

What is next for commodities?

UBS House View Briefcase

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Key message

Uncertainty in the Middle East strengthens the case for broad commodity exposure as both a source of return and an inflation hedge. Energy can help buffer portfolios if shipping or production disruptions persist, industrial metals should stay supported by investment in AI and electrification. Agricultural commodities have potential for gains given El Niño-related risks, while 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 **Uncertainty in the Middle East highlight the case for broad commodity exposure.**

- While Iran is reportedly close to a deal with Oman to open shipping lanes in the Strait of Hormuz, a number of sticking points remain before the US and Iran agree to unencumbered flows of vessels.
- As such, Brent crude oil prices have remained volatile.
- Broad commodities have recovered from their late June lows, based on the UBS CMC Composite total return index (USD), with year-to-date gains of 24.9%.

02 **But fundamentals are also supportive for commodities.**

- AI infrastructure and electrification underpin the long-term outlook of industrial metals such as copper.
- Forecasts point to an 81% probability that the current El Niño episode develops into a "very strong" or "super" El Niño by the end of the year and a 97% chance that the conditions persist into next year.
- Gold should continue to be supported by central bank demand and reserve diversification despite 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 must be aware of unique risks such as price swings and costs associated with futures or physical holdings.

New this week

Seemingly positive overall developments in Iran-Oman negotiations led to lower oil prices last week, despite concerns that the US would not be willing to accept certain concessions regarding compensation, the lifting of sanctions, and the unfreezing of Iranian assets. Brent crude ended the week down -7.3% while the US WTI crude benchmark was down -7.7%.

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 return, in our view.

Investment view

Commodities will continue to play a prominent role in portfolios, in our view, offering diversification amid supply-demand imbalances, geopolitical risks, and the global energy transition. We like broad commodity exposure, with an active approach amid still elevated volatility.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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