Report Completion Date
26 October 2026, 08:17 UTC
Chief Investment Office GWM
Investment Research

What's next for commodities?

UBS House View Briefcase

Giovanni Staunovo, Strategist, UBS Switzerland AG; **Dominic Schnider**, CFA, CAIA, Strategist, UBS Switzerland AG; **Daisy Tseng**, Strategist, UBS AG Singapore Branch; **Matthew Carter**, Strategist, UBS AG London Branch

Key message

A renewed surge in energy prices on Middle East supply concerns has highlighted both the return potential and diversification value of broad commodity exposure. But the investment case goes well beyond energy. Industrial metals should remain supported by investment in AI and electrification, while agricultural commodities could benefit from El Niño-related risks. Gold remains a useful strategic diversifier. We favor active management because commodity leadership is likely to rotate as geopolitical conditions, inventories, and demand expectations change.

01 Middle East tensions are impacting energy markets.

- European natural gas prices (Dutch TTF futures) rose to record high EUR 97 per megawatt hour on 26 October.
- Brent crude oil prices have bubbled higher, trading near USD 115/bbl as we publish this note.
- Middle East hostilities are continuing, with Houthi attacks on Saudi Arabia escalating in recent weeks.

02 But fundamentals are supportive for broad commodities.

- AI infrastructure and electrification underpin the long-term outlook for industrial metals like copper.
- A strengthening El Niño is disrupting rainfall across major growing regions, increasing the potential effect of weather-related supply disruptions on agricultural prices.
- Gold should remain supported by central bank demand and reserve diversification, despite a more challenging near-term outlook.

03 So, we continue to favor commodities, with a focus on active management.

- Commodities have historically shown low correlations with equities and bonds, making them a useful portfolio diversifier.
- A diversified, regularly rebalanced exposure is the simplest way to capture most of the asset class's benefits, while selective tilts can add value when conviction is high.
- However, investors need to be aware of unique risks such as price swings and costs associated with futures or physical holdings.

New this week

Dutch TTF natural gas futures reached an all-time high of EUR 96 per megawatt hour on 26 October amid concerns over disruption to LNG supplies. Brent crude traded at around USD 115/bbl, with hopes of de-escalation in the US-Iran conflict offset by continued attacks on Saudi Arabia and on shipping vessels.

One liner

Broad commodity exposure can enhance portfolio diversification, improve portfolios' inflation resilience, and provide access to structural demand trends.

Did you know?

- Investors can access commodities through diversified indices, exchange-traded funds (ETFs), exchange-traded commodities (ETCs), or structured investments.
- From January 1999 through May 2026, commodities showed a correlation of 0.44 with global equities and -0.04 with US bonds, supporting their role as a differentiated return source.
- For investors with substantial allocations and significant unrealized profits in gold, broadening commodity exposure to include copper, aluminum, and agricultural assets can help diversify sources of future returns, in our view.

Investment view

Commodities should continue to play a prominent role in portfolios, offering diversification amid supply-demand imbalances, geopolitical risks, and the global energy transition. We like broad commodity exposure and an active approach amid still-elevated volatility. Allocations should be sized appropriately for the asset class's potential price swings.

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Version C/2026. CIO82652744

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