How will Middle East conflict impact commodities?

UBS House View Briefcase

Giovanni Staunovo, Strategist, UBS Switzerland AG; **Wayne Gordon**, Strategist, UBS AG Singapore Branch; **Dominic Schnider**, CFA, CAIA, Strategist, UBS Switzerland AG; **Vincent Heaney**, Strategist, UBS AG London Branch; **Jon Gordon**, Strategist, UBS AG Hong Kong Branch

Key message

Continued tensions in Iran and risks in the Strait of Hormuz have added upside pressure to both prices and volatility in commodities, most notably oil. We continue to see upside for commodities, driven by fundamentals and supply-demand imbalances alongside further geopolitical risks. 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 has risen since the start of the Iran conflict.

- The price of Brent crude was trading around USD 72/bbl ahead of the strikes on Iran; at the time of writing on 7 April, the price stands at USD 110/bbl.
- Gold prices are currently just under 14% below their all-time highs in January, with higher rate expectations since the escalation of tensions weighing on sentiment.
- Broad commodities have gained around 18% year to date, not only on oil gains, but also on metals like copper that are in deficit, 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

In the first three months of 2026, the price of Brent almost doubled, delivering its best quarterly performance since the start of the Gulf War back in 1990.

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.
- 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 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 effective hedge.

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