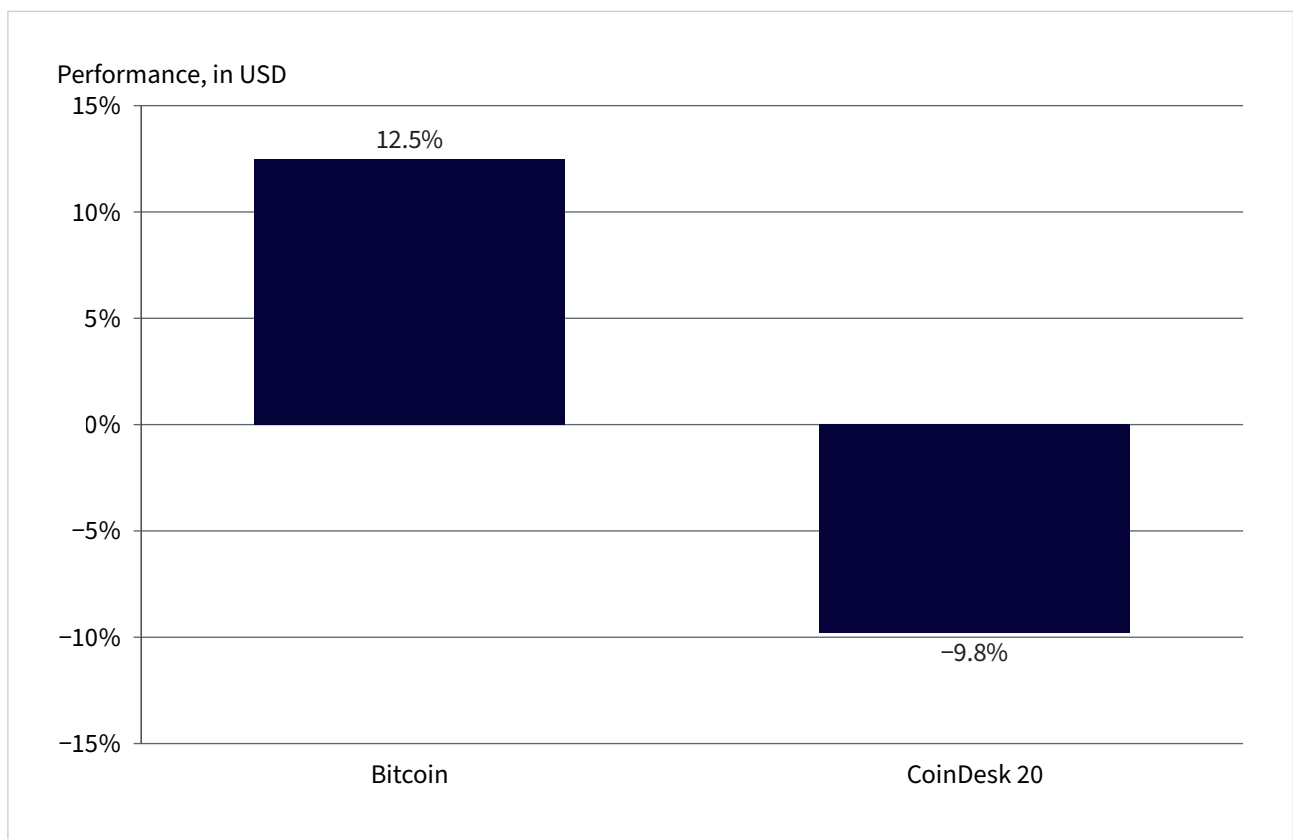
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Bitcoin

After a volatile start to the year triggered by the onset of US President Donald Trump’s trade war, crypto markets have bounced back with resilience. Bitcoin reached a new all-time high of nearly US \$123,000 in mid-July,⁴⁰ underscoring renewed investor enthusiasm and growing institutional demand. Altcoins have yet to fully recover, though signs of a resurgence are emerging in select names. The CoinDesk 20 Index, which tracks the top 20 most liquid, investible digital assets, continues to lag bitcoin, but recent developments suggest a more optimistic second half as momentum has picked up to start Q3 as market breadth improves.

Figure 29: 2025 first-half performance



Source: WisdomTree, 30 June 2025. As at 5 pm CET. H1 = first half. **Historical performance is not an indication of future performance, and any investment may go down in value.**

40 Artemis Terminal, 23 July 2025.

Institutional adoption accelerates

Bitcoin has remained front and centre, as institutional adoption is fully underway. Inflows into physical bitcoin exchange-traded products (ETPs) have reached nearly \$35 billion over the past year, bringing global physical bitcoin ETP assets under management to over \$145 billion.⁴¹

Financial institutions are increasingly embracing bitcoin, not only through traditional asset managers, but also at the sovereign level. This year, the US government signed legislation creating a strategic bitcoin reserve, and several states have begun the process of launching state-level reserves of their own. Government entities are now estimated to hold over 500,000 bitcoin, or over US \$60B in value at current prices.⁴²

More corporate treasuries are beginning to follow Michael Saylor's playbook,⁴³ leveraging capital markets and business operations to build bitcoin reserves. As a result, purchases by public companies have surged, and it is estimated that over 900,000 bitcoin (nearly 5% of the total supply) is now held by listed firms.⁴⁴ Hedge funds, meanwhile, are capitalising on arbitrage opportunities such as the basis trade, exploiting price differentials between futures and spot markets.

The rise of regulated futures on the Chicago Mercantile Exchange (CME) — now covering bitcoin, Ether, Solana, and XRP — alongside the availability of perpetual contracts on decentralised platforms, has expanded the toolkit for investors and traders. Options are also available, adding depth and flexibility for risk management. Bitcoin futures open interest now exceeds US \$45 billion, while bitcoin options open interest has surpassed \$50 billion, demonstrating strong adoption and usage of derivatives for portfolio management.⁴⁵ These developments signal growing market maturity and may have helped to dampen volatility over time by improving liquidity and pricing efficiency.

41 Bloomberg, WisdomTree, 1 July 2025.

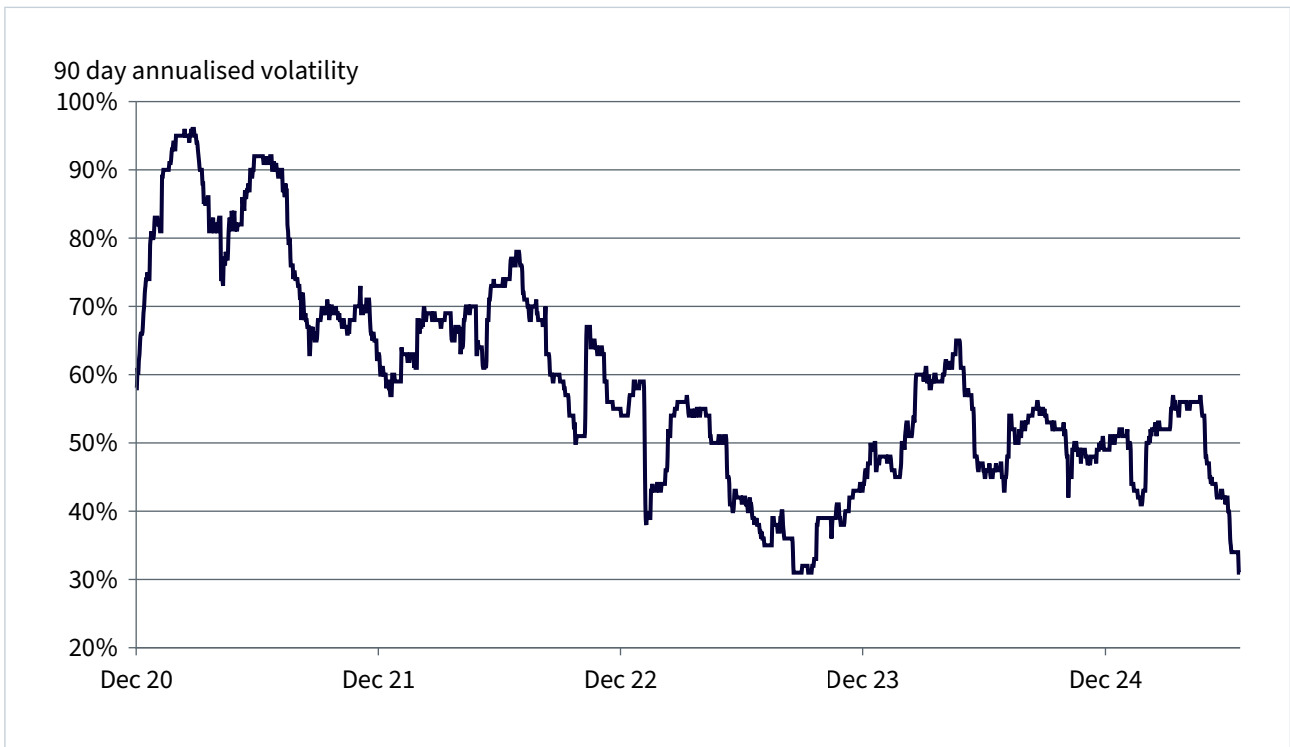
42 Bitcoin Treasuries, 23 July 2025. <https://bitbo.io/treasuries/countries/>

43 Michael Saylor, Executive Chairman of Strategy (formerly MicroStrategy), is known for pioneering a corporate strategy that involves using company balance sheet capital and debt issuance to accumulate large bitcoin holdings as a long-term store of value.

44 Bitcoin Treasuries, 23 July 2025. <https://bitbo.io/treasuries/#public>

45 Glassnode, 23 July 2025.

Figure 30: Bitcoin’s historical volatility



Source: Artemis Terminal, WisdomTree. 23 July 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Barriers to access are also falling globally. The Financial Conduct Authority (FCA) in the UK is currently considering opening the door for retail investors to gain exposure to bitcoin through ETPs, further democratising access to the asset class. These developments echo similar movements across developed markets, reinforcing the momentum of global institutional and retail adoption.

A self-reinforcing momentum loop is taking shape:

- + As demand grows, so does ease of access.
- + As access improves, adoption broadens.

Bitcoin is increasingly embedded in institutional portfolios, not only for its portfolio diversification benefits (see: [Bitcoin in multi-asset portfolios](#)) but also for its unique positioning in today’s macroeconomic environment.

As demand grows, so does ease of access.
As access improves, adoption broadens.



A supportive macro backdrop

Geopolitical tension and economic uncertainty have played a key role in driving bitcoin to new, all-time highs. Fears surrounding US fiscal discipline, trade protectionism, and central bank independence have raised investor concerns. The sweeping extension of the 2017 tax cuts in Trump's 'Big Beautiful Bill' further clouds the US outlook. With a budget deficit above 6% of GDP and debt above US \$34 trillion, continued expansion risks further pressure on long-term Treasury yields, which are already at multi-decade highs.⁴⁶ The Congressional Budget Office (CBO) projects that the debt-to-GDP ratio will continue to climb to 156% by the year 2055.⁴⁷ If current trends persist, a weaker dollar and further monetary expansion appear likely — conditions that historically support demand for store-of-value assets like gold and bitcoin.

De-dollarisation and the erosion of trust

America's fiscal challenges and the recent impacts of tariff policy are part of a broader global rethinking of the US dollar's dominance. Although the dollar still accounts for ~58% of global reserves,⁴⁸ countries such as China and Russia are expanding bilateral trade in alternative currencies to reduce dollar dependence. In parallel, many nations have been shifting away from US dollar-denominated reserves and accumulating gold.

46 Congressional Budget Office. The Long-Term Budget Outlook: 2025 to 2055.

47 Congressional Budget Office. The Long-Term Budget Outlook: 2025 to 2055.

48 International Monetary Fund (IMF) COFER database.

Bitcoin is now emerging as a compelling alternative. While sovereign-level adoption remains in its early stages, institutional and retail investors have long valued bitcoin’s immutable scarcity, decentralised infrastructure, and immunity from political interference. Bitcoin provides a transparent monetary system, as its issuance is programmatic and apolitical. In a world where monetary regimes are shaped by political agendas, bitcoin offers an appealing alternative outside of the system.

Our framework for making forecasts — [Bitcoin and gold: 3 model forecasts for 2030 and beyond](#) — values bitcoin alongside gold as a store of value and monetary hedge. Based on historical trends in global money supply growth, our base-case model forecasts a bitcoin price of US \$250,000 by 2030.⁴⁹ This assumes a stable but moderate expansion of money supply consistent with post-2008 historical norms.

Our base-case model forecasts a bitcoin price of US \$250,000 by 2030.

Figure 31: Bitcoin model forecast for base-case scenario

Scenario	Asset	2030 price	2030 CAGR	2050 price	2050 CAGR
Base case	Bitcoin	\$250k	18%	\$658k	7.4%

Source: WisdomTree, June 2025. Cumulative average growth rate (CAGR) calculated using prevailing prices at the time of writing, bitcoin US \$110,000, and gold US \$3,300 per oz. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

If Trump's second term brings more aggressive fiscal and protectionist policies, the US could face renewed debt ceiling risks and increased political instability. Such conditions would heighten concerns over dollar debasement, potentially accelerate de-dollarisation, and strengthen bitcoin’s appeal as a neutral, censorship-resistant monetary asset.

Politicians are signalling that the US may attempt to reduce its debt burden through growth rather than austerity. If nominal GDP can grow at higher levels than inflation, the government can potentially gradually lower the debt-to-GDP ratio without deep spending cuts.

⁴⁹ WisdomTree. Bitcoin and gold: 3 model forecasts for 2030 and beyond.

However, achieving this balance would likely require rate cuts and greater liquidity injections, potentially driving higher inflation if not executed prudently. Political pressure is on Jerome Powell, Chair of the Federal Reserve, and the Federal Open Market Committee (FOMC) to cut rates, and the market is beginning to price in cuts beginning in September 2025. This backdrop favours both growth assets (such as tech and AI stocks) and store-of-value assets (such as bitcoin and gold). Bitcoin, uniquely positioned as both a growth and store-of-value asset, stands to benefit most.

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A global phenomenon

While US fiscal dynamics are critical, bitcoin's appeal is unmistakably global. Challenges around debt sustainability, currency debasement, and political instability are not unique to America.

Japan, burdened by decades of fiscal deficits and an ageing population, continues to rely on yield curve control and expansive government spending, raising concerns over the long-term viability of the yen. In China, aggressive stimulus aimed at countering property market instability and trade pressure is driving sovereign debt levels higher. Across Europe, rising defence expenditures and inflation-linked fiscal pressures have governments walking a fine line between stimulus and sustainability.

These macro stressors are even more acute in emerging markets, where inflation volatility, capital controls, and institutional fragility have fuelled grassroots adoption. In this context, bitcoin's role as a global, non-sovereign monetary asset is growing more relevant by the day.

As the US transitions from monetary tightening to easing in an effort to grow out of its debt spiral, bitcoin is poised to benefit from both rising structural demand and eroding trust in fiat systems. The conditions are converging. The macro stage is set.

The next chapter for bitcoin looks decisively bullish.

The next chapter for bitcoin looks decisively bullish.

Beyond bitcoin

Bitcoin continues to serve as the institutional gateway into the digital asset ecosystem, championing narratives rooted in monetary debasement, digital scarcity, and sound money principles. However, the broader crypto market has decoupled from bitcoin's gravitational pull. This is no longer a tide that lifts all boats. The market dynamic has matured, favouring precision over participation. In this phase, value accrues to protocols that deliver real-world utility, not just promises and price actions.

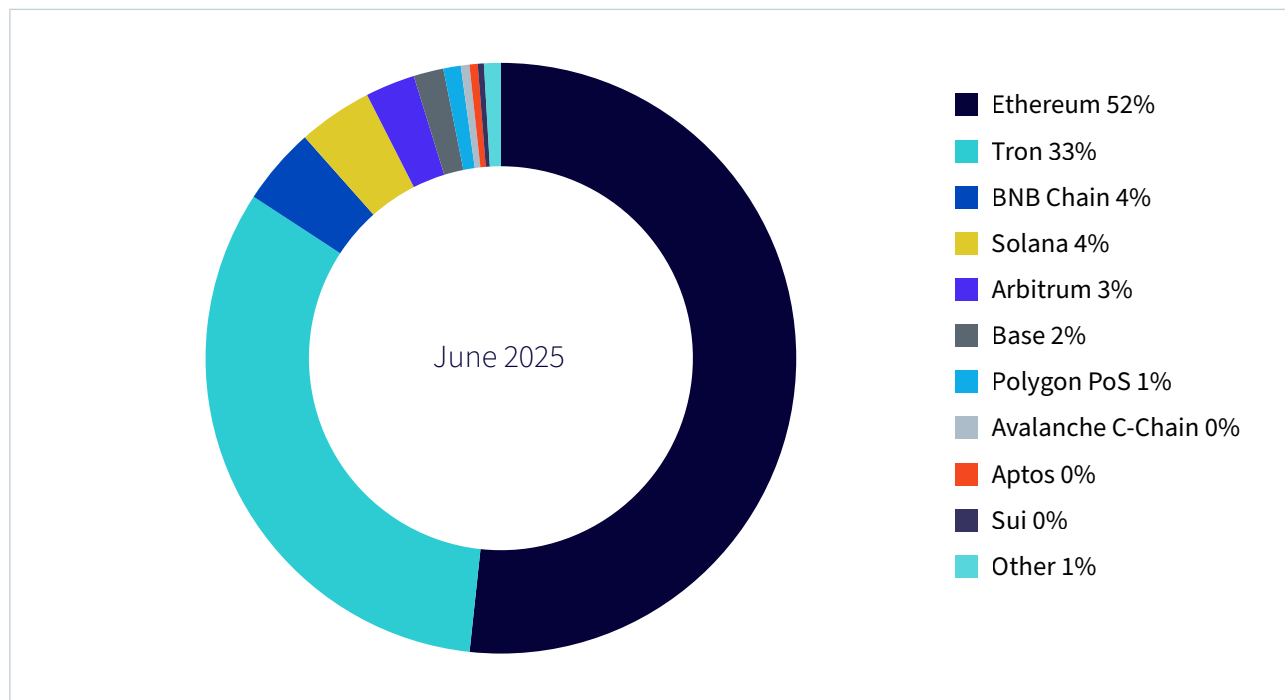
Sorting signal from noise

The altcoin universe is undergoing structural repricing. Within this context, it is critical to distinguish the protocols that are actively delivering infrastructure, utility, and adoption from those that are simply riding speculative waves. Among the leaders emerging from this recalibration are Solana, Ethereum, and XRP, each carving out distinct roles across the consumer, institutional, and financial layers of the digital asset economy. These are not just alternative coins. They are foundational components of a more mature, more functional crypto ecosystem.

- + Solana has re-emerged as a credible high-performance Layer 1 blockchain. Its resurgence is underpinned by growing retail activity, expanding decentralised physical infrastructure (DePIN) applications, and the proliferation of consumer-facing apps. With low-cost transactions and seamless integration across decentralised finance (DeFi), non-fungible tokens (NFTs), and Web3 gaming, Solana has evolved from a speed-centric alternative to Ethereum into the leading consumer-grade blockchain network.
- + Ethereum remains the cornerstone of institutional crypto infrastructure. It is the primary settlement layer for stablecoins, with over 55% of all stablecoin supply issued on Ethereum-based protocols.⁵⁰ This dominance extends to real-world assets (RWAs), where Ethereum is the leading blockchain for tokenising traditional financial instruments, such as bonds, treasuries, and private credit. Its composability, security guarantees, and established developer base make it the default choice for financial applications seeking both scalability and institutional-grade reliability.
- + XRP, meanwhile, continues to solidify its role as a purpose-built solution for cross-border financial infrastructure. Ripple's favourable legal resolution in the United States has reinvigorated institutional interest, and its global corridor expansion reinforces XRP's position as a viable alternative to legacy SWIFT-based systems. Low-latency, cost-efficient settlement is no longer a theoretical value proposition — it is being deployed in production environments.

⁵⁰ Artemis Terminal, 23 July 2025.

Figure 32: Stablecoin supply by chain



Source: Artemis Terminal, WisdomTree. 23 July 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

In this new regime, altcoins are being evaluated more rigorously, and only those demonstrating tangible integration into the real economy are gaining traction. Capital allocators are rewarding networks that offer genuine utility, scalable infrastructure, and a clear product–market fit. Solana, Ethereum, and XRP exemplify this shift, each showing strong adoption and unique value propositions. Meanwhile, projects lacking substance are facing a repricing reality, as the market continues to favour fundamentals over hype.

CoinDesk 20: The smart exposure

Most traditional investors still lack the deep technical and market-specific expertise required to distinguish between speculative noise and genuine innovation in the digital asset space. Identifying which crypto assets possess real substance — whether through network utility, developer traction, or institutional adoption — requires domain fluency that few conventional allocators possess. For these investors, a crypto basket ETP may represent the most sensible approach: offering diversified crypto exposure while mitigating idiosyncratic risk.

The CoinDesk 20 Index has established itself as a strategic on-ramp for diversified crypto exposure. In a market characterised by fragmentation and technical nuance, it provides a curated selection of the most liquid and institutionally relevant digital assets. This helps investors

sidestep the excessive volatility and dilution often associated with speculative micro-cap tokens, instead anchoring their allocations in the structural backbone of the digital economy.

In many respects, the CoinDesk 20 functions as crypto’s closest analogue to the S&P 500, a benchmark that signals sector maturity, leadership, and resilience. By deliberately excluding meme coins and assets that lack sufficient liquidity or Coinbase custody support, it reinforces a disciplined approach to crypto investing. This makes it particularly well-suited for institutions seeking to avoid noise while still participating in the broad crypto market.

The CoinDesk 20 functions as crypto’s closest analogue to the S&P 500.

Figure 33: Crypto market reach of CoinDesk 20

CoinDesk 20 holding	% of adjusted total crypto market capitalisation
Bitcoin	61.82%
Ethereum	11.47%
XRP	5.11%
Solana	2.71%
Cardano	0.79%
Bitcoin Cash	0.27%
Sui	0.34%
Chainlink	0.33%
Avalanche	0.27%
Stellar	0.36%
Litecoin	0.23%
Hedera Hashgraph	0.28%
Uniswap Protocol Token	0.16%
Aave	0.12%
Aptos	0.09%
Near	0.09%
Internet Computer	0.08%
Polkadot	0.17%
Polygon Ecosystem Token	0.06%
FileCoin	0.05%
Total	84.78%

Source: Artemis Terminal, WisdomTree. 23 July 2025. Total crypto market capitalisation is adjusted for stablecoins that represent US \$258 billion. **Historical performance is not an indication of future performance, and any investment may go down in value.**

With nearly 85% coverage of the adjusted total crypto market capitalisation,⁵¹ the CoinDesk 20 offers unmatched depth, breadth, and liquidity. These are critical attributes for institutional investors aiming to scale into the asset class without compromising execution quality. For allocators looking to enter the market with high conviction and low operational friction, the index provides a reliable framework for accessing the investible core of crypto.

Key themes to watch

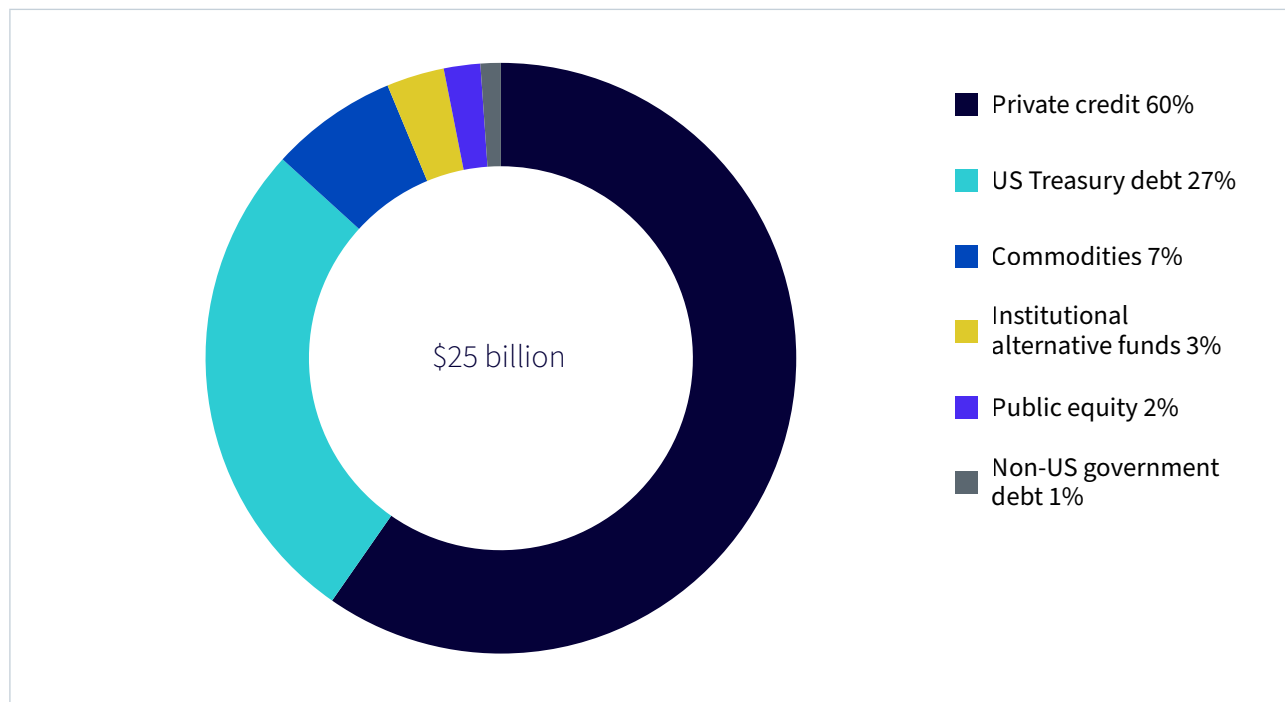
Against this backdrop of maturing market infrastructure and intensifying institutional interest, the next logical step is to understand the key forces that will define the industry's evolution. Several powerful secular themes are now crystallising, poised to direct capital flows and reshape investor engagement with digital assets over the coming months. These are not just cyclical opportunities. They reflect fundamental shifts in how crypto is embedding itself into the architecture of mainstream finance.

- + **Decentralised Finance (DeFi) 2.0:** The total value locked (TVL) has rebounded to nearly US \$135 billion, with Ethereum and Solana leading the charge.⁵² Institutional adoption is gathering pace through permissioned DeFi, featuring know-your-customer (KYC)-enabled liquidity pools and regulated counterparties. This is no longer an ideological experiment. This is the evolution of financial infrastructure.
- + **Real World Assets (RWAs):** tokenised securities and real-world assets have grown to US \$25 billion in value. Asset managers are actively experimenting with on-chain issuance, collateralisation, and secondary trading. Tokenisation is not just about efficiency — it unlocks composability. From bonds to treasuries, digital assets are bridging traditional finance (TradFi) and DeFi in programmable ways.

51 Artemis Terminal, WisdomTree, 23 July 2025. The total crypto market capitalisation of US \$4,050 billion is adjusted for stablecoins that represent US \$258 billion of the total crypto market capitalisation.

52 Coingecko, 23 July 2025.

Figure 34: Total RWA value



Source: rwa.xyz. 23 July 2025. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Jurisdictional clarity is rapidly becoming a strategic pillar in the institutionalisation of digital assets. In July 2025, the United States passed the GENIUS⁵³ Act, delivering long-anticipated regulatory certainty for stablecoins and signalling a broader commitment to integrating digital assets into the financial mainstream. Across the Atlantic, Europe has brought its Markets in Crypto Assets (MiCA) regime into effect, offering a harmonised regulatory framework that covers everything from stablecoins to service providers.

Meanwhile, markets such as Singapore, the United Arab Emirates (UAE), Switzerland, and the UK are positioning themselves as crypto-forward financial hubs. They are doing so not with lip service, but with action: implementing regulatory sandboxes, supporting robust custody and trading infrastructure, and creating regimes that facilitate crypto ETPs and institutional-grade on-ramps.

53 GENIUS = Guiding and Establishing National Innovation for US Stablecoins.

As regulatory clarity takes hold across key jurisdictions, certain blockchains are better positioned than others to benefit from the resulting institutional flows.

- + Ethereum stands to gain the most, given its dominant role in stablecoin issuance, DeFi infrastructure, and real-world asset tokenisation — all areas receiving regulatory endorsement through frameworks like the GENIUS Act and MiCA. Its mature ecosystem and alignment with compliance-ready solutions make it the go-to infrastructure layer for regulated activity.
- + XRP is another clear beneficiary, particularly in the realm of cross-border finance. Its enterprise integrations and regulatory clarity in the US following Ripple’s legal outcome position it well for financial institutions seeking compliant alternatives to SWIFT.
- + Solana, with its focus on consumer-facing applications and growing presence in compliant DeFi, may see a tailwind as jurisdictions embrace innovation sandboxes and experimentation with scalable, low-cost networks. Its potential lies at the intersection of regulated use cases and mass adoption.

In short, regulatory clarity is not just shifting capital — it is recalibrating which blockchains stand to lead the next institutional wave.

Conclusion

Digital assets are becoming more complex and fragmented, evolving well beyond the bitcoin-centric narratives of the past. While bitcoin continues to anchor macro-driven themes, such as inflation hedging and digital store of value, a more diverse and investible infrastructure layer is rapidly emerging. This new foundation includes DeFi, RWA tokenisation, and specialised blockchains tailored for enterprise and consumer applications. Ethereum, Solana, and XRP are already leading the charge in these verticals, catalysed by regulatory clarity and institutional interest.

We believe this next phase of growth will not follow a singular trajectory. It will be characterised by basket-driven exposure, sensitivity to evolving regulatory frameworks, and targeted themes such as tokenisation, cross-border payments, and compliant DeFi. For institutional allocators, navigating this complexity demands a disciplined approach. Indices such as CoinDesk 20 may offer a structured, scalable pathway into the space, distilling the investible universe into a curated basket of high-conviction assets.

Those who act early and decisively — aligning with regulation, identifying real utility, and embracing diversified exposure — are likely to be best positioned to capture the asymmetric upside embedded in crypto's institutional evolution.

For institutional allocators, navigating this complexity demands a disciplined approach.

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