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Chief Investment Office GWM
Investment Research

How will the Iran conflict impact commodities?

UBS House View Briefcase

Giovanni Staunovo, Strategist, UBS Switzerland AG; **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

After the US and Iran announced a deal to reopen the Strait of Hormuz, commodities markets will be awaiting indications of how quickly shipping through the Strait can normalize. Against an uncertain backdrop, 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 could remain elevated as the details of the US-Iran deal become clearer.

- The price of Brent crude oil hit a four-year high of USD 126/bbl on 30 April; it was trading around USD 79/bbl at the time of writing.
- Gold prices are currently around 22% below their all-time closing high in January, with higher rate expectations since the escalation of tensions weighing on sentiment.
- Broad commodities have gained more than 16% 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. It remains uncertain how quickly shipments from the Gulf can normalize and inventories be rebuilt.
- The outlook for gold, though still clouded by tighter central bank policies in the near term, should be supported by central bank demand and worries over government borrowing.
- 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

Progress on US-Iran talks and the return of Iranian barrels to the market sent oil prices back below the USD 80 per barrel mark on Monday, with reports of fresh export waivers for Iran calming global supply concerns.

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.

Non-Traditional Assets

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- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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