

Prediction Markets Report 2026

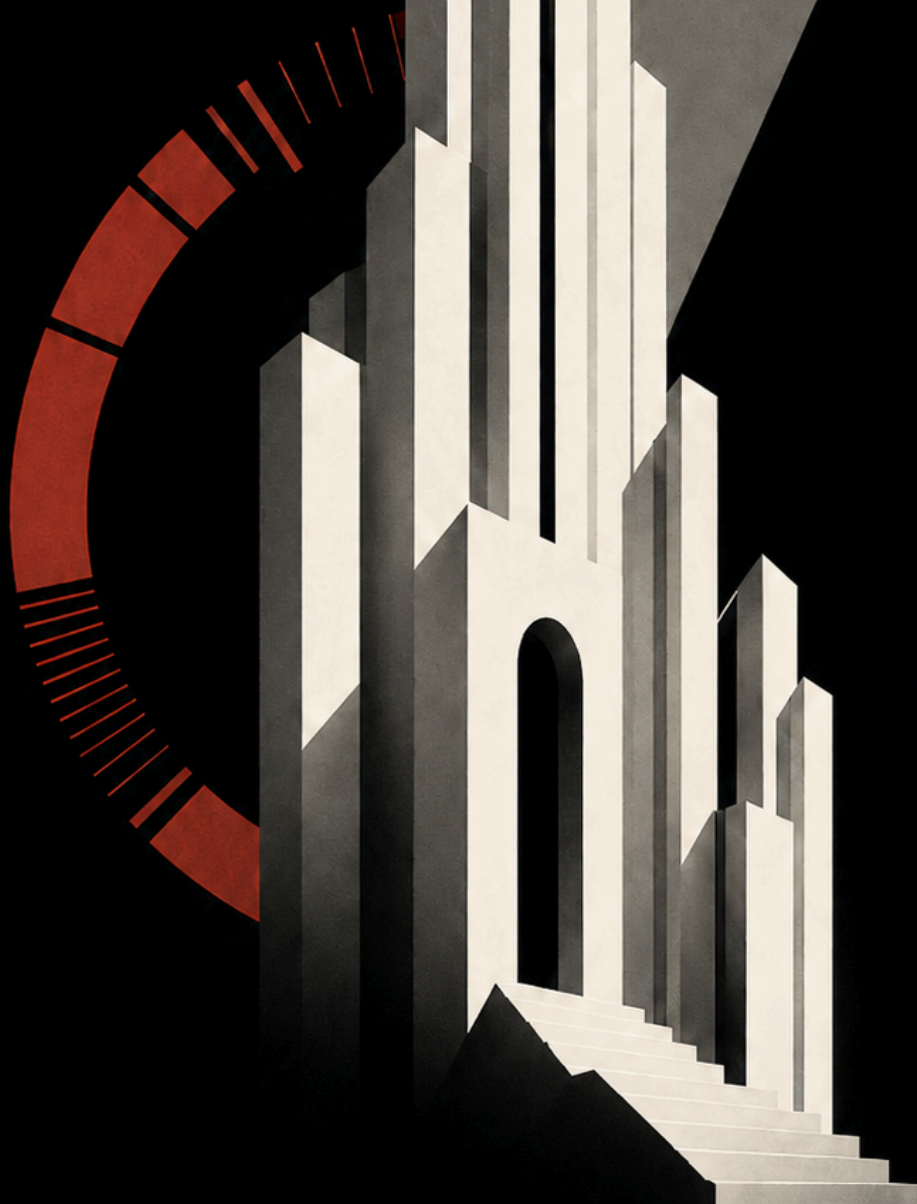
The Truth Machine Got Rich the Year Its Story Fell Apart

Written for founders, analysts,
regulators, and institutional desks

By Dren Hima & Atis Shala

HoddtUp

RESEARCH



Contents

–	Executive Summary	3
01	The Shape of the Market: A Duopoly That Swapped Leaders Quietly	6
02	How the Machine Works: Microstructure Decides Who Wins	13
03	Does It Forecast, Or Does It Just Trade?	18
04	Sentiment Measurement and the Media Flywheel	23
05	Manipulation, Insider Trading and Integrity	28
06	Permissive in Washington, Hostile Almost Everywhere Else	36
07	Impact, Direct and Indirect	44
08	Buy the Plumbing, Not the Casino	47
09	Three Things That Could Happen	50
10	Gaps Are Part of the Finding	55
A	Institutional Appendix	57
B	Sources and Methodology	67
–	Notes	69

Figures appear within the section that discusses them. Superscript numerals refer to the endnotes.

Executive Summary

Two years ago, prediction markets were a curiosity that data nerds and election obsessives checked on their phones. In 2026, they are a category that absorbed a billion-dollar capital round, an exchange-operator investment from the parent of the New York Stock Exchange, and a working federal regulatory posture in the United States.

While that's all real, the other part is that the industry sells itself as an information machine, a place where dispersed knowledge gets priced into a probability that beats pundits and polls, and the 2026 record keeps undercutting such claims in public. The venue that won, Kalshi, won by becoming a sportsbook wearing a derivatives license, with sports running around 80 to 90% of its listed contracts and revenue by its own account to a federal court.¹ The price discovery that does happen is driven by a few percent of traders and a handful of whales.² The markets that get the most media attention are the least calibrated.³ And the onchain platform that built its brand on transparent, auditable settlement spent the same period paying creators to film fake winning bets on copycat websites, which is now the subject of a federal investigation.⁴

The mechanism is far from worthless. But it does mean that the value sits in a narrower part of the stack than the marketing claims suggest, and a serious reader should be able to tell the two apart. The most interesting story related to prediction markets is the distance between what the industry says it is, a truth machine for a confused world, and what its order flow rewards.

Key Takeaways

- **The volume numbers may be worse than unstandardized.** Dr. Rajiv Sethi and co-authors, using a wash-trade detection method built on volume-to-capital ratios and counterparty network structure, found periods in which wash trading accounted for as much as 60% of total Polymarket volume, concentrated in the era before the platform charged fees.^{5,7} Sethi believes platform figures should be read accordingly. “Polymarket volume claims should be treated with a bit of skepticism.”⁶ Volume claims fed the valuations, and nobody has audited them.
- **The flip became a lead.** Polymarket led for most of the cycle, but in The Block’s 3 August 2026 snapshot of July, Kalshi recorded \$37.7B in monthly volume against \$7.9B on Polymarket International and \$5.0B on Polymarket US, taking 74.5% of the three-platform total.⁸ The World Cup drove category turnover higher, and it did not change the direction, because Polymarket International fell 26% month on month while Kalshi rose about 14% against a reconstructed revised-June baseline of roughly \$33.0B.⁹ The regulated incumbent beat the crypto-native pioneer, and it did it on sports.
- **The forecasting value is real but small.** A Federal Reserve working paper on Kalshi’s macro markets found they produce well-calibrated, continuously updating forecasts, with a perfect record on the day before FOMC rate decisions and inflation forecasts about as accurate as the Bloomberg consensus.¹⁰ That is the genuine signal, and it lives in liquid, observable macro markets that make up a tiny slice of the volume. Sethi argues the mechanism’s comparative advantage is narrower still but sharper than the Fed paper suggests, because it is at its best precisely where statistical models have no history to calibrate against.¹¹
- **Regulation split in two directions at once, and the split widened after the data cutoff.** The CFTC under Chairman Michael Selig is the most permissive federal regulator the sector has ever had, and by August it was invoking emergency powers to keep Kalshi trading in New York over the state’s objection.¹² In the same window, federal district judges in New York and Connecticut held that the Commodity Exchange Act does not preempt state gambling law, 44 state attorneys general told the Commission it has no authority over sports contracts at all, and more than a dozen non-US jurisdictions had imposed blocks, blacklists or other restrictions, most commonly under gambling law.^{13, 14, 15}

- **Capital arrived, and then it kept arriving.** Kalshi raised \$1B at a \$22B valuation in May 2026, and by mid-August it was in advanced talks to raise at least \$750M more at \$40B on the back of a July annualized revenue rate above \$4B.^{16, 17} Polymarket closed an April round at a \$15B valuation that included \$600M from Intercontinental Exchange, the owner of the New York Stock Exchange, and by early August was in early talks to raise about \$1B at more than \$20B.^{18, 19}
- **The integrity problems are not edge cases, and they are not confined to the offshore venue.** Two federal insider-trading prosecutions, a trader who cleared \$553,000 on a supreme leader's death, bettors who sent death threats to the journalist whose reporting would resolve their market, a fake-wins marketing campaign that drew a CFTC probe, and the president's teleprompter operator trading on Kalshi against words he was about to load are all the 2026 record, and the 2025 oracle flip on a nine-figure market is the precedent none of it corrected.^{20, 21, 22, 23, 24}

The investable and policy-relevant value is in the plumbing rather than the casino. Regulated clearing and surveillance, oracle integrity, institutional data and hedging tools, and the structured-products layer that is starting to wrap event contracts into things a treasurer can buy are where durable demand shows up.²⁵ A bet on more retail velocity in sports and politics is a bet on the part of the business regulators are most likely to clip, and on the part of the story the evidence supports least. The rest of this report defends that view and stress-tests it.

The Shape of the Market: A Duopoly That Swapped Leaders Quietly

By July 2026, Kalshi, Polymarket International and Polymarket US recorded \$50.59B in combined monthly trading volume, up 7.8% from June and a new monthly high, on The Block's 3 August 2026 snapshot.²⁶ Kalshi contributed \$37.7B of that, or 74.5% of the three-platform total, while Polymarket International fell 26% month on month to \$7.9B and the regulated US platform rose 54% to \$5.0B.²⁷ The World Cup was the driver, so the July figure is better read as evidence of the category's capacity for event-driven turnover than as a clean new baseline. For scale, Americans wagered about \$14B a month through legal sportsbooks in 2025, so the three largest prediction markets together now move more notional in a month than the regulated US sportsbook industry, on a definition of volume that is not the same definition.²⁸

TRM, counting distinct wallets touching the main onchain venues, put monthly unique wallets at 840,000 by February 2026, nearly triple the level six months earlier, which says the growth is a wider base of participants and not just bigger tickets from the same people.²⁹ That figure is six months old at publication and counts onchain addresses rather than people, and one address can belong to a trader who controls fifty of them.

The Market in July 2026

Key figures through 27 August 2026

\$50.59B Combined Kalshi, Polymarket International and Polymarket US monthly volume, July 2026, an all-time high	74.5% Kalshi share of that three-platform total, July 2026	80–90% Kalshi's sports share of listed contracts and revenue, by its own report to a federal court, February 2026
840k Monthly unique onchain wallets, February 2026, roughly 3x six months prior; addresses, not people	\$40B Valuation Kalshi was seeking in August 2026, against the \$22B round it completed in May	~3% Share of traders driving most Polymarket price discovery

Source: The Block; TRM Labs; The Information; court filings. Figures dated individually.

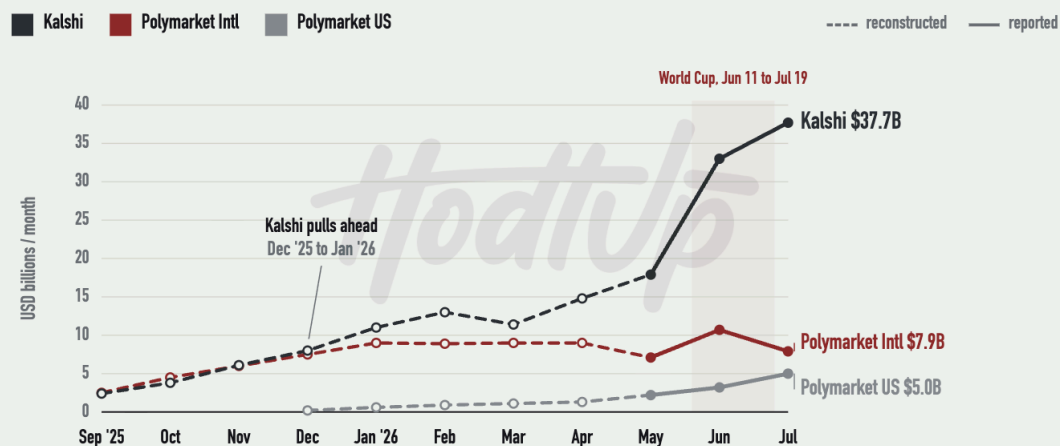
For most of the cycle Polymarket was the bigger and more talked-about venue, and a lot of analysis from late 2025 freezes that picture in place. It is stale. Through winter and spring 2026 Kalshi passed Polymarket and then pulled away, and by May, Bernstein's figures via The Block had Kalshi at roughly \$17.9B in monthly volume against about \$7.1B for Polymarket, with Polymarket posting its first monthly decline in eight months.³⁰ July extended the gap rather than closing it. Bank of America analysts put Kalshi's share of the regulated US market at roughly 91%, with Polymarket second and Underdog third, and Sequoia has described Kalshi as holding 95% of the US market by revenue.^{31, 32}

Even the direction of travel comes with a measurement warning attached. The Block first reported June combined volume at \$44.8B, including an initial June print of \$31.5B from Kalshi, and its dashboard later carried a revised June baseline of \$46.95B as more trading data arrived, with Kalshi's June figure reconstructed at roughly \$33.0B.³³ A single source revised a single month by about \$2B while nobody was disputing anything, a revision large enough to matter to any market-size estimate. The vintage has to travel with the number: Kalshi's \$37.7B July print is about 14% above the reconstructed revised-June baseline of roughly \$33.0B, and about 20% above the initial June print of \$31.5B. Both are arithmetically correct and they are not the same claim.

Figure 1

The Crossover: Kalshi Overtakes Polymarket, Then Pulls Away

Monthly trading volume by venue, Sep 2025 to Jul 2026 (USD billions)



Source: The Block. July 2026 reported; June 2026 venue split derived from reported month-on-month changes; September 2025 to May 2026 reconstructed from Pew / The Block, Bernstein via The Block, and TRM. Venues report volume differently (taker versus notional matched), and The Block revised its own June total from \$44.8B to \$46.95B after the fact.

Polymarket's defenders will note that 2024's election spike, more than \$3.2B on the presidential winner alone, dwarfed anything on a per-market basis, and that onchain volume is harder to measure cleanly.³⁴ Both are fair. Paradigm research warned in late 2025 that a lot of Polymarket analysis double-counts volume because of how the contracts and event data work, and a 2026 academic accounting of the onchain

record formalized the same problem, so anyone quoting a precise Polymarket number should be treated with suspicion, including the platform itself.³⁵ There is a second complication in the other direction, because Dr. Harry Crane, a statistician at Rutgers University, estimated that US traders drove about 30% of Polymarket's offshore volume over the twelve months to 30 April 2026, on a range of 19% to 48%, and stressed that blockchain transactions do not reveal where anyone is sitting.³⁶ The offshore venue that is banned for US users may be substantially a US venue.

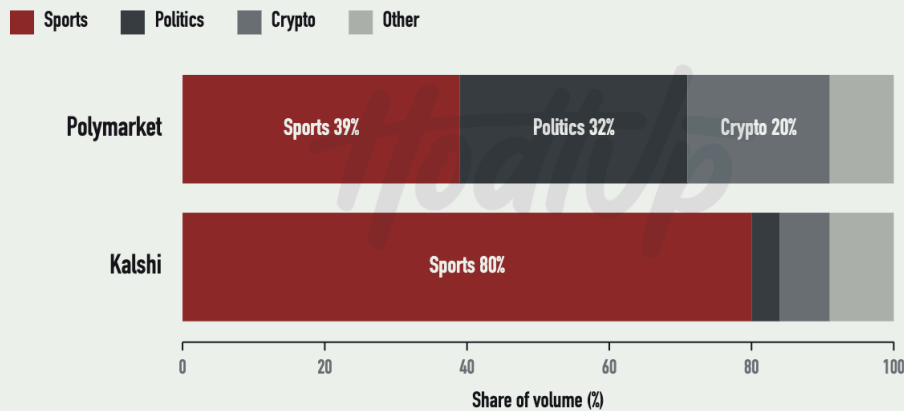
The direction is not in dispute. Kalshi's compliance posture and its distribution deals turned into a large lead, and the crypto-native pioneer is now the challenger.

If you remove category labels, the growth engine would be sports. On Kalshi, sports ran about 80% of cumulative volume since mid-2024 by Pew's count, and Kalshi told a federal court that sports event contracts made up between 80% and 90% of both its listed contracts and its revenue as of February 2026, a figure Connecticut has since quoted back at it in a complaint arguing the company is a sportsbook.^{37, 38} Polymarket spreads wider, with sports at 39%, politics at 32% and crypto at 20% of cumulative volume since July 2024, which together make up about 90% of its flow, against 80%, 4% and 7% on Kalshi.³⁹ The cleanest way to see the two business models is side by side.

Figure 2

One Venue Is a Sportsbook; the Other Is a Politics and Crypto Book That Also Does Sports

Share of cumulative trading volume by category, July 2024 to April 2026



Source: Pew Research Center analysis of The Block data, cumulative July 2024 to April 2026, on a notional taker basis. Components are rounded. Shares move sharply with the calendar: political markets were about 90% of Kalshi and 65% of Polymarket around the November 2024 election, before Kalshi listed sports at all. Kalshi separately told a federal court that sports contracts were 80% to 90% of its listed contracts and revenue as of February 2026.

A market that is 80% sports is not primarily an information utility for a confused electorate or a hedging tool for a corporate treasurer. It is a betting exchange with continuous events and small repeat tickets, which is exactly the product profile that draws gambling regulators, and exactly the segment the CFTC’s own proposed rule now flags as the hardest to defend on public-interest grounds.⁴⁰ The macro and political markets, the ones that carry the forecasting argument, are the minority of the money.

The Duopoly Is Getting Crowded

Kalshi and Polymarket are no longer the whole field, and Kalshi’s own chief executive says so. “When I think about competition, I don’t think about Polymarket, honestly, as much as some of the others,” Tarek Mansour told Front Office Sports in June, naming CME Group, which helped FanDuel launch its own event-contract product, and Robinhood, in a field that also includes DraftKings, Novig and Coinbase.⁴¹ The reason is distribution.

Robinhood made event contracts available inside a brokerage that ended Q2 2026 with 28.4 million funded customers, and reported a record 13.6 billion event contracts traded during the quarter, more than ten times the year-earlier count, generating \$156M in revenue that the company now discloses as its own transaction-revenue line rather than burying it in “other.”⁴² Contract count is not notional volume, and Robinhood defines the metric as the number of event contracts bought or sold, each settling at up to \$1.⁴³ The company demonstrated the point itself in the same release, disclosing more than 3.5 billion contracts traded on Rothera while warning that the two figures cannot be added, because the hub counts contracts bought or sold and Rothera counts each matched pair of yes and no contracts as one.⁴⁴

Rothera is the more consequential development, and it is the one most coverage has missed. It is a joint venture Robinhood established with Susquehanna International Group, which acquired 90% of MIAX Derivatives Exchange in January 2026 and rebranded it, giving Robinhood a designated contract market and a derivatives clearing organization rather than a distribution deal with somebody else’s exchange.⁴⁵ Live trading started around the turn of June with World Cup and baseball contracts, Rothera contributed \$17M of Robinhood’s \$156M event-contract revenue in its first partial quarter, and Robinhood fell to about 17.5% of Kalshi’s second-quarter volume from nearly 50% a year earlier.^{46, 47} The largest distribution partner in the category built its own venue and started routing flow to itself.

The same logic showed up as an acquisition three weeks later. On 30 July 2026, IG Group agreed to buy Underdog for up to \$1.3B, an upfront enterprise value of about \$1.1B equal to 2.4 times Underdog’s trailing net revenue of roughly \$466M, plus an earnout.⁴⁸ IG was not buying volume. It was buying a vertically integrated license stack, brokerage plus exchange plus clearing, attached to more than 11 million registered accounts, with over 60% of its monthly actives under 30, and it said the deal would lift the US from 22% to about 40% of group revenue and drop its average customer age from about 42 to about 34.⁴⁹ Underdog had climbed to third-largest US prediction-market venue by regulated notional flow in under a year by migrating an existing daily-fantasy user base onto prediction-market rails through the same app, wallet, identity verification and brand.⁵⁰

New onchain venues such as Opinion Labs, Limitless, and predict.fun are pulling

their own volume.⁵¹ Hyperliquid, the largest decentralized derivatives venue, entered the category in May with HIP-4, bolting event contracts onto an existing deep-liquidity perpetuals exchange rather than building a standalone venue.⁵² The launch was loud on day one, with the chief executive of Hyperion DeFi, a publicly traded HYPE accumulator and so an interested party, claiming via DL News that the first Bitcoin outcome market did roughly three times the combined volume of the equivalent Polymarket and Kalshi markets, and modest since, with day one taking only about 0.7% of prediction-market share.⁵³ Limitless chief executive CJ Hetherington told Bernstein analysts that the missing momentum behind Hyperliquid's push suggests either that building real liquidity in the category is harder than commonly assumed, or that volume on rival platforms is more inflated than it appears.⁵⁴ The long tail is no longer rounding error either, with Limitless near \$1.7B and predict.fun-class venues around \$1.5B in April on Dune-based compilations.⁵⁵

An operator's view from inside HIP-4 fills in the mechanism. Wasim Fukase, founder of the Hyperliquid-based venue Stratum, described the resolution design in an interview for this report as staked and slashable, so a validator running an outcome must stake HYPE and an oracle fault costs that stake, which is the structural difference from UMA's bonded-but-unslashed token vote. He is candid that liquidity, not demand, is the binding constraint for a new venue. "Right now the liquidity is the issue, and this is being honest about it." He reports roughly \$400M in cumulative volume, with the 2026 World Cup final on 19 July driving the largest single spike and five or six of his top ten markets World Cup-related, and outside those, the recurring volume is daily Bitcoin up-or-down contracts.⁵⁶

The likely shape is a few large aggregators with regulatory cover and network effects, and a long tail of specialists, which is a worse outcome for any single-venue token bet than the duopoly framing suggests.

How the Machine Works: Microstructure Decides Who Wins

A prediction market is a market in binary claims that pay out on whether something happens, where a contract priced at 62 cents is read as a 62% chance. The classic economics, from Hanson's scoring-rule work through Wolfers and Zitzewitz, says such markets reward gathering information, reward revealing it, and can aggregate scattered views better than a single expert.⁵⁷ The same literature, with Manski the sharpest on this, warns that a price is a risk-adjusted market probability and not a clean reading of objective truth, and that under risk aversion, heterogeneous beliefs, or thin liquidity the two can diverge without any fraud at all.⁵⁸ Hold both of those in mind for the rest of the report.

Dr. Rajiv Sethi, professor of economics at Barnard College, Columbia University, who has studied these markets for over two decades and is writing a book on them, put the interpretive problem more bluntly in an interview for this report. "It's not obvious what that price means, because the market doesn't have a belief and traders disagree with each other." Many readers treat the price as an average belief, he says, and it is certainly not that, because the relationship between the distribution of trader beliefs and the price depends on risk tolerance, budgets, and the design of the market itself. What makes the number behave like a probability is not consensus but arbitrage. As Sethi notes, tight spreads and returns on collateral let arbitrage pull a set of contracts back into line when it starts to violate the laws of probability.⁵⁹

Order Books, AMMs, and the Hybrid

There are three live designs. A central limit order book, the model Kalshi runs, matches buyers and sellers and clears centrally, and it produces tight spreads and good price discovery once it has enough flow, which is why the regulated order-book venue ended up with the deepest liquidity. An automated market maker, the model behind older fully onchain systems like Omen, guarantees a continuous quote and lets anyone create a market, but it exposes liquidity providers to inventory risk and gets inefficient when outcomes are highly skewed or information-sensitive.

Polymarket's hybrid sits in between, matching orders off-chain for speed while settling onchain in tokenized positions, and that combination of central-exchange performance with onchain settlement is the main reason it outscaled the purist decentralized designs that came before it. The first cross-platform price-discovery study, covering Polymarket, Kalshi, PredictIt, and Robinhood around the 2024 election, found the more liquid venues substantially outperformed polls while leaving meaningful price gaps between platforms, with the venue seeing the larger directional flow from big trades leading discovery.⁶⁰

The thing most coverage misses is that the venue is only one layer. A modern prediction market is a stack, and the layers fail in different ways.

Figure 3

The Prediction-Market Stack

Five layers; the oracle is the one that can make a liquid market wrong (2026)

Distribution	brokers, wallets, news embeds
Venue & matching	order book or AMM, UX, liquidity
Collateral & outcome tokens	USDC / pUSD, ERC-1155 yes/no pairs
Oracle & resolution	decides what is "true"
Governance & disputes	token votes, bonds, slashing

Source: Hodlip Research.

Outcome tokens are programmable, so positions are transferable and visible onchain, and Polymarket's contracts represent yes and no as fully collateralized ERC-1155 pairs, with pUSD, a Polygon ERC-20 backed by USDC, as the official collateral.⁶¹ Settlement and trade history can be observed at the transaction level, which is what

makes the academic and surveillance work possible. Self-custody removes some exchange-failure risk, but only when the user experience does not quietly re-introduce a central dependency, which in Polymarket's case it largely does through deposit wallets and off-chain matching. And the oracle becomes existential, because if the settlement answer is wrong the market is wrong no matter how deep it was.

The Key Players, as of August 2026

PLATFORM	MODEL	CUSTODY	TOKEN / ECONOMICS	REGULATORY POSTURE
Kalshi	Central order book, regulated event contracts; launched US perpetual futures in 2026 ⁶²	Custodial, centrally cleared, segregated funds	No token; equity. Transaction fees on trades plus institutional data sales; not a counterparty ⁶³	CFTC DCM. Federal-preemption litigation is split, with a Third Circuit win and district-court losses in New York and Connecticut, plus active state and tribal challenges ⁶⁴
Polymarket (Intl)	Hybrid: off-chain matching, onchain settlement on Polygon	Hybrid non-custodial; wallet signing, CTF outcome tokens	No native platform token launched. The chief marketing officer said in October 2025 that a POLY token and airdrop were coming; the Help Center stated on 24 June 2026 that no airdrop or token generation event has been announced ^{65, 66}	Offshore. Banned for US users since 2022; blocked or restricted in more than a dozen non-US jurisdictions
Polymarket US	Regulated US platform via the QCEX license	Custodial / KYC, regulated intermediaries	\$5.0B July 2026 volume against \$7.9B on Polymarket International; daily notional above \$100M ⁶⁷	CFTC DCM. Amended Order of Designation, November 2025; app waitlist removed May 2026
Rothera	Central order book; regulated DCM and DCO; formerly MIAxdx	Custodial, centrally cleared	B2B venue serving FCMs and market makers; contributed \$17M of Robinhood's Q2 event-contract revenue ⁶⁸	CFTC DCM and DCO. Robinhood joint venture with Susquehanna International Group; MIAx retains 10%
Hyperliquid (HIP-4)	Onchain central order book for binary and multi-outcome contracts, unified with perps; launched May 2026 ⁶⁹	Self-custodial on Hyperliquid L1 / HyperEVM	No open fee, fees on close and settle; USDH settlement; builder markets require a 1M HYPE slashable stake ⁷⁰	Offshore. Unregistered; same US-access questions as Polymarket International
PredictIt	Centralized political and event exchange, small caps per market structure	Custodial fiat	No token; not-for-profit research structure; 10% on profits, 5% on withdrawals	CFTC Letter 25-20 (14 July 2025) amended the original no-action relief, transferred operation to PMRC, removed the 5,000-trader cap, and tied the individual contract cap to the federal campaign-contribution limit ⁷¹
Manifold	Social forecasting, mostly play-money	Web app, no onchain custody for core product	Internal "Mana"; data licensing; market-creation fees	Light. A social game, not a real-money exchange

PLATFORM	MODEL	CUSTODY	TOKEN / ECONOMICS	REGULATORY POSTURE
Augur	Historically decentralized PM; now a generalized oracle reboot	Self-custodial onchain	REP security and governance token; 2026 fork and migration	Permissionless. Commercially marginal as a venue today
UMA	Optimistic oracle; the resolution layer under Polymarket	Protocol-level	UMA token: staking, bonds, liveness, slashing, DVM votes	Infrastructure. Risk is indirect; integrity disputes are very direct
Gnosis	Conditional Tokens + AMM contracts powering onchain forecasting	Protocol-level	Application-dependent; neutral infrastructure	Infrastructure. Exposure is to the apps built on top

The infrastructure layer, UMA and Gnosis especially, is where a clean “picks and shovels” thesis usually lives, and it is also where the integrity risk concentrates, because the oracle is both the most-used dependency and the least-funded part of the stack. More on that in the integrity section, because the 2026 oracle disputes are the clearest demonstration in the whole sector of how a liquid market can still settle on a wrong answer.

Does It Forecast, Or Does It Just Trade?

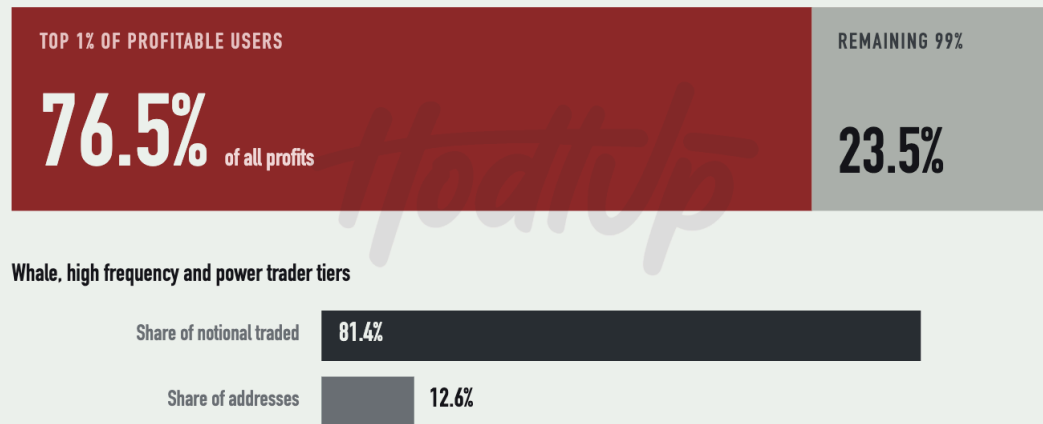
The strongest evidence for prediction markets in 2026 came from the Federal Reserve, whose working paper on Kalshi's macroeconomic markets found they yield well-calibrated, continuously updating density forecasts, with the Kalshi median and mode posting a perfect record on the day before FOMC rate decisions, a statistically significant improvement on the New York Fed's survey, and forecast errors on core CPI and unemployment almost identical to the Bloomberg consensus.⁷² That is a primary, mostly hostile-witness result, a central bank documenting that a betting venue prices its own decisions about as well as the professional tools, and it is the cleanest pro-market finding in the literature. It also describes the narrowest possible case, a liquid, frequent, perfectly observable macro event with deep professional participation. That is the band where the mechanism works, and it is a small share of the volume.

Outside that band the picture is mixed, and 2026 research kept chipping at the "wisdom of crowds" framing the industry leans on. A working paper that examined every Polymarket trade from 2023 to 2025 found that roughly 3% of traders account for most of the price discovery, that only about 12% of the biggest winners beat a coin-flip benchmark once you simulate their bets ten thousand times, and that around 60% of apparent winners turned into losers when tested on a separate set of events.⁷³ A study using \$67B of Polymarket volume found gains extraordinarily concentrated, with the top 1% of profitable users capturing 76.5% of all profits, and a ground-truth archive of 1.2 billion trades found that the high-spread niche markets are where informed specialists congregate rather than noise traders.^{74, 75}

Figure 4

The Top 1% of Profitable Users Capture 76.5% of Profits

Share of all trader profits, \$67B Polymarket sample (2026)



Source: Akey, Grégoire, Harvie & Martineau (2026), \$67B Polymarket study; fill-side behavioral-tier study (2026). Profit shares are of profitable users only; the tier figures come from a separate study and are not a subset of the top 1%.

Most of the price-setting signal comes from a thin layer of traders, which is closer to how any market works and very far from the egalitarian story in the marketing. The same \$67B study reports something inconvenient for the loudest critics too, finding that insider activity is unlikely to explain the performance of the largest winners, who mostly made money by providing liquidity through limit orders that resolved well.⁷⁶

Dr. Robin Hanson, associate professor of economics at George Mason University, whose market scoring-rule work founded the field, responded to the concentration data in an interview for this report. His view is that it describes financial markets generally rather than prediction markets specifically. “A lot of what many people don’t like about prediction markets is what they don’t like about ordinary financial markets, but maybe just don’t know,” he says. “Ordinary financial markets have also had this feature for a long time, which is that most traders lose on average in their trades.” His argument is that the right comparison is not to an idealized crowd but to other information institutions. “If we think about prediction markets as an information institution, I think the comparison should be to other information institutions, like journalism or gossip or academic journals. And then in those institutions, we’re okay with the idea that there’s net

resources going into those institutions, because the information coming out is the value.” He concedes the funding model is unattractive. “I might rather that we found a way to pay for these markets other than basically taxing fools, but we haven’t ponied up other ways to pay for them, and the fools have volunteered themselves to be taxed.”⁷⁷

Sethi, interviewed separately, cautions that whether concentration helps or hurts accuracy cannot be settled by argument. In work with David Rothschild of Microsoft Research on the 2012 presidential election, using transaction-level InTrade data, he found that roughly 87 to 90% of traders never once switched the direction of their bets.⁷⁸ They were Romney bettors or Obama bettors, not updaters, leaving perhaps 5% who moved with the news. “Those few people who are really sensitive to the biases of others are going to play a really pivotal role in determining where the price goes,” he says. “Whether that leads to good or bad forecasting is ultimately an empirical question.” He is explicit that both of the popular a priori arguments fail, the one saying markets must be accurate because money is at stake, and the one saying they cannot be accurate because the trading population is young, male, and unrepresentative.⁷⁹

If 3% of traders set the price, “the wisdom of crowds” is the wrong slogan. The usual handful of sharp traders are doing the work, and the crowd is mostly along for the ride.

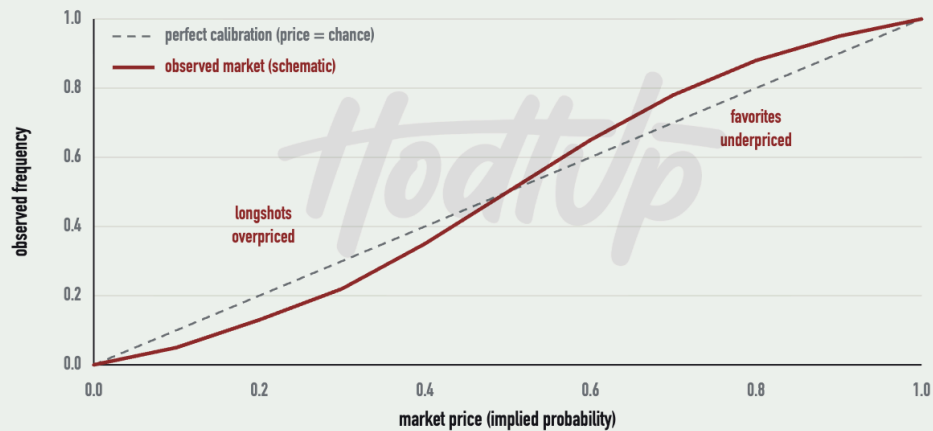
Calibration Is Conditional

The honest academic answer to “are the prices true probabilities” is that it depends on what you are pricing, when you look, and who is trading, which is what a 2026 calibration study concluded after decomposing the question.⁸⁰ Two patterns recur across the literature. There is a favorite-longshot bias, first documented in horse racing and formalized by Page and Clemen for these markets, where longshots are overpriced and favorites underpriced, and it gets worse the longer the time to resolution.⁸¹ And there are systematic distortions at the extremes, where a 97-cent contract is not reliably a 97% event. Berg’s work on the Iowa Electronic Markets showed markets beating polls in some settings, but even that result is contested rather than settled.⁸²

Figure 5

Why 62 Cents Is Not Always a 62% Chance

The favorite-longshot bias, schematic (2026)



Source: Schematic, not platform data. Illustrates the favorite-longshot bias documented by Page & Clemen and others.

In 2026 that bias has a real cost, because news outlets, social media, and policymakers quote the cent price as a probability, and a miscalibrated market sends everyone reading the number off in the same wrong direction.⁸³

Industry-wide Brier scores hover near 0.09, which is genuinely good, and Polymarket advertises a self-calculated 0.0843 across resolved markets.⁸⁴ A platform's own score is platform-calculated and not independently audited, so treat it as a claim and not a verified figure. And an aggregate Brier score is dominated by the easy markets, the sports and the near-certain outcomes that resolve cleanly, which flatters the metric while saying little about the hard, contested, high-attention questions where people want a forecast. The score is best where the forecast is least needed.

Where Models Break, and Markets Don't

The Fed paper locates the mechanism's value in liquid, repeating, cleanly observable macro events. Rajiv Sethi locates it somewhere almost opposite, in events with no precedent, where statistical models have nothing to calibrate against.

His example is the June 2024 debate. Within the first half hour, the price of the Biden contract on Polymarket fell sharply, but the Trump contract did not rise by a corresponding amount, because traders were simultaneously pricing the possibility that Biden would be replaced, and the price of Newsom, then Harris, rose instead. That was a month before Biden withdrew, while he and his surrogates were insisting he would not. Meanwhile, Sethi notes, the three models he was tracking, the Economist's, 538, and Nate Silver's Silver Bulletin, all had to be suspended when Biden dropped out, because they were built on Biden-versus-Trump polling data. "They were generating essentially zombie forecasts for the month between the debate and the decision of Biden to withdraw," he says. "They were forecasting a race that was not going to happen."

He makes the same argument about public health. During the pandemic, more than 80 forecasting teams submitted projections to the CDC, and their one-week-ahead forecasts for confirmed cases, hospitalizations, and deaths disagreed by orders of magnitude, with individual models revising dramatically week to week. The reason is structural rather than incompetence, because epidemiological models calibrated on historical data cannot absorb school closures, lockdowns, or beach reopenings, and there was no comparable event within a century to calibrate against. "It's a mechanism that gives you something when you're in uncharted waters," Sethi says, listing an unprecedented pandemic, a major-party candidate withdrawing, an assassination attempt on a nominee. "These kinds of things the models just cannot handle."

"I don't see these kinds of benefits being leveraged if the focus of these markets is primarily on sports. It doesn't mean you shouldn't have prediction markets on sports. It just means that the real value of these markets lies elsewhere."⁸⁵

Sentiment Measurement and the Media Flywheel

Polymarket explicitly markets its product as a real-time sentiment measure, arguing that its prices update continuously as events unfold in a way survey data cannot.⁸⁶ That points at the real innovation, a continuously updating price that reads like a live opinion poll you never had to commission, and it is also the source of most of the trouble, because once a price is treated as a sentiment reading it stops behaving like a contained bet and starts behaving like public information.

The distribution of that information is what changed in 2026. Google Finance began embedding live Polymarket and Kalshi odds, and CNBC, CNN, and Dow Jones agreed to pull prediction-market data into their coverage, so the cent price now appears next to stock quotes and inside news segments for audiences who will never open a trading account.^{87, 88} TRM described the result as a flywheel, where prices appearing in mainstream coverage drive users back to the platforms, a loop that spun faster after Polymarket chief executive Shayne Coplan appeared on 60 Minutes.⁸⁹ The market makes the number, the press repeats the number, the repetition brings volume, and the volume is offered as proof the number is trustworthy.

Markets as Polls

The pitch that markets beat polls got its biggest test in 2024, when outlets cited Polymarket as a sharper read on the presidential race than survey data, and the whale who pushed Trump's odds up looked vindicated on election night.⁹⁰ Pollsters and forecasters are not convinced this generalizes. Andrew Gelman at Columbia, talking to Undark, allowed that market prices can be turned into a forecast while making clear that prediction markets are unlikely to replace polling, because they answer a different question and inherit their own biases.⁹¹ A single market resolves one event once; a poll estimates a distribution of opinion, and the two are not interchangeable just because both produce a percentage.

Sethi's concern with election markets specifically, as he described it to the authors, is that elections are reflexive events. In his words, "your belief about the outcome affects the actual outcome." He points out that campaigns already understand this, which is why they suppress internal polls that look bad and publicize those that look good, since a campaign thought to be flagging can see fundraising dry up, volunteer effort fall off, and, once early voting has begun, turnout decline. The difference is credibility. "When you're talking on media, people are skeptical. They know that if a representative of a campaign is saying you should ignore a poll, they're saying it because that's in their interests, and we can discount that. But with markets, there's a temptation to see it as somehow objective and truthful."⁹²

Rothschild and Malhotra asked in 2014 whether public opinion polls are self-fulfilling prophecies, and the mechanism they studied carries straight over, because a published expectation becomes common knowledge, common knowledge coordinates behavior, and coordinated behavior can bend the outcome toward the expectation.⁹³ A prediction market is a stronger version of a poll for this purpose, because it carries the authority of real money and updates in real time, so when a market price hardens into a sense of inevitability it can change what donors fund, how the press frames a race, how a candidate allocates the final week, and how other markets position.

The deeper problem is documented in a 2026 study that built a Signal Credibility Index from market microstructure and applied it to three 2024 political shocks. It found that the most socially visible market produced the least accurate forecast, which the authors describe as a systematic decoupling of social authority from epistemic quality.⁹⁴ The market everyone was watching and quoting was the one carrying the worst information. That is the precise failure mode of a sentiment gauge that has been promoted into a truth source, and it gets more dangerous as the odds spread to bigger and less critical audiences.

An anonymous trader called Théo built a position that grew toward \$80M on a Trump win across several accounts, having commissioned his own poll that asked people who their neighbors would vote for to detect a "shy Trump" effect the standard surveys missed, and Chainalysis later estimated his net profit at about \$78.7M.⁹⁵ Read one way, he is the system working, a trader with better information moving the price toward the truth, which is how Coplan framed it on 60

Minutes, arguing that the size of the prize is what pushes people to go find the truth.⁹⁶ Read another way, a single actor with enough capital bid up a candidate's odds to a number that Elon Musk and others then circulated as a "prophecy," and Coplan himself conceded that a visible large bet "puts people on alert."⁹⁷ Both readings are true at once, and that is the problem, because the same trade is indistinguishable as superior information and as a paid advertisement for an outcome.

The Théo trade has a documented predecessor. In their work on the 2012 election, Sethi and Rothschild identified a single trader, since known as the Romney whale, responsible for roughly a third of transactions on the Romney side, who lost about \$7M.⁹⁸ "It was the trading pattern that suggested to us an attempt to prevent that price from falling too far," Sethi says, particularly on and immediately before election day. The 2012 case is the cleaner one to reason from, because InTrade gave researchers transaction-level data tied to individual users, whereas onchain data shows wallets without revealing whether one person controls a hundred of them.⁹⁹

A large, visible bet does two things at the same time. It expresses a belief about the future, and it tries to manufacture the consensus that makes the belief cheaper to be right about.

Recent work on reflexivity further formalizes why this is structural rather than incidental. The 2026 Signal Credibility Index paper argues that greater liquidity and social visibility can strengthen a market's coordinating power without improving the quality of the underlying forecast, and warns specifically that the 2025 to 2026 deregulatory path may improve liquidity while degrading the epistemic quality of the public signals that now organize elite behavior.¹⁰⁰ More money makes the markets deeper and the prices louder, and louder prices coordinate more behavior, without any guarantee the underlying forecast got better.

Though there is a version of this that crosses from distortion into harm, and the United States government already walked into it once. In 2003 DARPA's Policy Analysis Market, a proposed market in geopolitical events including assassinations and coups, was killed within days of becoming public, because a market that pays out on an assassination creates a financial incentive to cause one.¹⁰¹

Hanson's reading of that episode is less about assassination markets than about who

controls decisions. “Whoever makes decisions likes to present themselves as some sort of scientific decision maker filling in a spreadsheet, but typically it’s political,” he says. His analogy is worth quoting at length:

“Imagine that at a C-suite table in a company, the main big table where the top guys are sitting around arguing, you put a person at that table who has low social skills. They really know the company well. Whenever a subject comes up, they speak important, relevant things about the topic, but they have no idea what anybody’s agenda is at the table. We predict this person won’t be allowed to sit at this table very long. It’s too disruptive to the others. But that’s basically what prediction markets are. They are this disruptive source that you can’t control or predict, that’s just going to give its best estimate regardless of who that aligns with.”¹⁰²

On his account, proposing a new decision mechanism threatens whoever controls the existing one, and he declines to single out the officials who killed PAM. “The whole world should be doing this more, and most everyone’s pretty nearly equally at fault for not trying this.”¹⁰³ Sethi, who wrote about the proposal at the time, argued in 2003 that such markets would arrive with or without government involvement, and notes that the concerns raised then, money laundering, terrorism financing and manipulation, were legitimate and “have not gone away.” He also points out what the intelligence community built instead, since IARPA funded forecasting tournaments, which produced the Good Judgment Project and the superforecasting literature, and his open question is whether mature prediction markets now make that mechanism redundant.¹⁰⁴

That is the self-fulfilling prophecy as moral hazard, and it is no longer hypothetical. In 2026, Polymarket ran markets on US strikes against Iran, on nuclear detonations, and on whether Nicolás Maduro would be ousted, and several of those drew exactly the suspiciously-timed, possibly-informed trading the PAM critics feared.^{105, 106} A market on whether a war happens is also a standing bounty for anyone positioned to make it happen, and the integrity section shows that incentive was acted on.

Sethi calls this the paradox of prediction markets, and it constrains how much manipulation any market can sustain. “A market that is believed, taken very

seriously, is the one that is most tempting to manipulate. If people think it's manipulated, there's no point in manipulating it, because nobody takes it seriously." The equilibrium is uncomfortable. "It cannot be excessive, because it will destroy the credibility of the market. And it cannot be absent, because if it's absent, that's when the incentive to do it is strongest."¹⁰⁷

Manipulation in prediction markets can be neither excessive nor entirely absent. A market nobody believes is not worth manipulating, and a market everybody believes is worth manipulating most.

Manipulation, Insider Trading and Integrity

Polymarket's core argument is that an onchain market is auditable in a way a sportsbook never can be, because every trade settles on a public ledger. But this also means the 2026 integrity failures are documented in unusual detail, and there are a lot of them.

Sethi separates three kinds of manipulation, which are usually collapsed into one. The first is manipulation of contract resolution, meaning Polymarket's dispute process producing settlements contrary to the beliefs of most traders. The second is a vector this report has not otherwise seen documented, derivative markets constructed to reference a primary market's price. Sethi's example is a market on the return of Jesus Christ, alongside which someone created a second market paying out if the price in the primary market rose above five cents, so buying the primary contract up past that threshold for a short period becomes directly profitable, and the primary price becomes meaningless. He notes the same structure was built around the Harris-Trump race, referencing whether Harris would rise above 50 cents on the primary market. That one produced a visible price surge and did not ultimately pay off, "but the possibility is there." The third, and the one he considers most serious, is manipulation of reflexive events where beliefs about the outcome help determine it.¹⁰⁸

The most serious category is informed trading around events the trader had a hand in or advance knowledge of, and 2026 produced the first two federal criminal cases. In January, a newly created Polymarket account netted more than \$400,000 on Nicolás Maduro being ousted and on US military action against Venezuela before the intervention was public, and in April, then-active US Army Special Forces master sergeant Gannon Ken Van Dyke was arrested and charged with using classified information to place those trades.^{109, 110} Five weeks later, prosecutors in the Southern District of New York charged Michele Spagnuolo, a staff information security engineer at Google, with commodities fraud, wire fraud and money laundering for allegedly using confidential internal Year in Search data to make roughly \$1.2M on Polymarket, including a \$10,647 wager on a singer given a 0.2% chance of being the most-searched person of 2025 that returned close to \$200,000.¹¹¹ A Meta engineer had flagged the wallet publicly in December 2025 after noticing it went 22 for 23 on Google search markets.¹¹²

The war markets were worse. On 28 February, a trader operating as “Magamyman” made more than \$553,000 betting on the US strike on Iran and on the fate of Ayatollah Ali Khamenei, hours before Khamenei was killed in the opening strikes.^{113, 114} A New York Times analysis of Polymarket trading data found more than 300 bets of at least \$1,000 placed in the day before the attack, correctly predicting an American strike within 24 hours, a late surge totaling around \$855,000, with 16 accounts clearing at least \$100,000, another 109 making at least \$10,000, and one account turning \$60,000 of “yes” shares into nearly \$500,000, while the analytics firm Bubblemaps identified six accounts funded in the hours before the raids that together cleared \$1.2M.¹¹⁵ Israeli authorities separately arrested several people and charged two, an IDF reservist and a civilian, alleging the reservist passed non-public operational intelligence used to place roughly \$150,000 of profitable Polymarket trades on the timing of Israeli military operations.¹¹⁶ And in early March, after David Sirota drew attention to it, Polymarket archived a market titled “Nuclear weapon detonation by...?” that had drawn more than \$838,000 in volume across three resolution dates and had been implying a 22% chance of a nuclear detonation before the end of 2026, a probability Polymarket had itself posted on X and then deleted.¹¹⁷

The Maduro market doubles as the cleanest illustration of the whole sector’s ambiguity. The same \$400,000 bet that looks like insider trading also functioned, to

anyone watching the price move, as an early and accurate signal that a capture was imminent.¹¹⁸ The epistemic value and the integrity violation are the same event seen from two sides, which is why this is so hard to regulate and so easy for the industry to spin. Polymarket's own framing leans into that, with a spokesperson noting the company is "the only prediction platform to date whose cooperation has led to insider trading charges in the United States" and that on a public ledger "bad actors leave footprints."¹¹⁹

Hanson says that insider trading is being singled out opportunistically. He points out that ordinary financial markets are already saturated with it. "When a company makes a public announcement that will typically move the price of the company, half of that move happens before the announcement. Half of that is probably insider trading." He also argues the proposed remedies are inconsistent with how the same societies treat their other information institutions. "Some people have proposed that US government officials not be allowed to trade in markets, because they might reveal secrets that way. I'd say, well then don't let them talk to reporters, because they might reveal secrets that way. Just have similar policies." Many of journalism's most celebrated moments, he notes, were cases of inside information reaching the public against an organization's wishes.¹²⁰

There is also a transmission channel that the enforcement debate has largely missed. Sethi points out that a trade placed on classified information at prediction-market scale does not stay at that scale. "There will be people who are much bigger traders, trading on the S&P 500, on the oil markets, who can look at the signal on Polymarket and take much larger positions on perfectly legitimate markets, and they are using public information." Ahead of certain escalations in the Middle East, he notes, large trades appeared in oil and equity index markets and were widely assumed to reflect an administration insider. They may have. They may equally have been traders reading Polymarket. "The insider information is bleeding from a relatively small-scale transaction up to something much bigger."¹²¹

When the Market Becomes a Reason to Commit the Crime

The self-fulfilling risk stopped being theoretical in March 2026. On 10 March an Iranian ballistic missile struck a forested area about 500 meters from homes outside

Beit Shemesh, and Emanuel Fabian, the military correspondent for The Times of Israel, reported it as an impact rather than an interception. Polymarket was running a contract asking whether Iran would strike Israel on that date, with more than \$14M wagered, and its rules resolved “yes” only on a missile impacting Israeli ground territory as reported by credible sources including the Times of Israel military correspondent, which is to say the market had named a specific working journalist as part of its oracle.¹²² Traders holding the “no” side went after him. He received emails and WhatsApp messages in Hebrew demanding he rewrite the story to say the missile had been intercepted, a call from someone posing as a lawyer claiming a US company was investigating his “manipulation,” and then explicit death threats referencing where he and his family live.¹²³ He refused, went to the police, and published the account himself. Polymarket condemned the behavior, banned the accounts involved and said it would pass their information to authorities, adding that “prediction markets depend on the integrity of independent reporting.”¹²⁴ Fabian’s own worry was not about himself. He wrote that other journalists may not be as ethical if they are promised a cut of the winnings.¹²⁵

A market on a real-world event had turned into a financial reason to interfere with the reporting of that event. In a quieter register, a Spanish football club was accused of using a roughly \$600,000 Kalshi wager to bet on its own relegation, which is the same conflict of interest in a sports jersey.¹²⁶

The Oracle Is the Weak Point

The resolution layer produced the most instructive failure. A Polymarket market on whether Volodymyr Zelensky would wear a suit before July drew somewhere between \$160M and \$242M in volume, resolved initially to “yes,” and then, after nine days of disputes routed through UMA’s token-holder vote, flipped to “no,” even though the BBC, the New York Post, and roughly forty outlets had described his NATO-summit outfit as a suit.¹²⁷ Proposing a resolution on UMA required a bond of about \$750, a trivial barrier against a market worth nine figures, and UMA’s own token market capitalization sat near \$95M while the single market it was adjudicating carried \$242M of exposure, so the security budget was smaller than the thing being secured, a structure UMA’s own documentation lays out.^{128, 129} The top ten UMA voters controlled a large share of participation, there is no identity

check on who votes, and nothing stops a voter from holding a position in the market they are ruling on, a conflict a Wall Street Journal investigation found had occurred.¹³⁰

And this was not a one-off. A \$7M market on a Ukraine-Russia agreement resolved “yes” despite no deal existing, after a large holder’s vote overrode the initial outcome; a Hezbollah ceasefire market drew the same conflict-of-interest complaints; and a Ukraine mineral-deal market settled prematurely and was later refunded.¹³¹ UMA’s co-founder maintained there was no evidence of manipulation, and that may be literally true while still missing the issue, because a system where conflicted, anonymous, lightly-bonded voters can flip a nine-figure market does not need proven collusion to be unsafe. It only needs the incentives it already has.

Hanson resists the idea that there is a correct design to be found here. “What I want is a competitive world of different institutions that do it different ways, and let the customer reputation sort it out,” he says, adding that the outcome he would least like is a single dominant market resolving everything. He also reads the intensity of the complaints as a compliment. “You’re expecting pretty high levels of accuracy from these markets, and you’re complaining when they don’t reach really high levels. You have a rare case of the market being wrong, and now you’re upset, because you’re holding it to a higher standard.” On ambiguous questions, he argues the cost is unavoidable rather than fixable, because whichever phrasing is chosen, some cases resolve ambiguously, and that is “the ambiguity tax” of extending markets to questions the world has not organized itself to answer cleanly.¹³²

The 2025 to 2026 record now runs three live resolution designs in parallel, a regulated rulebook at Kalshi, a token-holder vote at UMA under Polymarket, and a staked, slashable deployer with authorized oracle feeds at Hyperliquid’s HIP-4.^{133, 134} That is the natural experiment the sector needed, and none of the three has yet been stress-tested by a contested nine-figure market on its own rails, because the Zelensky case tested only the second.

When the Transparency Pitch Met the Marketing Record

Polymarket’s integrity problem did not stop at market resolution. A Wall Street Journal investigation published on 20 June 2026 found that Polymarket paid mostly

college-age creators around \$2,000 to \$3,000 a month to film fake winning bets on copycat sites built to mimic the real platform, including a misspelled “poiymarket.com.”¹³⁵ Across 1,105 videos from ten creators between December 2025 and mid-May, none of the roughly \$1.9M in wagers shown were real, and in 118 of them creators celebrated about \$900,000 in fabricated wins on bets that would have lost more than \$166,000.¹³⁶ One creator showed a \$100,000 “win” on a market about whether Trump would say “McDonald’s,” using two-month-old footage, while more than fifty real accounts that placed that same bet all lost.¹³⁷ A marketing firm pushed the clips past 140 million views, creators were told not to disclose the arrangement, and the campaign targeted US users who are barred from the real platform.¹³⁸ Politico had already reported that Polymarket’s marketing chief paid creators through a personal PayPal account to promote odds on X without ad labels, and the New York Times found the platform had published hundreds of false or misleading posts.¹³⁹

A platform whose entire differentiation is that every trade is real and on a public ledger ran a campaign whose entire premise was fake trades on fake ledgers. The consequences arrived quickly. Senators Adam Schiff and John Curtis wrote to Selig asking whether the agency was examining the simulated trading sites, the staged transactions and the undisclosed influencer payments, and within days Bloomberg and CNBC reported that the CFTC had an active and broad investigation into Polymarket covering its social media activity and extending into other parts of the company’s operations.^{140, 141} It is the first high-profile investigation of a prediction market under a chairman who had spent the year championing the sector, and it arrived roughly a year after the CFTC and DOJ closed their previous Polymarket probes without charges. Polymarket said it is committed to fair and transparent markets and would audit its promotional content.¹⁴²

Kalshi’s Own Conflict Surface

The regulated model solves real problems, and it does not solve the incentive problem created when participants can influence the events being traded. In July, ABC News reported that Gabriel Perez, President Trump’s longtime teleprompter operator, had made more than \$100,000 on Kalshi’s “mention markets” betting on which words the president would say, using advance access to the prepared remarks

he was loading.¹⁴³ Kalshi’s surveillance team detected the unusual pattern, investigated, and referred the trades to the CFTC, which is the regulated model working exactly as advertised.¹⁴⁴ Perez was placed on unpaid leave, was out of the federal government within two weeks, and entered settlement talks with the Commission over roughly \$90,000 in frozen profits.¹⁴⁵ It is the first known case of suspected prediction-market insider trading from inside the White House, and Kalshi kept listing markets on the president’s remarks afterward, with traders wagering more than \$800,000 on whether he would say “Hormuz,” “rigged election,” or “fake news” ahead of a single address.¹⁴⁶

The category itself is now under federal review. NPR reported on 13 August that the CFTC had opened an internal look at mention markets over whether contracts tied to specific spoken words are unusually easy to manipulate, and Kalshi responded by pulling all sports mention markets “until further notice” while leaving political and earnings-call mention markets live.¹⁴⁷ One of NPR’s sources said Kalshi’s own lawyers share the concern, since the structure attracts people positioned to move the outcome, and a Washington state court has banned the category outright.¹⁴⁸ The Commodity Exchange Act requires designated contract markets to list only contracts that are not readily susceptible to manipulation, which makes this a live test of whether the federal framework can police its own licensee.

The rest of Kalshi’s conflict surface belongs on the record in one place rather than scattered through a report. Its growth is overwhelmingly tied to sports, on its own account to a federal court. Donald Trump Jr. serves as an adviser to Kalshi and to Polymarket.¹⁴⁹ Mansour admitted in a since-deleted podcast segment that his employees asked affiliates to post memes about the FBI raid on Coplan’s home, which he later called a mistake.¹⁵⁰ Connecticut’s August complaint alleges the platform let people under 21 place sports wagers and briefly engaged a 15-year-old video game streamer as a promotional affiliate, and it quotes Kalshi’s own marketing describing it as “the first nationwide legal sports betting platform.”¹⁵¹ Kalshi threatened to sue Netflix over a documentary it called false and misleading.¹⁵² None of that is equivalent to a fake-wins campaign, and all of it says the regulated venue is running the same incentives with better paperwork.

Both leaders moved on integrity in 2026. On 23 March they each outlined new measures to curb insider trading and tighten surveillance, and on the regulated side

the CFTC reminded exchanges that Rule 180.1's ban on manipulative and deceptive conduct, including misappropriation-based insider trading, applies to event contracts, and that real-time monitoring is an obligation.^{153, 154} Kalshi's model helps here, because it is centrally cleared, KYC'd, and does not let voters double as judges, and the Perez referral shows the surveillance is not decorative. The onchain model is harder, because the same permissionless design that makes it auditable also makes it anonymous, conflict-prone at the oracle, and reachable by anyone with classified information and a wallet, and Polymarket separately lost \$3.1M of user pUSD in June to a compromised third-party vendor that injected a malicious script into its frontend.¹⁵⁵ The surveillance tooling that closes this gap is one of the few genuinely investable opportunities in the sector, and the integrity record is the reason it is needed.

Permissive in Washington, Hostile Almost Everywhere Else

The United States runs the most permissive federal posture the sector has ever had. CFTC Chairman Michael Selig used a January 2026 joint summit with the SEC to lay out a pro-event-contract agenda, then directed staff to withdraw the Biden-era 2024 rule that would have banned political and sports contracts, calling it a “frolic into merit regulation.”^{156, 157} In February, the agency withdrew the 2024 proposal and a 2025 staff advisory. On 12 March it issued staff advisory Letter 26-08, telling exchanges that event contracts must not be readily susceptible to manipulation and that real-time monitoring is required, and published an advance notice of proposed rulemaking that drew about 3,500 comments by the time that separate window closed at the end of April.¹⁵⁸

The proposed rule itself landed on 10 June and was published in the Federal Register on 12 June, a 267-page document on public-interest determinations that defines “gaming,” defines when a contract “involves” an enumerated activity, classifies most sports wagers as gaming, flags bets on player injuries and individual plays as likely impermissible, calls casino-style games highly unlikely to be allowed, and puts terrorism, assassination and war markets into the public-interest review bucket.^{159, 160} It replaces a categorical prohibition with a factor-based review on a compressed clock, and if the Commission does not issue an order inside the review window the contracts stay listed by default, which is a meaningful design choice for an agency currently operating below its full complement of five commissioners.¹⁶¹

The comment period closed at midnight on 27 July, and the record that filled up is the single best evidence of how contested this remains. Forty-four state attorneys general, led by Ohio’s Andy Wilson, filed a joint letter arguing the proposal “goes beyond the CFTC’s statutory powers, is in tension with the Constitution, and would otherwise be arbitrary and capricious in its current form,” and asked the agency to start over and confirm that sports bets belong under state law.¹⁶² Only Texas, Florida, Georgia, Missouri and New Hampshire declined to sign, and the coalition had grown from roughly 40 in the spring.¹⁶³ The National Football League wrote separately on

the same day, telling Selig the framework contains useful safeguards but does not go far enough on game integrity or consumer protection.¹⁶⁴ CME filed extensive questions, Coinbase backed the framework, and Kalshi urged adoption.¹⁶⁵ As of 27 August the rule remains proposed, and the Commission has not announced a timetable for finalizing it.

DATE	ACTION
1992	CFTC recognizes the Iowa Electronic Markets, the original sanctioned event market
Jan 2022	CFTC settles with Polymarket: \$1.4M penalty, wind down non-compliant US markets
Oct 2024	Court win lets Kalshi list political contracts; it relaunches 32 days before the election
Nov 2024	FBI raids Polymarket CEO Shayne Coplan; phone and laptop seized
Jul 2025	DOJ and CFTC close Polymarket probes; Polymarket buys QCEX for \$112M; CFTC Letter 25-20 loosens PredictIt restrictions
Oct 2025	ICE commits up to \$2B to Polymarket at a roughly \$9B post-investment valuation; \$600M of it lands in the April 2026 round
Nov-Dec 2025	Polymarket gets its Amended Order of Designation and relaunches a regulated US platform behind a waitlist
Jan 2026	Robinhood and Susquehanna close the MIAxdx acquisition, later rebranded Rothera
29 Jan 2026	Selig's Project Crypto summit signals the permissive turn
6 Feb 2026	CFTC withdraws the 2024 Event Contracts proposal and the 2025 sports advisory; files an amicus backing federal preemption
Mar 2026	Staff advisory 26-08 and the ANPRM; CFTC-SEC harmonization MOU
6 Apr 2026	Third Circuit rules 2-1 for Kalshi against New Jersey in <i>KalshiEX v. Flaherty</i>, the first federal appellate decision on the question
Apr 2026	Polymarket closes a round at a \$15B valuation including \$600M from ICE; Van Dyke arrested over the Maduro trades
Apr-Jun 2026	CFTC sues nine states to block state enforcement; Ninth Circuit hears consolidated argument on 16 April

DATE	ACTION
May 2026	Kalshi raises \$1B at \$22B; Polymarket US removes its app waitlist; Spagnuolo charged over the Google trades
Jun 2026	CFTC publishes the Public Interest Determinations NPRM; WSJ publishes the fake-wins investigation; CFTC opens a broad Polymarket probe
7 Jul 2026	SDNY Judge Analisa Torres holds that the Commodity Exchange Act does not preempt New York, under any of three theories
16 Jul 2026	ABC News reports Trump's teleprompter operator traded Kalshi mention markets on the president's remarks
27 Jul 2026	NPRM comment period closes; 44 state attorneys general and the NFL file against the proposal; rule remains pending
30 Jul 2026	IG Group agrees to acquire Underdog for up to \$1.3B
31 Jul 2026	New York sues Kalshi in state court, seeking a TRO and more than \$36B in damages
7-10 Aug 2026	D. Conn. Judge Vernon Oliver denies Kalshi a preliminary injunction, finding its sports contracts are wagers and the CEA does not preempt Connecticut law
11 Aug 2026	CFTC invokes emergency authority ordering Kalshi to keep operating despite New York's action
13 Aug 2026	CFTC opens an internal review of mention markets; Kalshi pulls all sports mention contracts
13 Aug 2026	Kalshi in advanced talks to raise at least \$750M at a \$40B valuation
26 Aug 2026	Connecticut sues Kalshi in Hartford Superior Court; the court denies the state's ex parte TRO and Kalshi removes the case to federal court

Federal permissiveness collided with state gambling law, and that collision is now the defining legal fight in the sector. By the first quarter of 2026 Kalshi faced more than nineteen federal lawsuits, a mix of suits from state gaming commissions and tribal nations, offensive suits Kalshi filed itself, and class actions alleging illegal gambling.¹⁶⁶ Nevada moved against the platforms, Arizona filed criminal charges, Massachusetts won a January injunction forcing a geofence, and a Maryland court called the sports contracts indistinguishable from wagering.^{167, 168} The CFTC answered by suing nine states directly to assert that event contracts on a federally licensed exchange are swaps under its exclusive jurisdiction.¹⁶⁹

For most of the spring, that strategy was working. On 6 April a divided Third Circuit panel affirmed Kalshi's preliminary injunction against New Jersey, holding that sports event contracts are swaps under the Commodity Exchange Act and that both field and conflict preemption bar state gambling enforcement against a designated contract market, the first federal appellate ruling on the question.¹⁷⁰ Judge Roth dissented, calling Kalshi's offerings "virtually indistinguishable" from bets available on DraftKings and FanDuel and describing the company's structure as "a performative sleight meant to obscure the reality that Kalshi's products are sports gambling."¹⁷¹

Then the district courts went the other way. On 7 July, Judge Analisa Torres of the Southern District of New York held that the Commodity Exchange Act does not preempt New York under any of the three available theories.¹⁷² New York sued in state court on 31 July, with Attorney General Letitia James and Governor Kathy Hochul seeking a temporary restraining order and more than \$36B, calculated as treble the company's alleged gains plus \$100,000 for every wagering offer made in the state.¹⁷³ On 7 August, Judge Vernon Oliver of the District of Connecticut denied Kalshi a preliminary injunction, finding its sports event contracts function as sports wagers rather than swaps and that Connecticut's gambling statutes are not preempted, then denied emergency relief pending appeal on 15 August.¹⁷⁴ Connecticut filed its own four-count complaint on 26 August.¹⁷⁵

The federal response was extraordinary. On 11 August the CFTC invoked its emergency authority under the Commodity Exchange Act to order Kalshi to keep operating in New York in accordance with the core principles governing designated contract markets, after Kalshi notified the agency of a market emergency arising

from the state's suit.¹⁷⁶ "Congress did not intend for derivatives exchanges to be regulated under a patchwork of state gaming laws," Selig said, and the Commission told a federal court that letting New York enforce its gambling laws against CFTC-regulated entities "has the potential for a single state to bring entire federally regulated markets to the brink of destruction."¹⁷⁷ A federal regulator used emergency authority to keep a federally registered exchange operating while a state moved to shut it down, which is a long way from a rulemaking dispute.

In the Sixth Circuit case tied to Ohio, thirty-nine states plus DC, thirty tribes and eleven tribal associations, and former CFTC chairman Gary Gensler all filed against the federal position, while the CFTC filed for Kalshi, and the Ninth Circuit heard consolidated argument in April on cases involving Kalshi, Robinhood and Crypto.com.^{178, 179} A circuit split is forming, making eventual Supreme Court review a live possibility.

Congress is circling the same question from several directions. Democrats introduced a bill to ban prediction-market bets on elections, war, and sports, a separate "Prediction Markets Are Gambling Act" would bar any CFTC-registered entity from listing a contract that closely resembles a sports bet or a casino game, Representative Seth Moulton moved to bar his own staff from using the platforms, and Senator Chris Murphy called the Iran trades "insane" while drafting legislation on war and death betting.^{180, 181} The honest read is that the US framework is being written by litigation faster than by legislation, and the line between a financial contract and a gambling product will be drawn by a court before it is drawn by a statute.

Hanson's read on the opposition, given in an interview for this report, is that it is largely fiscal. "Especially unhappy are, in the US, people who got money off of state gambling, which is being displaced by the federal prediction markets. So they are really eager to have lawsuits and news articles trying to say prediction markets should be shut down, so that their state gambling can have the same revenue it used to." On his account, insider trading is the complaint that happens to have found traction, not the underlying grievance, and he notes it is somewhat surprising that problem gambling has not been the sharper attack.

He sketches three routes a real backlash could take: Congress passing a bill, which

currently requires overcoming a presidential veto from an ally he regards as unreliable; a surprising Supreme Court ruling; or, most likely on his reading, a future Democratic administration with a supportive Congress choosing this as an issue. That last path carries a countervailing risk for the critics. “The complaints that are happening now run the risk that people just get tired of hearing the same complaints,” he says, and by the time an administration is positioned to act, the objections may seem old and the product entrenched.¹⁸²

Outside the US, the Question Is Mostly Settled (Against the Platforms)

The rest of the world has largely answered the classification question by calling these products gambling and blocking them. The widely-cited figure of 33 restricted countries is misleading, because most of those are US sanctions exposure rather than government bans, but more than a dozen non-US jurisdictions had imposed blocks, blacklists or other restrictions by August 2026, and most arrived during the year.¹⁸³ The reasoning is nearly identical across jurisdictions, since an unlicensed operator letting residents bet on uncertain events needs a gambling license, and does not have one.

JURISDICTION	TREATMENT	2025-26 ACTION
US federal	financial	CFTC asserts exclusive jurisdiction; permissive rulemaking pending; emergency order keeping Kalshi live in New York
US states / tribes	gambling	Cease-and-desists, criminal charges, injunctions; 19+ suits against Kalshi; 44 AGs against the federal rule
UK	gambling	Gambling Commission: real-money prediction markets are betting intermediaries and need a license
France	gambling	ANJ geoblock, view-only; called the platforms illegal and risky; Polymarket is challenging the block
Netherlands	gambling	KSA order, EUR 420k/week penalty up to EUR 840k
Portugal	gambling	SRIJ nationwide block after a surge on the January presidential election
Belgium, Poland, Hungary, Greece, Bulgaria, Romania, Ukraine	gambling	Blacklisted or court-ordered blocks; Ukraine cites war-outcome betting
Spain	gambling	ISP block of both Polymarket and Kalshi, May 2026
Australia	gambling	ACMA: illegal under the Interactive Gambling Act; ISP blocking
New Zealand	gambling	DIA classifies prediction markets as gambling
Singapore, Thailand	gambling	GRA blacklist; offshore-betting crackdown
India	prohibited	Blocking order under the 2025 online-gaming law; Kalshi order reportedly next
Brazil	banned	All prediction markets banned, April 2026
China	blocked	Blocked, yet Polymarket is hiring Mandarin speakers and courting VPN users
EU (bloc)	no regime	No unified framework; MiCA grandfathering ended July 2026; country-by-country bans

No jurisdiction anywhere has built a bespoke prediction-market regime, so every platform operates in the gap between gambling law and financial-instrument law, and cross-border accessibility means a crypto venue can be reachable in a country

long before it is lawful there.¹⁸⁴ For an onchain operator, jurisdiction is an operational risk that changes with minimal warning, as France, Portugal, and Switzerland all demonstrated by going from accessible to blocked inside a year.¹⁸⁵

Fukase states that no Asian jurisdiction has yet approved prediction markets, and that his own is among the first to issue an operator a no-objection certificate. He has also been invited to help draft the regulatory framework there. His view of enforcement is that access controls bind institutions rather than retail, and on the prospect of VPN restrictions in the EU he is blunt. “It’s only going to be affecting the institutional side, because they have to follow A to Z. If we’re talking about retail, I don’t see the point.” He reports substantial inflow from Asian users to platforms that are not formally open in their countries.¹⁸⁶ Harry Crane’s estimate that roughly 30% of Polymarket’s offshore volume comes from US traders points the same way, since the geoblocks appear to bind the compliant and inconvenience everyone else.¹⁸⁷

Impact, Direct and Indirect

Coplan has described Polymarket's ambition in mass-market terms, telling 60 Minutes the goal is to reach a billion users, and Kalshi's leadership frames the product as an unbiased source that decreases uncertainty for people, businesses, and governments.^{188, 189} Set against a sector that is 80% sports betting, those statements read as marketing. Taken at face value, they describe a private, lightly-governed price feed positioning itself as civic infrastructure, which is precisely why states, leagues, and several governments are alarmed.

The clearest direct effect is that event contracts became a revenue line inside mainstream finance. Robinhood's event-contract revenue rose more than tenfold year over year to \$156M in Q2 2026, making it the company's fastest-growing disclosed transaction category and earning more than either equities or crypto in the quarter, and management now lists it among thirteen business lines above \$100M in annualized revenue.¹⁹⁰ Kalshi's growth accelerated again during the World Cup, with The Information reporting an annualized revenue rate above \$4B in July, roughly double the pace of two months earlier, against \$37.7B of July volume.^{191, 192} Capital followed. ICE's investment in Polymarket was explicitly about distributing the probability feed as institutional data, Coatue and a roster of crossover funds went into Kalshi, and Sequoia and Wellington were in advanced talks to co-lead a round that would put Kalshi above Coinbase's public market capitalization.^{193, 194} Eilers and Krejcik have forecast annual sector volume reaching \$1 trillion by the end of the decade.¹⁹⁵ Whether that number arrives or not, prediction markets are now a category that traditional finance underwrites.

The indirect effects are larger and harder to price. A prediction-market price that gets quoted on Google Finance and in news segments becomes an input to the very behavior it is supposed to measure, shaping donor confidence, press framing, and the sense of who is inevitable, which is the self-fulfilling loop from the reflexivity section playing out at the scale of a national race.^{196, 197} The media ecosystem is absorbing the signal faster than it is scrutinizing it, and the 2026 finding that the most visible markets are the least accurate means the press is most likely to amplify the prices that deserve the least trust.¹⁹⁸ There is a fiscal spillover too. The American

Gaming Association estimates that prediction markets offering sports contracts diverted more than \$500M in potential state gaming tax in a single year, because their revenue is taxable federally but not by the states that fund problem-gambling programs from sportsbook taxes.¹⁹⁹

The harm can also be far from abstract, as the attempt to intimidate Emanuel Fabian into changing his reporting showed, which is the indirect impact turning into a direct threat to press freedom.²⁰⁰ A market on a real event creates a financial constituency with an interest in how that event is reported and, at the extreme, whether it happens.

Prediction markets have a long-standing pitch in public health, and the medical literature did once propose them as tools for tracking infectious-disease activity. The 2026 evidence is unkind to that pitch. A study evaluating infectious-disease forecasting on current prediction-market data found it underperformed simple baselines, with low liquidity and oddly-allocated probabilities as the culprits, which is the same liquidity-and-thinness failure that shows up everywhere outside the deep macro markets.²⁰¹ The sharper warning came in *Science*, where Nizan Geslevich Packin and Sharon Rabinovitz argued that prediction markets dressed in scientific framing, built with gambling-like mechanics, and sitting in a regulatory gap create risks of a new behavioral addiction and of democratic manipulation, and a *BMJ* note on people betting on a hantavirus outbreak shows the queasy direction of travel.²⁰²

The National Council on Problem Gambling asked prediction-market platforms in February 2026 to promote the problem-gambling helpline, on the grounds that trading on event outcomes carries the same risks as other betting.²⁰³ A product that is mostly continuous sports wagering, marketed to a young audience through TikTok-style clips, some of them faked, is a gambling-harm exposure regardless of which regulator ends up with jurisdiction, and Connecticut's complaint alleging underage access and a 15-year-old promotional affiliate is the first time a state has put that in a pleading.²⁰⁴ The COVID years did real work here, normalizing mobile-first, event-driven speculation and laying the behavioral groundwork the current boom is built on, which is the genuine pandemic legacy in this sector rather than any forecasting triumph.

The Application Nobody Is Building

Hanson's own interest was never in markets on the questions already in the news. Standard decision theory, he argues, says information is mainly valuable when it informs a specific decision, so the most valuable markets are the ones that sit next to a decision and advise it, what he calls a decision market. The structure is a set of discrete options, an outcome metric, and conditional prices estimating the metric under each option, so the ratio of a candidate's nomination odds to their general-election odds is advice to a party about whom to nominate, and paired conditional stock prices are advice to a board about whether to keep a CEO. Futarchy is that mechanism applied to governance, where the outcome metric is what gets voted on.²⁰⁵

The experiments so far are small. MetaDAO, whose constitution requires that major decisions be made this way, has made roughly a hundred; a handful of other crypto organizations have used conditional estimates for grants and organizational decisions; an India-based agency used the approach for a period; a company run by Jeffrey Wernick used it in the 1980s. Hanson is running lab experiments now, because the field data has an unavoidable problem, since you cannot observe what would have happened had the decision gone the other way. "So far it looks pretty good," he says, while noting the sample is too small for confidence.²⁰⁶

None of the major venues offer decision-conditional contracts. Hanson names this as the feature he most wants added, and points to Metaculus and Manifold as the only places currently doing it. That absence is a tracker for this report's bull case, because a Kalshi or Polymarket listing conditional markets would be the first evidence that the category is moving toward the application its intellectual founder cares about, rather than further into sports.²⁰⁷

Buy the Plumbing, Not the Casino

A regulated exchange like Kalshi monetizes primarily through transaction fees on trades, alongside institutional data sales and clearing and block-trading products, and it explicitly is not on the other side of any trade, which is the cleaner business and the one that scaled.²⁰⁸ An onchain venue monetizes through fees, spreads, market-making, data, token incentives, and licensed frontends, while carrying the heavier burden of subsidizing liquidity and absorbing compliance costs across a patchwork of jurisdictions. A social platform like Manifold runs on virtual-currency sales and data licensing rather than real-money trading fees. The regulated, centrally-cleared model has the best economics and the best legal footing, and the market has rewarded it accordingly.

The consolidation thesis moved from theory to transaction after the data cutoff. IG Group's agreement to buy Underdog for up to \$1.3B on 30 July gave an established trading operator an immediate US consumer base and a full brokerage-exchange-clearing license stack rather than requiring it to build either from scratch, and Robinhood had already done the same thing in reverse by acquiring MIAxdx and turning it into Rothera.^{209, 210} Both moves say the same thing about where the scarce asset sits. Licenses and users are buyable; the trading take at a single venue is not defensible on its own.

Underneath the retail noise, an "information finance" layer is forming that looks like real financial infrastructure. Susquehanna and SIG stood up dedicated desks treating event probabilities with the rigor they apply to high-frequency equity trading, and the first official market maker arrived on Kalshi in exchange for reduced fees and two-sided quoting.²¹¹ Marex issued what it called the first prediction-market bond, a \$10M structured note paying a 7% coupon if Nvidia stays the most valuable company by market cap for a year, principal protected, hedged through Kalshi positions and sold to a private client.²¹² Boaz Weinstein has framed event contracts as a portfolio-level hedging tool, a probability shorthand for offsetting specific outcomes.²¹³ This is the part of the sector that could become genuinely useful to a treasurer or a risk desk, and it depends on exactly the things retail volume does not, deep liquidity in observable events and trustworthy resolution.

Sethi believes the industry's hedging argument is the wrong one to make. "The people who advocate for prediction markets sometimes exaggerate the extent to which they're used for hedging. Actually, most of it is speculation." He notes you can construct hedging use cases, including in sports, but they are minuscule relative to volume. His suggested argument is stronger and less flattering. "Even currencies, which are huge markets, perfectly acceptable markets, involve mostly directional bets." Studies have put speculative activity at 90% or more of currency trading, rather than hedging by importers and exporters. The defensible claim is not that event contracts are a hedging tool. It is that being predominantly speculative does not distinguish them from markets nobody proposes to ban.²¹⁴

Where to be long, where to be cautious

- **Regulated operators with distribution and surveillance:** The combination of a federal license, broker and wallet distribution, and credible market integrity is the strongest position, and it is why Kalshi's economics and valuation outran Polymarket's. Note the fragility in the middle term of that sentence, because Robinhood fell from nearly half of Kalshi's volume to about 17.5% in a year by building its own venue.
- **Oracle, compliance, and data tooling:** The integrity record is a demand generator. Surveillance, resolution integrity, and audited analytics get more valuable as the category expands into sensitive topics and as regulators require real-time monitoring.
- **Embedded distribution and structured products:** Brokers, wallets, news integrations, and the structured-note layer turn event probabilities into things institutions can buy, and they capture value without taking single-venue risk.
- **Caution on pure retail velocity:** A bet on more sports-and-politics volume is a bet on the segment regulators are most likely to clip and the segment the forecasting evidence supports least. Separate venue risk from infrastructure exposure, because a portfolio view through the picks-and-shovels layer survives a venue stumbling, and a single-token bet does not.

None of this is investment advice, and the report is not a licensed advisor. It is a framework for telling the durable part of the sector from the part that is running on attention and one-off political cycles.

Three Things That Could Happen

The World Cup catalyst has now resolved. The remaining structural swing factors are the CFTC's pending rule and the federal-state litigation over jurisdiction, and both sit outside the platforms' control.

ADDENDUM Update through 27 August 2026

The World Cup produced a large volume spike, and the first evidence points to event concentration rather than a clean new baseline. Kalshi, Polymarket International and Polymarket US recorded \$50.59B of combined July volume, a record and 7.8% above June. Kalshi contributed \$37.7B, Polymarket International fell 26% month on month to \$7.9B, and Polymarket US rose 54% to \$5.0B. Kalshi's Spain-Argentina final market alone drew roughly \$1.9B, and Polymarket's World Cup winner market drew around \$4B. Open interest across the three venues fell from roughly \$2B at the start of July to about \$1.2B by month-end as World Cup positions settled, with Kalshi's own open interest dropping from \$1.4B to about \$788M.²¹⁵ Chainalysis counted roughly \$20B of onchain prediction-market volume tied to the tournament since January and nearly 400,000 participating wallets, on a definition that does not reconcile with The Block's.²¹⁶

The turnover was real. Whether the users stay is the August print, and the addendum that follows carries it.

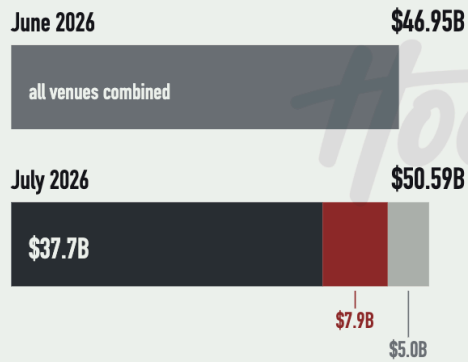
Figure 6

The World Cup Effect: Volume Up, Open Interest Down

June versus July 2026, around the FIFA World Cup (Jun 11 to Jul 19)

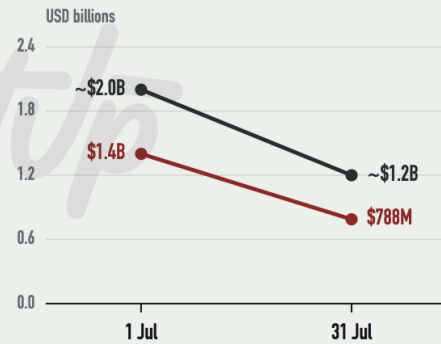
(a) Monthly volume, a flow

■ Kalshi ■ Polymarket Intl ■ Polymarket US



(b) Open interest, a stock

■ All three venues ■ Kalshi only



Source: The Block; venue-level open interest via Covers.com. Volume is a flow and open interest is a stock, so the panels answer different questions on purpose.

July figures reflect The Block's 3 August 2026 snapshot. The dashboard has since revised the July series upward; see the addendum on p. 52.

ADDENDUM Update through 2 September 2026

Since the report's 27 August data cutoff, the first full post-World-Cup monthly print has arrived. The Block's current dashboard reports \$45.33B in combined August volume across Kalshi, Polymarket International and Polymarket US, down 14.5% from its subsequently revised July baseline of approximately \$52.99B. Kalshi recorded \$37.17B in August, down 7.3% from revised July volume of \$40.1B, while Polymarket International and Polymarket US combined recorded \$8.16B, down 36.7% from \$12.89B.

Those declines are measured against a revised baseline rather than the figures used in the body of this report. Section 01 and the addendum above quote The Block's 3 August 2026 snapshot, which put July combined volume at \$50.59B, with \$37.7B from Kalshi, \$7.9B from Polymarket International and \$5.0B from Polymarket US. The dashboard has since revised the July series up to roughly \$52.99B combined, \$40.1B for Kalshi and \$12.89B for the two Polymarket venues together. August is not down 14.5% from \$50.59B, and the two vintages do not belong in the same comparison. Source: The Block prediction-market dashboard, accessed 2 September 2026.

The first post-World-Cup print therefore shows category turnover cooling while Kalshi held up materially better than the two Polymarket venues combined. One monthly print against an unusually high tournament base does not settle whether the users stay.

Base Case

Prediction markets keep growing as a mixed category. Kalshi holds its lead through sports, macro, and an expanding institutional book, Polymarket stabilizes as the global and crypto-native venue with a fast-growing regulated US footprint, and the brokers and sportsbooks take a growing share through distribution. The CFTC finalizes a rule that permits most of what trades today while carving out the worst of the sports and public-interest cases, one of the pending appellate cases creates a circuit split that puts Supreme Court review squarely in play, and the infrastructure layer keeps benefiting regardless of which venue is on top, while shared-liquidity entrants like Hyperliquid pressure standalone onchain venues' margins even if they never lead the category.

Bull Case

The Fed paper turns out to be the leading edge of genuine institutional adoption. Event-market data becomes a standard input on risk desks, the structured-products layer scales, broker and wallet distribution pushes the category into the mainstream, and the products broaden beyond sports and politics into rates, weather, logistics, insurance, and corporate decision support. In that world, prediction markets look less like betting and more like a new risk-transfer and information layer.

Hanson's bull case is different in kind from the institutional-data thesis. The three demands the sector currently serves are risk transfer, entertainment, and information, and only the first two are paid for. "Most people who get information from these markets, who value the information, aren't paying for it," he says. His long-term hope is that the people who want a question answered become the customers, subsidizing markets on the questions they care about. "If you can actually tap the market where people pay for the information they want, that's a much larger market than the other two. There really are a lot more people who are willing to pay a lot more for better decisions." No major venue has built this yet, which is why it belongs in the bull case rather than the base case.

On AI participation, Hanson is unconcerned. "The markets are designed to be robust to who participates in them." If AI traders are competitive, they will trade, and prices will reflect them and be more accurate. The scenario he takes more seriously is AI as a substitute, a system that acquires enough of a reputation for accuracy and independence to be cheaper and easier to consult than a market. His response is characteristically unsentimental. "If I tell you the reason why X is good is because it achieves Y, and then you show me some other Z that achieves Y even better, then I've got to say, okay, even better."²¹⁷

Bear Case

The integrity record catches up with the valuations. A bigger insider-trading prosecution, another oracle disaster, an adverse outcome from the CFTC's Polymarket probe, and a Supreme Court ruling that lets states treat sports contracts as gambling combine to puncture the growth story. If public trust drops, much of the current velocity proves shallow and event-specific, retail-protection backlash

hardens in Congress, and the foreign bans become the template rather than the outlier. Open infrastructure survives in some form, but operator margins and valuations compress hard, and the \$22B Kalshi and \$15B Polymarket completed-round marks, let alone the roughly \$40B and \$20B-plus valuations now being discussed, begin to look like cycle peaks.^{218, 219}

Hanson supplies the precedent. The Hollywood Stock Exchange ran play-money markets on film performance, then did the work to secure legal permission for real-money trading, at which point the movie industry lobbied Congress to ban them, which it did. “That’s one reality check: you prove that things work, and then people lobby to make them illegal because they don’t like the outcomes.”²²⁰

The base case is the most likely, and the swing between bull and bear is unusually wide because it hinges on two things outside the platforms’ control, a CFTC rule and a court. That is a precarious place for a category carrying these valuations, and it is the single fact a serious allocator should keep in front of everything else.

Gaps Are Part of the Finding

This report does not size the prediction-market industry to a single number, because the public volume data are not standardized and cannot honestly be added up. Venues report taker volume, notional matched volume, or platform-defined metrics that are not interchangeable, full-year 2025 totals range from roughly \$44B notional in one compilation to materially different figures in others, and Paradigm warned that a lot of Polymarket analysis double-counts volume because of how the contracts and event data work.²²¹ Robinhood provided the cleanest illustration of the problem in its own earnings release, reporting 13.6 billion event contracts through its hub and more than 3.5 billion on Rothera while explicitly warning that the two cannot be added, because one counts contracts bought or sold and the other counts each matched yes-and-no pair as one.²²² One company, one quarter, two incompatible definitions of the same word.

The problem may be larger than definitional inconsistency. Sethi's wash-trade work finds periods in which as much as 60% of Polymarket volume was traders transacting across wallets they controlled, detected by combining an unusually high volume-to-capital ratio with counterparty network structure, since market makers also recycle small capital into large volume but trade with a broad cross-section of the market, while wash traders transact systematically with counterparties that look like themselves. The rate rose around the anticipated token distribution, when volume was widely believed to affect allocation, and falls where fees apply. Sethi notes Polymarket's own data staff have engaged with the findings and expressed interest in reducing the practice, and he does not allege platform involvement. He does observe that volume claims fed the valuations.²²³ The charts here are directional and labeled as such. Anyone quoting a precise market size, including the platforms, is reporting a definition as if it were a fact.

It does not treat user counts as comparable, because unique wallets, daily active users, active traders, verified accounts, and funded accounts measure different things, and the 840,000-wallet figure is a count of onchain addresses from February rather than people.²²⁴ It does not size participant demographics, because operators do not publish audited age, income, or geography breakdowns, and the

widely-repeated claim that the user base skews young and online is indicative rather than verified, though IG's disclosure that more than 60% of Underdog's monthly actives are under 30 is the first hard number any operator has put on the record.²²⁵ It does not put a rate on manipulation or insider trading, because the individual cases are documented in detail while the base rate is not knowable from public data, and inventing one would be the exact failure this report is trying to avoid.

It treats platform-reported accuracy as a claim, so Polymarket's self-calculated Brier score is presented as the platform's own number and not independent validation.²²⁶ It is thin on the smaller architectures, Omen and Presagio and the Augur reboot, because their public usage data are sparse relative to their documentation, so this report describes their design and declines to assert their volumes. It does not rank the venues on forecasting accuracy, because no accepted method exists. Sethi is developing one, an arbitrage test across venues, on the logic that arbitraging linked prices yields a positive total payoff while losing on one leg, and the market where the arbitrageur loses is the better forecaster, because it could not be beaten. That work is in progress and unpublished, and this report notes the approach rather than its results.²²⁷

Forward-looking claims are framed as observable signals rather than certainties: the CFTC's final rule and its response to the closed comment record, the next appellate step in the federal-state jurisdictional fight, whether post-World-Cup volume stabilizes across the September and October prints, the outcome of the CFTC's Polymarket probe and its mention-markets review, and the next major foreign regulatory action. Jurisdictional summaries are strategic guidance and not legal advice, and nothing here is investment advice.

Institutional Appendix

The editorial layer above carries the argument. This layer carries the apparatus: the market map, the dataset evidence, unit economics, a read on addressable market, recommendations by reader type, and the diligence checklist. Colder on purpose. The data does the work here.

Market Map

The category is usually discussed as “Kalshi versus Polymarket,” which collapses a stack into a duel. The map below separates the functions, because the investable positions and the regulatory exposure differ sharply by layer. Names are illustrative of who occupies each role in August 2026, not an endorsement or a complete list.

LAYER	WHAT IT IS	WHO IS THERE
Regulated operators	CFTC-registered exchanges	Kalshi (DCM), Polymarket US (via QCEX), Rothera (DCM/DCO), Underdog (FCM/DCM/DCO), PredictIt (no-action), Crypto.com
Crypto-native venues	Onchain and offshore	Polymarket International, Opinion Labs, Limitless, predict.fun, Hyperliquid HIP-4, Omen / Presagio, Manifold (play-money)
Distribution / brokers	Where the users already are	Robinhood (routing to Rothera, its JV with Susquehanna International Group), Webull, Coinbase, Interactive Brokers
Sportsbook / fantasy entrants	Incumbent betting bases	DraftKings, FanDuel (via CME), Fanatics (all left the AGA to launch event contracts), Underdog (agreed to be acquired by IG Group)
Exchange and clearing infra	Market-structure backbone	CME Group (event contracts), ICE / NYSE parent (data + tokenization), QCEX, MIAx (10% of Rothera)
Oracle and resolution	Who decides truth	UMA (optimistic oracle / DVM), Gnosis Conditional Tokens, Augur (REP reboot), Hyperliquid HIP-4 staked deployers
Market makers / liquidity	Information-finance desks	Susquehanna and SIG-style quant desks; first official Kalshi market maker; Saba framing event contracts as hedges
Data and sentiment distribution	The signal as a product	ICE Polymarket Signals & Sentiment; Google Finance; CNBC, CNN, Dow Jones; X (Polymarket "official partner"), Stocktwits
Surveillance / compliance	The gap that has to be filled	Onchain analytics (TRM, Chainalysis); academic wash-trade detection; exchange surveillance teams that now generate referrals
Structured products	Wrapping events for institutions	Marex (first "prediction-market bond"); early structured-note desks hedging via Kalshi

The competitive threat to the two leaders is no longer each other but the distribution layer, and in 2026 that layer stopped being a partner and started being a competitor. Robinhood moved its own flow onto an exchange it controls, and IG bought its way into a license stack and an established US consumer base rather than renting either.^{228, 229} Meanwhile the value traditional finance is paying up for sits in the data-distribution layer, which is what ICE bought, rather than in the trading take at the venue.²³⁰

The Data

One genuine advantage of an onchain venue is that independent researchers can reconstruct the full record, and in 2026 several did. What follows is a synthesis of that published work rather than first-party query results, and it is labeled that way deliberately. The scale of the public archive is now large enough to settle several arguments the platforms would rather leave fuzzy.

METRIC (PUBLISHED ARCHIVES)	VALUE	SOURCE
Onchain trades, Polymarket CTF, Nov 2022 to Apr 2026	~1.20 billion	Polymarket-v1 ²³¹
Distinct markets	~1.30 million	Polymarket-v1 ²³²
Nominal onchain volume archived	~\$61B	Polymarket-v1 ²³³
Distinct trader addresses (lifecycle suite)	~2.49 million	Lifecycle datasets ²³⁴
Oracle settlements / formal disputes	~700,175 / ~2,720	Lifecycle datasets ²³⁵
Top 1% of profitable users' share of all profits	76.5%	Akey et al., \$67B study ²³⁶
Notional held by whale / HF / power-trader tiers	81.4% across 12.6% of addresses	Fill-side study ²³⁷

The wisdom-of-crowds framing does not survive contact with the trade tape. Gains are extreme-tailed, with the top 1% of profitable accounts capturing 76.5% of profits, and a separate behavioral-tier study found whale, high-frequency, and power-trader tiers holding 81.4% of notional across 12.6% of addresses.^{238, 239} The mechanism is mundane, because winners tend to provide liquidity with limit orders that resolve well, losers tend to take liquidity with market orders, and the ground-truth record shows the high-spread niche markets are where informed specialists cluster.^{240, 241}

The full-lifecycle archive logged roughly 2,720 formal disputes against about 700,175 settlements, so fewer than 0.4% of resolutions were contested.²⁴² That number cuts two ways and both belong in the record. A disputed market is not the same as a wrongly resolved one, and a sub-0.4% dispute rate is low by any reasonable standard. It is also not an independent audit of resolution correctness, which nobody

publishes, and the Zelensky and Ukraine-agreement cases show that a rare dispute on a nine-figure market is a large absolute loss for the wrong side regardless of how low the rate looks.

The cross-platform study covering Polymarket, Kalshi, PredictIt, and Robinhood around the 2024 election found liquid markets substantially outperforming polls, persistent price gaps between venues that imply arbitrage, and the venue with the larger directional flow from big trades leading discovery.²⁴³ On measurement, the ground-truth archive showed that the standard tick-rule and bulk-volume classifiers used in much published analysis are near-random on this data, which means heuristics-based volume and order-flow figures are unreliable, and the 2026 fee reform, staggered across crypto, sports, then other categories, further complicates any clean time series.^{244, 245} The practical takeaway for an analyst is to distrust precise volume and flow numbers unless the methodology is explicit.

Unit Economics

Take rates are mostly undisclosed, so the figures below mix disclosed fee schedules with implied estimates, each labeled. Kalshi's most recent reported run-rate is far above the spring snapshot most analysis still quotes. July monthly volume reached \$37.7B while The Information reported an annualized revenue rate above \$4B, roughly double the pace of two months earlier.^{246, 247} Annualizing one World-Cup-inflated month would be misleading, so this report does not treat either figure as a steady-state forecast. On a simple same-month run-rate basis, monetization still lands below 1% of traded notional, consistent with a maker-taker fee model plus institutional data sales rather than a sportsbook-style hold. That is the cleaner model, because Kalshi is not the counterparty, does not pay out of a book, and sells the resulting data to institutions through partners.²⁴⁸

The valuation arithmetic is worth doing explicitly, with the caveats attached. At the completed May valuation of \$22B, the subsequently reported July annualized revenue rate of more than \$4B implies a headline valuation-to-run-rate ratio below roughly 5.5x. At the \$40B valuation under discussion in August, the same denominator implies roughly 10x. Neither is a conventional forward EV/revenue multiple, because the valuation is private-market equity pricing, the revenue figure

is an annualized run-rate rather than a reported result, and July was unusually boosted by the World Cup. Polymarket, on annualized revenue reported above \$1B and a completed \$15B April mark, sits in a similar band.^{249, 250}

VENUE	DISCLOSED MONETIZATION	NOTES
Kalshi	Maker-taker fees; institutional data sales; block trading	Reported July revenue run-rate above \$4B, World-Cup-inflated; implied blended take under 1% of notional ²⁵¹
Polymarket	Category trading fees post-2026 reform; data distribution via ICE	Historically near-zero trading fees; fee reform staggered crypto January, sports February, others March 2026; annualized revenue reported above \$1B ^{252, 253}
Polymarket US	Regulated US fee schedule	\$5.0B July volume; daily notional above \$100M, up from around \$75M at end-May ²⁵⁴
Rothera	Exchange and clearing fees, B2B	\$17M revenue in its first partial quarter; 3.5B+ contracts traded to date on a matched-pair definition ²⁵⁵
Robinhood	Per-contract economics inside the brokerage	\$156M event-contract revenue in Q2 2026; 13.6B contracts traded; revenue up more than 10x year over year ²⁵⁶
PredictIt	10% on profits + 5% on withdrawals	Smallest of the group; capped per-market
Manifold	Virtual-currency (Mana) sales; data licensing	Play-money core; minimal regulatory drag
ICE (data)	Distributes Polymarket signals alongside NYSE data	Fixed income and data services segment: \$608M in Q4 2025; Polymarket is the third sentiment pillar ²⁵⁷

Distribution is the expensive part, and the venues that won did so by renting existing users rather than acquiring them, which is why DraftKings, FanDuel, and Fanatics entering the category was a bigger competitive event than another onchain venue launching.²⁵⁸ The 2026 lesson is that rented distribution is not owned distribution, since Robinhood went from supplying nearly half of Kalshi's volume to about 17.5% in a year by standing up Rothera, and IG agreed to pay up to \$1.3B to stop renting.^{259, 260}

Fukase describes Stratum's model as builder-code fees on Hyperliquid, priced on a time basis and, he says, materially cheaper than Kalshi's or Polymarket's schedules, an entrant's answer to a distribution problem it cannot solve by renting an existing user base.²⁶¹

Market-making economics are unusual because an event contract cannot be delta-hedged against a spot underlying, so liquidity providers take real event risk, which is the friction that keeps the largest hedged-risk firms out and forces venues to subsidize quoting.²⁶² And the data feed may be the better business than the trading take, which is the entire logic of ICE's investment and the part of the model least exposed to a gambling-classification ruling.²⁶³ The unknowns that matter for any underwriting, customer acquisition cost, liquidity-incentive spend, and per-category take, are not disclosed by either leader, and that gap should be priced as risk. Kalshi has been spending heavily on marketing and faces potential state taxes in several of its largest markets, neither of which appears in any public number.²⁶⁴

Addressable Market

A bottoms-up total-addressable-market figure for prediction markets would require assuming the answer to the one thing nobody knows, whether the products are regulated as derivatives or gambling, and in how many jurisdictions. Multiplying a made-up penetration rate by a made-up classification outcome produces a confident number with no information in it. So this section gives comparison anchors instead, each cited, and stops there.

- **US regulated sportsbook handle, 2025:** about \$166.9B wagered, \$16.96B in revenue at a 10% hold.²⁶⁵ Combined prediction-market volume of \$50.59B in July 2026 is roughly a third of the annual sportsbook handle in a single month on a notional basis, though notional is not revenue and the definitions differ.²⁶⁶
- **Kalshi July volume:** \$37.7B, a record month heavily boosted by World Cup trading.²⁶⁷ Do not annualize it into a TAM, because July is evidence of event-driven capacity rather than a steady-state forecast.
- **Institutional data:** ICE's fixed income and data services segment reported \$608M in revenue in Q4 2025, and it treats Polymarket's feed as a new pillar alongside NYSE data.²⁶⁸ The data opportunity is smaller in dollars than the betting handle but stickier and far less exposed to a gambling ruling.
- **Vendor forecast:** Eilers & Krejcik has floated annual sector volume reaching \$1 trillion by the end of the decade.²⁶⁹ Treat that as a sell-side projection.

The honest framing is that addressable revenue is bimodal. If the products settle as regulated financial instruments with an institutional data and hedging use case, the market is large and durable and looks like the ICE thesis. If they settle as gambling, current private-market valuations would need to be re-underwritten against sportsbook-style taxation, licensing and state-by-state access rather than financial-infrastructure economics, which is a different multiple on a smaller and more heavily taxed revenue base. The legal outcome is the variable, and it is not yet known.

Recommendations

Investors: Weight the infrastructure and data layers over single-venue token beta, prefer regulated operators with distribution and surveillance, and price the regulatory binary explicitly rather than assuming the permissive federal posture holds. Treat rented distribution as a liability rather than a moat. Discount any headline volume whose methodology is unstated. Nothing here is investment advice.

Founders: Resolution quality and surveillance come before growth, distribution is the moat you cannot build from scratch, and the marketing has to match the product, because the fake-wins episode showed how fast a transparency pitch becomes a liability and how fast a federal probe follows it. Pick a lane, regulated or offshore, and fully own its compliance cost.

Protocols and oracles: Fund the security budget to match the exposure it secures, because a \$95M token adjudicating a \$242M market is an invitation. Raise proposal bonds, address the voter-as-bettor conflict and the absence of identity checks, and publish dispute and resolution-correctness data, which would itself be a differentiator. And never name a working journalist as a resolution source without considering what that does to their safety.

Exchanges and brokers: Distribution is your edge, so the event-contract product is a retention and revenue add-on rather than a new company, until the economics get big enough that owning the venue beats renting it, which is the calculation Robinhood already ran. Build surveillance before volume arrives, not after, and recognize that the normalized data feed may be worth more to institutions than the retail trading take.

Media companies: Treat a prediction-market price as a measure of attention first and probability second, label large concentrated positions when you cite a price, and avoid laundering a market number into a stated fact, since the most-quoted markets are empirically the least accurate. Embedding the feed without that discipline amplifies the worst signals.

Regulators: The unresolved question is classification, derivatives or gambling, and the longer it stays open the more the litigation substitutes for policy. Whatever the answer, real-time surveillance and resolution-integrity standards are the minimum,

and the insider-trading cases around the Venezuela raid, the Iran strikes and the president's own teleprompter are the test of whether the framework can handle markets on events that powerful people can cause or say.

Sethi, writing in the Financial Times, argues the single highest-value change for offshore onchain venues is enforceable KYC, and that it does not require the exchange to hold identities. Drawing on work by Stanford economist Darrell Duffie and collaborators, he describes third-party identity verification recorded as a certificate onchain, so the exchange knows a trader has been verified by someone, and the identity is discoverable only under a warrant or court order. The cruder alternative is requiring accounts to be funded through venues that already perform verification.²⁷⁰ "I think the KYC regulation is very, very important," he says. "That's really where the battle is going to be." He is realistic about the limit, since sophisticated actors engaged in money laundering or terrorism financing can defeat identity controls, and a non-KYC competitor can always emerge, but notes Polymarket's ambition to re-enter the US at scale is the leverage that makes enforcement plausible.²⁷¹

He also favors an experiment the commercial venues have no reason to run. In a 2016 comment letter to the CFTC, Sethi argued PredictIt should be released from its cap on the number of traders per market while keeping the cap on how much any individual can stake, the reasoning being that a binding position limit forces the price to represent a broader range of views, and prevents one or two participants from dominating.²⁷² The Commission removed the trader cap in Letter 25-20 in July 2025 while keeping an individual position cap, so the design he proposed is close to the one PredictIt runs today. "It seems odd that if you limit the amount that people can bet, you might improve forecasting accuracy. But I think it's a question worth exploring." More broadly, he would like to see low-fee, nonprofit, educational-purpose markets in the mold of the Iowa Electronic Markets, which have operated continuously since 1988 under a no-action posture. Those operators, he notes, will not list sports contracts. "They will actually be trying to list things that are important from a public policy perspective."²⁷³

Diligence Checklist

- What is the regulatory classification in every jurisdiction of operation, and what happens to the model if it flips to gambling?
- What share of volume is sports, and how does the business survive a CFTC rule that constrains sports and public-interest contracts?
- What share of volume arrives through a distribution partner, and what happens when that partner builds or buys its own venue?
- What is the blended take rate, the customer acquisition cost, and the liquidity-incentive spend, in disclosed numbers rather than implied?
- Who resolves disputes, what is the security budget of that oracle relative to the largest open market, and is there a voter-as-bettor conflict?
- What is the independent resolution-correctness record, not just the dispute rate, and who audits it?
- How concentrated is volume and PnL among the top accounts, and is the venue dependent on a handful of whales?
- How is volume defined, and does the figure survive the double-counting and trade-direction problems documented in the onchain record?
- What surveillance exists for insider trading around events that participants can influence or cause, and has it produced a referral?
- Is the durable revenue the trading take, the data feed, or distribution, and which of those is exposed to the legal binary?

Volume is not standardized, user counts are not comparable, demographics are unpublished, and resolution-correctness is unaudited. A diligence process that treats platform-reported figures as verified is underwriting a story rather than a business.

Sources and Methodology

TIER	WHAT IT COVERS HERE	EXAMPLES
Primary	Load-bearing facts, mechanics, legal status, quantitative findings	CFTC releases and the Federal Register; Federal Reserve FEDS paper; ICE and Robinhood investor releases; court opinions and state complaints; Kalshi newsroom; Polymarket and UMA documentation; SSRN and arXiv working papers; CRS
Tier-one	Events, volumes, market data, reporting	Pew; WSJ, Reuters, Bloomberg, CNBC, NPR, ABC News, Fortune, CoinDesk; The Block; TRM Labs; AGA via ESPN; tier-one legal alerts
Secondary	Leads and cross-checks only, corroborated before use on any load-bearing claim	Gambling Insider, insights4vc, IAGR/Greo, ChainCatcher, CCN; Wikipedia used only to locate primaries

Triangulation: Official and primary sources for platform mechanics, fees, custody, tokenomics, and legal status; regulator releases and court records for the jurisdictional analysis; central-bank and academic work for theory, microstructure, and accuracy. Public market metrics were cross-checked across reputable analytics compilations but not normalized to a single audited basis, so the report leans on directional comparisons with explicit caveats rather than false precision. Where a claim is load-bearing it is footnoted to the strongest available source for that specific claim, and no footnote is used as a thematic bundle covering several unrelated facts. Where the evidence is visible but not verified, the text says so. Volume charts are directional reconstructions.

Dates: Core academic datasets and most market-structure analysis reflect information available through Q2 2026 unless otherwise dated. A publication-date update incorporates July venue volumes, Robinhood's Q2 results, financing developments, and material regulatory and legal actions through 27 August 2026. Interviews were conducted on 3 August 2026. Sources were last checked on 27 August 2026. A further addendum dated 2 September 2026 incorporates The Block's first full post-World-Cup monthly print and its revised July series; no other section reflects information after 27 August 2026. Market volumes, prices, user counts, valuations, regulatory positions, and other time-sensitive figures may change after publication.

Interviewees: Dr. Robin Hanson, Dr. Rajiv Sethi and Wasim Fukase are cited solely for their attributed remarks. Their participation does not imply authorship of, endorsement of, or agreement with this report or its conclusions.

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- 119 Axios, 27 May 2026, quoting a Polymarket spokesperson on cooperation with the SDNY and the CFTC. p. 30
- 120 Hanson interview, n. 77. p. 30
- 121 Sethi interview, n. 6. p. 30
- 122 Fabian, The Times of Israel, n. 22, on the “Iran strikes Israel on...?” contract, its resolution criteria and the roughly \$14 million wagered. p. 31
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- 126 Camila Grigera Naón, “Controversy Swirls over Spanish Soccer Club Accused of Using Novel \$600,000 Kalshi Wager to Bet on Its Relegation,” Fortune, 12 June 2026. p. 31
- 127 CoinDesk, n. 23, including the volume range and the nine-day dispute. p. 31
- 128 UMA documentation on the Optimistic Oracle, the Data Verification Mechanism, and bond and liveness parameters. p. 31
- 129 The Defiant on UMA’s token market capitalization relative to the exposure in the Zelensky market. p. 31

- 130 The Wall Street Journal investigation finding a UMA voter held a position in a market they voted on. p. 32
- 131 CryptoSlate and Crypto Briefing on the Ukraine-Russia agreement, Hezbollah ceasefire and Ukraine mineral-deal resolutions. p. 32
- 132 Hanson interview, n. 77. p. 32
- 133 Hyperliquid HIP-4 documentation, n. 52, on staked and slashable deployers. p. 32
- 134 Fukase interview, n. 56. p. 32
- 135 The Wall Street Journal investigation into staged winning videos, 20 June 2026. p. 33
- 136 WSJ investigation, n. 135, on the 1,105 videos and the fabricated win totals. p. 33
- 137 WSJ investigation, n. 135, on the “McDonald’s” market clip. p. 33
- 138 WSJ investigation, n. 135, on view counts, non-disclosure instructions and US targeting. p. 33
- 139 On the PayPal payments: Politico. On the misleading posts: The New York Times. p. 33
- 140 Senators John Curtis and Adam Schiff, letter to CFTC Chairman Michael Selig, 25 June 2026 (Curtis Senate press release). p. 33
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- 142 Polymarket statement to CBS News and CNBC on auditing active promotional content, 26 June 2026. p. 33
- 143 ABC News, 16 July 2026, on Gabriel Perez and the Kalshi mention markets. p. 34
- 144 Statement by Robert DeNault, Kalshi head of enforcement and legal counsel, 16 July 2026. p. 34
- 145 Associated Press via ABC News, 28 July 2026, on Perez leaving the federal government; Reuters on the roughly \$90,000 in frozen profits. p. 34
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- 151 Connecticut complaint, n. 1, on underage access, the 15-year-old promotional affiliate and Kalshi’s marketing language. p. 34
- 152 Gambling News, 28 July 2026, on Kalshi’s threatened suit against Netflix. p. 34
- 153 TRM Labs, n. 29, on the 23 March 2026 integrity measures announced by both platforms. p. 35
- 154 Sidley Austin client alert on CFTC Letter 26-08 and the application of Rule 180.1 to event contracts. p. 35
- 155 CoinDesk, on the \$3.1 million pUSD exploit traced to a compromised third-party vendor, June 2026. p. 35
- 156 TS Imagine, n. 25, on the January 2026 joint summit. p. 36
- 157 Axios, on Selig’s “frolic into merit regulation” characterization. p. 36
- 158 Norton Rose Fulbright, CFTC advances regulatory framework for prediction markets, on Letter 26-08 and the ANPRM. p. 36
- 159 Federal Register, n. 40. p. 36
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- 162 44 state attorneys general letter, n. 14, as reported by The Block. p. 36
- 163 The Crypto Times, 29 July 2026, on the non-signing states and the growth of the coalition. p. 36
- 164 National Football League letter to CFTC Chairman Michael Selig, 27 July 2026, obtained by The Closing Line. p. 37
- 165 InGame, Taking Stock Of The Prediction Markets Rules Comments, on the CME, Kalshi and Coinbase filings. p. 37
- 166 TS Imagine, n. 25, on the litigation count. p. 39
- 167 TS Imagine, n. 25, on the Nevada, Arizona and Massachusetts actions. p. 39
- 168 IAGR / Greo Evidence Insights, n. 15, on the Maryland ruling. p. 39
- 169 CFTC release 9206-26, cftc.gov. p. 39
- 170 KalshiEX LLC v. Flaherty, No. 25-1922 (3d Cir. 6 April 2026). p. 39
- 171 KalshiEX LLC v. Flaherty, n. 170, Roth, J., dissenting. p. 39
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- 182 Hanson interview, n. 77. p. 41
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- 184 Rob Flatley, "The Global Regulation of Prediction & Event Markets," TS Imagine, 2 June 2026. p. 43
- 185 IAGR / Greo Evidence Insights, n. 15, on the France, Portugal and Switzerland sequence. p. 43
- 186 Fukase interview, n. 56. p. 43
- 187 Harry Crane estimate, n. 36, as reported by The Block, 3 August 2026. p. 43
- 188 CBS News, n. 90, 60 Minutes interview with Shayne Coplan. p. 44
- 189 Axios, n. 63, on Kalshi's "unbiased source" framing. p. 44
- 190 Robinhood Q2 2026 results, n. 42. p. 44
- 191 The Information, n. 17, on the July annualized revenue rate. p. 44
- 192 The Block, n. 8, on July volume. p. 44
- 193 Intercontinental Exchange, "ICE Announces Strategic Investment in Polymarket," 7 October 2025. p. 44

- 194 The Information, n. 17, on Sequoia and Wellington. p. 44
- 195 Michigan Journal of Economics, n. 88, on the Eilers & Krejcik forecast. p. 44
- 196 Nechepurenko, Signal Credibility Index, n. 94. p. 44
- 197 Michigan Journal of Economics, n. 88, on the media data deals. p. 44
- 198 Nechepurenko, Signal Credibility Index, n. 94. p. 44
- 199 American Gaming Association 2025 commercial-gaming figures via ESPN. p. 45
- 200 Fabian, The Times of Israel, n. 22. p. 45
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- 204 Connecticut complaint, n. 1. p. 45
- 205 Hanson interview, n. 77. p. 46
- 206 Hanson interview, n. 77. p. 46
- 207 Hanson interview, n. 77. p. 46
- 208 Axios, n. 63, on Kalshi’s business model. p. 47
- 209 IG Group RNS, n. 48. p. 47
- 210 Miami International Holdings Form 8-K, n. 45. p. 47
- 211 TS Imagine, n. 25, on institutional desks and the first official Kalshi market maker. p. 47
- 212 TS Imagine, n. 25, on the Marex structured note. p. 47
- 213 TS Imagine, n. 25, on Boaz Weinstein’s framing of event contracts as hedges. p. 47
- 214 Sethi interview, n. 6. p. 48
- 215 The Block, n. 8, on July volume, World Cup markets and open interest; Covers.com for the venue-level open-interest breakdown. p. 50
- 216 Chainalysis estimate of onchain World Cup prediction-market volume, as reported by The Crypto Times, 3 August 2026. p. 50
- 217 Hanson interview, n. 77. p. 53
- 218 The Information, n. 17, on the completed \$22B round and the \$40B round under discussion. p. 54
- 219 Bloomberg, n. 19, on the completed \$15B April round and the \$20B-plus round under discussion. p. 54
- 220 Hanson interview, n. 77. p. 54
- 221 Paradigm Research, n. 35. p. 55
- 222 Robinhood Q2 2026 results, n. 42, earnings presentation, on incompatible contract-counting methodologies. p. 55
- 223 Sethi interview, n. 6. p. 55
- 224 TRM Labs, n. 29, on the February 2026 wallet count. p. 55
- 225 IG Group RNS, n. 48, on Underdog’s user age distribution. p. 56
- 226 Gambling Insider, n. 84. p. 56
- 227 Sethi interview, n. 6. p. 56
- 228 The Information via Dealroom, n. 47, on Robinhood’s declining share of Kalshi volume, August 2026. p. 58
- 229 IG Group RNS, n. 48. p. 58
- 230 ICE, Strategic Investment in Polymarket, n. 193. p. 58
- 231 Qin & Yang (2026), n. 75. p. 59
- 232 Qin & Yang (2026), n. 75. p. 59

- 233** Qin & Yang (2026), n. 75. p. 59
- 234** Unlocking the Forecasting Economy lifecycle datasets, arXiv:2604.20421. p. 59
- 235** Lifecycle datasets, arXiv:2604.20421, n. 234. p. 59
- 236** Akey, Grégoire, Harvie & Martineau (2026), n. 74. p. 59
- 237** Fill-side behavioral-tier study, arXiv:2605.11640. p. 59
- 238** Akey, Grégoire, Harvie & Martineau (2026), n. 74. p. 59
- 239** Fill-side study, arXiv:2605.11640, n. 237. p. 59
- 240** Akey, Grégoire, Harvie & Martineau (2026), n. 74, on liquidity provision by winners. p. 59
- 241** Qin & Yang (2026), n. 75, on informed specialists in high-spread markets. p. 59
- 242** Lifecycle datasets, arXiv:2604.20421, n. 234. p. 59
- 243** Ng, Peng, Tao & Zhou (2026), n. 60. p. 60
- 244** Qin & Yang (2026), n. 75, on trade-direction classifier performance and the 2026 fee reform. p. 60
- 245** The Anatomy of a Blockchain Prediction Market, arXiv:2603.03136. p. 60
- 246** The Block, n. 8. p. 60
- 247** The Information, n. 17. p. 60
- 248** Axios, n. 63, on Kalshi's business model. p. 60
- 249** Reuters, June 2026, on Polymarket annualized revenue surpassing \$1 billion. p. 61
- 250** CoinDesk, n. 18, on the completed \$15B April round. p. 61
- 251** The Information, n. 17. p. 61
- 252** Qin & Yang (2026), n. 75, on the staggered 2026 fee reform. p. 61
- 253** Reuters, n. 249. p. 61
- 254** CNBC, n. 67, citing Dune Analytics. p. 61
- 255** Finance Magnates, n. 46. p. 61
- 256** Robinhood Q2 2026 results, n. 42. p. 61
- 257** Intercontinental Exchange, "Intercontinental Exchange Reports Strong Full Year 2025 Results," 5 February 2026. p. 61
- 258** American Gaming Association figures via ESPN, n. 199, on DraftKings, FanDuel and Fanatics leaving the AGA. p. 61
- 259** The Information via Dealroom, n. 47. p. 61
- 260** IG Group RNS, n. 48. p. 61
- 261** Fukase interview, n. 56. p. 62
- 262** TS Imagine, n. 25, on market-making economics in event contracts. p. 62
- 263** ICE, Strategic Investment in Polymarket, n. 193. p. 62
- 264** The Information, n. 17, on marketing spend and state tax exposure. p. 62
- 265** American Gaming Association figures via ESPN, n. 199. p. 63
- 266** The Block, n. 8. p. 63
- 267** The Block, n. 8. p. 63
- 268** ICE full year 2025 results, n. 257. p. 63
- 269** Michigan Journal of Economics, n. 88, on the Eilers & Krejcik forecast. p. 63
- 270** Rajiv Sethi, opinion essay, Financial Times, 2026, <https://www.ft.com/content/c4612f76-49a2-478a-b755-bee9d6106db7>. p. 65
- 271** Sethi interview, n. 6. p. 65
- 272** Rajiv Sethi, letter to the Commodity Futures Trading Commission on PredictIt market design, January 2016. p. 65
- 273** Sethi interview, n. 6. p. 65

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Dren Hima

Atis Shala

Research inquiries: info@hodluppod.com
hodluppod.com