

September 2026

WisdomTree Market Outlook: Investing in Structural Change

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Commodity Outlook: The baton never drops, but who carries it keeps changing

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Think of the commodity market in 2026 as a relay race, and a chaotic one at that. Precious metals sprinted out of the blocks first, with gold and silver reaching record highs. The Iran conflict then shocked oil prices, depleted inventories, and sent geopolitical risk premiums surging. Then metals picked up the baton, as AI build-outs and defence budgets collided with structurally constrained supply. Then agriculture reached out its hand, with El Niño returning to a food system already weakened by fertiliser disruptions. The runners have changed. But the race has not stopped. And crucially, nobody can tell you with certainty who will run the final leg.

In this outlook, we explore seven themes that we believe will shape the race: from the lasting consequences of the Iran conflict and the US midterms to the structural metals demand driven by electrification, AI, and defence, and to the food system risks quietly building in the background. Taken together, they make a compelling case for staying broadly invested across the commodity complex.

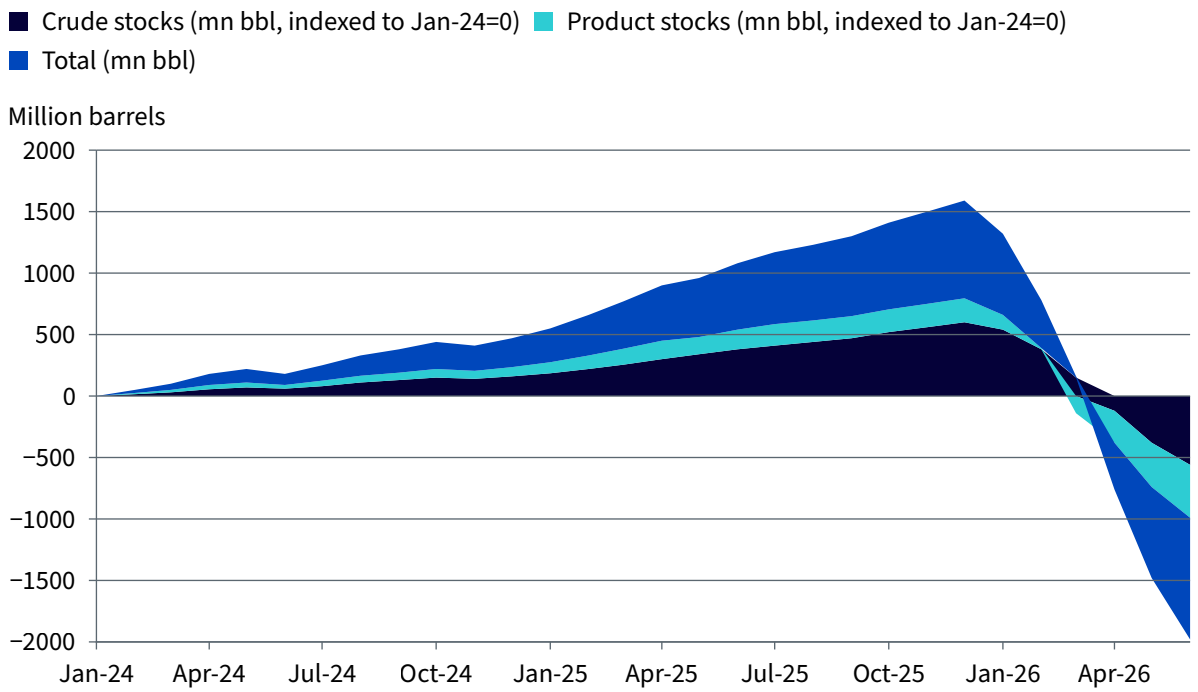
Geopolitics: The Iran conflict and the repricing of chokepoint risk

The defining macro event of the first half of 2026 was the outbreak of war between the US and Iran. The conflict disrupted maritime traffic through the Strait of Hormuz, the world's most important energy chokepoint, and damaged regional infrastructure, including a major liquefied natural gas (LNG) facility in Qatar whose output may take years to restore.

The energy market consequences were immediate. Crude oil prices approximately doubled year on year at the peak of the disruption, while refined products tightened even more sharply, with the US gasoline crack spread topping US$53/barrel in early July 2026, its highest level since the 2022 Russia–Ukraine energy shock, driven by product supply lagging the recovery in crude shipments through the Strait. Our previous outlook argued that oil entered 2026 well buffered by the substantial inventories accumulated during 2025. That buffer performed precisely the role we anticipated, absorbing the initial shock, but it has been heavily depleted: estimates point to a cumulative drawdown approaching 2bn barrels of crude and product stocks. The market's shock absorbers are therefore thinner than at any point in recent years, leaving prices more sensitive to any renewed disruption.

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Figure 1: Global crude oil and refined product inventories



Source: WisdomTree, International Energy Agency, Bloomberg. January 2024 to June 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The Strait of Hormuz matters well beyond hydrocarbons. Roughly one-fifth of global oil and LNG trade transits the strait, but so does close to one-third of globally traded fertiliser, including an estimated 23% of ammonia, 34% of urea, and 20% of phosphate. Fertiliser prices have already shown how quickly this can swing: benchmark urea roughly doubled in the weeks after the conflict began, then gave back the entire move by early June as shipping resumed. This volatility, rather than any single price level, is the point. Crop prices have lagged behind input costs, widening the gap between the two since the conflict began. Should fertiliser costs rise again, whether from renewed disruption, seasonal demand, or the El Niño-related yield risks discussed later, growers may be less able to absorb the increase than recent, contained agricultural price action would suggest, leaving food inflation a live risk into 2027.

The shock also propagated across the wider commodity complex. Gold initially sold off as investors liquidated their most liquid holdings to meet funding needs, before geopolitical premiums reasserted themselves. Power-intensive metals such as aluminium faced higher energy input costs, while freight and insurance rates rose across key shipping lanes.



Looking forward, the memorandum of understanding between the US and Iran has allowed markets to price a gradual normalisation of maritime traffic through the strait. Yet we would caution against treating the episode as fully resolved, given the re-escalation in July and the enduring lack of peace. Depleted inventories, reduced spare refining capacity, and heightened sensitivity to headline risk argue for a structurally higher geopolitical risk premium across energy markets.

More broadly, the conflict has accelerated the global push towards energy security, supporting long-duration investment in oilfield services, nuclear and renewable generation, and the critical minerals that underpin them. Geopolitical fragmentation is proving structurally inflationary, and structurally supportive of hard assets.

US midterms: Soaring bills, structural forces, and the pressure on policy

In the US, residential electricity costs have risen 40% since 2021, and residential gas prices roughly 40% since 2019, both outpacing inflation by a wide margin. With 80 million Americans struggling to pay utility bills,[1] energy affordability is expected to increasingly weigh on policy regardless of who controls Congress after November.

What is on the agenda from policymakers may inevitably affect commodity markets. A Republican Congress would likely favour natural gas production. A Democratic majority would ease some of the headwinds facing renewables, including rollbacks to IRA tax credits[2] and new permitting restrictions on onshore wind and solar, which the current administration has aggressively pursued. With bipartisan support for nuclear energy, uranium sits comfortably above the political fray.

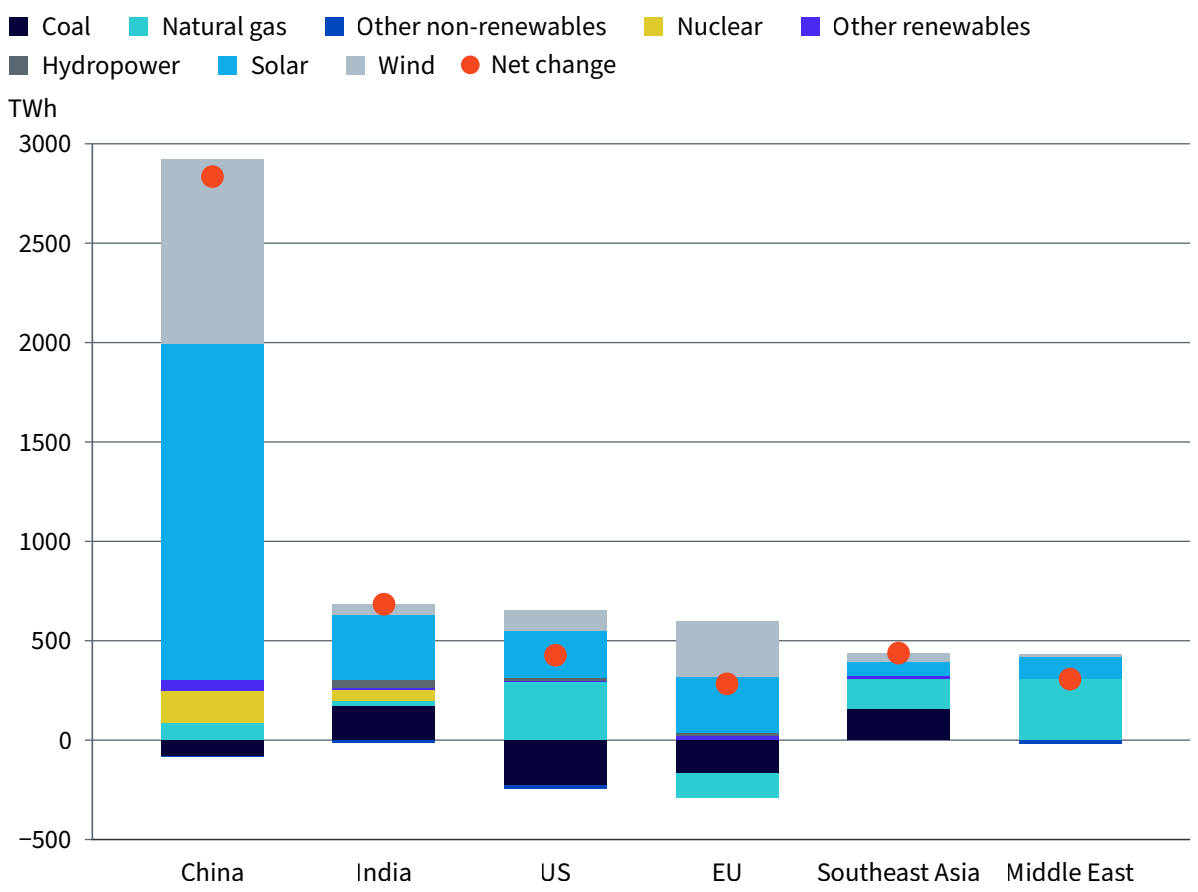
Sometimes investors also anticipate post-election certainty, which can give risk assets a broader lift. The S&P 500 has gained an average of 16.6% in the 12 months following midterm elections going back to the 1950s, according to BNY Investments.[3] Commodity markets, however, are a different story and our own analysis of the Bloomberg Commodity Index (BCOM), albeit limited to its inception in 1998, shows no consistent pattern following midterms. For this reason, it is more helpful to focus on the structural story rather than guessing political outcomes and policies.

1 Powerlines report, 'Utility Bills are Rising', sourced July 2026. Reports - PowerLines

2 Inflation Reduction Act.

3 BNY Mellon, May 2026. How Do Midterm Elections Impact Markets Over Time? | BNY Investments

Figure 2: Natural gas and renewable energy are expected to play notable roles in US electricity addition



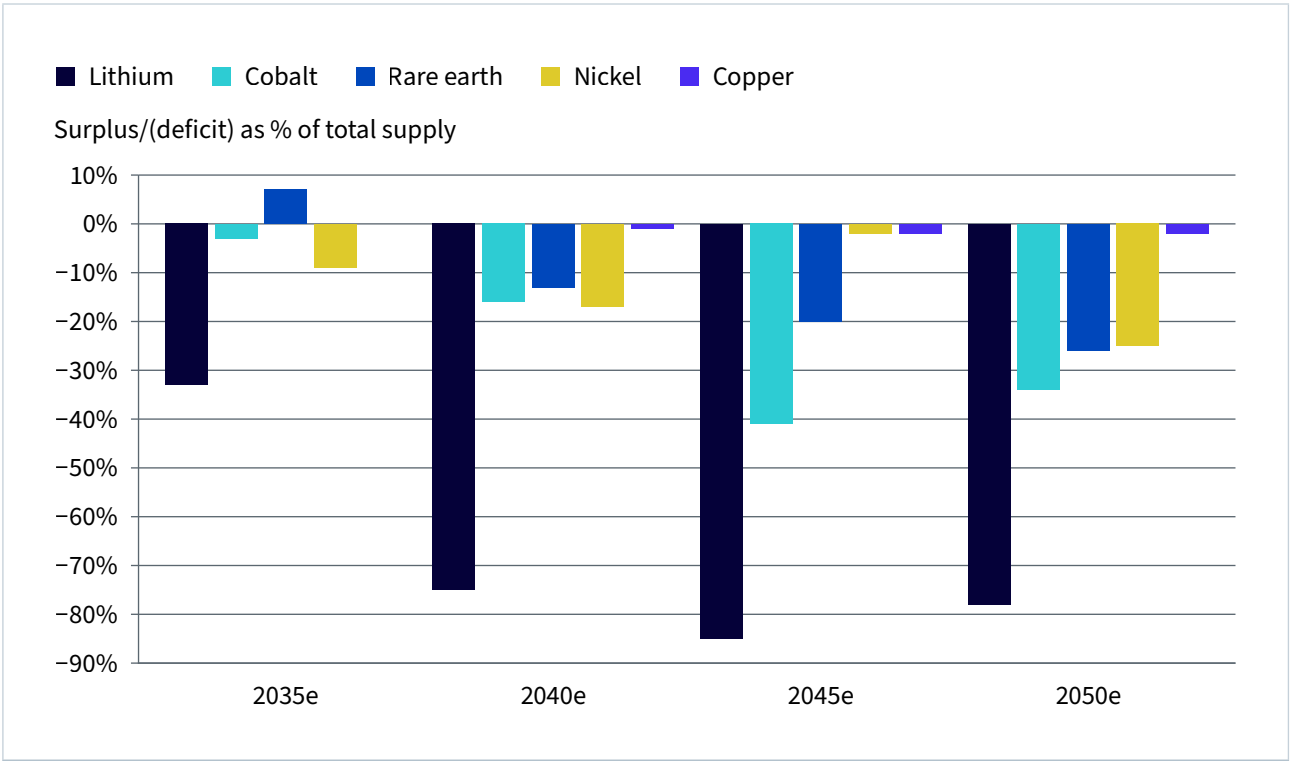
Source: IEA (2026), Change in electricity generation by source in selected regions, 2025-2030, IEA, Paris https://www.iea.org/data-and-statistics/charts/change-in-electricity-generation-by-source-in-selected-regions-2025-2030, Licence: CC BY 4.0. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

On the structural front, the International Energy Agency (IEA) expects renewables to grow globally at roughly 8% annually through 2030, even after accounting for the current US administration's policy headwinds. With energy bills continuing to rise for US consumers and geopolitical shocks constantly rattling fossil fuel prices, the case for renewables, which are largely insulated from both, is expected to strengthen. Our view is that policy will eventually have to make way for renewables, or at least, will not be able to stand in the way of their growth.

Strategic autonomy: The West's push to build its own strategic metals supply chains

Based on estimates from Wood Mackenzie and Morgan Stanley, many commodities with strategic importance due to their role in energy, infrastructure, AI, defence, and more are expected to not just be undersupplied, but be in deep deficits in the years to come. Lithium, for example, could face an 85% supply deficit by 2045, while cobalt is heading towards a 41% deficit. Both metals are critical for battery storage. Rare earths, nickel, and copper all follow the same direction. These are, arguably, structural chasms rather than marginal shortfalls.

Figure 3: Many strategic metals are expected to face deep supply deficits



Source: Wood Mackenzie, Morgan Stanley Research estimates, May 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

What makes this even more acute is where the supply chain currently sits. China dominates the processing and refining of every one of these metals, controlling around 87% of rare earth separation, 73% of lithium processing, 61% of nickel refining, and 47% of copper smelting.[4] For the West, the deficits also point to a dependency problem.

But governments are responding and doing so even more aggressively than the market has historically expected. In a recent WisdomTree blog post, we highlight how governments are increasingly becoming participants, not just regulators, in these markets. The US is taking equity stakes in critical mineral producers, with the Pentagon committing around $400 million

4 Morgan Stanley, Wood Mackenzie, 2025.

in preferred equity to MP Materials in 2025.[5] The US Department of War committed $35.6 million to Trilogy Metals' Alaskan mining projects in October 2025, targeting domestic production of copper, cobalt, zinc, silver, and germanium from one of the world's most prospective copper districts.[6] The European Union (EU), under its Critical Raw Materials Act, has designated 47 strategic projects[7] and backed them with €2 billion in European Investment Bank financing in 2025.[8] Japan has signed a long-term supply agreement with Lynas, an Australian producer of rare earths, through 2038, with a floor price for rare earths built in. We expect this trend to gather further pace in the coming months.

The other dimension of strategic autonomy, especially under the current US administration, concerns tariffs. The copper tariff story is where this has been playing out most visibly. When Trump imposed 50% tariffs on semi-finished copper that took effect in August 2025, traders aggressively stockpiled ahead of this, resulting in a sharp increase in COMEX inventories and a substantial premium in COMEX prices over the London Metal Exchange (LME). But when those tariffs on refined copper did not materialise, COMEX prices collapsed, creating a perfect example of policy whiplash in commodity markets. The tariff saga is not over yet. A further Commerce Department review on refined copper tariffs, potentially introducing duties of 15% from 2027 rising to 30% by 2028, has already triggered a second round of stockpiling. Copper has become the clearest example of how trade policy can reshape physical commodity markets almost overnight. Whether or not refined copper tariffs ultimately land, an ever-present risk of tariff-induced volatility is something investors will need to contend with at least for the foreseeable future.

Copper has become the clearest example of how trade policy can reshape physical commodity markets almost overnight.

Inflation: Energy, AI, and the case for gold

The energy shock has fed rapidly into headline inflation and, more importantly, into inflation expectations. US personal consumption expenditures inflation reached close to 3.9% in Q2 2026, while Eurozone core inflation is re-accelerating. Monetary policy has pivoted accordingly: the Fed, under new leadership, has removed forward guidance, with roughly half of Federal Open Market Committee participants now projecting at least one rate rise, and the European Central Bank raised rates in June, reversing part of its 2025 easing.

AI complicates the picture in both directions. Productivity gains from the technology are beginning to materialise and should prove disinflationary over the medium term. Near term,

5 CNBC, July 2025.

6 Trilogy Metals, October 2025.

7 European Commission, March 2025. Commission selects 47 Strategic Projects to secure and diversify access to raw materials in the EU

8 European Investment Bank, March 2025. EIB steps up financing for European security and defence and critical raw materials

however, the build-out is itself a source of price pressure: data centres are absorbing scarce electricity, grid equipment, and skilled labour, with transformer lead times extending beyond two years in the US. In our view, AI is inflationary before it is disinflationary. While US inflation is expected to moderate towards 2.2% by mid-2027 as energy markets normalise, the floor under inflation is likely higher than in the past decade.

This debate frames the outlook for gold. Gold reached a record intraday high of $5,595/oz[9] in January 2026 before correcting sharply, finishing the first half of 2026 below where it started the year. Three forces drove the reversal: the nomination of a new Federal Reserve Chair restored confidence in monetary policy independence, unwinding part of gold's political risk premium; the outbreak of the Iran conflict initially triggered liquidity-driven selling as gold was used as a source of cash; and buying from the new structural cohort, including Chinese insurance-linked flows, Indian pension allocations, and stablecoin-backed reserves, moderated notably.

We view the correction as a healthy reset rather than the end of the structural bull market. The valuation premium that characterised the 2025–26 rally has largely unwound, leaving gold trading close to our estimate of fair value and returning it to a macro-driven story. Applying consensus forecasts for inflation, Treasury yields, and the US dollar to our valuation model implies a gold price of approximately US$4,563/oz by Q2 2027.[10]

Global electrification: The structural case for metals and its continued strengthening

Exhibit 1: Have you seen one of these lately?



Source: Adobe Stock. Pictures of a handheld fan (left) and a neck fan (right).

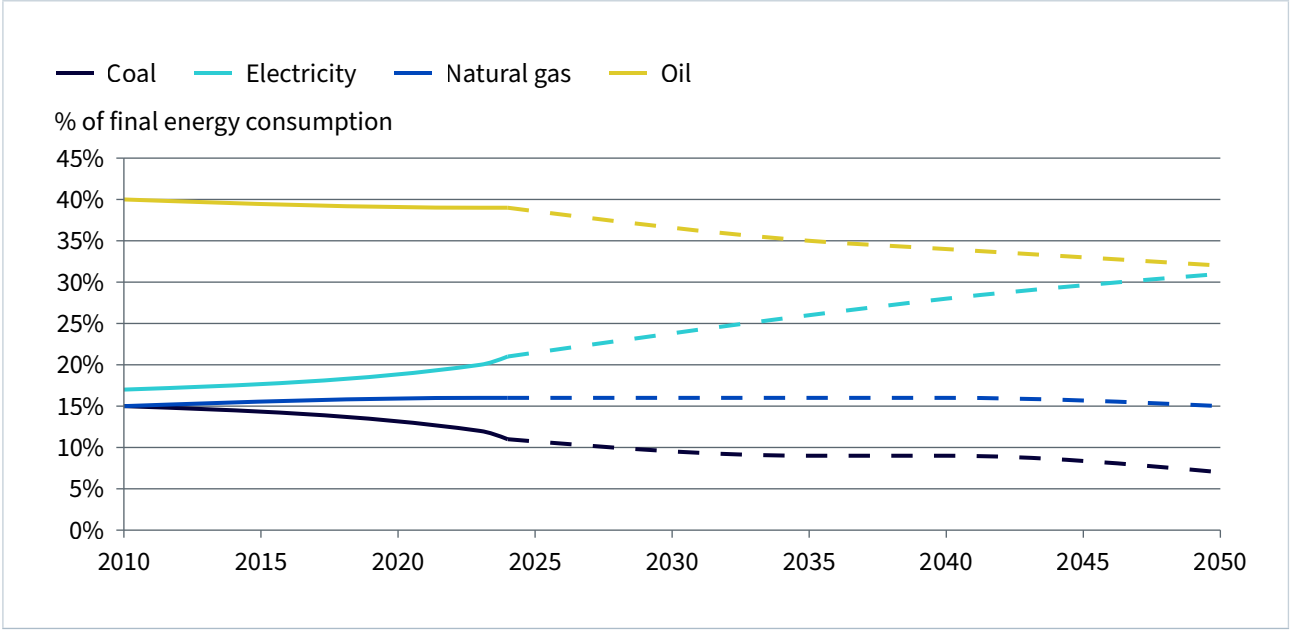
9 Gold price as of 29 January 2026, World Gold Council.

10 WisdomTree Gold Outlook, July 2026, Gold Outlook to Q2 2027

Chances are, when taking public transport this summer, you spotted someone holding a small handheld fan, or even a neck cooler, which at first glance looks just like a pair of headphones. The record-breaking heat across many different parts of the world certainly helped sales, but these gadgets also illustrate a broader trend: everything seems to have a rechargeable battery these days.

Electricity accounted for 21% of global final energy consumption in 2025. Final energy refers to the energy delivered directly to end users. Electricity's share is expected to continue to rise as more sectors become electrified.

Figure 4: Electricity use is expected to rise

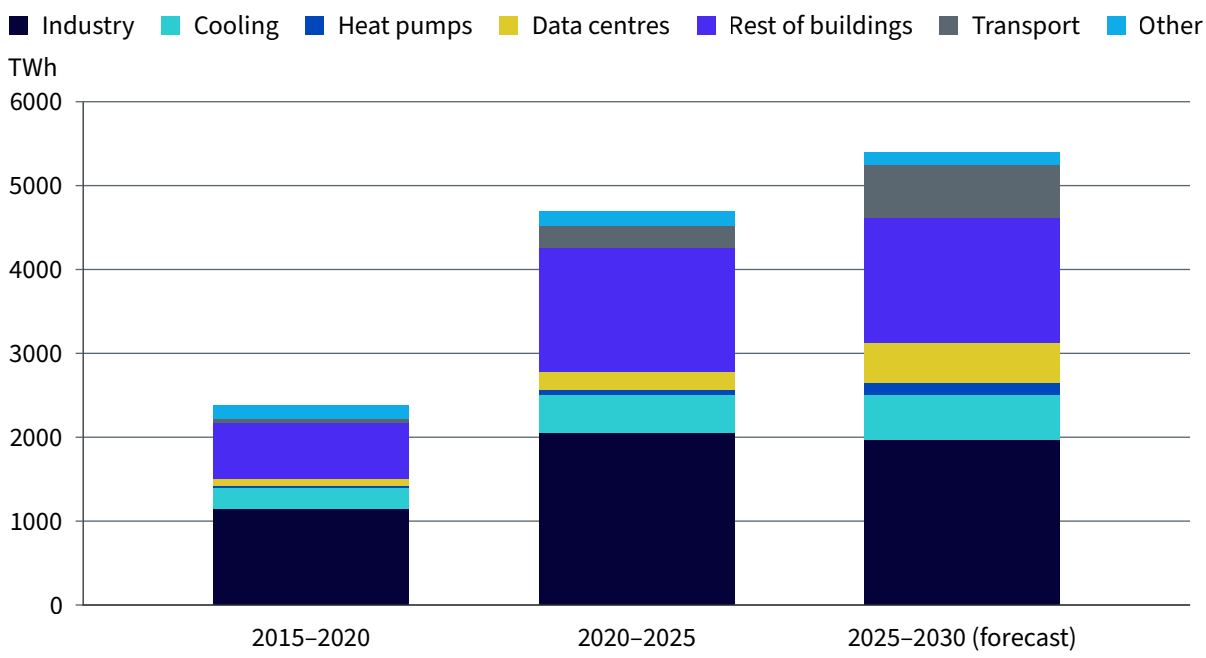


Source: IEA World Energy Outlook 2025. Stated Policy Scenario. **Historical performance is not an indication of future performance, and any investments may go down in value. Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Electricity demand is expected to outpace economic growth

A key implication is that electricity demand is expected to grow faster than the global economy. Historically, electricity consumption broadly tracked economic activity, except during recessions. This relationship is changing as structural drivers, rather than economic growth alone, increasingly determine electricity demand.

Figure 5: Buildings (cooling, heat pumps, data centres) are expected to see the biggest demand growth for electricity



Source: IEA Electricity 2026. **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.**

Buildings, including air conditioning, heat pumps, and data centres, are expected to account for the largest share of additional electricity demand over the next five years. Transport is another important contributor as electric vehicle adoption continues to rise. Together, these trends point to a broad-based increase in electricity demand across both traditional and emerging sectors.

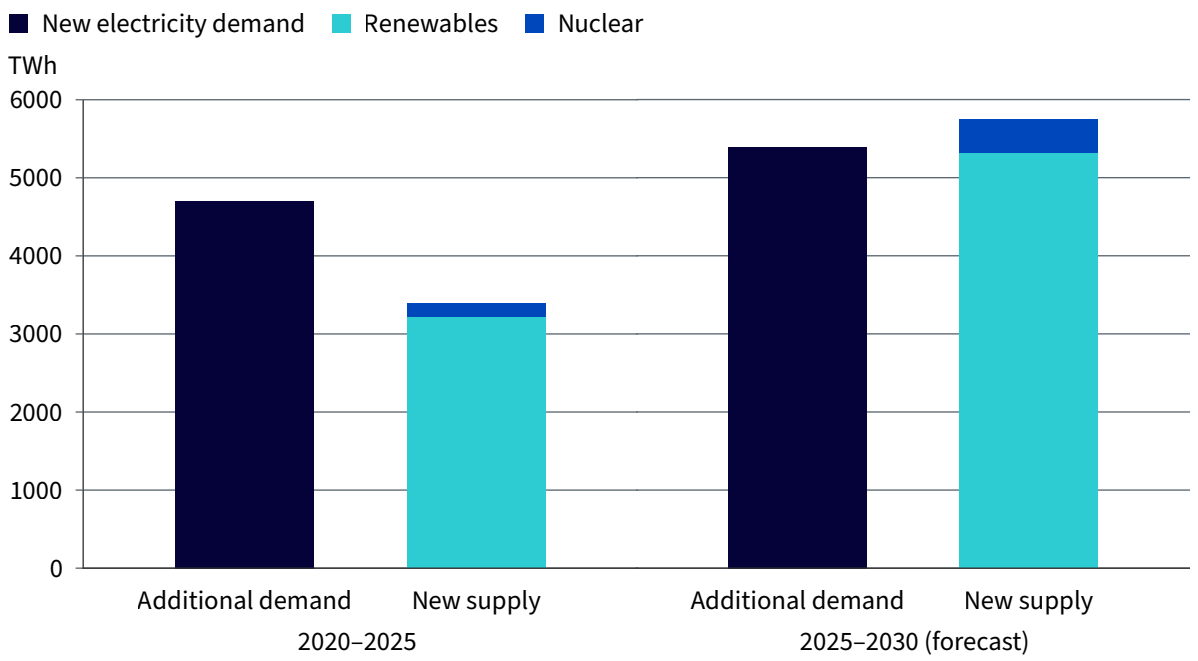
China remains the engine of electrification

The IEA expects China to account for almost half of global electricity demand growth through 2030, with rising electric vehicle adoption, expanding manufacturing capacity and continued policy support for electrification. Between 2025 and 2030, China alone is expected to add around 2,600 TWh of electricity demand, roughly equivalent to the EU's current annual electricity consumption.

Low-emission power is expected to drive the next phase of electrification

Rising electricity demand does not necessarily imply higher fossil fuel consumption. The majority of additional electricity generation is expected to come from renewables and nuclear power, as shown in Figure 6. In other words, the world is expected to meet rising electricity demand primarily through renewables and nuclear power.

Figure 6: Low emission sources are expected to meet a growing share of new electricity demand



Source: IEA Electricity 2026. **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.**

This shift has important implications for commodity markets. Electrification, supported by renewable energy, requires substantial investment in electricity grids, battery storage, and charging infrastructure. Together, these technologies are considerably more metal-intensive than conventional energy systems.

Electrification is expected to fuel demand for metals

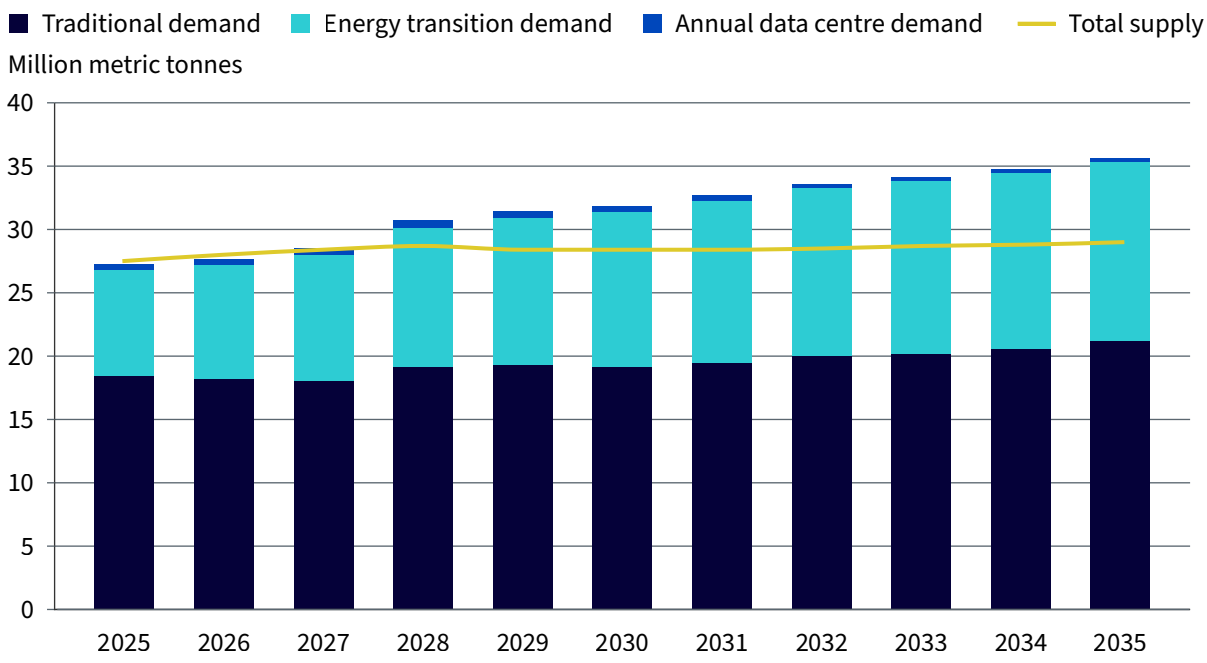
Copper sits at the heart of electrification, underpinning electricity grids, renewable energy, electric vehicles, battery storage, and building electrification. Aluminium should also benefit from expanding transmission networks, where its low weight and good conductivity make it an attractive alternative for power lines, while demand from electric vehicles and solar installations continues to grow. Hence, these metals are likely to enjoy structural demand support well beyond the traditional business cycle.

These metals are likely to enjoy structural demand support well beyond the traditional business cycle.

AI and defence demand: Strategic metals and the prospect of tightening supply

According to the IEA, electricity consumption from data centres is set to double by 2030.[11] BloombergNEF forecasts average annual copper demand from data centres of around 400,000 metric tonnes between 2025 and 2035. At current prices, copper alone accounts for around 6% of a data centre's total capital expenditure. That demand is arriving just as the market faces a potential supply deficit of 6 million tonnes by 2035.[12] For an already constrained metal, this pull is certainly forceful.

Figure 7: Copper supply is expected to become increasingly tight with data centres adding to the pressure



Source: BloombergNEF, Tracking Copper in Data Centers 2025–2035, August 2025. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Defence is pulling just as hard. Global military spending hit $2.9 trillion in 2025, an eleventh consecutive annual record according to SIPRI, driven by European rearmament and Asian military expansion.[13] More defence spending means more things are being built which require strategic metals. For example, every F-35 fighter jet contains more than 400 kilograms rare earth elements.[14] Neodymium and praseodymium are used for flight control motors, dysprosium and terbium to keep magnets stable at combat temperatures, samarium in guidance systems,

11 IEA, April 2026

12 BloombergNEF, Tracking Copper in Data Centres 2025-2035: Supply Crunch, August 2025.

13 Stockholm International Peace Research Institute, April 2026.

14 Admas Intel, 2026.

and europium in cockpit displays. These are structural requirements which simply cannot be substituted.

Strategic metals sit at the heart of the overlap between AI and defence. Copper wires are used in both data centres and radar systems. Aluminium is used in both server infrastructure and fighter jet airframes. Silver's conductivity makes it essential in both semiconductor contacts and infrared weapons optics. Lithium sits at the intersection of grid storage for AI power as well as military vehicle electrification. Uranium powers both baseload energy for data centres and nuclear submarines.

With investment continuing to pour into AI and defence sectors, we expect demand projections will continue to be revised for underlying commodities. And with metals already facing supply constraints, this incremental demand is expected to create a meaningful pull on the overall picture.

Figure 8: Key uses for select strategic metals in AI and defence applications

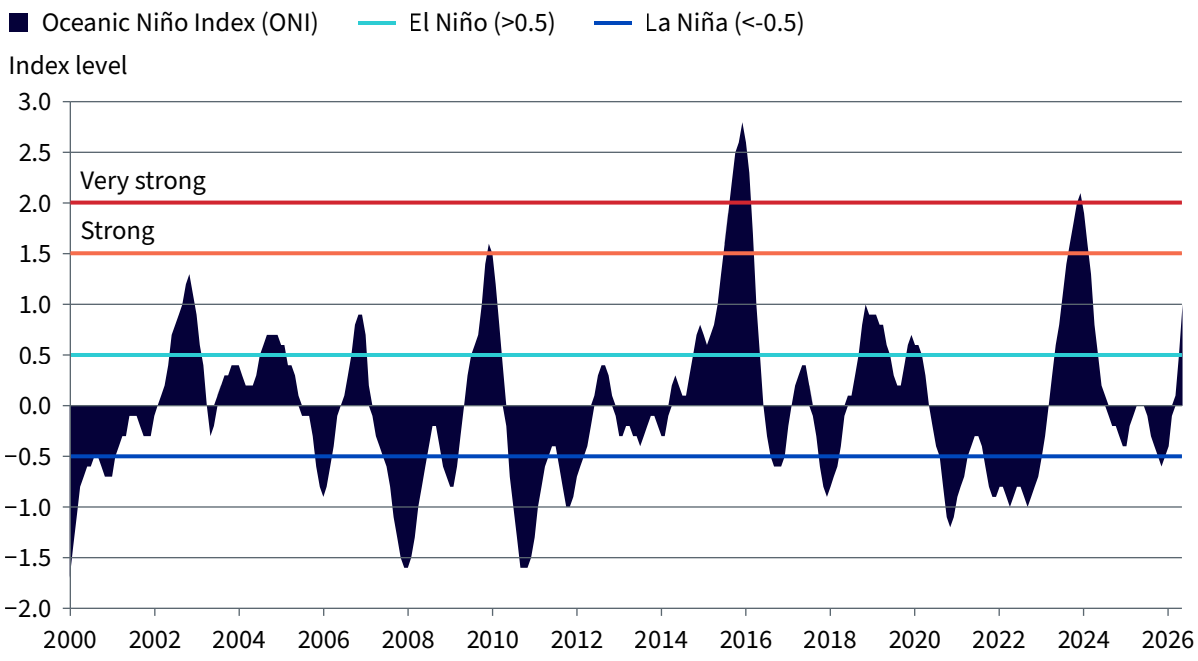
Metal	AI demand	Defence demand
Copper	Data centre wiring, cooling, and grid infrastructure	Radar systems, naval wiring, missile guidance
Rare earths	Motors and magnets in data centre cooling and robotics	Flight control, precision munitions, drone motors
Uranium	Nuclear baseload power for hyperscaler data centres	Energy security for military grid infrastructure
Aluminium	Server chassis and heat management in data centres	Fighter jet airframes, armoured vehicles, naval structures
Lithium	Grid storage balancing power supply for data centres	Military vehicle electrification and soldier batteries
Silver	Semiconductor contacts and solar panels for data centres	Infrared optics and electronics in weapons systems
Nickel	Battery cathodes for grid-scale storage	Superalloys in jet engines and naval platforms
Cobalt	High-performance batteries for data centre backup power	Aerospace engine superalloys and military UAV batteries

Source: WisdomTree, 2026. UAV is an unmanned aerial vehicle.

Weather: El Niño's return and the strain on an already fragile food system

The National Oceanic and Atmospheric Administration (NOAA) has confirmed the return of El Niño, and the signal is strengthening. The Oceanic Niño Index, the three-month running average of sea surface temperatures in the east-central Pacific, is trending towards a strong event, and NOAA assigns a 63% probability of a very strong episode.

Figure 9: The Oceanic Niño Index (ONI)



Source: NOAA Climate Prediction Center, WisdomTree as of 31 May 2026. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Crucially, the most acute agricultural effects tend to lag behind the event's peak by 6 to 12 months, meaning the pressure on crop cycles and food prices is still building and is likely to extend well into 2027.

Two features distinguish this episode from its predecessors. First, it is unfolding against the warmest baseline on record, which accelerates soil moisture loss and pushes crops into water-deficit conditions earlier in the growth cycle. Second, it arrives with fertiliser supply chains already weakened by the Strait of Hormuz disruption, leaving global food production unusually fragile.

The geography of exposure is uneven. South and Southeast Asia carry the heaviest risk, as weaker monsoon rainfall threatens rice, sugar, and coffee, with the possibility that supply stress revives export restrictions. Australia's planted wheat area is expected to fall sharply, with production potentially down around 9 million tonnes in 2026/27, a significant loss from a major exporter in an already tightening market. In West Africa, cocoa arrivals at Ivorian ports are running 18% ahead of last year, but above-average rainfall raises flooding and disease risks for the mid-crop and, as a perennial tree crop, cocoa cannot replant its way out of a poor season. Argentina and the Southern United States are the principal beneficiaries of wetter conditions, providing partial, but incomplete, offsets.

Figure 10: The impact of El Niño across regions and commodities

Region	Typical El Niño impact	Commodity exposure	Impact on growing conditions	Price impact
South & Southeast Asia	Hotter and drier conditions; weaker monsoons	Rice, Sugar, Palm Oil, Coffee	Negative	▲ Positive
Australia	Drier and hotter weather	Wheat, Livestock, Sugar	Negative	▲ Positive
Southern Africa	Drought	Livestock, Maize	Negative	▲ Positive
West Africa	Variable rainfall; heat stress	Cocoa, Coffee	Negative	▲ Positive
Argentina	Wetter growing conditions	Soybeans, Corn, Wheat	Positive	▼ Negative
North America	Wetter conditions in the south; milder winter in the north	Grains and Oilseeds	Mixed	▼ Negative
Europe	Typically, near to slightly wetter	Wheat	Small/indirect impact	● Neutral

Source: WisdomTree as of 30 June 2026.

Soft commodities have historically shown the greatest sensitivity: every strong El Niño of the past 55 years has reduced global cocoa production, and cotton, coffee, and sugar have repeatedly reached multi-year highs during such episodes. With broad agricultural prices still well below their 2022 peak, we believe the distribution of outcomes has shifted, with upside price surprises now more likely than downside ones across several key soft commodities, and these risks are not yet fully priced.

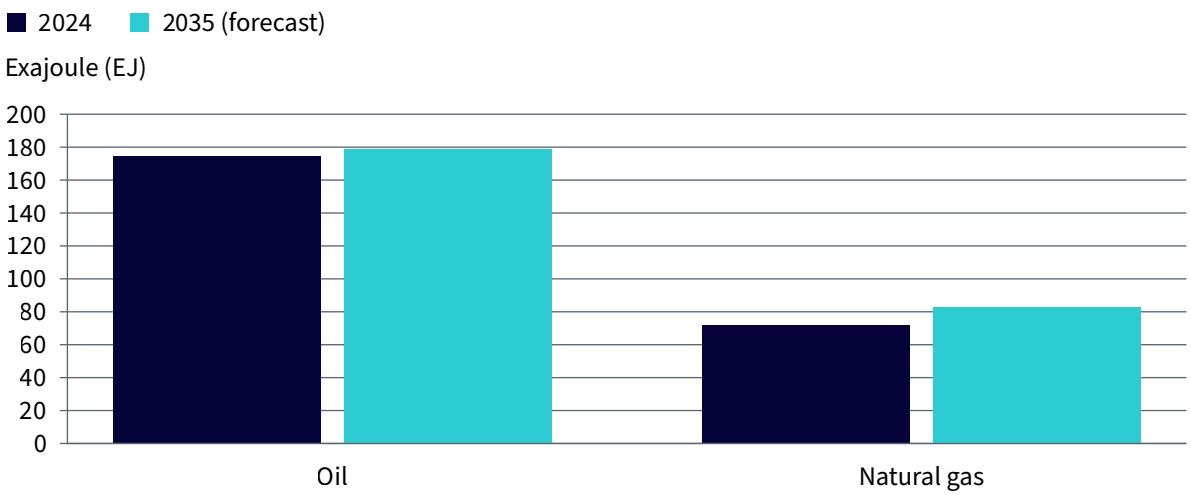
Broad commodities: A renewed case for a strategic commodity allocation

The world is gradually turning away from fossil fuels. Electrification and the pursuit of energy security are both accelerating that transition.

But while our outlook emphasises low-emission energy, sourced as independently as possible, fossil fuels are unlikely to disappear any time soon (Figure 10). In 2025, oil accounted for around one third of global energy supply,[15] and with energy demand continuing to rise, it is difficult to imagine oil-derived energy being phased out quickly.

15 Source: Energy Institute, Statistical Review of World Energy 2026 (75th edition).

Figure 11: Fossil fuels are expected to remain central to the global energy supply (forecast made before the Iran war))



Source: IEA World Energy Outlook 2025. Stated Policy Scenario. **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.**

Despite the accelerated adoption of renewables following the effective closure of the Strait of Hormuz, fossil fuels remain a key determinant of input costs across transport, heating, and chemicals. While their share of energy consumption will gradually decline, oil supply shocks still have the potential to drive global inflation.

Reflecting today's economy, investable commodity baskets diversify across fossil fuels (oil, natural gas), renewable energy (industrial metals such as copper and precious metals such as silver), and biofuels (agricultural commodities such as corn and sugar).

Even outside of energy, higher industrial metal prices feed through to construction costs, while higher grain prices caused by adverse weather are felt at the supermarket.

Thus, preserving purchasing power requires a broad basket of commodities that reflects today's economy.

Better indices strengthen the case for strategic commodity allocation

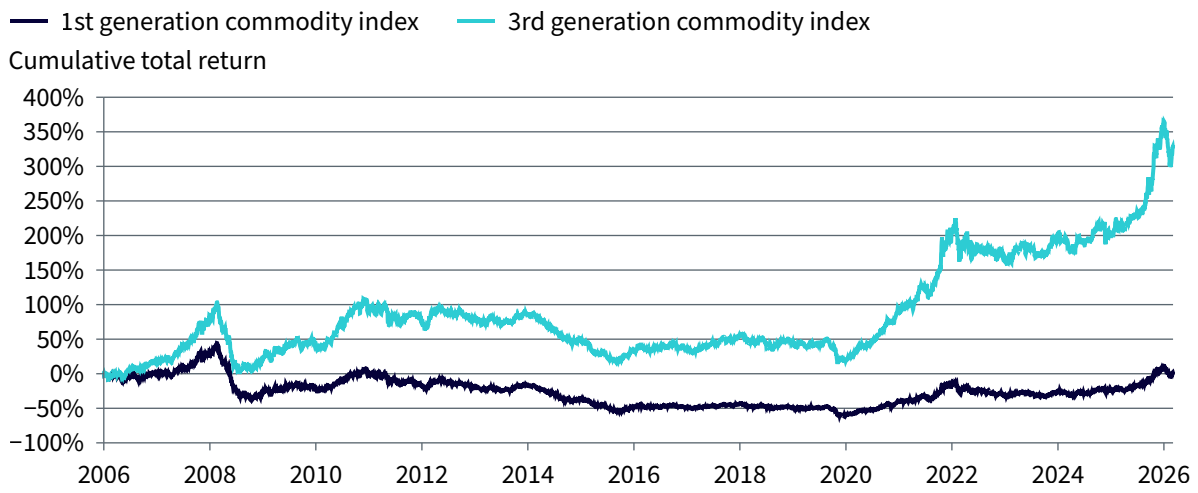
A widely held view is that commodities, as an asset class, offer low expected returns over the long run. Since 2006, the most widely used commodity benchmark has returned 2.7%, compared with the S&P 500's 746% total return over the same period.[16] Consequently, commodities have often ranked low in the strategic asset allocation literature.

16 Bloomberg Finance L.P. from 15 May 2006 to 17 July 2026, based on the total return version of the Bloomberg Commodity Index as well as the S&P 500 Index in USD. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

However, traditional commodity benchmarks were not designed to maximise long-term returns. Instead, they simply hold the nearest liquid futures contract for each commodity and weight constituents according to market liquidity and production.

Since then, commodity indices have continued to evolve, incorporating signals such as market tightening and price momentum to improve long-term outcomes (Figure 12).

Figure 12: Third-generation indices strengthen the case for strategic commodity allocation



Source: Bloomberg Finance L.P. from 15 May 2006 to 17 July 2026, based on the total return version of the Bloomberg Commodity Index (1st generation) as well as the WisdomTree Enhanced Commodity Index (3rd generation) in USD. The timeseries includes backtested data. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

Hence, whereas first generation indices returned 2.7% since 2006, a third-generation index would have returned 330.8%.[17] If commodity baskets can deliver stronger long-term returns than previously thought, perhaps they deserve a larger role in strategic asset allocation.

Conclusion

In a relay race, you do not win by betting on one runner. You win by fielding a complete team. The themes in this outlook pull in different directions: energy reprices, metals tighten, soft commodities face weather stress, and policy constantly shifts sentiment towards safe havens. But the common thread is that scarcity, fragmentation, and structural demand are not going away. For investors, broad commodity exposure is a way to hedge against many risks. It is also a way to stay in the race, no matter which leg is being run.

17 Bloomberg Finance L.P. from 15 May 2006 to 17 July 2026, based on the total return version of the WisdomTree Enhanced Commodity Index in USD, which includes backtested data. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

2.
Equity Outlook: Broadening the base

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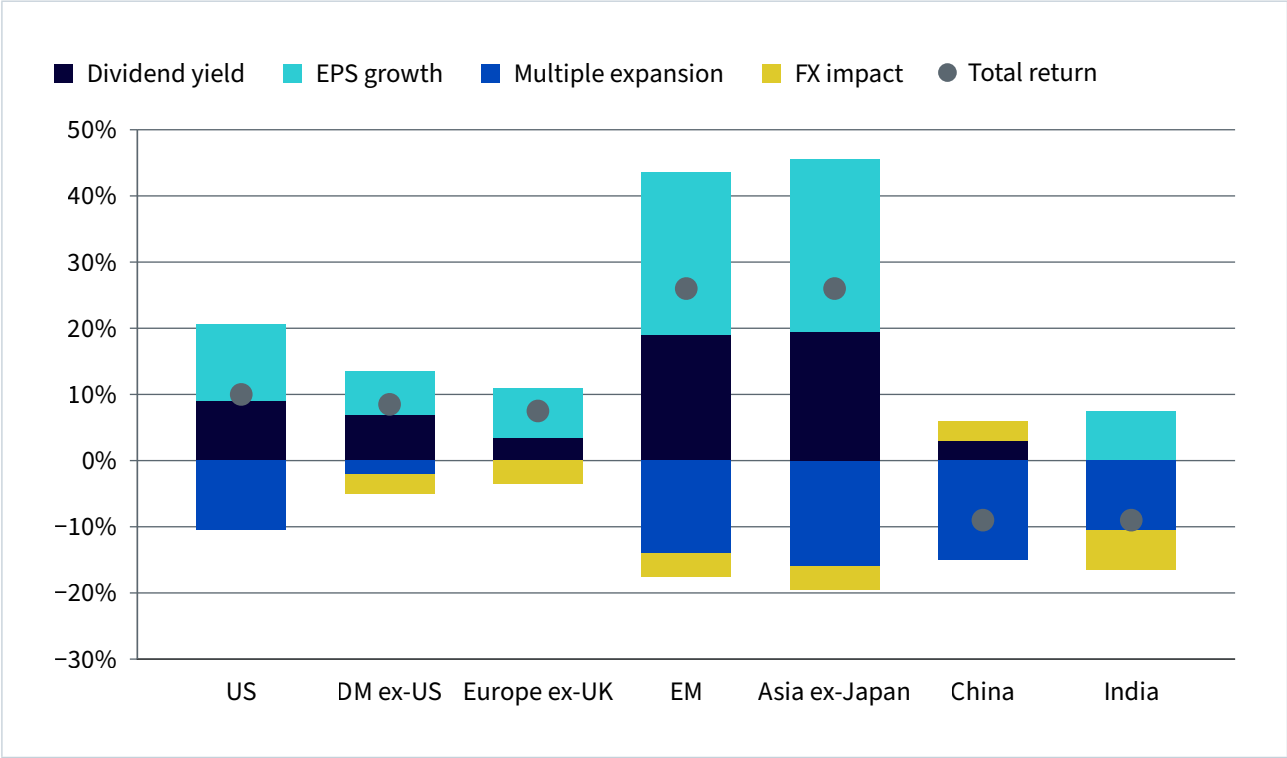
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A strong half, an uneasy finish

Global equities delivered a remarkable first half despite repeated shocks. The MSCI ACWI Index surged 14.9% in US dollar terms in the second quarter, reversing the losses inflicted by the first-quarter Iran war oil shock to finish the half up 11.2%. The catalysts were clear: the US–Iran memorandum of understanding and the prospect of the Strait of Hormuz reopening pulled oil prices sharply lower, corporate results proved resilient, and conviction in the AI investment cycle strengthened.

Yet, the half ended on a discordant note. June brought a sharp sell-off in the Magnificent Seven that dragged the S&P 500 down 1% for the month while the S&P 500 Equal Weight Index rose 2.4%. Volatility in the AI-capex complex increased on both sides of the Atlantic, and dispersion beneath calm index surfaces remained elevated. This confirmed the two-speed market we flagged entering the third quarter: macro caution and AI conviction pulling in opposite directions, with crowded trades leaving little margin for error.

Figure 13: Total returns decomposition, H1 2026 in US dollars



Source: MSCI, FactSet, Bloomberg Finance L.P., WisdomTree from 31 December 2025 to 30 June 2026.



Energy was the worst-performing global sector, reversing its first-quarter gains as hopes of a US–Iran deal pushed oil prices lower.[18] Technology outpaced the market even after June's give-back. Style trends captured the market's indecision: global growth stocks outperformed in the second quarter, but value remained ahead for the half.

We remain constructive on the AI theme as the structural case is powerful and direct beneficiaries continue to deliver strong earnings. However, portfolios should be constructed as a barbell: retaining structural AI-capex beneficiaries while adding steady compounders and cheaper markets where fundamentals are improving, but performance has lagged. The aim is to participate if AI delivers without depending on it.

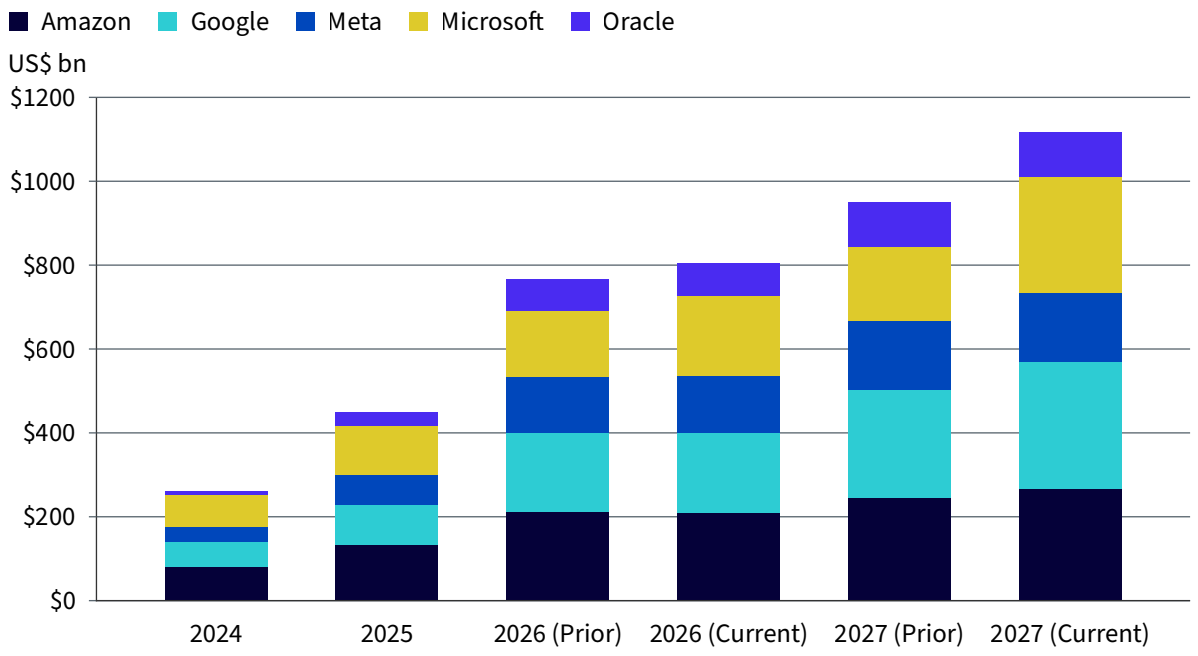
The aim is to participate if AI delivers without depending on it.

AI: From build-out to payback, and the case for diversifying beyond the leaders

The fundamental question entering H2 is whether massive capital spending will generate attractive returns. The five biggest spenders (Amazon, Microsoft, Alphabet, Meta Platforms, and Oracle) are on pace to invest more than US$1trn in AI-related capex in 2027, a 33% increase above the estimated 2026 spending. Free cash flow generation for the hyperscaler cohort could turn negative in 2027 for the first time, as even fast-growing AI revenues take time to offset investment on this scale.

18 MSCI All Country World Index from 1 April to 30 June 2026.

Figure 14: Hyperscaler cash capex breakdowns



Source: Bloomberg Finance L.P., WisdomTree from 31 December 2025 to 30 June 2026.

Two dynamics deserve attention. First, capex growth rates, which matter more for valuations than absolute spending, are poised to peak this year. As spending growth slows, investors will focus on the scale of AI ambitions and more on the earnings and cash flow they deliver. That bar is rising just as technology valuations already reflect higher spending.

Second, positioning is extreme. The largest US technology and communications platforms account for a historically high share (46%)[19] of the market, while only around 30% of S&P 500 constituents outperformed the index in the second quarter. Broad benchmark exposure is therefore increasingly reliant on the same AI ecosystem: hyperscalers, semiconductors, data-centre hardware, and power infrastructure. Earnings revisions are broadening, but share-price leadership has not yet followed.

Emerging Markets (EM) appear geographically diverse, yet the benchmark is almost as concentrated as the US one. The top ten constituents represent about 40.2% of the MSCI Emerging Markets Index,[20] despite the benchmark containing twice as many companies as MSCI USA. The concentration is even more pronounced within EM technology. TSMC, Samsung Electronics, and SK Hynix together account for roughly 67% of the MSCI EM Information Technology Index.[21] EM technology exposure is heavily dependent on the global semiconductor

19 Combined weight of Technology and Communications sector in the S&P 500 Index as of 23 July 2026.

20 MSCI as of 23 July 2026.

21 MSCI as of 23 July 2026.

cycle, AI capital expenditure, and a small group of North Asian companies. This is the crux of our broadening thesis: passive benchmark exposure increasingly channels investors into the same AI ecosystem in the US and, less obviously, in EM, so the case for the next two to three quarters is to deliberately diversify beyond the leaders rather than simply to add regions.

Global innovation and the IPO cycle

The next phase of AI is migrating to public markets. Alphabet's $85bn June share offering, partially backed by Berkshire Hathaway, and SpaceX's record $75bn IPO (which briefly took its market capitalisation to $2.6trn) showcased both the depth of demand for transformational technology and the speed with which post-deal sentiment can turn. Anthropic and OpenAI are expected to go public later this year, despite being unprofitable.

The centre of gravity is not solely American. China has already raised more IPO capital than any other region so far this year, with AI-related companies alone accounting for roughly US$22bn. Hong Kong has a record pipeline of around 500 prospective listings, many tied to AI, semiconductors, robotics, and medtech. The innovation and listing cycle is global. For investors, the globalisation of the innovation cycle is another facet of the broadening theme: the sources of transformational growth are no longer confined to a handful of US mega-caps.

Alongside this opportunity, the issuance wave carries a technical risk worth monitoring. For years, buybacks absorbed equity supply and supported valuations. As hyperscalers issue more debt and equity against declining free cash flow, while IPOs, follow-ons, and lock-up expiries add supply, net buyback activity could fade as the market absorbs more paper. Earnings and economic growth drive long-term returns, but excess supply can amplify multiple compressions and reactions to disappointment. This argues for selectivity rather than caution on the opportunity itself, reinforcing the case for the markets and companies whose returns are underwritten by cash generation and broadening earnings rather than by a rising tide of new paper.

Beneath the surface: Low correlation, high dispersion, and the price of protection

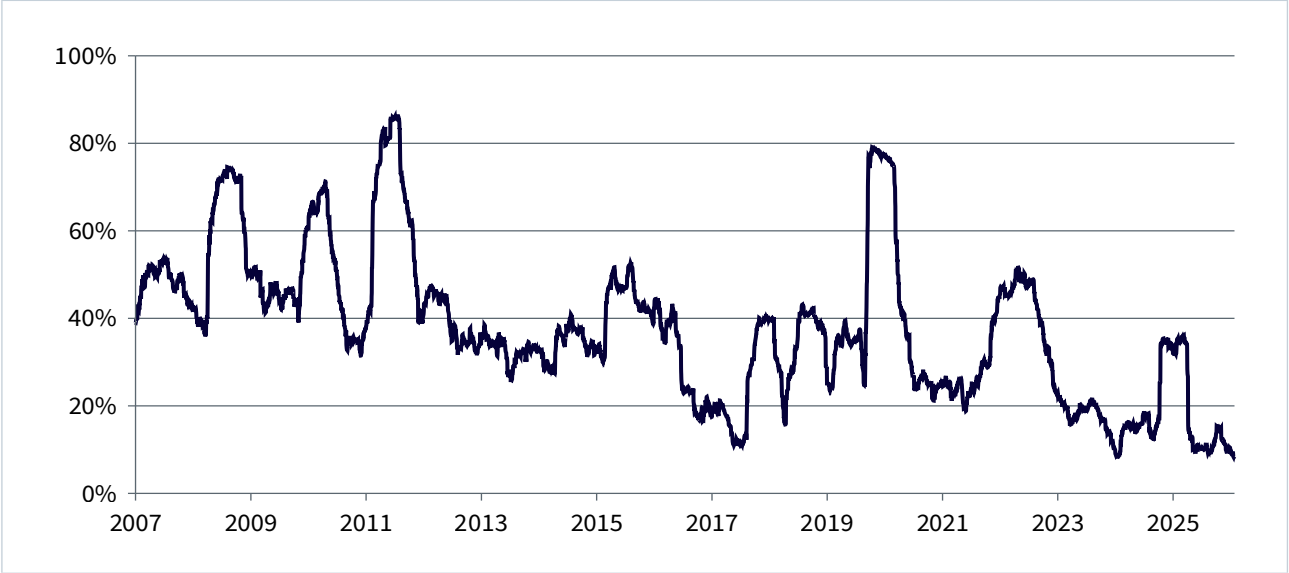
A portfolio that depends on low correlation persisting is, in effect, short volatility whether it intends to be or not.

Equity markets enter H2 carrying the optimism seen at the start of the year, but with a tension that is hard to ignore. The VIX remains below their long-term average, despite several shocks. One driver of this lower headline volatility is the collapse in realised correlation between stocks in major indices.

A portfolio that depends on low correlation persisting is, in effect, short volatility whether it intends to be or not.

Average correlation in the S&P 500 has drifted towards a multi-decade low, as the 'K-shaped' economy of AI winners and AI losers increasingly drives individual performance rather than an environment where all stocks ride the proverbial macro wave. When stocks move more independently, diversification suppresses index volatility. Indices behave like a duck on water, calm on the surface with a great deal going on underneath.

Figure 15: Realised correlation of the S&P 500 Index



Source: Bloomberg Finance L.P. from 28 June 2007 to 22 July 2026.

This is also visible in single-stock implied volatility in the US, where the spread between the average stock and the index is near an all-time high of 26.5 vol points, reflecting the degree to which individual moves cancel each other out at the index level.

While this has created opportunities for thematic investors and stock pickers, the environment is fragile and a source of risk if correlations rise and we revert to a more traditional business cycle. Tail-risk pricing reflects this unease. Skew stands at the 80th percentile over the last three years, among the highest readings outside of the acute crises of recent years.[22] Investors are increasingly reaching for protection and willing to pay up for it as we move towards the US midterms.

This dynamic cuts both ways. Low correlation and high dispersion allow improving fundamentals across the wider market to be rewarded through differentiated stock selection. They are also a source of fragility. An AI disappointment, a growth shock, or an inflation surprise could turn today's diversification benefit into tomorrow's simultaneous drawdown. We would treat the current calm to build resilience: trim the most crowded exposures into strength, favour the broadening over the concentrated, and recognise that a portfolio that depends on low correlation persisting is, in effect, short volatility whether it intends to be or not.

22 Bloomberg Finance L.P., Atlantic House, as of 22 July 2026.

Earnings: The broadening beneath the surface

Europe offers the clearest expression of the broadening opportunity. More than 70% of MSCI Europe's year-to-date return has come from AI-capex-related sectors that represent only about 14% of the index.[23] Its market has been carried by an unusually narrow engine. That narrowness is precisely the opportunity. In H1, the market was carried by a narrow group of growth and AI-capex names, and our view is that leadership now broadens out of that engine and into the under-owned, value-oriented majority of the index that was left behind. The two developments that follow, in earnings and then in fiscal policy, are the evidence that this rotation from growth to value is already beginning.

Europe offers the clearest expression of the broadening opportunity.

The most constructive development of the past quarter is below the index level. Following a strong first-quarter earnings season, earnings forecasts are rising for an increasing number of S&P 500 companies. Positive revisions are no longer confined to mega-cap technology and increasingly point to stronger corporate health across industries.

Figure 16: 3-Month 2026 EPS revisions by sector and region

Sector	EM($)	US	ES ex-Mag7	Japan	UK	Europe ex-UK
Communication Services	-0.7%	8.9%	0%	-1%	0.2%	1.2%
Consumer Discretionary	-11.9%	3.9%	-1%	-8.3%	-3.5%	-6.2%
Consumer Staples	-6.9%	0.5%	0.5%	1.4%	0.4%	-0.1%
Energy	25.0%	61.1%	61.1%	16.2%	67.4%	68.2%
Financials	-0.6%	1.4%	1.4%	3.8%	-1%	-0.8%
Health Care	-2.8%	-3.7%	-3.7%	2.4%	0.4%	0.2%
Industrials	8.4%	2.2%	2.2%	3.7%	1.3%	-0.3%
Technology	39.8%	12.1%	21.4%	15.8%	7.5%	4.1%
Materials	5.9%	11.4%	11.4%	-1.6%	11.5%	1.2%
Real Estate	-10.9%	1%	1%	-3.5%	-0.8%	-5.1%
Utilities	-10%	0.4%	0.4%	-0.8%	-3.0%	2.2%
Index	12.8%	7.6%	7.6%	2%	7.8%	2.1%
Index ex-Energy	11.7%	5.5%	4.5%	1.8%	-0.5%	-0.5%

Source: Bloomberg Finance L.P., WisdomTree, as of 30 June 2026.

23 MSCI, as of 30 June 2026.

Earnings growth has been robust beyond technology, including in energy, materials, and industrials. In Europe, earnings revisions breadth has improved, led by energy, semiconductors, metals and mining, and utilities. However, excluding the energy, earnings revisions in Europe still lag those in the Rest of the World (ROW), where technology drives revisions in the US, emerging markets, and Japan. That is the rotation taking shape. Alongside the semiconductors that still reflect the AI-capex theme, Europe's earnings breadth is now widening into the value-oriented, cyclical sectors that lagged in H1, energy, metals and mining, and utilities. Europe still trails the rest of the world once energy is stripped out, but that gap is the point rather than a contradiction: elsewhere revisions remain concentrated in technology, whereas in Europe the improvement is increasingly coming from the cheaper, under-owned base where the room to broaden is greatest.

Europe: A generational public-spending cycle underpins the case

What makes the European case more than a valuation trade is the scale of policy-driven investment now committed across the continent. A sequence of overlapping programmes channels well over €2trn towards the physical and industrial backbone of the economy over the coming decade (Figure 5). Crucially for equity investors, the sectoral beneficiaries map almost exactly onto the under-owned 85% of the European market: construction and building materials, capital goods and engineering, electrical infrastructure and grids, defence and aerospace, clean-power supply chains, and industrial software. This is the mechanism by which broadening fundamentals could translate into broadening performance. It represents a multi-year, policy-underwritten demand stream that sits largely outside the AI-capex narrative that has dominated returns so far. Notably, these beneficiaries are overwhelmingly value and cyclical sectors, the same parts of the market where earnings breadth is already improving. Fiscal policy, therefore, cements the rotation that earnings have begun to reveal, handing Europe a broadening, multi-year, policy-underwritten runway that reaches well beyond the AI-capex trade.

Figure 17: Spending timeline: European macroeconomic objectives, policy tools, and sectoral impacts

Green transformation and Digital transformation				
Close the productivity and innovation gap with the US and facilitate decarbonisation	2021 →	€750Bn NextGeneration EU	→ 2026	Semiconductors, digital infrastructure, cloud services and infrastructure, AI, cybersecurity, automation and industrial software
Energy security				
Strategic autonomy and decarbonisation	2022 →	€300bn REPowerEU	→ 2026	Wind and solar infrastructure, hydrogen and clean fuels, smart grids and electrification, EV components and battery supply chains
Defence autonomy				
Geopolitical risk and need for military sovereignty	2025 →	€800bn ReArm Europe	→ 2029	Defence, aerospace, cyber defence, military technology
Energy security, infrastructure				
Strategic economic security	2025 →	€1,000bn Germany's fiscal plan	→ 2037	Construction, engineering, capital goods, transport, smart utilities
Recovery				
Long-term Marshall Plan-style	2025 →	€500bn - €1,000bn Ukraine reconstruction	→ 2037	Utilities, cement, construction, materials

Source: European Commission, German Ministry of Finance, WisdomTree, as of 30 June 2026.

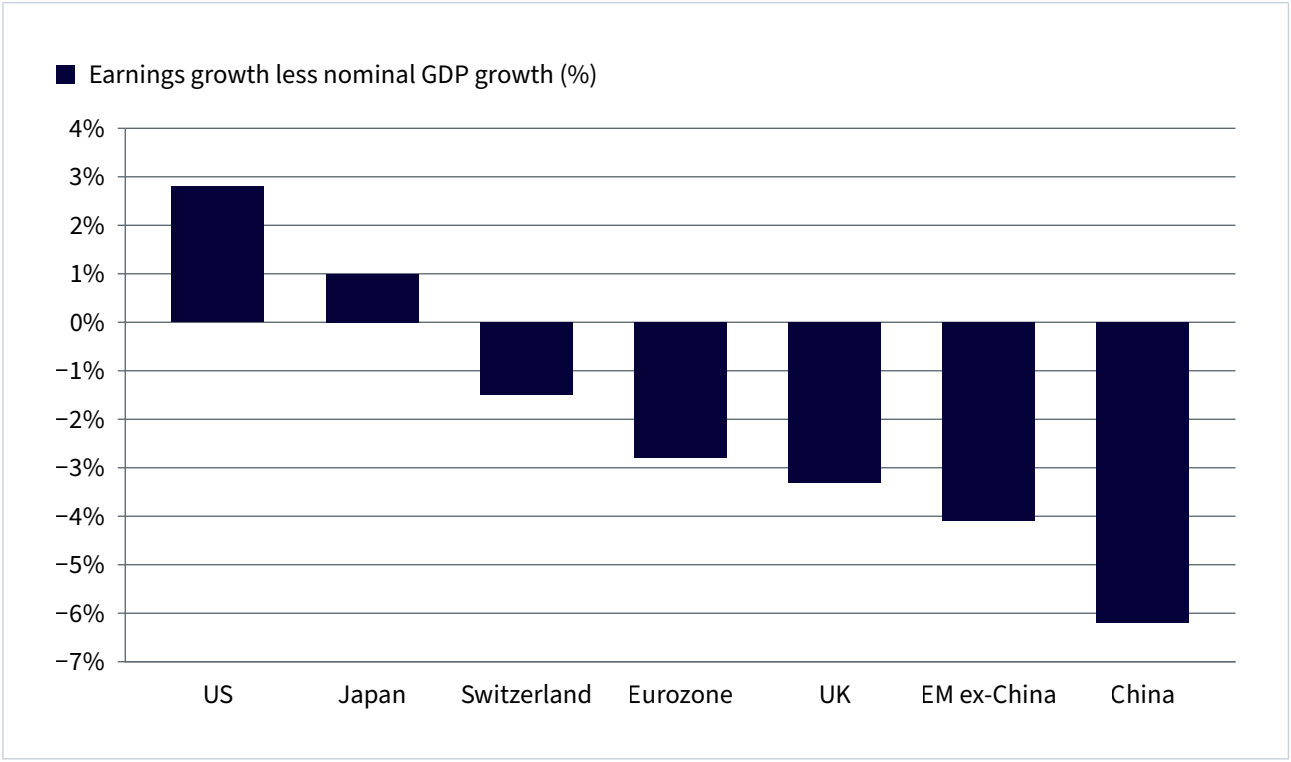
Emerging markets work best when you strip out the state

EM equities offer a compelling combination in this outlook: abundant structural growth, cheap currencies, attractive valuations, and the strongest earnings-revision momentum of any major region. They outperformed developed markets in Q2. And yet, for most of the past two decades, investors have been disappointed: shorten the horizon to the last 20 years and EM equities have merely matched developed markets ex-US, despite far stronger gross domestic product (GDP) growth and profound socio-economic progress. Understanding why growth has not converted into shareholder returns is the key to investing in EM well, and, in our view, points to a better way to own the asset class. This also places EM squarely within our broadening thesis. Owning the asset class passively does little to diversify away from AI leadership; it largely re-expresses it,

since a small group of North Asian semiconductor names dominates the benchmark. Broadening within EM therefore means tilting deliberately towards the companies where growth actually reaches shareholders, which is precisely where the governance lens that follows does its work.

The main reason superior GDP growth has not translated to higher investment returns is governance. Across much of the emerging world, concentrated ownership and weak minority-shareholder protection have encouraged capital misallocation, including excessive leverage among property developers, distorted cross-subsidisation of state-owned enterprises, and value that accrues to controlling owners or the state. Regulatory shocks, often treated as separate events, often follow these imbalances and further damage corporate earnings. India's mid-2010s bad-loan cycle in the public-sector banks, Brazil's state-directed 'national champions', and China's successive deleveraging and technology crackdowns all fit this pattern.

Figure 18: The governance drag in emerging markets



Source: MSCI, IBES, LSEG from May 2006 to May 2026. Please note: GDP measured as composite global nominal GDP weighted according to each market's revenue exposure. Data covering the period from May 2006 to May 2026.

One possible approach: Strip out the state-owned enterprises

If weak governance is the drag, and if state ownership is where it is most acute, the most direct way to improve the risk–reward of EM equity exposure is to strip out state-owned enterprises (SOE). Removing SOEs from an EM allocation tilts the portfolio towards companies where management is accountable to outside shareholders, where capital is allocated on commercial rather than political logic, and where the incremental value created by growth is far more likely to flow to investors rather than being tunnelled away or sacrificed to policy objectives. It also structurally reduces exposure to precisely the entities most susceptible to state-directed regulatory shocks. We view this as an effective lever available for converting the emerging world's superior growth into the returns that the raw benchmark has historically failed to deliver.

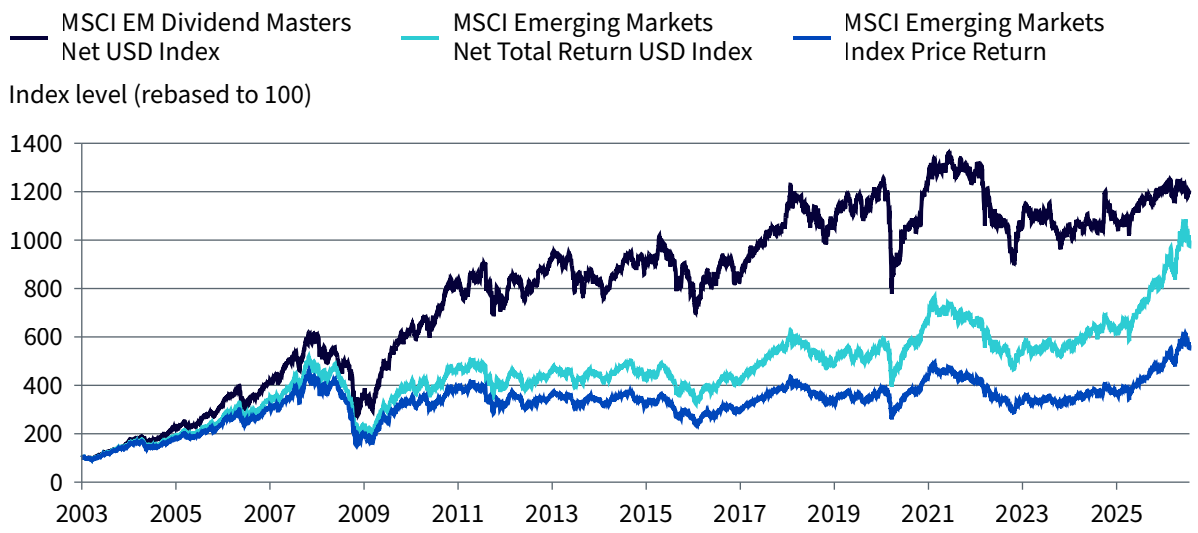
China illustrates why treating the state as a distinct risk factor matters. The behaviour of Chinese equities argues for handling them as a separate allocation: a highly volatile regulatory landscape has repeatedly rewritten the earnings power of entire sectors at a stroke. Examples include the technology clampdown that erased vast market value, the 'common prosperity' drive and education 'double reduction' policy, and the property sector's 'three red lines'. Each was, in effect, a state intervention that overrode shareholder interests. Tellingly, the correlation between Chinese stocks and the broader EM market has fallen over the decade from an average of around 75% to roughly 35% today, underscoring the case for treating China as a separate allocation and improving the diversification of an ex-state, ex-China-core EM allocation.

The dividend discipline: A second governance signal

Dividends reinforce the same logic from a different angle. A company that pays, sustains, and grows a cash dividend is making a hard, recurring commitment that is difficult to fake. It signals real cash generation, imposes capital discipline on management, and returns value to minority shareholders rather than allowing it to be reinvested unproductively or diverted.

In an asset class where the central problem is that value too often fails to reach outside investors, a dividend is both a return stream and a governance filter. The long-run evidence in EMs is striking: a portfolio of EM 'dividend masters' (companies with a track record of consistent, growing distributions) has dramatically outperformed both the standard EM total-return benchmark and, even more so, the EM price index over more than two decades.

Figure 19: The governance drag in emerging markets



Source: MSCI, Bloomberg Finance L.P., from 1 January 2003 to 21 July 2026.

Combined, these two disciplines (excluding state ownership and screening for reliable, growing dividends) offers a practical way to capture the EM opportunity: keep the structural growth and the cheap valuations, but systematically tilt away from the governance failures that have historically prevented that growth from reaching shareholders. It is the difference between owning the emerging economy and owning the emerging shareholder.

Japan: From tailwind to test, but the structural case is intact

Japan was among the best-performing developed markets in the H1, with TOPIX reaching fresh record highs around 4,000 despite the first-quarter oil shock. It remains among our preferred developed market equity exposure, because the foundations are broader than the rally: AI-linked earnings engine, a governance re-rating with years still to run, the return of positive real wages, and a household savings pool that is only beginning to move into equities. The near-term complication is that the very weak-yen/ soft-Japanese Government Bond (JGB) mix that powered the market is shifting from tailwind to test. Japan is the broadening thesis expressed in a single market. It participates in the AI build-out through its

It is the difference between owning the emerging economy and owning the emerging shareholder.

electronics and machinery supply chains, but its return case over the next two to three quarters rests on domestically driven engines, namely governance reform, reflation, and the household bid, that can continue to compound even if the AI cycle cools.

The Yen and the Bank of Japan

The test itself is a terms-of-trade shock beginning to propagate (elevated import prices amid disrupted commodity markets, compounded by yen weakness), rather than a wholesale loss of confidence. The terms-of-trade shock explains the persistence of imported inflation; the carry regime explains why the yen has not strengthened despite Bank of Japan (BoJ) normalisation. Both long-term JGBs and the yen are weaker than they were a quarter ago, but they are best understood within a still-controlled carry regime, with the market simultaneously gauging the BoJ's inflation-fighting credibility and the government's long-term fiscal credibility. On the first, inflation expectations have moved steadily higher while expectations for a sustained period of high real rates have not. This suggests that markets expect inflation to moderate without a prolonged bout of aggressively tight policy, which is to say the BoJ is not, on balance, perceived as "behind the curve", even if a subset of investors disagrees.

Japan is the broadening thesis expressed in a single market.

Figure 20: Takaichi's growth package

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

Source: Cabinet Secretariat of Japan, WisdomTree, as of 25 June 2026.

Underpinning the medium-term case is the Takaichi administration's growth agenda. A rare supermajority (the LDP won 316 of the 465 lower-house seats) buys policy predictability and execution certainty, and the flagship strategy channels a large public and private investment

programme, of the order of US$2.3 trillion, into 18 strategic areas through 2040. We see four long-duration themes most likely to attract sustained capital:

1. **Economic security and supply-chain resilience** (defence, aerospace, advanced materials, cyber)
2. **AI deployment and the compute build-out, with semiconductors and robotics at the core**
3. **Energy security and decarbonisation** (next-generation power and grid)
4. **Infrastructure renewal and national resilience**

The pivot towards more state-directed allocation is the one caveat we watch, since the governance premium of the Abenomics era rests on shareholder-friendly reform, but with fiscal-efficiency efforts running in parallel, we do not regard the government–BoJ debate as a first-order equity risk at this stage.

Earnings and sector positioning

Earnings are pointing the right way and, importantly, more broadly than the price action suggests. FY3/26 results in Japan were a clean record (with sales, operating profit, and net profit beats of 64%, 60%, and 65% respectively). Aggregate TOPIX earnings grew 27% over the prior year. Initial FY3/27 corporate guidance, while characteristically conservative (running some 9% operating growth based on an average FX assumption of ¥150/US$), still shows growth industries leading: electronics riding AI and industrial-infrastructure demand, machinery capturing factory-automation and physical-AI orders, and banks benefiting from wider spreads and stronger lending. The sector picture is genuinely bifurcated: upstream, B2B, and AI-supply-chain names carry clear profit-growth visibility, while fuel- and freight-exposed sectors (utilities, autos, and transport) face the brunt of the terms-of-trade squeeze. Financials are our second pillar, geared to a higher, steeper curve and to a domestic savings pool that is finally leaving cash.

Governance reform and the household bid

Finally, the reform machinery keeps compounding. Cross-shareholding sales, total shareholder returns (a record ¥43.5 trillion in FY2025, up 13% yoy), shareholder proposals and stock-based compensation adoption all reached record highs, and the FSA is due to revise the Corporate Governance Code around summer 2026 with an explicit push on the productive use of idle cash. That capital-allocation quality (rather than payout size or capex volume) has separated the long-run winners, which argues for a multi-year, not a one-off, re-rating.

Layered on top is the household story: with equities just 14.5% of Japanese household financial assets against 25.6% in the euro area, even partial convergence implies an enormous domestic bid (on the order of ¥270trn), reinforced by NISA flows and now-positive real wages. Net, we treat the weak-yen/soft-JGB mix as a test to be navigated rather than a thesis-breaker. Broadening earnings, an entrenched governance reform, reflation reaching financials, and a household reallocation still in its early innings keep Japan structurally supported.

The equity risk premium: Thin at the top, not throughout

Higher bond yields have compressed the headline equity risk premium, especially in US large caps, where earnings yields are close to bond yields. A few considerations keep us committed to equities as the core of long-term allocations.

Investors are being paid to broaden, but not to concentrate.

1. **Thin premiums are confined to the most expensive markets:** The premium is thin where valuations are highest, not everywhere. The gap between earnings yields and bond yields is wider in the equal-weight US market, Europe, Japan, and emerging markets. Investors are being paid to broaden, but not to concentrate.
2. **Inflation:** Equities retain a durable claim on nominal growth because businesses with pricing power can pass through inflation, while fixed coupons cannot. This favours markets such as Europe, where banks and real-asset-heavy sectors account for a large share of earnings. A stronger credit impulse and co dimensional rporate lending also support an investment-led expansion, which should favour equity earnings over bond returns at current spreads.
3. **Shareholder returns provide a further cushion.** In a higher-rate world, a high, growing, and well-covered distribution yield pays investors to wait and supports valuations. This contrasts with hyperscalers whose free cash flow is set to weaken as investment accelerates. The cash-return engine is shifting from some of the most expensive stocks towards cheaper parts of the market.

Higher discount rates limit multiple expansion so returns must be earned by earnings. This argues instead for being selective about which equities: cash and short-duration bonds now offer a genuine alternative to the most expensive, most crowded corners of the market, while leaving the risk premium intact across the broader opportunity set. Within a multi-asset framework, we would fund additions to broaden equity exposure from cash, from the longest-duration nominal bonds most exposed to sticky inflation, and from trimming crowded AI positions into strength.

Conclusion

The throughline across every region in this outlook is the same: broadening, not abandonment. We are not calling time on the AI cycle, which remains the dominant driver of global earnings and capital spending, but positioning has grown too concentrated for comfort, and the reward for looking beyond the crowded trade has rarely been clearer.

Europe's policy-driven investment cycle, emerging markets stripped of state ownership, Japan's earnings and governance re-rating, and the wider risk premium available outside mega-cap technology all point to the same conclusion: consider diversifying within equities before diversifying away from them.

Portfolios built as a barbell, with structural AI exposure alongside cheaper, broadening opportunities, are best placed to participate if the AI theme delivers, without depending on it. We would use current strength to fund that shift, not chase it further.

3.
Thematic Outlook: We have entered the age of thematic investing

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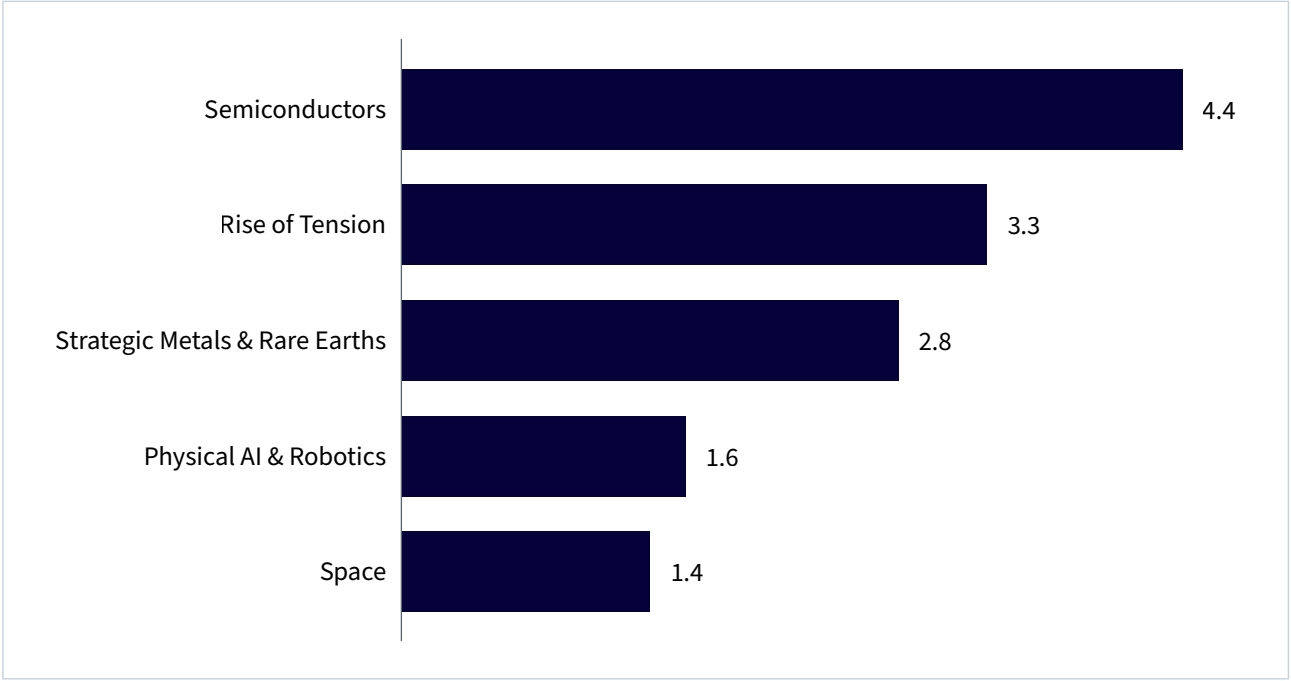
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In 2018, WisdomTree entered the world of thematic investing with the launch of an AI strategy. Back then, AI was largely confined to science journals. Among the examples of AI's advances we included in our pitchbooks were AI identifying a little girl in a coloured dress playing with a cat in a photograph, and AI beating humans at increasingly complex games, first chess, then Go, a game with a vastly greater number of possible moves. Nobody, including us, was predicting a ChatGPT moment four years later. But when it arrived, it changed everything. AI moved from science journals to everyday conversation, in both work and social settings. And that is precisely what excites thematic investors. Where might the next ChatGPT-like moment come from?

Quantum computing often comes up in discussions aimed at answering that question. And rightly so, given that quantum computing is poised to change the world by transforming numerous industries and commercialisation appears to be progressing more rapidly. At WisdomTree, we believe another ChatGPT moment not only can happen, but that it is happening across a large number of themes, all the time. We live in the age of thematic investing, and that is a genuinely exciting place to be.

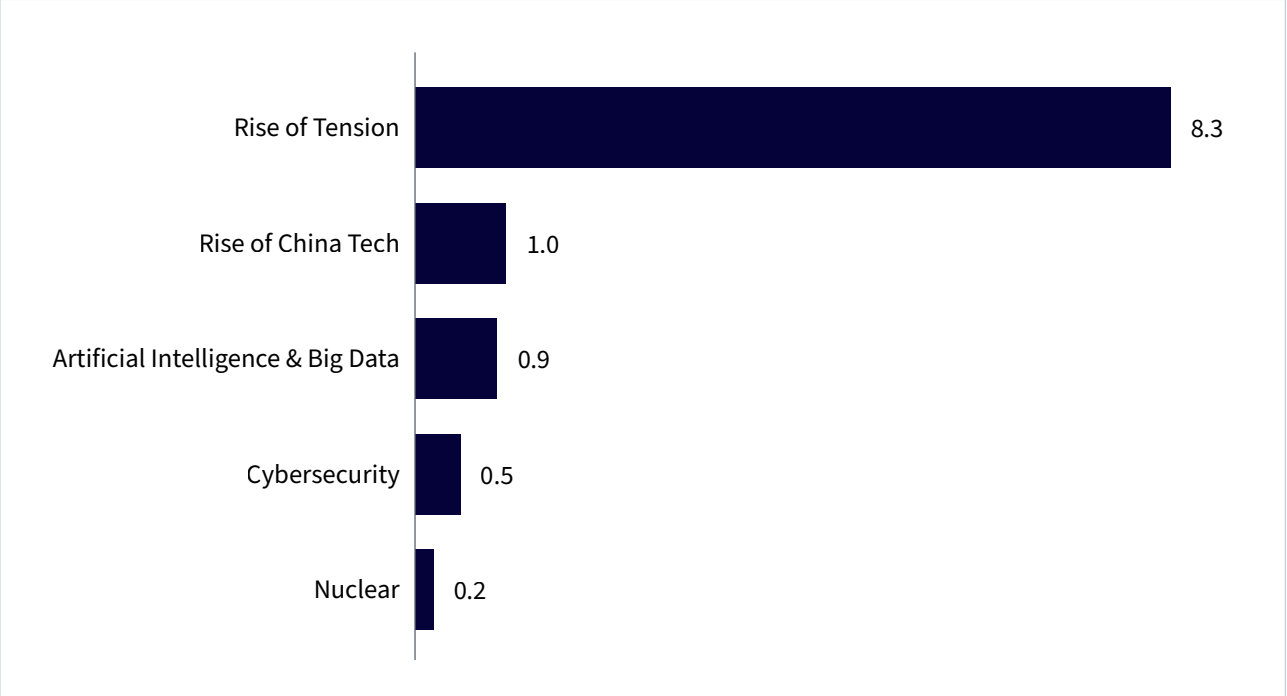
Since 2018, Europe-domiciled thematic assets under management have grown from around $83 billion to roughly $422 billion, with the share of exchange-traded funds (ETFs) rising from 8.2% to 27.9%.[24] The menu of options is expanding, and investors are increasingly choosing the ETF route.

Figure 21: Top five themes by inflows for European thematic ETFs (H1 2026) - $ bn



24 WisdomTree, Morningstar, Bloomberg. All data as of 30/06/2026 and based on WisdomTree's internal classification of thematic funds.

Figure 22: Top five themes by inflows for European thematic ETFs (H1 2025) - $bn



Source: WisdomTree, Morningstar, Bloomberg. All data as of 30/06/2026 and based on WisdomTree's internal classification of thematic funds. Performance is based on monthly returns from Bloomberg and Morningstar. **Historical performance is not an indication of future performance, and any investments may go down in value.**

And so, looking deeper into ETF flows, the tables above compare the top themes by flows into European thematic ETFs in the first half of 2026 against the top themes in the first half of 2025. Two things stand out. First, leadership among themes frequently changes. Themes can sometimes go out of favour, only to come back. Semiconductors are a good example. But as new trends become investable, new themes also emerge. For example, space and physical AI & robotics are creating frontiers of growth that barely existed as investable categories a few years ago.

With themes proliferating at this pace, organising them around overarching narratives becomes useful. In this outlook, we present six of our highest-conviction ideas within three narratives: Strategic autonomy, AI's next chapter, and frontier technologies.

1. Strategic autonomy

In a world where alliances are constantly being questioned and supply chains have become weapons of geopolitical leverage, countries are increasingly focusing on the self-sufficiency of critical inputs. There are, of course, clear implications of such policies on markets as well.

1a. Strategic Metals: Governments and the onshoring of key materials supply chains

China’s dominance in strategic metals, in particular rare earths, is widely known. In commodity markets, it is a given fact. What is worth paying attention to, however, is how governments are pushing to challenge this status quo.

In commodity markets, governments typically play the role of regulator, setting rules and leaving markets to do the rest. But that is no longer the case. Governments are now moving from regulator to participant, using capital, price support, and offtake agreements to actively influence the direction of travel for critical mineral markets. The US is the clearest example. In 2025, the US Department of Defense announced an investment of around $400 million in preferred equity in MP Materials, the largest rare earth mining and processing company in the US, alongside a $150 million loan, in a deal that could make the Pentagon the company's largest shareholder.[25] And yet, China still accounts for around 90% of rare earths refining capacity. Even by 2030, China is still expected to account for 76% of rare earths refining capacity globally.[26] The strategic imperative, therefore, is clearly not going away.

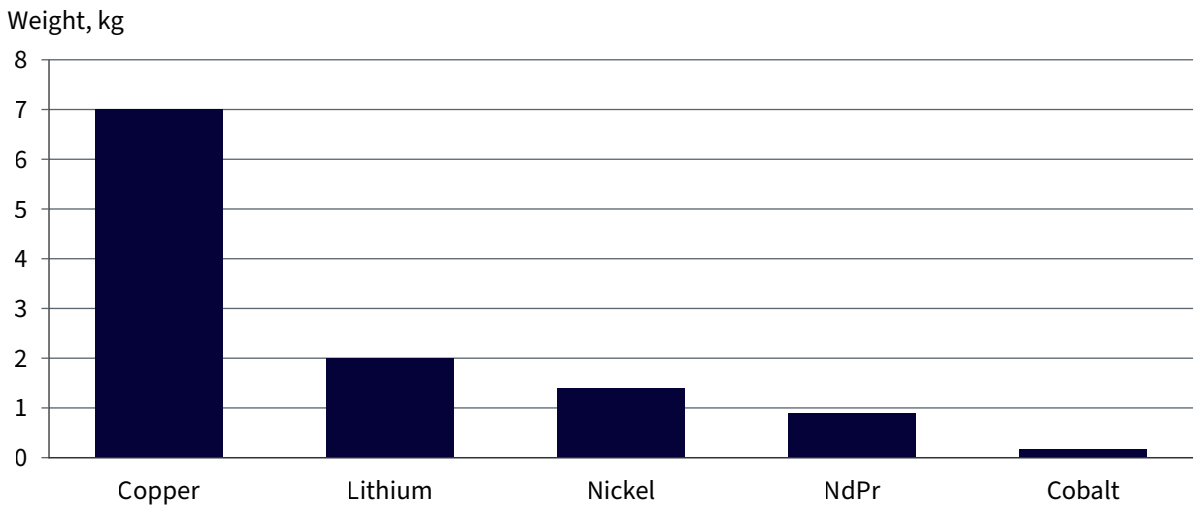
What makes this situation increasingly urgent for the West is that the list of technologies dependent on these materials keeps growing. Energy transition is the obvious one. But the next wave of demand is coming from somewhere less expected: humanoid robots. China is already taking a significant lead here, with UBTech expected to deploy tens of thousands of units in 2026, a number set to rise sharply in 2027. On our own Next Big Thing podcast, Ryan Corbett explained something that brings this to life very tangibly. Rare earths give a humanoid robot the right grip control in its hand, not so tight that it breaks what it picks up, not so loose that it drops it. Getting that balance right is one of the hardest engineering challenges in building a humanoid, and rare earths are what make it possible.

A humanoid requires copper for motor windings and wiring, lithium, nickel and cobalt for its battery pack, and rare earths for the permanent magnets powering its actuators. As the chart shows, copper leads by weight, but rare earths, including NdPr (neodymium and praseodymium, the two most critical rare earth elements for humanoid actuators and a wide range of other applications), represent the most concentrated supply chain risk, with China dominant across separation, metal making, and permanent magnet production.

25 MP Materials, 2025.

26 IEA, Global Critical Minerals Outlook 2026.

Figure 23: The estimated weight of critical minerals required per humanoid robot



Source: Morgan Stanley: "The robots are coming…for critical minerals", 21 May 2025. The estimates are for the base case. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

That concentration, combined with accelerating demand from both the energy sector and many other swiftly advancing industries such as physical AI, means government focus on securing these supply chains is expected to intensify. For investors, the structural tailwind behind strategic metals is expected to become broader and more durable.

1b. European Infrastructure: Strategic autonomy beyond defence; the case for European infrastructure

For the past two years, strategic autonomy in Europe has been almost synonymous with one thing: defence. That conversation is not going away. But the autonomy agenda is broadening, and infrastructure is moving to the centre of it. Energy independence, reindustrialisation, and sovereignty over AI infrastructure are becoming just as important to Europe's long-term competitive position as the size of its defence budget.

The scale of the challenge is significant. Europe needs an estimated €12 trillion of infrastructure investment by 2040, leaving a €5.7 trillion shortfall at the current pace.[27] The region needs to renew ageing assets while simultaneously building new capacity to compete in a more electrified, digital, and geopolitically contested global economy. A goods trade deficit with China running at roughly €1 billion per day[28] is adding further pressure for a stronger industrial policy response and genuine investment in domestic manufacturing capacity.

27 BCG. 'Infrastructure for a Competitive Europe', 21 October 2025.

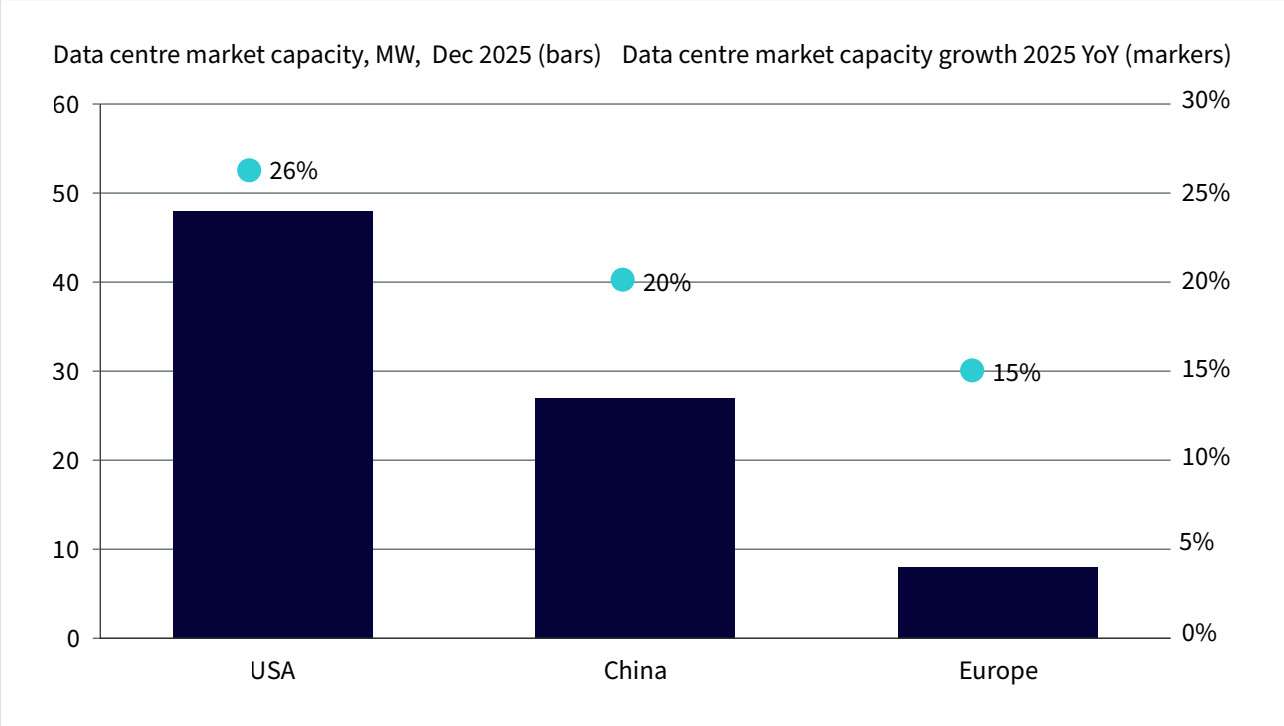
28 European Commission, 2026.

But progress is happening. The Industrial Accelerator Act, proposed by the European Commission in March 2026, signals a clear shift from climate policy alone towards manufacturing competitiveness and supply chain resilience, with an ambition for manufacturing to reach 20% of EU GDP by 2035. Infrastructure is the pick-and-shovel of that reindustrialisation push. Public procurement reforms under the Act would start to favour low-carbon steel, concrete and aluminium, creating a more visible market for European producers and contractors that meet those standards.

Then there is AI sovereignty, which is adding an entirely new demand layer. Europe is estimated to have only around 8GW of data-centre capacity at the end of 2025, far behind the US and China (see chart below). That gap is significant because without local compute capacity, Europe cannot credibly claim to control its own AI future. The proposed Cloud and AI Development Act aims to at least triple EU data-centre capacity over the next five to seven years. And this is not purely a technology story. Infrastructure accounts for close to one third of the total cost of an AI data centre, creating real opportunities across grid connections, electrical systems, and construction.

Without local compute capacity, Europe cannot credibly claim to control its own AI future.

Figure 24: Europe's data centre capacity and growth lags behind both US and China



Source: Morgan Stanley. For illustrative purposes only. The estimates are for the base case. **Forecasts, estimates, and project announcements are not guarantees of future outcomes.**

Ukraine reconstruction adds a further long-term catalyst, with opportunities spanning energy and grid infrastructure, transport, and construction materials. Taken together, the investment case for European infrastructure is no longer just about defence spending. It is about building the physical backbone of a genuinely autonomous Europe. Governments, markets, and investors are all expected to increasingly recognise this in the coming months.

2. AI's next chapter

When WisdomTree launched its first AI strategy in 2018, artificial intelligence was a theme among themes. Today, it is the foundation that so much more is being built on. The infrastructure powering AI, the models running on it, and the physical world it is beginning to inhabit are all distinct investment stories in their own right. The next chapter of AI, therefore, is not a single narrative. It is several, each with its own drivers, bottlenecks, and opportunities.

2a. AI Infrastructure: Hyperscaler spending and the returns from AI inference

Here is a number worth sitting with. Anthropic's annualised revenue has gone from $9 billion at the end of 2025 to $60 billion by July 2026. The company is on track to generate over $1 billion of operating profit in a single quarter.[29] For years, the central debate around AI infrastructure has been whether the returns would ever justify the spend. Anthropic's recent revenue growth suggests commercial returns are beginning to emerge.

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That answer holds weight given how enormous the spend is. Bank of America now models Alphabet, Meta, and Amazon Web Services collectively deploying over $500 billion in capital expenditure in 2026 alone, with 2027 estimates higher still. Analysts have started framing this in gigawatts rather than dollars, which tells you something about how structural this has become. Amazon is expected to add around 15 gigawatts of data centre capacity over 2026 and 2027, Google around 9 gigawatts, and Meta around 6 gigawatts.[30]

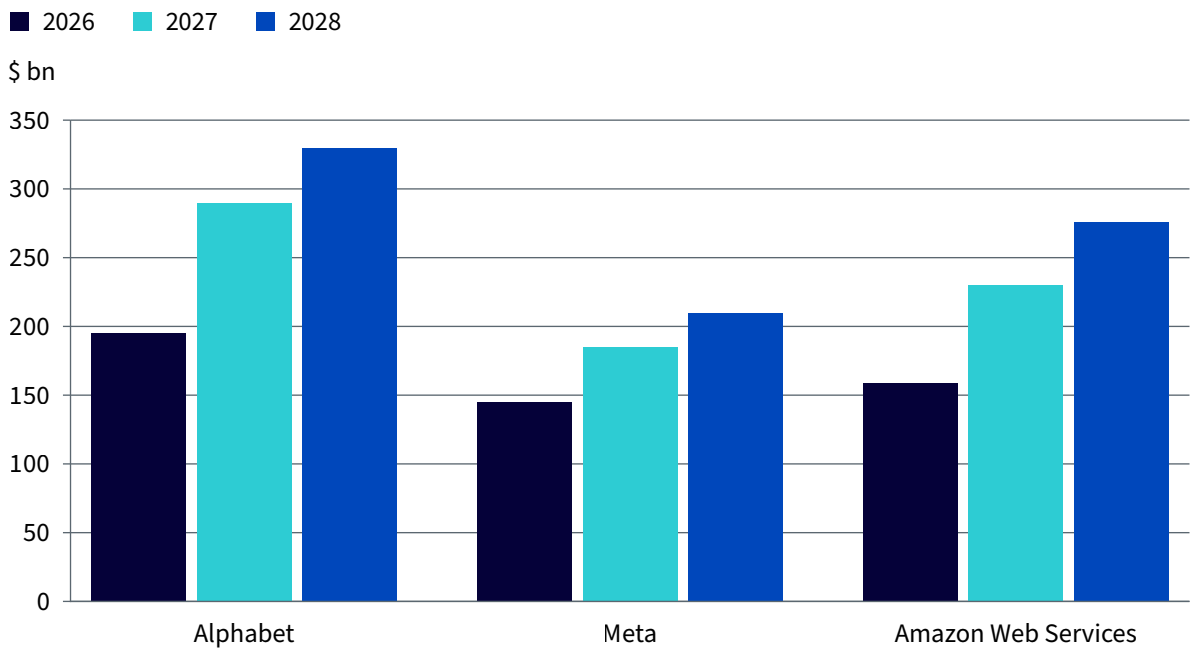
The bottleneck has moved upstream. Every major AI chip, from Nvidia's Rubin to Google's TPUs to AWS's Trainium3, is now competing for capacity on TSMC's N3 manufacturing node. SemiAnalysis estimates that AI is expected to account for the majority of N3 output this year, with utilisation expected to exceed 100% in the second half of 2026, meaning demand outstrips

29 Semianalysis, July 2026.

30 Bank of America, July 2026.

capacity. This is not a temporary constraint. Building new fabrication capacity takes years, which is why South Korea has mobilised $880 billion of investment from Samsung and SK Hynix, and why TSMC is executing national build-outs across Japan and Korea.

Figure 25: Capital expenditure from hyperscalers is expected to keep rising in the near future

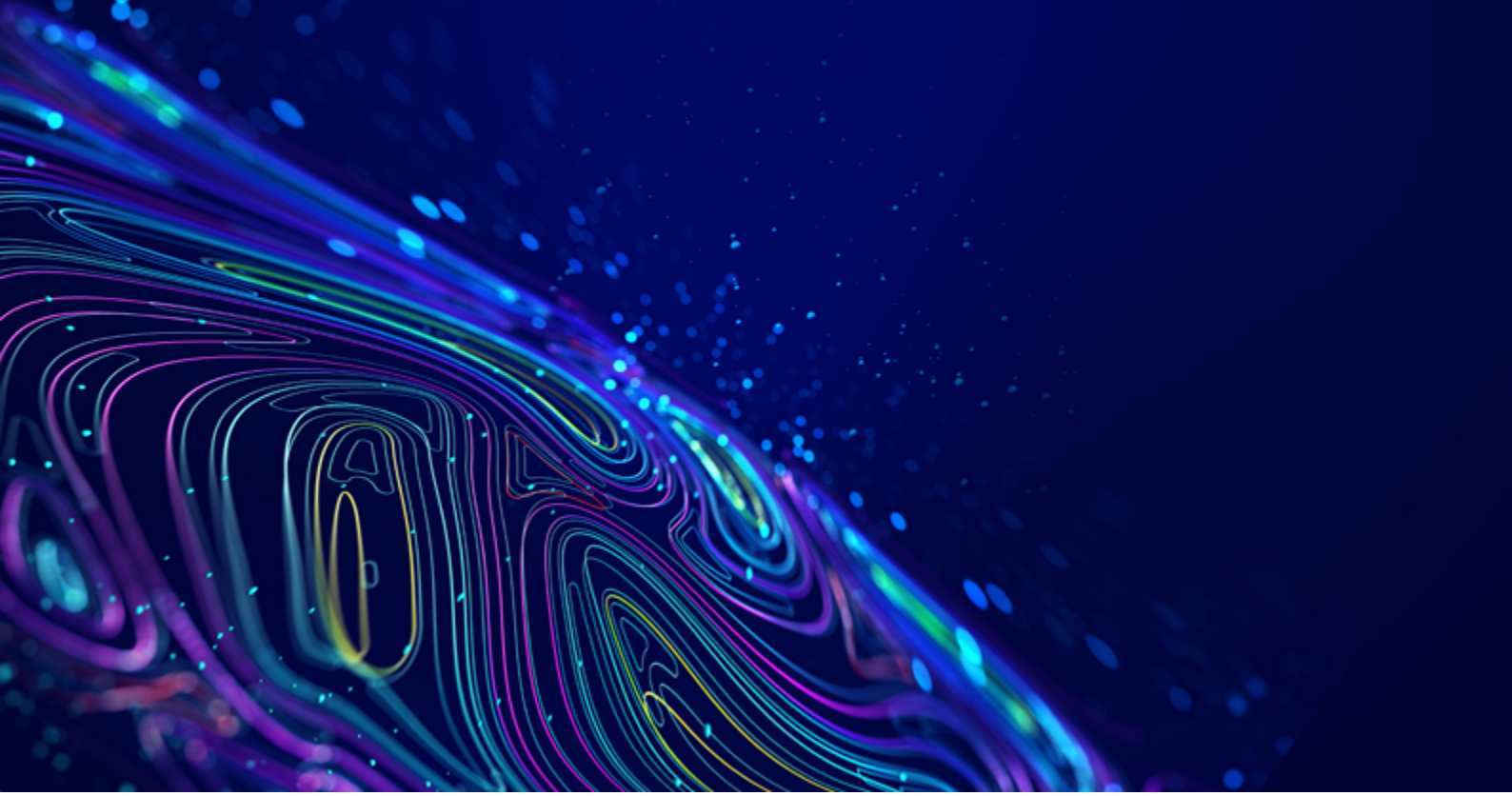


Source: Bank of America, July 2026. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

For investors, the opportunity sits in the segments that benefit regardless of which hyperscaler wins. AI servers and GPUs make up roughly 55% to 60% of total data centre build cost, followed by power infrastructure, networking, and construction. Capital is flowing into all of them. Market sentiment is beginning to shift. Earnings are coming through across a wide range of players, and the long-running scepticism about whether this level of spending could ever generate adequate returns is fading. As that evidence accumulates, the investment case for the infrastructure beneficiaries of AI becomes more apparent.

2b. Physical AI: Humanoid robots and the path from factory floors to mainstream deployment

In May 2026, three Figure AI humanoid robots clocked into a warehouse and started sorting packages: Pick up. Find the barcode. Place it on the conveyor belt, label facing down. Then do it again. The original plan was an eight-hour test. The robots made it through without a reported failure, so Figure AI kept the livestream running. By the end, they had sorted more than 28,000



packages over 24 continuous hours, with no human control and no remote assistance. Viewers watching the livestream gave them names: Bob, Frank, and Gary. Figure AI added visible name tags. That small human touch made the bigger question harder to ignore: if robots can sustain this kind of output through a full day's work, the commercial case for physical AI becomes very exciting indeed.[31]

For years, humanoid robotics sat in the category of impressive but not quite ready. The demos were convincing enough but the economics were not. What is different now is that dexterity, the hardest problem in robotics, is being solved. Degrees of freedom measures how many independent ways a joint can move. A human hand has roughly 27 ways, giving it the ability to grip a grape without crushing it or catch a falling glass. The hands on 1X's NEO robot now pack 25 fully actuated degrees of freedom. This means the robot does not just move its fingers in 25 directions. It can feel what it is holding in all of them. That is the capability that makes the commercial case begin to work.[32]

There is also a volume story unfolding, primarily in China. Goldman Sachs expects total Chinese humanoid shipments to exceed 50,000 units in 2026.[33] UBTech's mass-production U1 robot launched at approximately $17,600 and attracted over 13,000 orders on its first day.[34] JP Morgan subsequently revised its UBTech shipment estimate for the year up to 20,000 units.[35] These are real orders telling us how quickly the industry is scaling.

31 As reported by Fox News, May 2026.

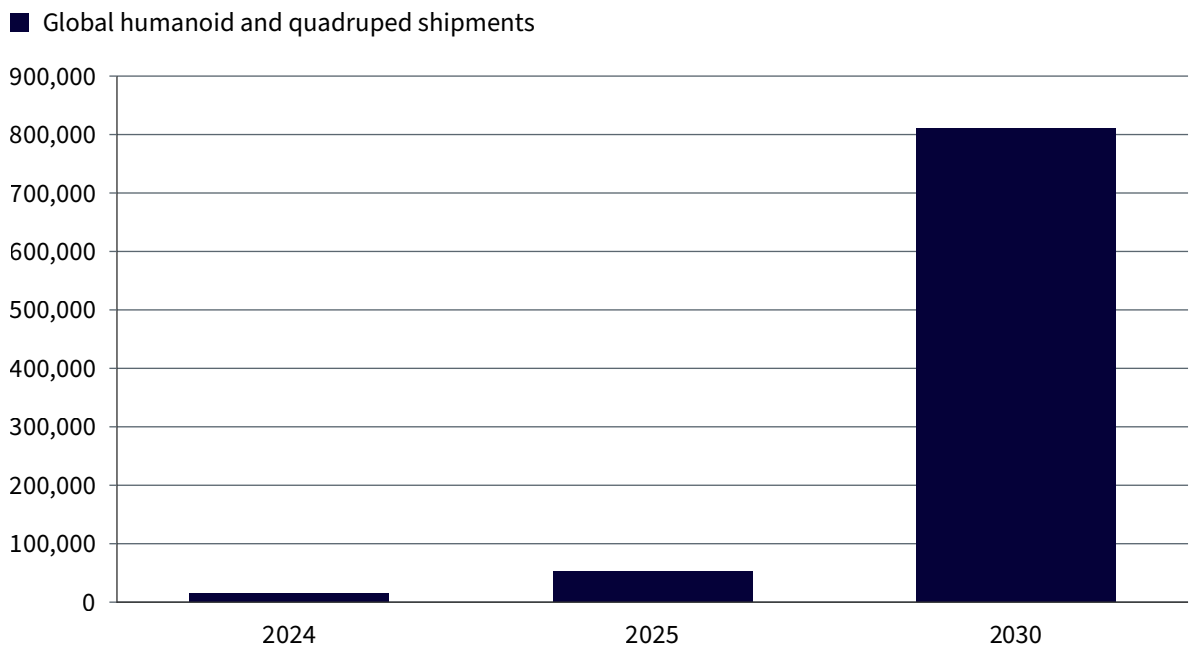
32 1X, July 2026.

33 Goldman Sachs, July 2026.

34 UBTech/PR Newswire, June 2026.

35 JP Morgan, June 2026.

Figure 26: Humanoid and quadruped shipments are expected to grow 15x by 2030



Source: Businesswire, Smart Analytics Global, April 2026. 2024 numbers are implied based on the growth mentioned for 2025.
Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.

There is also an interesting investment angle beyond the finished humanoids themselves. It is the components inside them. Every humanoid requires actuators, reducers, bearings, sensors and compute, and as volumes scale those parts become both bottlenecks and opportunities. Harmonic reducers are the clearest example. These are the precision gearboxes that control the speed and torque of a robot's joints, and without them a humanoid cannot move smoothly or accurately. China's LeaderDrive holds 80% to 90% of domestic market share, is running at full utilisation, and is racing to reach 1.44 million units of annual capacity.[36] Goldman Sachs has described it as likely a key bottleneck of industry growth itself. And because a single high-dexterity humanoid requires several reducers, demand compounds with every unit shipped.

The US timeline is further out. Tesla is targeting public availability for Optimus by 2027 at a sub-$20,000 production cost, with ambitions scaling towards one million units per year.[37]

We are, therefore, at the beginning of a very exciting revolution in the humanoid industry with the race heating up, industrial scaling beginning to materialise, and investment opportunities presenting themselves.

36 Goldman Sachs, July 2026.

37 Business Automatica, March 2026.

3. Frontier technologies

If there is one question that animates every thematic investor, it is this: where does the next ChatGPT moment come from? The space economy and quantum computing are the two themes that feel closest to that kind of inflection. Both have been developing quietly for years, attracting relatively niche investment attention. Both are advancing faster than most people realise. And both are at a stage where the gap between where they are and where they could be is starting to close fast.

3a. Quantum Computing: The case for corporate quantum readiness

On 22 June this year, President Trump sat in the Oval Office flanked by the presidents of Google and IBM and signed two executive orders on quantum computing. That image, two of the most powerful technology executives in the world at one of the most symbolically loaded desks on Earth, told you something important before you read a single word of the policy text. Quantum computing has arrived as a matter of national priority in the US.

Quantum computing has arrived as a matter of national priority in the US.

For investors who have been tracking this space, it was a striking moment, but not necessarily a surprising one. The Commerce Department announced $2 billion in CHIPS Act funding for quantum companies in May, taking equity stakes in nine firms. The two executive orders that followed set binding deadlines for federal systems to migrate to post-quantum cryptography by 2030 and established a national mission to deliver a genuinely transformative quantum computer to a Department of Energy laboratory by 2028. Governments typically fund research with grants. The US government has become a financial stakeholder in the business developing quantum technology.

The investment case is broadening as a result. What began as a pure hardware story now spans software, quantum networking, and something that is particularly time sensitive: post-quantum cryptography. The 2030 federal migration deadlines represent a concrete, near-term procurement cycle for companies offering cryptography solutions, regardless of where quantum hardware sits on its development curve. Global public investment in quantum has surged from $1.8 billion in 2024 to over $10 billion in committed funding by early 2025, with Japan, China, the US, and the UK all treating this as a strategic national priority.[38]

38 Entangledfuture, July 2026.

Figure 27: Key milestones for quantum computing are just around the corner

IBM	ionQ	Quantinuum	Infleqtion	PsiQuantum
2029	2027	2029	2030	2027
Starling – 200 logical qubits, 100M gates	10,000 physical qubits and 900 logical qubits	Apollo – hundreds of logical qubits	Full-stack fault-tolerant system with >1,000 logical qubits	The world's first utility-scale quantum computer
2033	2030	2030		
Blue Jay - 2,000 logical qubits, 1B gates	2,000,000 physical qubits and 80,000 logical qubits	Universal fault-tolerant quantum computing		

Source: Respective company websites. Roadmaps represent company objectives and development targets. As of June 2026. There is no assurance these milestones will be achieved within the stated timeframes or at all.

The companies building quantum computers are not talking about distant possibilities. They are publishing specific targets, with specific dates, and racing to hit them. IBM is targeting systems capable of running 100 million operations by 2029, rising to one billion by 2033. IonQ is aiming for two million physical building blocks by 2030. Quantinuum and Infleqtion are both targeting fully reliable, commercially viable systems by 2030. PsiQuantum wants to build the world's first utility-scale machine by 2027. To make sense of the jargon: a logical qubit is simply a stable, error-corrected unit of quantum processing power. The more you have, the more complex the problems you can solve. Gates are the individual operations a quantum computer performs, the equivalent of a calculation step. And a fault-tolerant system is one that can correct its own errors in real time, which is the critical threshold that separates a research curiosity from a machine that businesses can actually rely on. When these companies say they are targeting fault-tolerant systems with hundreds or thousands of logical qubits in the next three to four years, they are saying that we are swiftly approaching the commercialisation of quantum computers.

At WisdomTree, we believe the opportunity is best approached as an ecosystem rather than a single bet on one hardware winner. The commercialisation of quantum will unfold across multiple layers and over many years, with leadership evolving as the technology matures. The companies positioned to benefit range from pure-play hardware names to those enabling the surrounding infrastructure of software, networking, and cryptography. The US government's investment has brought quantum computing further into the spotlight. As technology continues to advance, companies will likely gear up for quantum readiness. Investors should too.

3b. Space Economy: Space infrastructure and the unlocking of markets beyond any single rocket

On 12 June this year, SpaceX rang the opening bell at the Nasdaq and began trading at $161 a share, instantly becoming one of the most valuable companies in the world at a market capitalisation north of $2 trillion. It was the largest IPO in history, raising $75 billion.[39] There is

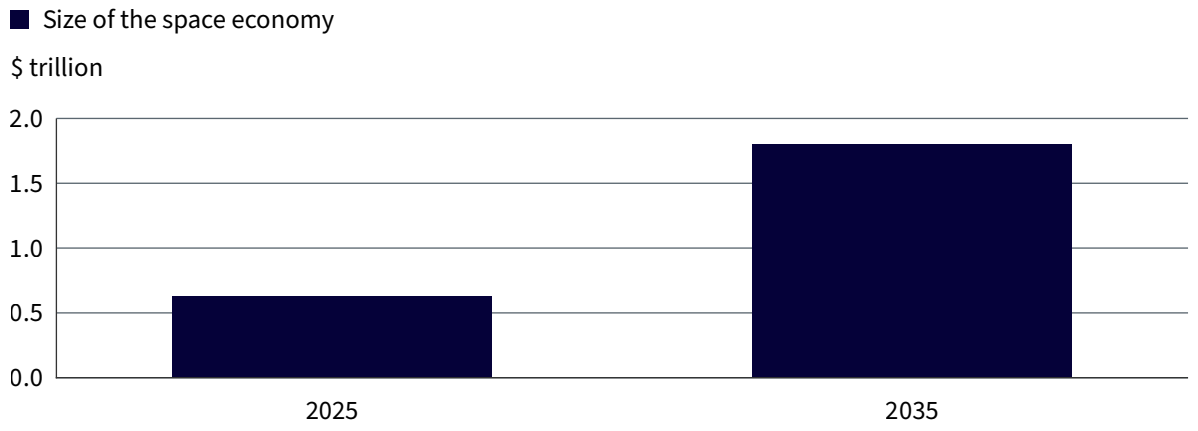
39 Bloomberg, June 2026.

no doubt that SpaceX has revolutionised the space economy. But the hype around the IPO is also a signal of investor interest in the broader theme, of which SpaceX is a part. Investors are excited about the commercialisation of low Earth orbit, the expansion of global connectivity, and the build-out of AI infrastructure at a scale that has never existed before. The coming months are expected to bring increased awareness about how the space economy shapes our lives on Earth and creates investment opportunities.

The momentum in launch activity is the foundation of everything else. SpaceX's Falcon 9 has already reduced the cost of reaching low Earth orbit by around 90% compared to the Space Shuttle era, from over $50,000 per kilogram to under $3,000 today.[40] But it has also attracted other competitors. Blue Origin successfully reused a New Glenn booster for the first time in April 2026.[41] And in July 2026, China recovered the first stage of its Long March 10B rocket at sea, becoming only the second country in history to achieve orbital-class booster recovery.[42] And so, SpaceX is no longer alone in the rocket reusability race.

An important variable in determining the economic viability of sending things into space is the cost per kilogram. Starship is targeting sub-$200 per kilogram to orbit, a 7x–10x improvement on Falcon 9.[43] At that price point, satellite constellations that are currently marginal become viable, and space-based solar power, which delivers roughly five times more energy per panel than on Earth, starts to close its economic gap with terrestrial generation.

Figure 28: The size of the space economy is expected to triple in 10 years



Source: Orbital Radar, July 2026. 2035 forecast is based on numbers from McKinsey and the World Economic Forum. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

40 Slashgear, May 2025.

41 Bloomberg, April 2026.

42 SpaceNews, July 2026.

43 Orbital Intel, April 2026.

The downstream opportunity capturing most attention is orbital AI compute. SpaceX revealed its AI1 satellite in June 2026, targeting one gigawatt of orbital compute by end-2027.[44] Google's Project Suncatcher plans prototype launches in early 2027.[45] The entire thesis rests on Starship delivering at scale, and the timeline is tight. But the broader point is that the space economy does not begin and end with SpaceX. Enabling infrastructure across satellite components, ground systems, and optical inter-satellite links benefits from rising launch cadence regardless of which operator wins. The companies building the picks and shovels of the orbital economy are the cleaner expression of this theme.

Conclusion

Six themes, three narratives. But this is far from an exhaustive map of the opportunity. We have not talked about nuclear energy, which is rapidly crossing from fringe to mainstream as the world scrambles for reliable, clean baseload power. We have not talked about renewables and battery storage, where the case is no longer purely environmental but increasingly geopolitical. We have not talked about cybersecurity, where AI is simultaneously the greatest tool and the greatest threat. And we have not talked about defence, arguably the hottest theme of the past year, where order backlogs continue to build as European governments rearm and Asian players emerge as serious competitors in global markets.

In the age of thematic investing, picking the right themes at the right time can be extraordinarily rewarding. But it is also genuinely difficult, which is why some investors prefer a multi-thematic approach, ensuring they are never caught flat-footed if the next ChatGPT moment arrives somewhere unexpected. One thing, at least, is clear. We have well and truly entered the age of thematic investing.

44 MLQ.ai, June 2026.

45 Google, November 2025.

4.

Crypto Outlook: Adoption may define the next cycle

In this section

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02 From narratives to measurable progress 52

03 Regulation: The catalyst that changes everything 54

04 Institutions are no longer watching; they're building 56

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The first half of 2026 has been a reminder that digital asset markets move in cycles, while the structural adoption thesis continues to build. Following a strong rally through much of 2025, crypto markets have undergone a correction, with bitcoin trading nearly 50% below its all-time high[46] and most major digital assets posting three consecutive quarters of negative returns.

Yet beneath weaker prices, the investment case has arguably strengthened more than at any point in the asset class's history.

+ Regulation has become clearer.
+ Institutional participation has accelerated.
+ Blockchain infrastructure has matured.
+ Real-world adoption has continued to expand.

In other words, the market has marked prices lower while the underlying asset class has continued moving forward. This divergence is the defining feature of today's market.

Bitcoin remains the strategic anchor of digital asset portfolios. Its investment case rests on monetary scarcity, growing institutional ownership and increasing recognition as a strategic reserve asset. Persistent fiscal deficits, rising sovereign debt, and long-term concerns around fiat currency debasement reinforce bitcoin's role as a differentiated macro allocation.

Beyond bitcoin, high-quality smart contract platforms are becoming increasingly important as blockchain adoption expands. Among these, Solana has emerged as one of the main beneficiaries of rising network usage, stablecoin payments, tokenisation, and decentralised finance.

46 Artemis Terminal, 21 July 2026.

The macro backdrop: Stronger fundamentals, weaker prices

Digital assets have spent much of the past year moving against an otherwise constructive backdrop for risk assets. Since peaking in October 2025, the crypto market has undergone a broad correction, with total market capitalisation falling from US $4.4 trillion to US $2.3 trillion.[47]

Figure 29: The crypto market has reset from its 2025 peak



Source: WisdomTree, Artemis Terminal, 21 July 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Bitcoin has retraced to approximately US $66,000, while leading smart contract platforms have experienced drawdowns of 60% or more.[48] Ordinarily, such price action would imply a deterioration in the underlying investment case. This time, however, the opposite appears true. Market prices and fundamental progress are no longer moving in tandem.

In previous crypto cycles, prices often appreciated well ahead of adoption. Investors bought into expectations that digital assets would eventually transform payments, financial markets, or monetary systems. Many of those expectations were difficult to measure, and valuations frequently ran ahead of reality.

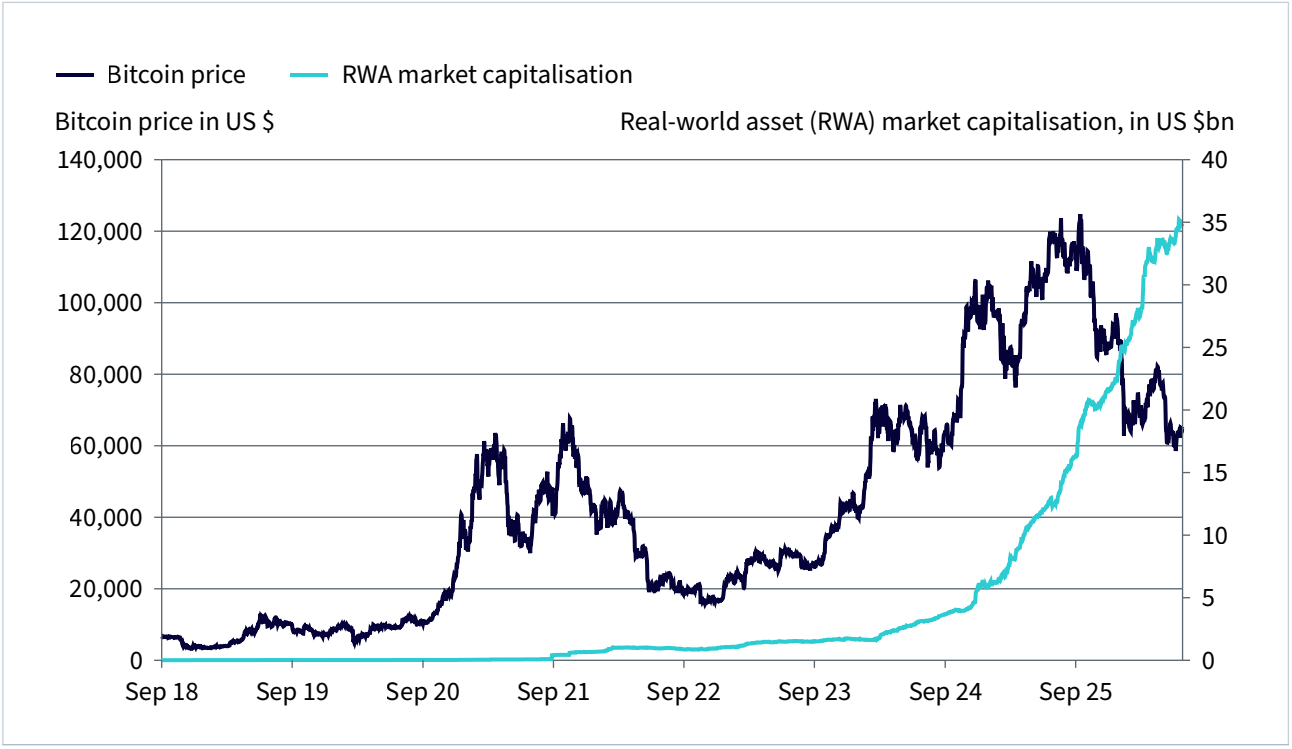
Today, the relationship has reversed. Across almost every meaningful measure, the industry continues to mature despite weaker market performance.

Market prices and fundamental progress are no longer moving in tandem.

47 Artemis Terminal, 21 July 2026.

48 Artemis Terminal, 21 July 2026.

Figure 30: Prices have fallen while adoption has continued to grow



Source: CoinGecko, RWA.xyz. 21 July 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

The industry's original narratives are becoming measurable economic activity. This is central to our outlook.

Investment opportunities are often created when prices and fundamentals diverge. Markets tend to extrapolate recent performance, particularly after prolonged corrections, while structural developments unfold much more gradually. As sentiment weakens, investors increasingly focus on what could go wrong, even as the underlying ecosystem continues to strengthen.

For long-term investors, short-term price movements matter less than whether the underlying fundamentals have strengthened through the correction. The key question is whether the asset class emerging today is more mature, more widely adopted and more institutionally integrated than the one that entered the downturn.

From narratives to measurable progress

In crypto's early years, narratives often seemed ambitious, if not implausible.

+ Bitcoin aspired to become digital gold.
+ Blockchain promised to reinvent payments.
+ Tokenisation aimed to modernise capital markets.
+ Decentralised finance sought to rebuild financial services without traditional intermediaries.

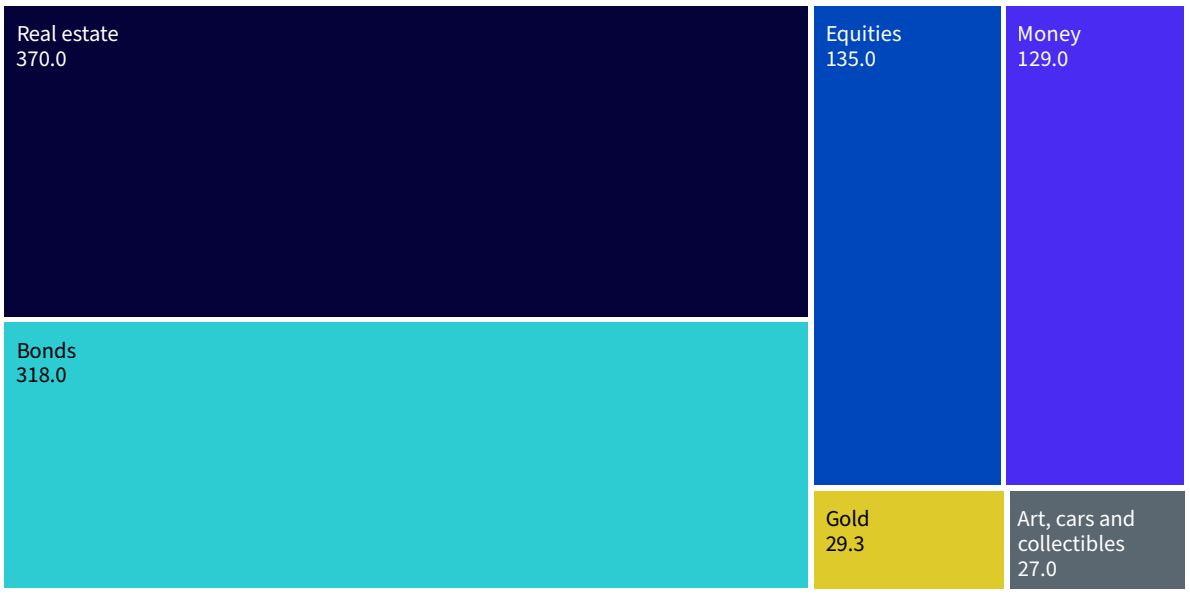
Now the focus is no longer on whether digital assets belong in the financial system, but on how much of the financial system moves on-chain. Viewed through that lens, crypto is no longer a single investment theme. It is an ecosystem competing across multiple markets simultaneously.

We group the opportunity into six broad structural themes:

+ Money and payments: using blockchain networks and stablecoins to move value globally with lower costs and near-instant settlement.
+ Reserve assets: bitcoin emerging as a digitally scarce monetary asset and strategic reserve.
+ Real-world asset tokenisation: bringing traditional securities, funds, and other financial assets onto blockchain infrastructure.
+ Decentralised applications (dApps): blockchain-native financial services and software generating real revenues.
+ Investment infrastructure: regulated products enabling institutional access to digital assets.
+ Digital ownership and financial inclusion: expanding access to financial services, creator economies, and programmable ownership.

Collectively, these themes address markets measured not in billions but in hundreds of trillions of dollars.

Figure 31: Crypto addresses markets worth hundreds of trillions of US dollars



Source: WisdomTree, newhedge. In US $ trillions. 17 July 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

This does not imply crypto will capture these markets wholesale. It almost certainly will not Instead, the comparison illustrates the scale of the opportunity. Even modest penetration across payments, financial infrastructure, capital markets, and reserve assets would support substantial long-term growth from today's base.

The more important question is therefore not the ultimate size of the opportunity, but whether progress is occurring. We believe it is. Of course, not every narrative has matured equally Financial inclusion, creator economies, and some aspects of Web3 remain earlier-stage opportunities, where adoption is harder to quantify and commercial models continue to evolve. That should not be viewed as a weakness. Emerging technologies rarely develop uniformly. Some use cases achieve commercial scale much earlier than others.

What distinguishes the current cycle from previous ones is breadth. A decade ago, the investment case depended almost entirely on bitcoin's potential as digital money. Today, multiple independent investment theses are progressing simultaneously. Payments, tokenisation, decentralised finance, institutional investment products, and blockchain infrastructure are each attracting capital, users, and institutional participation.

That diversification makes the asset class more resilient. Instead of relying on a single narrative succeeding, digital assets are increasingly supported by multiple structural growth drivers, each reinforcing the others.

Digital assets are increasingly supported by multiple structural growth drivers, each reinforcing the others.

Regulation: The catalyst that changes everything

For much of the past decade, regulation represented the industry's single largest constraint. Institutional investors were willing to acknowledge blockchain's potential but remained reluctant to commit meaningful capital while the legal and regulatory framework remained uncertain. Asset managers faced compliance hurdles, banks lacked operational clarity, and many corporate boards viewed crypto as outside acceptable investment policy.

That landscape is changing rapidly. Across major financial centres, policymakers have moved beyond debating whether digital assets should be regulated. The focus has shifted towards building the regulatory architecture needed for digital assets to become part of the mainstream financial system. The pace of change has accelerated considerably over the past year.

Figure 32: Global regulation is opening the door to institutional adoption

Date	Jurisdiction	Milestone	Why it matters
July 2025	US	GENIUS Act signed into law	Established the first comprehensive federal framework for payment stablecoins
September 2025	US	SEC adopts generic listing standards for crypto ETPs	Streamlined approval process for physical crypto ETPs, reducing regulatory friction
February 2026	Luxembourg	CSSF permits UCITS funds to invest up to 10% indirectly in crypto assets	Opens Europe's flagship retail fund structure to crypto exposure
June 2026	UK	Considering up to 10% crypto ETP allocation within authorised investment funds	Would broaden institutional and wealth management access to crypto
July 2026	EU	MiCA fully implemented	Delivered a harmonised crypto regulatory regime across all EU member states

Source: WisdomTree. July 2026.

In the US, the policy environment has shifted decisively from regulation through enforcement towards formal rulemaking. The GENIUS Act established the first comprehensive federal framework for payment stablecoins, while the Securities and Exchange Commission (SEC) has introduced generic listing standards for crypto exchange traded products (ETPs), significantly simplifying future product approvals.

Europe has reached an equally important milestone. The Markets in Crypto Assets (MiCA) regulation is now fully implemented across the European Union, creating the first harmonised regulatory framework for digital assets across one of the world's largest investment markets. Rather than navigating a fragmented set of national rules, firms can increasingly operate under a common regulatory regime.

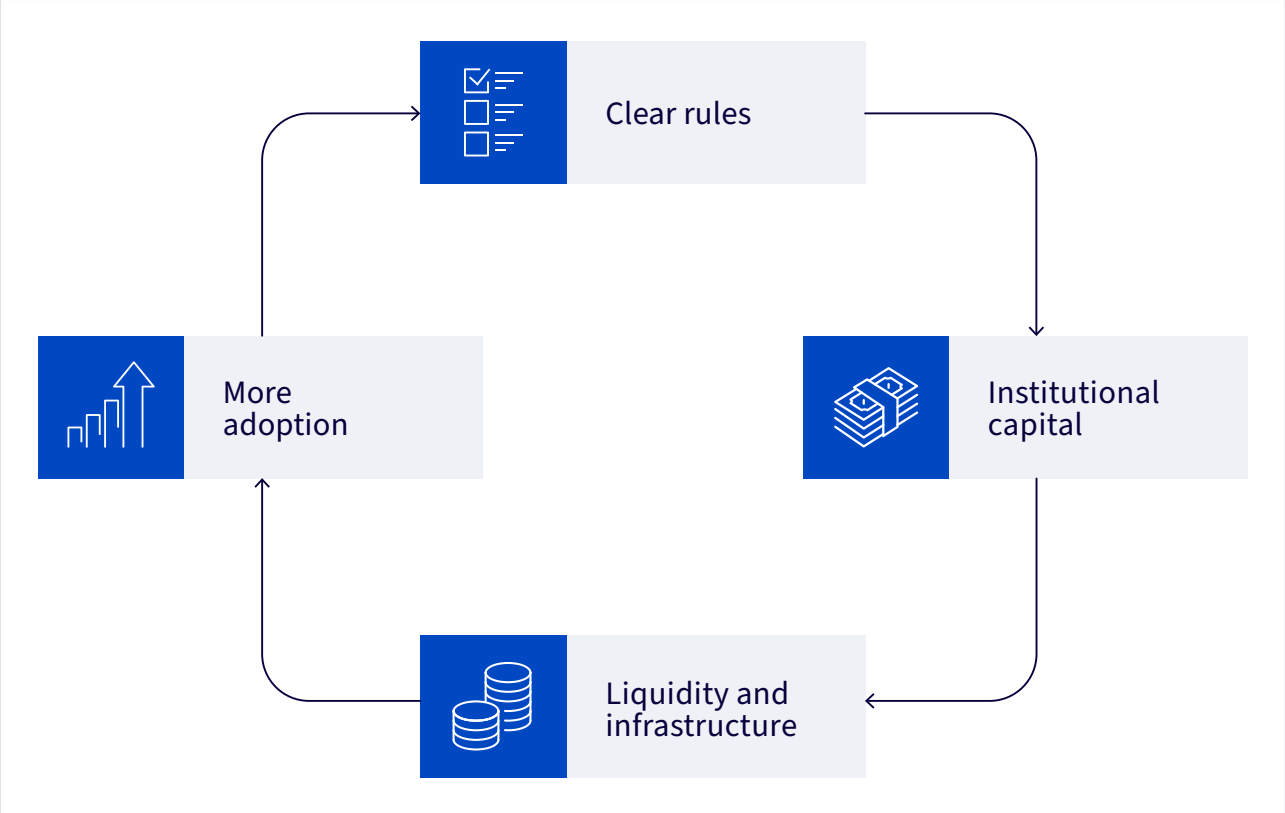
Alongside MiCA, regulators are beginning to broaden access for traditional investment vehicles. Luxembourg's Commission de Surveillance du Secteur Financier (CSSF) has approved indirect crypto exposure through ETPs within UCITS (Collective Investment in Transferable Securities) funds, while the UK's Financial Conduct Authority (FCA) is consulting on allowing authorised investment funds to allocate up to 10% of assets to crypto ETPs. Both represent an important shift: digital assets are gradually becoming investable within the portfolios that dominate European wealth management.

This evolution has implications far beyond investor access. Regulation does not simply allow investors to buy crypto. It enables traditional financial institutions to build entirely new business models on public blockchains.

In other words, regulation is transforming blockchain from a niche technology into regulated financial infrastructure, and that transition is already becoming visible.

Regulation is transforming blockchain from a niche technology into regulated financial infrastructure.

Figure 33: Regulation unlocks the next phase of crypto adoption



Source: WisdomTree. July 2026.

Markets often focus on the immediate impact of regulatory announcements. The larger investment opportunity typically comes afterwards, as regulatory certainty enables entirely new markets to develop.

We believe digital assets are entering that phase today. Regulation is no longer simply reducing risk; it is expanding the addressable opportunity.

Institutions are no longer watching; they're building

The strongest evidence that digital assets have entered a new phase is not found in price charts. It is found in the identity of the participants.

A decade ago, crypto was driven primarily by retail investors and venture capital. Institutions largely observed from the sidelines, constrained by regulatory uncertainty, operational complexity, and concerns around governance.

Today, that picture looks fundamentally different. Rather than asking whether blockchain technology matters, institutions are increasingly determining how best to incorporate it into existing financial infrastructure. This shift represents a structural change in demand, and bitcoin is the best example of this.

Figure 34: Nearly one fifth of bitcoin's supply is now held by strategic owners

	Number of bitcoin	Percent of total bitcoin supply
ETPs and exchanges	1,622,533	7.7%
Public companies	1,263,286	6.0%
Government entities	649,961	3.1%
Decentralised finance (DeFi) and other	369,488	1.8%
Private companies	281,752	1.3%
Total	**4,187,020**	**19.9%**

Source: WisdomTree, Bitcoin Treasuries. 15 July 2026. Total bitcoin supply is 21,000,000 bitcoins. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Institutional ownership has reached levels that would have been difficult to imagine only a few years ago. Between ETPs, public companies, governments, private companies, and decentralised finance, almost one fifth of bitcoin's eventual supply is now held by long-term strategic owners. These holders typically accumulate rather than trade, reducing the amount of bitcoin available to the market.

However, institutional participation extends well beyond bitcoin as the next phase of adoption is increasingly centred on the infrastructure supporting digital finance.

+ Major financial institutions are actively developing tokenised money market funds, government bonds, repo markets, and equities.
+ Payment companies are integrating stablecoin settlement into existing networks.
+ Custodians are building digital asset services.
+ Investment banks are experimenting with on-chain capital markets.

These are not isolated pilot projects. Collectively, they represent the early stages of a broader transformation in how financial assets are issued, transferred, and settled.

In other words, institutions are increasingly using blockchain technology to modernise financial infrastructure itself. Digital assets are becoming not only an investment opportunity but also the technology layer underpinning payments, capital markets, and asset servicing.

For investors, this distinction is significant. Investment products generate demand for digital assets. Financial infrastructure generates recurring economic activity. The latter is ultimately more durable because it depends on commercial utility rather than investor sentiment alone.

Blockchain adoption is becoming measurable

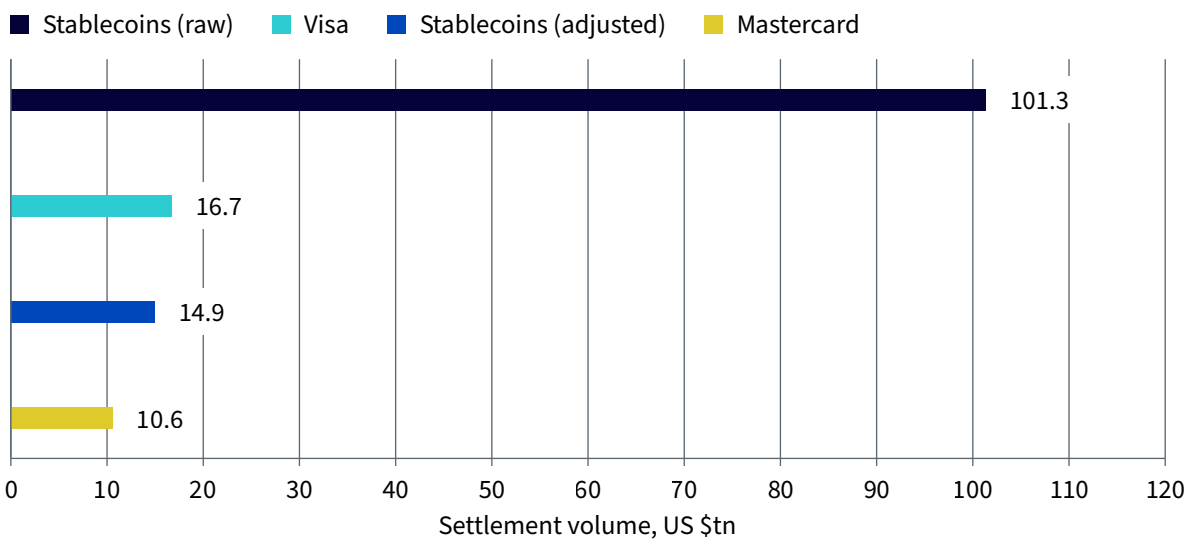
In traditional equity markets, investors ultimately care less about narratives than about fundamentals: revenues, cash flows, users, and market share. The same framework is gradually becoming applicable to digital assets. Instead of asking which blockchain tells a compelling story, investors can increasingly ask which networks are attracting users, generating revenues and building sustainable competitive advantages.

Payments are emerging as crypto's first mass-market application

Payments have always been one of blockchain's most compelling use cases. This is because blockchain networks offer programmable money that settles almost instantly, operates continuously, and can move globally at minimal cost.

Stablecoins have become the primary vehicle for this.

Figure 35: Stablecoins are approaching the scale of traditional payment networks



Source: Stablecoins: Visa Onchain Analytics, 12-month total unadjusted; Visa: Annual Report 2025; Stablecoins (adjusted): Visa Onchain Analytics, 12-month adjusted; Mastercard: 2025 gross dollar volume. 21 July 2026. The raw and adjusted stablecoin figures are two ways of measuring the same stablecoin rail: the adjusted version removes internal smart-contract transfers, exchange rebalancing, bots, and other high-frequency or non-economic activity to make the comparison more like card-network settlement. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Every payment settled on public blockchain infrastructure demonstrates that these networks are beginning to compete with traditional financial rails, particularly in cross-border transfers and digital asset settlement. As adoption grows, network effects become increasingly important, reinforcing the value of the underlying blockchain ecosystems.

Tokenisation is bringing traditional finance on-chain

Alongside payments, tokenisation is emerging as one of the most important structural themes in digital assets.

The concept is straightforward: represent traditional financial assets, including government bonds, money market funds, equities, and private assets, as blockchain-based tokens that can be traded, transferred, and settled digitally.

Tokenised assets can settle more quickly, operate continuously, reduce administrative costs, and integrate directly with programmable financial applications. Rather than replacing traditional finance, tokenisation has the potential to modernise much of its existing infrastructure.

The direction of travel is becoming increasingly clear: financial assets are beginning to migrate on-chain.

Decentralised applications are becoming real businesses

Another notable change is the emergence of blockchain-native applications generating meaningful economic activity.

Nowadays, several decentralised applications generate substantial fee income from genuine user activity. Decentralised exchanges, prediction markets, and lending protocols increasingly resemble software platforms serving global financial markets rather than speculative experiments.

Solana stands out

Among smart contract platforms, Solana has emerged as one of the clearest beneficiaries of these structural trends, and its investment case differs fundamentally from bitcoin's.

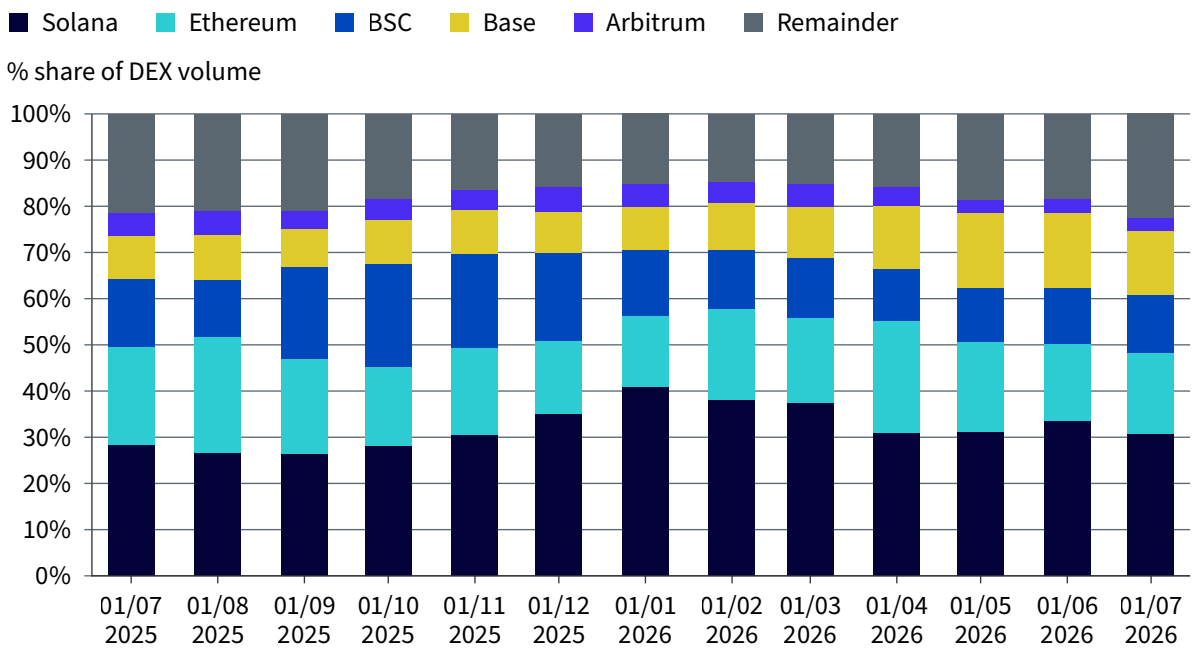
Where bitcoin derives value primarily from monetary scarcity, Solana derives value from economic activity occurring on the network itself. It is effectively an investment in the growth of blockchain adoption.

Solana derives value from economic activity occurring on the network itself.

Several structural advantages have supported its recent progress. The network combines high throughput, low transaction costs, and rapid settlement, making it well suited for payments, decentralised finance, and tokenised assets. During the first half of 2026, Solana processed around one third of all on-chain decentralised exchange trading by volume, and handled 349 million daily transactions at its peak, with an average transaction fee of $0.0027.[49]

49 DefiLlama, DEX volume per chain; Solana.com/data for transaction count and fees. Average transaction fee from TokenTerminal. 21 July 2026.

Figure 36: Solana has become the leading smart contract platform for on-chain trading



Source: DefiLama. 21 July 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

At the same time, institutional engagement continues to deepen.

Payment providers including Visa and Stripe have integrated Solana into stablecoin initiatives, while major financial institutions have explored tokenised financial products on the network. Real-world asset issuance, stablecoin balances, and developer activity have all continued to expand despite weaker token prices.

Equally important, many of Solana's historical weaknesses are being addressed:

+ Firedancer reduces client concentration risk.
+ Alpenglow consensus upgrade is expected to reduce settlement latency.

Combined with more than two years of uninterrupted network operation, these improvements suggest that the platform is becoming increasingly suitable for institutional-scale financial applications.

Infrastructure is becoming the investment opportunity

Bitcoin remains the monetary foundation of the ecosystem. Smart contract platforms such as Solana provide the infrastructure supporting payments, tokenisation, and decentralised applications. Stablecoins connect blockchain networks with traditional financial systems. Together, these components form an increasingly integrated digital financial architecture.

Portfolio implications: Where we see the opportunity

Digital assets have matured into a diversified asset class, with different assets offering exposure to distinct structural themes: from digital scarcity and monetary alternatives to blockchain infrastructure, tokenisation, and decentralised finance. As such, portfolio construction matters more than ever.

Bitcoin remains the strategic allocation

Bitcoin remains the foundation of a digital asset allocation.

Its investment case rests on four structural pillars:

+ Fixed supply, providing protection against long-term monetary expansion.
+ Institutional ownership, which continues to tighten available supply.
+ Growing regulatory acceptance and improving accessibility through familiar investment vehicles.
+ Increasing recognition as a strategic reserve asset, both among corporates and, increasingly, sovereigns.

These characteristics make bitcoin the most mature digital asset and, in our view, the natural starting point for institutional investors entering the asset class.

Importantly, bitcoin's investment thesis is becoming less dependent on crypto adoption itself and more closely linked to broader macroeconomic trends. In a world characterised by elevated sovereign debt, persistent fiscal deficits, and structurally higher inflation than the previous decade, scarce monetary assets continue to occupy an increasingly important role within diversified portfolios.

Beyond bitcoin, selectivity matters

As the industry matures, capital should increasingly differentiate between networks generating genuine economic activity and those supported primarily by speculative enthusiasm.

In our view, three characteristics will increasingly determine long-term winners:

+ Real usage, measured through users, transaction volumes, and economic activity.
+ Sustainable revenues, demonstrating that networks create lasting value rather than temporary speculation.
+ Institutional adoption, providing durable demand beyond retail participation.

Networks exhibiting all three characteristics are likely to capture an increasing share of capital as institutional investors become more sophisticated in their asset selection.

Solana offers exposure to blockchain adoption

Within smart contract platforms, we believe Solana is particularly well positioned to benefit from the next phase of blockchain adoption.

Perhaps most importantly, Solana's network fundamentals have continued improving despite significant price weakness.

Historically, periods where network usage strengthens while valuations compress have offered attractive entry points for long-term investors. While near-term market performance remains uncertain, we believe the divergence between adoption and valuation deserves close attention.

Conclusion

The correction of the past year has materially improved the long-term risk–reward profile of digital assets. Prices have weakened. Fundamentals have strengthened.

This divergence does not guarantee an immediate recovery, nor does it eliminate the inherent volatility of this asset class. Digital assets will likely remain cyclical, and short-term market sentiment may continue to dominate returns over shorter horizons.

However, for investors with a strategic allocation mindset, today's market increasingly resembles a period where structural progress is outpacing market expectations.

The next cycle may be driven less by speculation and more by adoption. Investors who focus on the underlying structural trends rather than short-term price movements may be better positioned to benefit.

The next cycle may be driven less by speculation and more by adoption.

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