Favor commodities

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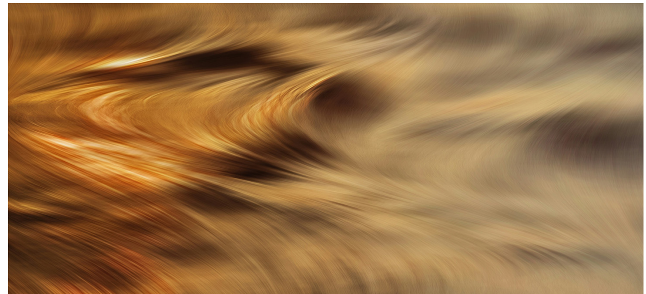
- **Why?** 1) Investors fearful of inflation can consider commodity exposure to help insulate portfolios. 2) Commodities have historically shown low correlation with equities and bonds, providing portfolio resilience during periods of market volatility. 3) Gold remains an effective portfolio diversifier amid rising government debt and continued geopolitical uncertainties.
- **Why now?** 1) Negotiations between the US and Iran are likely to remain the most important driver of commodity markets in the near term, but over the medium term, we think commodities remain a useful portfolio diversifier. 2) With gold still down 11% since the beginning of the Middle East conflict, we see an opportunity for investors to build exposure, with central bank demand and concerns over rising global debt levels providing support. 3) Industrial metals offer exposure to themes such as electrification and the energy transition, and energy can be an important hedge against inflation and potential renewed supply disruptions.



Broad, actively managed commodity exposure can offer valuable diversification and hedge against inflation, supply shocks, and geopolitical risks. Source: Omid Armin_Unsplash

Diversify with broad commodities

We believe broad commodity exposure continues to offer diversification and growth potential. Commodities offer a valuable hedge against inflation and supply shocks, and their typically low correlation with equities and bonds makes them an effective portfolio diversifier, especially in periods of market stress. The combination of new supply disruptions in the Strait of Hormuz, elevated geopolitical risk, and structural demand trends supports the case for maintaining exposure.

Include an allocation to gold

Gold has been volatile since the start of the US-Iran conflict, with its perceived "safe-haven" appeal offset by investor liquidity needs, a stronger US dollar, and uncertainty over the US rate outlook. This pattern in gold mirrors previous geopolitical crises, where initial price spikes were followed by consolidation as markets stabilized. Looking forward, we think that central bank demand, continued diversification away from the US dollar, and concerns over global debt levels remain strong structural supports. We expect gold prices to trade toward USD 5,900/oz by the end of the year.

Energy

Severe supply constraints owing to restrictions in shipping through the Strait of Hormuz and uncertainty over a possible resolution are keeping energy prices elevated. Strategic reserve releases will only partially offset lost supply, and refined product prices are likely to remain elevated. We have raised our Brent crude forecasts to USD 100/bbl for end-June, USD 95/bbl for end-September, and USD 90/bbl for end-December 2026, with upside risks if disruptions worsen or persist. We are overweight energy in our Active Commodity Strategy.

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Industrial metals

Industrial metals, especially copper, have benefited from secular demand drivers such as electrification, the energy transition, and the buildout of AI infrastructure. More recently, prices have remained resilient despite global growth worries. We view the temporary ceasefire between the US and Iran as an opportunity to increase exposure amid a risk-on backdrop. Ongoing supply constraints and sector-specific factors should support prices in the coming quarters. We are moderately overweight industrial metals in the CIO Active Commodity Strategy.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

Risk information
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