

What is next for commodities?

UBS House View Briefcase

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Key message

Commodity prices have cooled, but the rationale for owning them remains intact. We believe broad commodity exposure can continue to enhance portfolio diversification, improve inflation sensitivity, and provide access to structural demand trends. We continue to favor a broad, actively managed allocation rather than relying on a single geopolitical or macro theme.

01 **Prices have eased, though commodities remain very much on investors' radar.**

- Brent crude oil prices have fallen sharply from mid-May highs, as investors look through worst-case Iran war scenarios, even if the path to reopening the Strait is complicated by periodic tensions.
- Gold remains well below its January peak, as firmer real yields, a stronger USD, and less dovish Fed expectations have raised the opportunity cost of holding a non-yielding asset.
- Still, broad commodities are still up more than 19% YTD, based on the UBS CMCI Composite total return index (USD).

02 **But the pullback does not remove the underlying support for commodities.**

- Oil markets absorbed the disruption better than expected, but this adjustment was driven by reserve releases and subdued demand from China. As a result, inventories remain thin, leaving the market vulnerable to any renewed escalation.
- Gulf exports and tanker flows had been recovering prior to the latest flare-up, yet they remain well below pre-war levels.
- Gold continues to be supported by central bank demand and reserve diversification. Meanwhile, AI infrastructure, electrification, and weather-related risks are underpinning industrial metals and selected agricultural commodities.

03 **So we continue to favor commodities, with a focus on active management.**

- Commodities have historically shown low correlations with equities and bonds, making them a useful portfolio diversifier, especially when stock-bond correlations are elevated.
- A diversified, regularly rebalanced exposure is the simplest way to capture most of the asset class's benefits, while selective tilts can add value when conviction is high.
- However, investors must be aware of unique risks such as price swings and costs associated with futures or physical holdings.

New this week

Brent crude prices traded as high as 79.8/bbl on 13 July after the US and Iran traded more strikes over the weekend, and issued conflicting claims over the operational status of the Strait of Hormuz.

One liner

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

Did you know?

- Investors can access commodities through diversified indices, exchange-traded funds (ETFs), exchange-traded commodities (ETCs), or structured investments.
- Returns can be strong when supply-demand imbalances or macro risks, such as inflation or geopolitical events are elevated.
- From January 1999 through May 2026, commodities showed a correlation of 0.44 with global equities and -0.04 with US bonds, supporting their role as a differentiated return source.
- 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, with an active approach amid still elevated volatility.

Non-Traditional Assets

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