Six conviction trades for 2025: seize the new market narrative

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Key Takeaways

- Value & Growth barbell: investing in US equities beyond mega-cap tech by blending high-quality growth with value strategies.
- Japan's renaissance: corporate reforms, strong earnings and a controlled yen gives exporters more room to grow.
- EM small caps: harnessing domestic-driven growth while protecting against tariffs or dollar strength.
- Cybersecurity surge: Continued corporate and government spending, heightened geopolitical risk, and the imperative to protect the AI revolution, brings cybersecurity to the forefront.
- Silver's upside: gold correlation, increased industrial use, and supply tightness all point towards silver.
- Crypto goes mainstream: growing institutional adoption transforms multi asset portfolios.

While developed economies have shifted to easing policies, opening the way for a broadening of the market away from technology mega stocks, the economic outlook remains uncertain. The violent reaction to DeepSeek's launch early in the year clearly highlights the nervousness of markets and their ultra concentration. In the first few weeks of the year, the Trump administration has also been implementing its agenda at breakneck speed, leading to heightened uncertainties around trade frictions, inflation dynamics, and geopolitical upheaval. In that context, it is important to rethink investment positionings that may have worked in 2024, acknowledging the potential for volatility and numerous changes of directions.

In this uncertain environment, WisdomTree's research team presents its six highest-conviction investment ideas for 2025.

1. Can the Magnificent Seven dominate for a third year in a row?

Few storylines have captured the investor imagination recently as much as the Magnificent Seven —a cohort of mega-cap technology stocks that propelled US equity benchmarks to remarkable gains. While these tech giants remain influential, we see scope for 2025 to become a year of 'broadening out'.

Macro rationale

- **Resilience in corporate fundamentals and earnings growth:** high quality growth stocks continue to be supported by strong fundamentals and growth could benefit from continued momentum after two years of domination.
- **Value resilience and broadening:** with uncertainty increasing around the Federal Reserve's (Fed) trajectory and inflationary pressures created by potential tariffs, value stocks may benefit and offer some diversification. Energy and Financials should also benefit from a wave of deregulation under the new Trump regime.
- **The case for a value/growth barbell strategy in US equities**: a barbell strategy between US large cap quality Growth and US large cap Value equities leverages complementary strengths to navigate 2025. This approach allows investors to:

    - Capitalise on the Value factor's extreme discount to Growth.
    - Enable investors to capture opportunities across market cycles.
    - Create a balance between growth potential and valuation-driven safety.

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2. Unlocking value in Japan

Japan's economic transformation story continues to gain traction as the country moves beyond four decades of stagnant nominal growth and sporadic deflationary episodes. While 2024 was the best year for Japanese equities since 1989, we believe that the Japanese renaissance still has further room to run.

Macro rationale

- **Resilience in corporate fundamentals and earnings growth:** high quality growth stocks continue to be supported by strong fundamentals and growth could benefit from continued momentum after two years of domination.
- **Favourable currency tailwinds:** the yen's multi-year weakness augments the competitiveness of Japanese exporters, fuelling strong earnings from overseas revenue. Stable core inflation (outside of food) and talks about bond purchases by the Bank of Japan (BOJ) indicate that the BOJ will prevent the yen from appreciating too much.
- **Earnings and tariffs:** Corporate earnings growth remains very strong after 2 years of improvement, and our analysis shows that the market is underreacting to those fundamentals. Furthermore, Japan may be able to secure a tariff carve-out from the US, leading to strengthening competitive positioning versus Europe and China.

3. A Trump card for emerging markets small caps

Emerging markets (EM) have struggled over the past decade, underweighted by many global investors and burned by repeated episodes of dollar strength, trade frictions, and slower growth in China. However, the narrative is a lot more positive going into 2025.

Macro rationale

- **An EM comeback:** with the Federal Reserve maintaining an accommodative stance on monetary policy, China unleashing coordinated fiscal and monetary stimulus, and a wave of EM sovereign ratings upgrades, tailwinds have been picking up strongly for emerging markets.
- **But some clouds remain on the horizon:** unfortunately, the Trump administration's focus on a strong dollar and tariffs could slow down the recovery.
- **EM smalls caps as the solution:** EM small caps typically derive a larger share of revenues from their home countries, insulating them somewhat from US tariffs or the dollar 's strength. In a scenario where the global trade outlook remains uncertain, these domestically oriented firms can thrive on internal consumer growth, as rising middle-class demographics in markets like India, Indonesia, and parts of Latin America continue to drive local consumer demand.

4. Cybersecurity at the crossroads of AI, geopolitical tensions, and quantum computing

The first few weeks of 2025 saw a resurgence of software stocks, with cybersecurity companies jumping in front of semiconductors or AI stocks. Continued corporate and government spending, as well as the imperative to protect the AI revolution, position cybersecurity for robust growth in 2025.

Macro rationale

- **AI's security gap:** rapid AI adoption brings higher data volumes and more software vulnerabilities, forcing enterprises to bolster their cyber defences. We expect a wave of spending on next-generation cloud solutions, zero-trust architecture, and quantum-proof encryption.
- **Elevated geopolitical risks:** heightened tensions—from continuing conflicts and new trade disputes—translate into more frequent state-sponsored cyber-attacks. This, in turn, drives increased defence budgets and corporate vigilance.
- **US deregulation:** since the US election, software companies have benefitted from deregulation expectations. Cybersecurity, cloud, and blockchain posted some of the strongest thematic gains in the first few weeks of the year.

5. Precious potential: silver's breakout moment

While gold often steals the headlines, silver has quietly staged a meaningful rally, underpinned by both safe-haven demand and its essential role in green technologies, such as solar photovoltaics. 2025 could be silver's 'catch-up' year.

Macro rationale

- **Haven meets industrial:** silver exhibits a unique duality—part precious metal and part industrial commodity. If risk aversion flares, silver typically follows gold upward. If global growth holds steady, silver benefits from manufacturing demand. Countries worldwide, led by China and the US, are rapidly expanding solar capacity. Newer solar cell technology requires even higher silver content, providing a price tailwind.
- **Gold correlation:** geopolitical tensions and looser monetary policy are offering gold new tailwinds, and silver will also benefit from the catch-up effect.
- **Limited supply growth:** silver's byproduct nature makes supply tight, as mining companies are not incentivised to expand production simply for silver alone. This supply-demand imbalance supports a more bullish price outlook.

6. Institutional adoption of digital assets is redefining multi-asset portfolios

After navigating a series of regulatory speed bumps, digital assets, led by bitcoin, have entered 2025 with growing mainstream acceptance. Key catalysts have included the expansion of physical bitcoin exchange-traded product (ETP) listings across major exchanges and the gradual emergence of regulatory frameworks that remove operational frictions. We believe most multi-asset portfolios remain structurally under-allocated to cryptocurrencies as a neutral position in digital assets (as illustrated by the market portfolio) should be around 1.5%.

Macro rationale

- **Portfolio diversification:** bitcoin's correlation to equities and bonds is low, providing a diversification benefit. Even small allocations have, historically, improved risk-adjusted returns.
- **Institutional inflows:** pension funds, endowments, and sovereign wealth funds are steadily warming to digital assets, pointing to a rising tide of flows. As coverage by mainstream analysts grows, digital assets are increasingly viewed through the lens of asset class fundamentals rather than speculation alone.
- **Technological leaps:** alongside bitcoin, developments in Ethereum scaling, stablecoins for global payments, and the tokenisation of real-world assets are reshaping how capital markets function. The resulting network effects may boost confidence in the broader crypto ecosystem.

Conclusion

In an environment that may reward conviction and flexibility, these six investment ideas offer distinct avenues to harness the opportunities emerging in 2025. Whether you seek cyclical upside, defensive yield, or secular growth themes, we believe these high-conviction calls exemplify WisdomTree's mission: delivering innovative, research-driven solutions in a world of constant change.

For WisdomTree's full Market Outlook, please click here.

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