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Is the case for commodities still intact?

UBS House View Briefcase

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Key message

Oil prices have fallen sharply from recent highs as markets price a greater chance of Middle East de-escalation and recovering supply. But fragile shipping flows and low inventories leave energy markets vulnerable, while constrained supply and structural demand remain supportive for copper and other commodities. Investors may consider diversified, actively managed commodity exposure.

01 The supply premium in crude has eased in hopes of de-escalation.

- Brent crude has slipped to near USD 95/bbl, down from as high as USD 118/bbl at end October.
- A stronger-than-expected "Blue Wave" US midterms outcome has encouraged markets to price in more US-Iran de-escalation.
- Middle Eastern loadings have recovered substantially from earlier disruption, while softer demand expectations have also weighed on prices.

02 But commodity fundamentals remain supportive.

- Lower oil prices do not remove the supply constraints and structural demand drivers, while higher insurance and freight costs have raised the delivered cost of crude.
- Copper remains supported by constrained supply, and long-term demand from power grids, data centers, and electrification.
- Central bank buying, robust Chinese demand, and concerns over rising public debt should continue to support gold, despite high real yields and a firmer US dollar.

03 So, diversify exposure and manage it actively.

- Broad commodity exposure may diversify portfolios and provide protection against risks that challenge both equities and bonds.
- Different economic and geopolitical drivers can cause rapid leadership rotation across energy, metals, agriculture, and gold.
- A diversified, regularly rebalanced exposure is the simplest way to capture most of the asset class's benefits. Investors must consider unique risks around volatility and holding costs.

New this week

In new projections for November, the IEA forecasts that the global oil market will return to a surplus in 4Q26, followed by a "more substantial build in 2027." Its data suggests gulf oil exports (excluding Oman) are now just 26% below pre-war levels.

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.
- Global visible oil inventories stood at 7.8 billion barrels at the end of September, more than 500 million barrels below February levels.

Investment view

Commodities can strengthen portfolio diversification amid geopolitical risks and structural demand from power and AI infrastructure. We favor broad, actively managed exposure, with a preference for copper and strategic gold holdings, sized appropriately for price volatility.

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