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What's next for commodities?

UBS House View Briefcase

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Key message

The joint US-Israel strikes on Iran will add to both upside pressure and volatility on commodities, most notably oil and then gold. It is still early days, but we expect geopolitical risk premiums to eventually fade, tilting the market's focus back to broadly supportive fundamentals and supply-demand imbalances.

01 Commodity prices have extended gains on the Iran conflict.

- Even before the US-Israel attack on Iran, Brent crude oil prices were on track for their best start to a year since 2022. An 8.7% jump on 2 March has added to that momentum.
- Precious metals prices are near record highs as geopolitical, fiscal, and economic uncertainties add to "safe-haven" demand.
- Broad commodities have gained close to 15% year to date, up not just on gold and oil, but also on metals like copper that are in deficit.

02 Geopolitical risk premium should eventually fade, but fundamentals look supportive.

- Our base case is that Iran will not be able to disrupt the flow of energy through the Straits of Hormuz for a sustained period. If so, prices could ease back over the coming weeks.
- Gold has more room to climb, rising as high as USD 6,200/oz by mid-year, supported by central bank and investor demand, large fiscal deficits, lower real US interest rates, and geopolitical risks.
- We project further supply shortages for copper and aluminum that should support prices over the medium term, while structural drivers (e.g., electrification) underpin long-term demand.

03 Commodities can help diversify portfolios, with various ways to invest in them.

- 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

US-Israeli airstrikes on Iran and the resulting disruptions to shipping sent crude oil prices sharply higher on 2 March, with Brent alone surging 8.7%.

One liner

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

Did you know?

- Returns are generally strongest 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.
- Commodities have also experienced long periods of strong out- and underperformance versus equities. Hence, we generally see them as a tactical, not permanent, component of a long-term portfolio.
- 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 are set to play a more prominent role in portfolios in 2026, 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 attractive hedge.

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