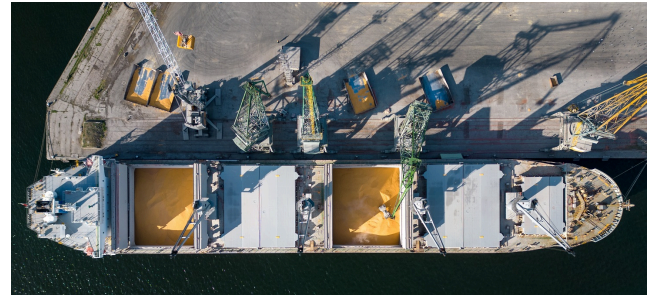


Understanding the role of commodities in a portfolio

Investment strategy insights

Authors: Giovanni Staunovo, Strategist, UBS Switzerland AG; Hannes Hütt, Quantitative Strategist, UBS Switzerland AG; Judith Hiesmayr, Quantitative Strategist, UBS Switzerland AG; Ian Spencer, Asset Allocation Strategist, CIO Americas, UBS Financial Services Inc. (UBS FS); Jason Draho, Head of Asset Allocation, CIO Americas, UBS Financial Services Inc. (UBS FS); Matthew Carter, Strategist, UBS AG London Branch

- In today's environment of elevated inflation uncertainty, geopolitical fragmentation, the energy transition, and growing concerns about the reliability of traditional stock-bond diversification, we believe the case for commodities deserves renewed consideration.
- The strongest investment case for commodities is diversification. Commodities have historically exhibited relatively low return correlations with traditional financial assets.
- For many investors, a low- to mid-single-digit allocation represents a reasonable strategic starting point.



Source: Shutterstock

For many investors, commodities remain one of the few major asset classes missing from their portfolios. Unlike equities, which generate earnings growth, or bonds, which provide income, commodities can appear more complex, cyclical, and prone to the ups and downs of the business cycle.

Yet in today's environment of elevated inflation uncertainty, geopolitical fragmentation, the energy transition, and growing concerns about the reliability of traditional stock-bond diversification, we believe the case for commodities deserves renewed consideration.

In this note, we look at four questions covering the potential role of commodities in a wider, diversified portfolio and how holding commodities may help investors achieve their financial goals. For our specific commodity preferences, please see our Messages in Focus.

What can commodities bring to a portfolio?

The strongest investment case for commodities is diversification. Unlike equities and bonds, commodity returns are largely driven by physical supply and demand dynamics, inventory levels, production constraints, and

economic activity. As a result, commodities have historically exhibited relatively low return correlations with traditional financial assets.

This diversification becomes especially valuable during periods when stocks and bonds move in the same direction. For much of the past two decades, investors benefited from negative stock-bond correlations. Yet when inflation is elevated, both asset classes can come under pressure simultaneously. In those environments, commodities have historically provided a valuable source of diversification because their return drivers are fundamentally different. Between 1990 and 2024, replacing 10% of a 60/40 portfolio with commodities (UBS CMCI Total Return Index) would have increased annualized returns from 6.6% to 6.8%, reduced volatility from 9.2% to 8.8%, and lifted the Sharpe ratio (a measure of risk-adjusted returns, where higher is better) from 0.36 to 0.39, based on UBS and Bloomberg data.

Commodities also offer one of the clearest inflation hedges available to investors. Energy and food are embedded directly within inflation measures, meaning commodity prices often rise alongside inflationary pressures. Historical

This report has been prepared by UBS Switzerland AG, UBS Financial Services Inc. (UBS FS), UBS AG London Branch.

Please see important disclaimers and disclosures at the end of the document.

analysis shows that broad commodities have delivered particularly strong performance during periods when inflation exceeds market expectations.

The strategic backdrop is also supportive. Long-term themes—including underinvestment in resource production, electrification, decarbonization, strategic resource security (energy, critical minerals), and climate-related supply challenges—are reshaping commodity markets. These structural trends can create opportunities that differ meaningfully from those available in stocks and bonds.

For all their potential merits, investors should not think of commodities as a loss-limitation tool. While certain commodities, such as gold, can provide resilience during periods of market stress, the evidence suggests that the most consistent long-term benefits come from diversification and inflation sensitivity rather than crisis protection. And of course, past performance is no guarantee of future results.

How much should investors hold in commodities?

There is no universal answer to the allocation question. The optimal exposure depends on an investor's objectives, risk tolerance, existing portfolio composition, and macroeconomic outlook.

That said, our research suggests that for many investors, a low- to mid-single-digit allocation represents a reasonable strategic starting point. Such an allocation is large enough to improve diversification and add inflation sensitivity while remaining small enough to limit the impact of commodity market volatility on overall portfolio outcomes.

Commodities can experience prolonged periods of underperformance relative to equities and bonds. Investors therefore need an allocation they can realistically maintain through different market regimes.

From which assets should investors fund commodities?

The potential benefits of commodities depend not only on how much investors allocate, but also on how they fund it.

Historical analysis suggests that funding commodities with approximately one-third from equities (S&P 500) and two-thirds from bonds (Bloomberg US Aggregate) has tended to leave overall portfolio volatility broadly unchanged. We believe this approach preserves more return potential than a purely proportional reduction across asset classes while allowing commodities to provide diversification benefits.

However, the most appropriate funding source ultimately depends on the investor's objectives.

Investors who are primarily concerned about inflation may wish to fund commodity exposure predominantly from bonds. Inflation typically creates challenges for fixed income,

while commodities often benefit from it.

Conversely, investors focused on growth risks and equity market drawdowns may prefer to fund commodities more heavily from equities.

How does CIO's commodity approach compare with other tools?

Exposure to commodities can be obtained through broad commodity indices, exchange-traded funds, or actively managed strategies. While passive approaches offer simplicity, they may not fully capture the opportunities available across different commodity sectors and market environments.

This is the rationale behind the CIO Active Commodity Strategy.

The strategy is designed around three complementary return drivers. First, it actively manages overall commodity exposure through a systematic assessment of economic and market conditions. Second, it applies active sector allocation based on CIO's views across areas such as energy, industrial metals, agriculture, livestock, and precious metals. Third, it seeks to enhance returns through active management of the collateral that supports commodity futures positions.

This approach reflects the fact that the attractiveness of commodities changes over time. Inflation expectations evolve, economic growth accelerates and slows, and sector-specific supply-demand dynamics shift continually. Active management seeks to adapt to these changing conditions rather than maintaining a static exposure throughout the cycle.

Investors today face a more complex environment than the one that prevailed during much of the past decade. Inflation risks remain elevated, geopolitical tensions continue to influence markets, and stock-bond diversification is not guaranteed.

Against this backdrop, we believe commodities can offer a compelling complement to traditional portfolios.

For more details on commodities in a portfolio context, please see our blog [10-4 on commodities: 10 takeaways, including 4 investment rationales](#) (30 June 2026).

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **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.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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.

Absolute view

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. 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."

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.

Relative preferences

For the multi asset view, we also include relative preferences to help investors compare between items.

Preferred: We view this item more favorably than others within its asset class.*

Neutral: We see this item similarly to others within its asset class.*

Least preferred: We view this item less favorably than others within its asset class.*

*In the case of cross-asset, compared to other asset classes.

Note: 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.

Appendix

Risk information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information

contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: This terminology refers to definitions in the UBS Sustainable Investing Framework and does not refer or relate to any product specific regulatory labelling regime or naming conventions. Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or sustainable investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or sustainable investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS (Brasil) Corretora de Valores S.A., UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Except as otherwise specified herein and/or depending on the local entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).
Version C/2026. CIO82652744
© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.