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# Commodities view: Still precious

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**The Trump administration's shift to commodity-based tariffs highlights the potential direct impact on the asset class. This would be a good occasion for investors to review their exposure to commodities in a portfolio context, including the sub-asset class level. We would recommend being neutral on broad commodities, while going overweight on precious metals. Additionally, we are positive on gold and silver, and would sell downside risks on oil.**

The Trump administration's announcement of tariffs on steel and aluminum introduces a new perspective on the threat of tariffs. The shift from country-based to commodity-based tariffs also alters the portfolio impact from equity-centric to encompass the commodity asset class as well. Should investors respond by reducing their exposure to this new tariff threat?

There is a better, more nuanced response, in our view. We remain neutral on the commodities asset class as a whole, but our exposure to each individual commodity would not be homogenous. The fundamentals suggest divergent prospects for different commodity classes, and investors would do well to calibrate their exposure accordingly.

**Precious metals remain precious.** We recently raised our view on precious metals from a moderate overweight to a full overweight as the Trump administration's tariff agenda progresses and increases the risk of broader and deeper disruptions to global trade. In particular, we favor gold and silver as key beneficiaries in this current environment. We recently raised our gold price target for this year to USD 3000/oz in recognition of the robust demand from central banks (for diversification of FX reserves) and ETFs. Gold is also key to bolstering portfolios against a spike in risk aversion; and we would allocate 5% of a balanced USD-based portfolio to gold.

Although silver will not benefit directly from central bank purchases, a higher gold price is still likely to provide the price of silver with some support, as silver has a stable and strongly positive correlation with gold. Two key drivers for higher silver prices—lower UST yields and the return of investor confidence in adding to cyclical commodity exposure—should gradually materialize over the coming quarters, and should see silver outperform gold in 2H. We believe the gold-silver

price ratio of over 90 is unsustainable and should gradually move lower toward 80 and below. The medium-term upward trajectory for the silver price to USD 38/oz by end-2025 should be sustained by a recovery in global industrial production, amid tight supply. In the near term, investors should sell downside risks for yield pickup.

**Industrial metals remain under pressure.** In contrast, we would remain at neutral on base metals, which should feel the brunt of slowing economic growth from both trade disruptions and a more hawkish US Federal Reserve considering the robust January inflation data. Even before the announcement of steel and aluminum tariffs, we had noted that outside China, the demand outlook for copper remains challenging. While our expected Fed rate cuts in 2H2025 should be a boon for manufacturing activity, the outlook remains heavily clouded by the ongoing geopolitical uncertainty.

**Energy outlook remains mildly positive.** We remain moderately overweight on energy, and project an upward trajectory on both Brent crude oil and natural gas. We expect that supply and demand conditions will be the main driver of energy commodities. For natural gas, we expect that rising demand to power AI data centers should steer prices higher over the long term. As for oil, the Trump administration's focus on constraining access to Iranian and Russian oil could see China and India be compelled to increasingly meet their needs from the broader open market. Despite the potential for USD strength in the near term, we expect the price of Brent crude to drift toward USD 80/bbl. We therefore favor selling the risks of both Brent crude and natural gas prices falling to generate income.

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