What's next for commodities?

UBS House View Briefcase

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Key message

While shifting conditions in the Middle East continue to impact oil and refined product markets, we believe the investment case for broad commodity exposure goes well beyond energy, offering both return potential and inflation-hedging benefits. Industrial metals should stay supported by investment in AI and electrification. Agricultural commodities have potential for gains given El Niño-related risks, while gold remains a useful strategic diversifier. We favor active management because commodity leadership is likely to rotate as geopolitical conditions, inventories, and demand expectations change.

01 Continued Middle East tensions are impacting energy markets.

- European natural gas prices, as measured by Dutch TTF futures, tested a three-year high of EUR 69 per megawatt-hour on 25 August amid constrained energy supplies due to the Middle East conflict.
- Brent crude oil prices remain volatile, trading at around USD 90/bbl at the time of writing.
- US and Iranian forces exchanged limited strikes through end-August, with the US targeting two missile launchers on Larak Island, and Iran striking US forces in the UAE and Jordan.

02 But fundamentals are supportive for broad commodities.

- AI infrastructure and electrification underpin the long-term outlook for industrial metals such as copper.
- Forecasts point to a roughly 80% probability that the current El Niño episode develops into a "very strong" or "super" El Niño by the end of the year and a 97% chance that the conditions persist into next year.
- Gold should continue to be supported by central bank demand and reserve diversification despite a more challenging near-term outlook.

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.
- 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.

New this week

On 28 August, US President Donald Trump announced a deal with Venezuela, giving US companies a major role in developing 17 of the country's oil fields containing more than 65 billion barrels of proven reserves. Venezuela's interim President Delcy Rodríguez said the 25-year agreement targets production of more than 1.5 million barrels per day and would require more than USD 100 billion of private-sector investment.

One liner

Broad commodity exposure can enhance portfolio diversification, improve portfolios' inflation resilience, and provide access to structural demand trends.

Did you know?

- Investors can access commodities through diversified indices, exchange-traded funds (ETFs), exchange-traded commodities (ETCs), or structured investments.
- 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 returns, 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.

- However, investors need to be aware of unique risks such as price swings and costs associated with futures or physical holdings.

Non-Traditional Assets

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