Position for a commodity upcycle

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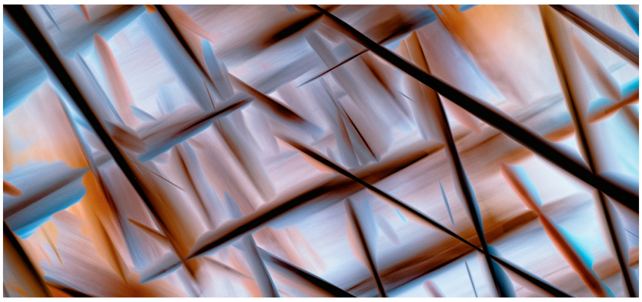
- **Why?** 1) Commodities have historically exhibited low correlations with equities and bonds, offering a differentiated source of return in portfolios. 2) Commodities can help protect against supply shocks, geopolitical stress, and inflation spillovers. 3) Structural demand from AI infrastructure, electrification, and the energy transition supports a positive long-term case for industrial metals, particularly copper.
- **Why now?** 1) Gold may face near-term volatility following the Fed's latest rate hike, though we believe its strategic investment case remains intact. Investors with significant holdings may consider broadening commodity exposure beyond gold. 2) The still-unresolved US-Iran conflict underscores the importance of energy exposure. Declining inventories, stronger Chinese imports, and persistent risks to oil flows support a moderately constructive outlook. 3) Near-term catalysts across agriculture and industrial metals strengthen the case for broader exposure today, with El Niño-related risks supporting agriculture and AI-linked demand keeping metals resilient.


Structural demand, geopolitical risks, and constrained supply support diversified commodity exposure, with copper offering particular appeal. Source: Robert Clark_Unsplash

Position for commodity upside

We believe commodities can provide both a structural source of return and portfolio defensiveness in scenarios where higher inflation expectations challenge equities and bonds. While commodities have historically offered valuable diversification benefits due to their relatively low correlation with traditional asset classes, we also see a supportive longer-term backdrop driven by electrification, rising power demand, AI infrastructure investment, and supply constraints across several markets. In our view, investors should maintain diversified exposure across precious metals, energy, industrial metals, and agriculture to capture a broad range of opportunities. Given fast-shifting leadership within commodity markets, we think an actively managed approach can help investors navigate the commodity upcycle.

Gold

Gold may face further near-term volatility following the Federal Reserve's latest rate hike, which could keep US real yields and the dollar elevated. However, we do not believe the strategic investment case has changed. Looking ahead, however, we believe central bank demand, continued diversification away from the US dollar, and global debt concerns will remain important structural supports. For investors with substantial gains following the strong rally over the past year, higher prices may provide an opportunity to rebalance some exposure into other commodity sectors. We continue to view gold as a useful strategic diversifier, and we remain constructive on gold prices over the next 12 months. We see silver as less attractive on a relative basis.

Energy

The ongoing conflict between the US and Iran highlights the fluid nature of geopolitical events and how they can impact energy. With crude supply remaining restricted and both sides escalating their military response, uncertainty over how quickly shipping conditions and production will normalize is likely to keep energy markets sensitive. Stronger Chinese imports and continued risks to Middle Eastern oil flows add to the potential for near-term price gains. In our view, energy exposure can help protect against lingering supply uncertainty and inflation spillovers, while robust demand supports a constructive medium-term outlook.

Industrial metals

Industrial metals, such as copper, have benefited from secular demand drivers such as electrification, the energy transition, and the ongoing global buildout of AI infrastructure. The recent pullback in base metal prices offers an opportunity to gain exposure, in our view. While factors like tariffs and trade policy risks may keep prices volatile in the near term, supply is constrained and demand trends remain constructive for the asset class. In copper specifically, supply constraints and projected market deficits reinforce our positive longer-term outlook.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

Risk information
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