

How will the Iran conflict impact commodities?

UBS House View Briefcase

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Key message

Negotiations between the US and Iran remain the most important driver of commodity markets in the near term, but over the medium term, we think commodities are a useful portfolio diversifier. Maintaining an allocation to commodities, with a focus on active management, can help investors hedge against inflation and energy supply shocks.

01 Volatility in commodities is likely to stay elevated in the near term.

- The price of Brent crude hit a four-year high of USD 126/bbl on 30 April, and is now trading around USD 105/bbl at the time of writing.
- Gold prices are currently around 13% below their all-time closing high in January, with higher rate expectations since the escalation of tensions weighing on sentiment.
- Broad commodities have gained over 23% year to date, based on the UBS CMCI Composite total returns index in US dollars.

02 The geopolitical risk premium should fade, but fundamentals look supportive.

- Oil product inventories are running low in various economies and could necessitate even higher prices to ration demand before stocks are refilled.
- Over the medium term, we would still expect gold to rally substantially if geopolitical uncertainty remains high while interest rate expectations come down.
- We project further supply shortages for copper and aluminum, which should support prices over the medium term, while structural drivers (e.g., electrification) underpin long-term demand.

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

- Commodities can face periods of volatility, but they can also play a valuable role in portfolios, as they have historically shown low correlation with equities and bonds.
- Investors can access commodities through diversified indices, exchange-traded funds (ETFs), exchange-traded commodities (ETCs), or structured investments.
- However, they should be aware of unique risks such as price swings and costs associated with futures or physical holdings.

New this week

Brent crude prices jumped back above USD 105 per barrel and most equity markets opened lower on 11 May, after US President Donald Trump called Iran's response to a US peace proposal as "TOTALLY UNACCEPTABLE!", underscoring the distance between the two sides.

One liner

Commodities can help diversify portfolios and offer exposure to structural trends.

Did you know?

- Returns can be strong when supply-demand imbalances or macro risks, such as inflation or geopolitical events, are elevated. In such periods, broad commodity exposure can help diversify portfolios and protect against shocks.
- For investors with an affinity for gold, we believe a modest allocation can enhance diversification and buffer against systemic risks.
- 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 and continue to favor gold, which we see as an effective hedge.

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