The structural opportunity behind a volatile year for rare earths

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Key Takeaways

- Strategic metals and rare earths sit at the crossroads of the energy transition, defence and advanced technology, with demand set to grow for decades; the real contest is over who controls supply.
- China's decades-built dominance, concentrated in processing, now faces a well-funded Western policy response, a structural realignment a single volatile year does not undo.
- Rising hedge-fund short interest is concentrated in speculative single-name US plays, reinforcing the case for diversified, substance-weighted exposure over concentrated bets.

Few investment themes sit at the intersection of the energy transition, national security and technological change as directly as strategic metals and rare earths. Copper and lithium wire and power electric vehicles and electricity grids, rare-earth elements such as neodymium and dysprosium sit inside the permanent magnets that drive electric vehicle (EV) motors and wind turbines. Additionally, metals from tin and silver to germanium and antimony have become critical to defence systems and advanced electronics. Demand for these materials is expected to grow for decades. The question the market is really grappling with is not whether they matter, but who controls them.

For now, the answer is China, and not by accident. Three decades of patient industrial policy built the most significant critical materials position of the modern era, concentrated in the processing and refining steps that are hardest to replicate. What has changed is the Western response: the US, the EU and their allies have moved from strategy papers to law and budget, deploying capital to rebuild supply chains they can no longer take for granted. That collision, an entrenched incumbent against a well-funded, policy-driven challenge, is what makes this one of the more significant structural stories in markets today.

July’s correction is cyclical, the thesis is structural

The defining feature was a sharp reversal in rare earths. MP Materials in the US fell 26%, Australia’s Lynas declined 21%, and Chinese producers such as Shenghe Resources Holdings and Grinm Advanced Material Co fell 29% and 47% respectively[1]. That dragged China to the bottom of the country attribution, down 13.7% and the single largest detractor, with the US close behind on the same rare-earth miners. The offsets came from Indonesian nickel and tin producers (Vale Indonesia up 27%, Metals X Ltd up 21%, Pt

Timah Tbk up 16%[1]) and from a recovery in South African miners. By size, the mid-cap developers bore the brunt, falling 11%, while larger producers again held up best[1].

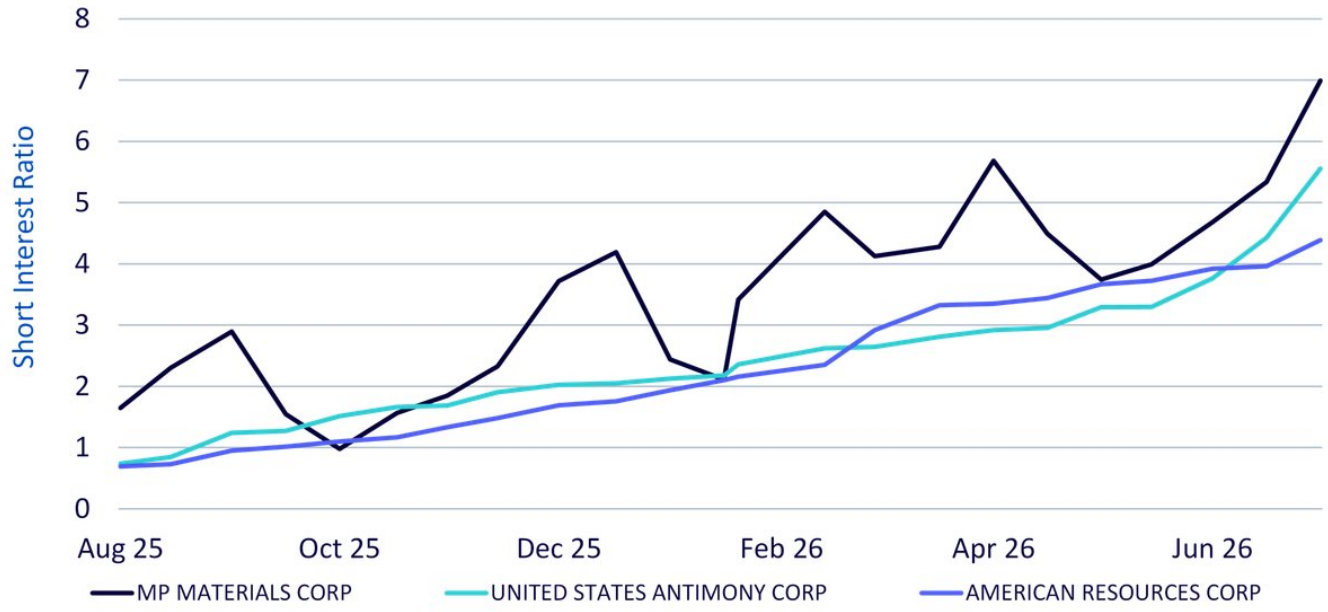
Rare earths sit at the centre of the structural case and at the centre of July's decline. The segment had re-rated powerfully in the wake of the export controls China introduced on heavy rare earths such as dysprosium and terbium in 2025, which turned export licensing into leverage and lifted credible ex-China producers positioned inside allied supply chains.

That policy backdrop tightened further in July, when China widened its control list again, adding 14 European entities. Yet the equities fell hard. The same mining equities that had led on the way up gave back a fifth to nearly a half of their value as momentum unwound and profit-taking set in. This does not alter the structural drivers: the EU's Critical Raw Materials Act and parallel US initiatives are still directing public capital into ex-China separation and magnet capacity, and China's grip on processing is unchanged. The same three decades of patient industrial policy that built China's grip on critical materials are now the very thing driving Western governments to spend, legislate and, increasingly, co-invest their way out of that dependency. Corrections in a theme this policy-driven tend to shake out momentum rather than the underlying thesis.

The short sellers have a point about single stocks

Hedge funds have raised short positions this year against several US-listed critical minerals names such as MP Materials, US Antimony and American Resources, on the view that Washington's support, however sizeable, will take years to loosen China's grip and may not be sufficient on its own. Short interest in US Antimony has climbed from roughly a quarter to more than 40% of its market value this year, while bets against American Resources, which generated no revenue last year, have risen from under 10% to more than a fifth of its shares[2].

Figure 1: Short Interest in US government-backed companies



Source: Bloomberg Finance L.P., WisdomTree as of 15 July 2026. **Historical performance is not an indication of future results and any investments may go down in value.**

The scepticism rests on two points. First, several of these stocks tripled in 2025 on government equity stakes, loans and offtake contracts. They drew a wave of retail money, leaving valuations that critics argue were driven more by policy headlines than by fundamentals. Second, and more structurally, a report from SAFE's Centre for Critical Minerals Strategy contends that the binding constraint for the West is money rather than geology. A shortfall in public financing, set against mines and processing plants that are capital-intensive and can take a decade or more to build, while China retains the capacity to reset prices by releasing supply once rivals' scale. The recent addition of MP Materials and USA Rare Earth to China's export-control list is a reminder that Beijing still holds levers over both supply and sentiment.

In our view, none of this weakens the structural case, it sharpens it. The bear argument is overwhelmingly about concentration in a handful of speculative, often pre-revenue or single-commodity US plays, not about the demand for strategic metals or the direction of policy. It is, in effect, an argument for exposure that is spread across the value chain and weighted by economic substance rather than by headline.

[1] Source: Bloomberg from 1 July 2026 to 31 July 2026.
[2] Source: Financial Times as of 30 July 2026.

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