What does 2025 hold for 2024's 'winners': Bitcoin, Japan and Small Cap EM?

Published 16 January 2025

Dovile Silenskyte
Director, Digital Assets Research

Aneeka Gupta
Director, Macroeconomic Research

Key Takeaways

For global multi-asset portfolios, ~1.5% neutral allocation to bitcoin is expected to become a widely accepted standard, with underweighting or excluding bitcoin increasingly perceived as a potentially suboptimal choice without strong justification. 2025 is shaping up to be another favourable year for Japan owing to its longer-term structural story of improving corporate governance and earnings growth momentum. The shifting global landscape favours EM small-cap equities over large caps due to their superior insulation from trade wars, reduced sensitivity to US dollar fluctuations, and strong dividend potential.

As we start a new year, we're looking back at a selection of strong performing assets from 2024 and their outlook for 2025. Part 1 of this two-part series, covers Bitcoin, Japan and Small Cap Emerging Markets.

Bitcoin's institutionalisation: 2024 achievements and 2025 outlook

2024 marked a pivotal moment for bitcoin, showcasing significant growth in both adoption and institutionalisation. The momentum began with the listing of physical bitcoin exchange-traded products (ETPs) in the US, culminating in bitcoin price reaching its all-time high of over $100,000[1] in December.

By the end of the year, the global market capitalisation of listed, investable assets stood at approximately $216 trillion[2]. Cryptocurrencies, with a combined market cap exceeding $3 trillion[3], accounted for approximately 1.5%[4] of the global market portfolio. This positioned the crypto asset class alongside established categories such as high-yield bonds, inflation-linked bonds, and emerging markets small-cap equities in terms of their market capitalisations.

Institutional investors increasingly embraced bitcoin ETPs, recognising bitcoin's potential as a volatile yet uncorrelated asset to improve the risk-return profiles of their multi-asset portfolios. Net inflows into physical bitcoin ETPs surpassed $34 billion[5] globally in 2024, reflecting growing confidence in the asset class. Moreover, many institutional investors started to acknowledge that opting for no allocation to bitcoin was an active decision to underweight, requiring a robust investment thesis to justify.

The trends that emerged in 2024 are expected to accelerate and evolve throughout 2025. Institution-alisation is likely to deepen as bitcoin gains greater acceptance among traditional portfolio managers. Institutional investors are anticipated to enhance their multi-asset strategies to better incorporate bitcoin into their portfolios. The approximately 1.5% neutral allocation to bitcoin is expected to become a widely accepted standard, with underweighting or excluding bitcoin increasingly perceived as a potentially suboptimal choice.

Figure 1: Bitcoin in a multi-asset portfolio

	60/40 Global Portfolio	1% Bitcoin Portfolio	3% Bitcoin Portfolio	5% Bitcoin Portfolio	10% Bitcoin Portfolio	MSCI AC World	Bloomberg Multiverse	Bitcoin
Annualised Return	5.77%	6.46%	7.83%	9.20%	12.57%	9.07%	0.56%	56.24%
Volatility	8.79%	8.86%	9.14%	9.62%	11.42%	13.94%	5.05%	67.28%
Sharpe Ratio	0.48	0.55	0.68	0.79	0.96	0.54	-0.20	0.81
Information Ratio		1.01	1.01	1.01	1.00			
Beta	70%	71%	73%	75%	81%	100%	24%	181%

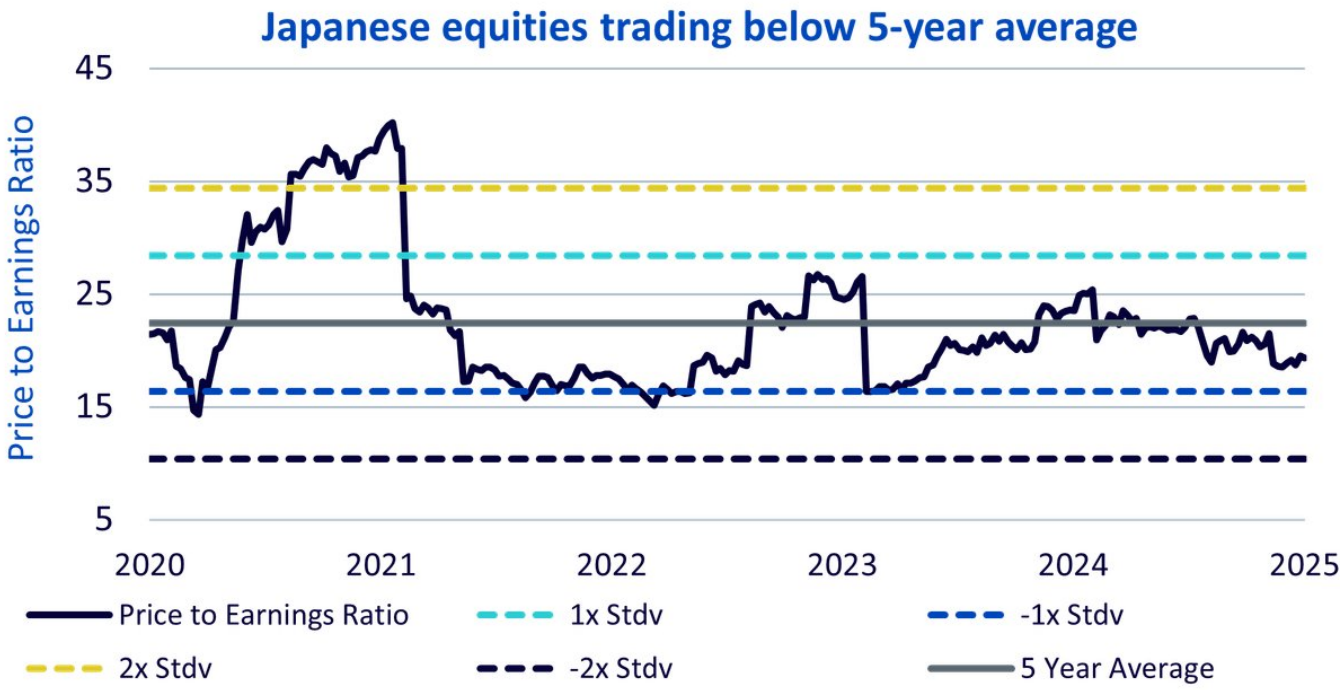
Source: Bloomberg, WisdomTree. From 31 December 2013 to 30 November 2024. In USD. Based on daily returns. The 60/40 Global Portfolio is composed of 60% MSCI All Country World and 40% Bloomberg Multiverse. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investment may go down in value.**

Bitcoin's resilience and value as an uncorrelated, alternative investment are likely to attract broader recognition, further solidifying its role in global portfolios. Additionally, the market may see the growth of innovative bitcoin-based financial products, giving investors some control around drawdowns and/or volatility.

The developments of 2024 laid a solid foundation for bitcoin's evolution into a mainstream asset. As 2025 unfolds, bitcoin is well-positioned to solidify its status, drawing an even broader investor base. Continued adoption and potentially friendlier regulatory environments should also allow bitcoin to maintain or even increase its share of the global market portfolio.

Unlocking value in Japan

Japanese equities raced ahead in 2024 with the Nikkei 225 Index having its best year since 1989, despite some market volatility[6]. Even after gains for the second year straight, Japan's equity valuation, Price to Earnings (P/E) ratio is below its five-year average. Japan's rally has been broad based, consistent with the robust earnings trend by Japanese corporates. In addition, Japan's structural reform story continued in 2024 with companies increasingly focusing on return on capital.



Source: Bloomberg, WisdomTree from 3 January 2020 to 3 January 2025. **Historical performance is not an indication of future performance and any investment may go down in value.**

Prime Minister Shigeru Ishiba faced some turbulence after taking office in October 2024 but managed to win a run-off vote by mid-November allowing him to stay in power. Yet, given Ishiba's fragile minority government, he will need to seek support from the opposition parties including the Democratic Party for the People (DPP) leading to tax cuts and other subsidies to help boost disposable income.

The shift to an inflationary economy

Real income growth turned positive in 2024 on the back of continuing wage growth. There are compelling reasons to believe that real wage growth could reignite growth in consumption. Rengo, Japan's largest labour union federation announced its target wage hike of more than 5% for 2025. This supports a continuation of healthy wage growth in Japan, as nearly 70% of Japan's employee population works for small and medium enterprises (SME)[7].

A knock-on effect of inflation is that it stimulates corporate reforms. The inflationary environment is pushing companies to channel the excess cash via payouts to shareholders or capital expenditures to create value. The potential ripple effect of the changes involving Seven & I Holdings and the merger talks between Honda & Nissan indicate a critical juncture for Japanese corporates.

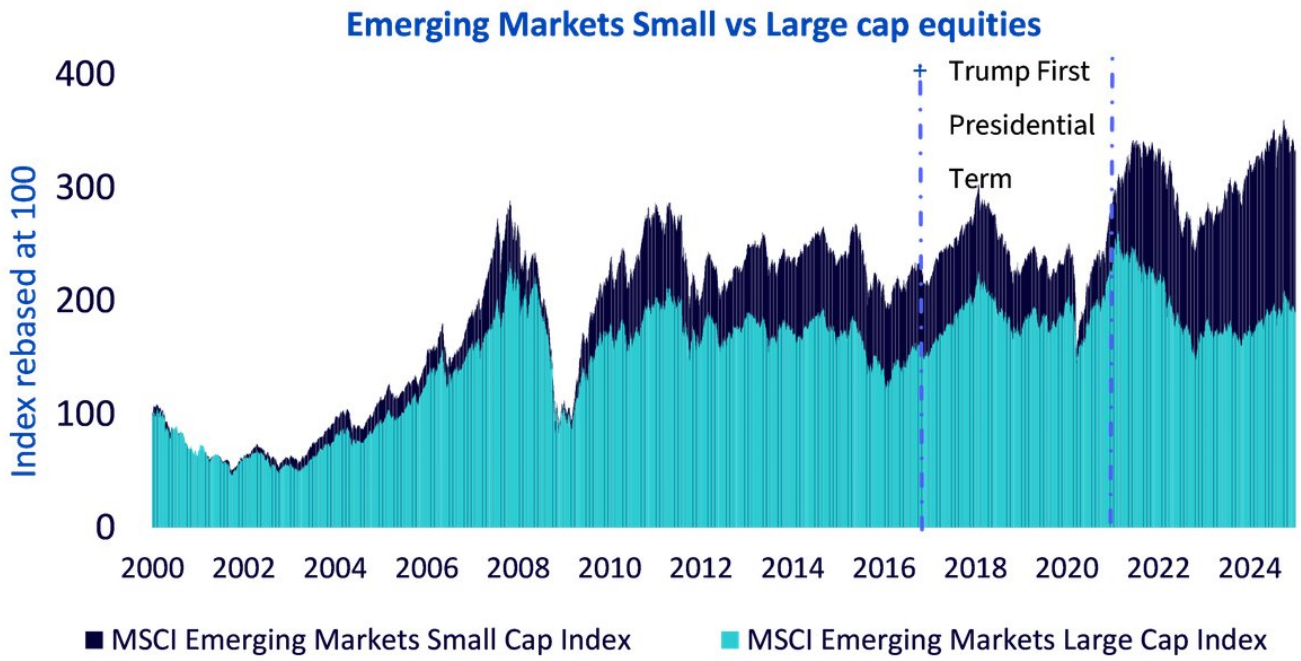
Catalysts for 2025

Trump's tariffs are likely to take centre stage in 2025. Since the pandemic, Japanese companies are more dependent on the US and less so on China. Japan, however, may not be too high on Trump's trade agenda given the importance the US places on Japan as one of its most important allies. Considering the impact of tariffs might be more heavily felt in China, Japan could benefit by gaining more market share at China's expense. In addition, Japan's manufacturers may draw some comfort as many are engaged in production within the US itself, which have been major sources of employment.

The potential for sustained US dollar strength (yen weakness) under Trump's agenda results in greater responsibility for the Bank of Japan (BOJ) to ensure inflation expectations stabilise at the 2% price stability target. This environment favours tilting towards value oriented Japanese stocks that benefit from higher US interest rates, weakening yen and large-scale share buybacks by low Price to Book companies.

A trump card for EM Small Caps

Emerging market (EM) small caps have outperformed EM large caps by 143% over the past 24 years. The Federal Reserve's monetary easing cycle, China's coordinated fiscal and monetary stimulus, and a wave of EM sovereign ratings upgrades provided significant tailwinds for EM equity markets throughout the year. Whilst Trump's re-election (and the prospect of higher tariffs and a strengthening US dollar) disrupted some of this momentum, EM small-cap equities stand out for their stronger domestic orientation and resilience against external shocks, such as trade tensions and currency fluctuations.



Source: Bloomberg, WisdomTree from 3 January 2000 to 1 January 2025. **Historical performance is not an indication of future performance and any investment may go down in value.**

There are three reasons why EM small-cap equities excel in the current landscape:

1. Resilience to tariff wars

During President Trump's first term (2017–2021), EM small-cap equities gained 54%, outperforming the 42% rise in EM large caps . A key factor driving this outperformance was their reliance on domestic revenues rather than international trade. This reduced their direct exposure to tariffs and trade-related disruptions, particularly those targeting cross-border goods.

2. Insulation from US dollar strength

EM small-cap equities are less sensitive to US dollar movements compared to large caps. Over the past decade, the correlation between the US dollar's 12-month change and the forward EPS growth rate was -0.27 for EM small caps, significantly lower than the -0.63 correlation observed for EM large caps.

With Trump's policies expected to maintain US dollar strength in 2025, EM small caps offer greater insulation, allowing investors to weather currency-related volatility more effectively.

3. Small-caps thrive on domestic growth

EM small-cap equities tend to perform exceptionally well in periods of strong domestic economic recovery, like the one we are currently experiencing across many EM economies. Their localised focus enables them to capitalise on internal growth drivers, making them an attractive option for diversification and resilience in today's uncertain global environment.

For investors seeking growth, income, and diversification, EM small caps appear to represent an opportunity in 2025 and beyond.

[1] Artemis Terminal. 31 December 2024.
[2] Bloomberg, WisdomTree. 30 November 2024.
[3] Artemis Terminal. 31 December 2024.
[4] WisdomTree. 31 December 2024.
[5] Bloomberg, WisdomTree. 31 December 2024.
[6] Bloomberg as of 30 December 2024.
[7] Japanese Trade Union Confederation (JTUC-Rengo) as of November 2024.
[8] Bloomberg from 3 January 2000 to 31 December 2024.
[9] Bloomberg from 2 January 2017 to 30 December 2021.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for

distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

WisdomTree Issuer X Limited

The products discussed in this document are issued by WisdomTree Issuer X Limited (the "Issuer"). Investors should read the prospectus of the Issuer before investing and should refer to the section of the prospectus entitled "Risk Factors" for further details of risks associated with an investment in the securities offered by the Issuer.

Securities issued by the Issuer are direct, limited recourse obligations of the Issuer alone and are not obligations of or guaranteed by any of Swissquote Bank Ltd ("Swissquote"), Coinbase Custody Trust Company LLC ("Coinbase"), any of their affiliates or anyone else or any of their affiliates. Each of Swissquote and Coinbase disclaims all and any liability whether arising in tort, contract or otherwise which it might have in respect of this document or its contents otherwise arising in connection herewith.

The product discussed in this document is an unregulated ETP, approved to trade on the SIX Swiss Exchange in Switzerland, Euronext Paris, Euronext Amsterdam and the Deutsche Börse Xetra in Germany. Cryptocurrencies are a high-risk investment and may not be suitable for all types of investor. Prospective investors should be aware that the price of the underlying asset(s) by which the securities are secured can demonstrate higher volatility than other asset classes and consequently the value of the securities may be extremely volatile. You must ensure that the nature, complexity and risks associated with cryptocurrencies are suitable for your objectives in light of your circumstances and financial position.

BTCW Index Disclaimer

All rights reserved. Compass has all proprietary rights with respect to the Compass Crypto Reference Index Bitcoin. Compass disclaims any liability to any party for any inaccuracy in the data on which the Index is based, for any mistakes, errors, omissions or interruptions in the calculation and/or dissemination of the Index. In no event shall Compass have any liability for any lost profits or indirect, punitive, special or consequential damages or losses, even if notified of the possibility thereof.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: **https:** //www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory

Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.