Trump, Xi, and the Strategic Processing Reserve

Published May 21, 2026

Christopher Gannatti, CFA
Global Head of Research

Samuel Rines
Macro Strategist, Model Portfolios

Key Takeaways

- Taiwan risk is pushing investors to value compute capacity, semiconductor redundancy and cybersecurity resilience as strategic assets.
- A more fragile U.S.-China relationship is accelerating deterrence spending, supply-chain duplication and rare-earth independence across Asia and the West.
- The market is still not pricing a Taiwan invasion as the base case, but it is already rewarding geopolitical resilience, allied diversification and critical-mineral security.

Following the meeting between President Trump and President Xi, there was one thing that truly stood out. Taiwan. Yes. President Trump maintained the US' longstanding position of strategic ambiguity. But President Xi's (reported) warning that mishandling Taiwan could lead to "clashes and even conflicts" was a notable way to open the bilateral discussion.[1] It led President Trump to state that no decision had been made on whether to move forward with a major Taiwan arms package. Secretary of State Marco Rubio, meanwhile, said the U.S. position on Taiwan was unchanged.[2] Many things were said with little change in content or concrete statements.

And—naturally—the exchange raises questions. For investors, the only question that matters is "What if Taiwan creates further rifts in the US-China relationship?" That is not a simple question to answer. But there are rather tangible issues and consequences to think about.

The Strategic Processing Reserve framework is simple but useful:

Hyperscalers represent visible scale in compute, Synopsys and Cadence are the invisible indispensabilities in electronic design automation, and Intel represents the push for domestic U.S. semiconductor production. Companies are no longer merely competing in markets; some are becoming instruments of national power.

In our view, markets are not (and should not) price a China invasion of Taiwan as their base case, but markets are beginning to hedge that possibility. That is a distinction that matters. *The beneficiary list is not simply "defense stocks go up."* It is broader and stranger. It is, for example:

- Semiconductor chips **without** Taiwan
- Rare earth minerals **without** China

Those could be the opportunities in a time of potential crisis.

Taiwan is not simply a geopolitical flashpoint. The country remains a critical hub in the global semiconductor supply chain, accounting for over 60% of global foundry revenue and more than 90% of leading-edge chip manufacturing. In 2024, Taiwan's semiconductor industry generated over $165 billion in revenue, representing approximately 20.7% of the country's GDP. U.S. firms such as Apple, NVIDIA, and AMD rely heavily on Taiwan's advanced manufacturing capabilities.[3]

That makes Taiwan less like Ukraine and more like the new Strait of Hormuz. An invasion would be catastrophic. But there is opportunity. For markets, it lies mostly in the pre-invasion world:

- Deterrence
- Duplication
- Stockpiling
- Policy-directed capital

The New SPR

The "**Strategic Processing Reserve**" may be one of the most intriguing and executable geopolitical hedge in a scenario where US and China relations deteriorate meaningfully in a Taiwan scenario. *If new advanced chips become harder or impossible to obtain, already-installed compute becomes more valuable*.

That favors owners of existing data-center scale and contracted compute, with key providers including Oracle, Microsoft, Amazon, Alphabet and Meta. The bottleneck shifts from "can I buy GPUs?" to "do I already have powered, cooled, connected capacity?" In a world competing for AI supremacy, that is incredibly important. Notably, the Strategic Petroleum Reserve was created in the wake of the Organization of Petroleum Exporting Countries (OPEC) embargo. The Strategic Processing Reserve is being created before a similar chokepoint potentially emerges.

This is not just an AI theme, it is also a resilience theme. A Taiwan shock would not reduce the demand for AI, cyber defense, intelligence analysis or autonomous systems. It would constrain the hardware supply chain behind them. That is the same setup that made energy infrastructure valuable in oil shocks: the scarce commodity matters, but the pipes matter too.

Two examples of strategies that include significant exposure to what we are terming 'the SPR of Compute' include:

- The WisdomTree U.S. Quality Growth Fund (QGRW) had the following exposure to key compute infrastructure providers:[4]
  - 9.91% in Alphabet
  - 5.97% in Microsoft
  - 5.96% in Meta
  - 4.63% in Amazon.com
  - 2.17% in Oracle
- The WisdomTree Artificial Intelligence and Innovation Fund (WTAI) had the following exposure to key compute infrastructure providers:[5]
  - 4.23% in Amazon.com
  - 4.20% in Alphabet
  - 2.94% in Oracle
  - 2.89% in Meta

Deterrence Suppliers

The cleanest beneficiaries of a higher Taiwan-risk premium are companies that sell deterrence.

Japan's 2026 defense budget is set at a record $58 billion, with emphasis on unmanned systems, standoff missiles and coastal defense.[6] That makes Mitsubishi Heavy Industries, Kawasaki Heavy Industries and IHI part of the Taiwan-risk complex, not merely Japanese cyclicals. South Korea's Hanwha Aerospace, LIG Nex1 and Korea Aerospace Industries belong in the same conversation.

The logic is not that a war is good. It is that deterrence spending becomes a recurring revenue stream before any conflict occurs. Taiwan risk pulls forward procurement across the first island chain, NATO and the U.S. defense industrial base.

This concept, specifically that Asian countries may need to spend more on deterrence in response to China's regional ambitions, led to the WisdomTree Asia Defense Fund (WDAF), where if we look at the specific exposures to these companies we see:[7]

- 3.82% in Mitsubishi Heavy Industries
- 4.06% in Kawasaki Heavy Industries
- 2.85% in IHI
- 5.79% in LIG Nex1
- 6.73% in Korea Aerospace Industries

Rare Earth and Strategic Metals Capacity

China's leverage is not symmetrical with America's. The U.S. can weaponize electronic design automation (EDA) software, advanced chips and dollar finance. China can weaponize critical minerals.

China has tightened rare earth export controls, including rules affecting items with Chinese-sourced rare earth content and technologies related to mining, smelting, recycling and magnet-making. China accounts for nearly 70% of rare earth mining and roughly 90% of rare earth processing. The International Energy Agency's 2025 critical minerals outlook also notes that refining concentration has increased, with China responsible for the supply growth in rare earths, cobalt and graphite.[8]

That is where WisdomTree's new WisdomTree Efficient Rare Earth Plus Strategic Metals Fund (WDIG), fits the moment. WDIG launched on May 7, 2026, and seeks total return through a portfolio of commodity metals futures and equities of global companies primarily involved in strategic metals and rare earth mining. Its country allocation is global: U.S., Canada and Australia are the three largest country weights, followed by Japan and other developed markets.

As of May 14, 2026, there was no exposure to China's rare earth mineral companies.[9]

The company-level beneficiaries are not just "miners." They are the firms that can plausibly become non-China nodes in a mine-to-magnet chain, with WDIG including:[10]

- 2.47% in MP Materials in the U.S.
- 3.16% in Lynas Rare Earths in Australia and Malaysia
- 1.38% in Neo Performance Materials in Estonia
- 2.78% in Energy Fuels in U.S. rare earth separation
- 2.79% in Iluka in Australia
- 0.87% in Arafura in Australia

If U.S.–China relations deteriorate, this scarcity creates opportunity.

Cyber Defense

A Taiwan crisis would likely not start with ships. It would start with networks.

The Cybersecurity and Infrastructure Security Agency's China threat overview says the breach of U.S. telecommunications infrastructure by Chinese government-linked Salt Typhoon actors underscored the scope and sophistication of China's cyber capabilities.[11] Microsoft has also assessed that Volt Typhoon activity pursued capabilities that could disrupt critical communications infrastructure between the U.S. and Asia during future crises.[12]

That makes Palo Alto Networks (5.76%), CrowdStrike (7.18%), Fortinet (5.94%), Zscaler (5.54%), Cloudflare (3.87%), Okta (4.22%), Tenable (4.15%) and SentinelOne (6.55%) part of the Taiwan-risk trade.[13] Cybersecurity is no longer an IT budget line. It is a mobilization budget line. In a crisis, the buyer is not asking for productivity software. The buyer is asking whether logistics, telecoms, utilities, ports and military-adjacent contractors can function.

The WisdomTree Cybersecurity Fund (WCBR) was launched in 2021 with a lot of this thinking in mind. In our opinion, cybersecurity has only become more important over these intervening years.

China-Light Allocation

Company selection matters, but so does avoiding the obvious index trap.

Most broad emerging-market benchmarks have historically treated China, Taiwan and South Korea as core exposures. A Taiwan invasion scenario challenges all three at once: China through sanctions and capital controls, Taiwan through kinetic disruption, and Korea through proximity and supply-chain exposure.

That is why the WisdomTree True Emerging Markets Fund (XC) is relevant. WisdomTree describes XC as targeted emerging-market exposure **ex-China, Korea and Taiwan**, and as an alternative to EM strategies concentrated in those markets. The fund was previously known as the WisdomTree Emerging Markets ex-China Fund before its July 2025 name change.[14]

The WisdomTree GeoAlpha Opportunities Fund (GEOA) is the explicit geopolitical realignment vehicle. WisdomTree says it targets stocks positioned for strategic and economic realignments and shifting geopolitical risks.

Simply**,** the Taiwan-risk playbook is not one trade, and there are many ways to play a complex world and a complex relationship. The mistake is attempting to time a deterioration in relations or a conflict. There will likely be sanctions and exchange access issues that arise faster than portfolios can pivot. The market will not politely reprice the world's most important chokepoint in slow motion.

It's possible that the better question is:

What is the market already being forced to fund? The answer could be compute capacity and semiconductor deployment redundancy, deterrence, mineral independence, and China-light diversification.

In the 20th century, strategic reserves were oil, grain, ships and steel. In this cycle, they are GPUs, semiconductor fabrication facilities, magnets, missiles, data centers, transformers and allied-market exposure.

Taiwan is the chokepoint. That is no longer a question. Now we have to ask whether portfolios are built for a world that finally knows it.

[1] Source: Cheng, E., & Breuninger, K. (2026, May 14). *Xi warns Trump: Mishandling Taiwan will put U.S.-China relationship in 'great jeopardy.'* CNBC.

[2] Source: Weissert, W., & Madhani, A. (2026, May 15). *Trump weighs Taiwan arms package after summit aimed at steadying US-China ties.* PBS NewsHour / Associated Press.

[3] Source: U.S. International Trade Administration. (2025, December). *Taiwan—Semiconductors including chip design for AI.* U.S. Department of Commerce.

[4] QGRW is designed to track the total return performance of, before fees and expenses, the WisdomTree U.S. Quality Growth Index. Holdings shown as of May 14, 2026, and sourced from QGRW fund page. **Holdings subject to change**

[5] WTAI is designed to track the total return performance of, before fees and expenses, the WisdomTree Artificial Intelligence & Innovation Index. Holdings shown as of May 14, 2026, and sourced from the WTAI fund page. **Holdings subject to change.**

[6] Source: Yamaguchi, N. (2025, December 26). *Japan accelerates defense buildup with record budget and expanded unmanned capabilities.* The Diplomat

[7] WDAF is built to track the total return performance of, before fees and expenses, the WisdomTree Asia Defense Index. Holdings data is sourced from the WDAF page and is as of May 14, 2026. **Holdings subject to change.**

[8] Source: International Energy Agency. (2025). *Global Critical Minerals Outlook 2025: Executive summary.* IEA.

[9] Source: WDIG fund page, with data as of May 14, 2026. **Holdings subject to change.**

[10] Holdings are as of May 14, 2026, and sourced from the WDIG fund page. **Holdings subject to change.**

[11] Source: Cybersecurity and Infrastructure Security Agency, National Security Agency, & Federal Bureau of Investigation. (2025, August 27). *Countering Chinese state-sponsored actors compromise of networks worldwide to feed global espionage system* (Advisory AA25-239A). CISA.

[12] Sources: Microsoft Security. (2023, May 24). *Volt Typhoon targets US critical infrastructure with living-off-the-land techniques.* Microsoft Security Blog; Cybersecurity and Infrastructure Security Agency, National Security Agency, & Federal Bureau of Investigation. (2024, February 7). *PRC state-sponsored actors compromise and maintain persistent access to U.S. critical infrastructure* (Advisory AA24-038A). CISA.

[13] Source: WCBR fund page, with data as of May 14, 2026. **Holdings subject to change.**

[14] Prior to July 10, 2025, the Fund was known as the WisdomTree Emerging Markets ex-China Fund. Prior to that date, Fund performance reflects the investment objective of the Fund when it tracked the performance of the WisdomTree Emerging Markets ex-China Index.

Important Risks Related to this Article

For current holdings, please click the respective ticker: QGRW, WTAI, WDAF, WDIG, WCBR, XC, GEOA**. Holdings are subject to risk and change.**

There are risks associated with investing, including possible loss of principal.

QGRW: Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended.

WTAI: The Fund invests in companies primarily involved in the investment theme of Artificial Intelligence (AI) and Innovation. Companies engaged in AI typically face intense competition and potentially rapid product obsolescence. These companies are also heavily dependent on intellectual property rights and may be adversely affected by loss or impairment of those rights. Additionally, AI companies typically invest significant amounts of spending on research and development, and there is no guarantee that the products or services produced by these companies will be successful. Companies that are capitalizing on Innovation and developing technologies to displace older technologies or create new markets may not be successful. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended.

WDAF: Foreign investing involves specific risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Because the Fund invests primarily in the securities of companies in Asia, the Fund's performance is expected to be closely tied to social, political, and economic conditions within Asia and to be more volatile than the performance of more geographically diversified funds. Many countries in the region have historically faced political uncertainty, corruption, military intervention, and social unrest. To the extent that such events continue in the future, they can be expected to have an unpredictable effect on economic and securities market conditions in the region and may impact the ability of the Fund to buy, sell or otherwise transfer securities and cause the Fund to decline in value. Investments in non-U.S. securities involve political, regulatory, and economic risks that may not be present in investments in U.S. securities. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended.

WDIG: The Fund is actively managed and invests in commodity metals futures contracts from an eligible exchange, and equity securities issued by global companies primarily involved in strategic metals and rare earths mining activities.

The value of metal commodities, such as various mined metals and commodity-linked derivative instruments, such as commodity metals futures contracts, typically is based upon the price movements of the physical commodity or an economic variable linked to such price movements. Price movements in metals and commodity metals futures contracts may fluctuate quickly and dramatically, have a historically low correlation with the returns of the stock and bond markets, and may not correlate to price movements in other asset classes.

By investing in the equity securities of metal miners, the Fund may be susceptible to financial, economic, political, or market events that impact the metal mining industry. Derivatives are used by the Fund to gain exposure to strategic metals and rare earth mining activities. Derivative investments can be volatile and may be less liquid than other investments. As a result, the value of an investment in the Fund may change quickly and without warning you may lose money. A fund that has a portfolio that is concentrated in the securities of issuers in a particular industry or group of related industries, may be adversely affected by the performance of those securities, and more susceptible to adverse economic, market, political, or regulatory occurrences affecting that industry or group of related industries.

WCBR: The Fund invests in cybersecurity companies, which generate a meaningful part of their revenue from security protocols that prevent intrusion and attacks to systems, networks, applications, computers, and mobile devices. Cybersecurity companies are particularly vulnerable to rapid changes in technology, rapid obsolescence of products and services, the loss of patent, copyright and trademark protections, government regulation and competition, both domestically and internationally. Cybersecurity company stocks, especially those which are internet related, have experienced extreme price and volume fluctuations in the past that have often been unrelated to their operating performance. These companies may also be smaller and less experienced companies, with limited product or service lines, markets or financial resources and fewer experienced management or marketing personnel. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index.

XC: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks. The Fund's investment strategy limits the types and number of investment opportunities available and, as a result, the Fund may underperform other funds. The Fund's exposure to certain sectors, countries, or regions may increase its vulnerability to any single economic or regulatory development related to such sector, country, or region. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index.

GEOA: The economic, political, regulatory and other events and conditions that affect issuers and investments in the United States differ significantly from those associated with other countries and regions.

Any event or condition that affects the U.S. economy, whether originating from within or outside of the United States, may have an adverse effect on the Fund's investments in the United States and thus, the Fund's performance. Funds focusing their investments on certain sectors and/or regions increase their vulnerability to any single economic or regulatory development. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index. The composition of the Index is governed by an Index Committee and the Index may not perform as intended.

Please read the Fund's prospectus for specific details regarding the Fund's risk profile.