What's next for commodities?

UBS House View Briefcase

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Key message

Stalling Middle East negotiations strengthen the case for broad commodity exposure as both a source of return and an inflation hedge. Energy can help buffer portfolios if shipping or production disruptions persist, 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 Stalling Middle East negotiations highlight the case for broad commodity exposure.

- With peace talks stalling and oil tanker traffic through the Strait of Hormuz again restricted, market hopes are fading for an imminent agreement to restore unencumbered shipping flows.
- This has pushed Brent crude prices back to just below USD 93 per barrel.
- Broad commodities have recovered from their late June lows, based on the UBS CMCI Composite total return index (USD), with year-to-date gains of 30%.

02 But fundamentals are also supportive for commodities.

- AI infrastructure and electrification underpin the long-term outlook of industrial metals such as copper.
- Forecasts point to an 81% 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 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.
- 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 fell 1.7% early on 24 August, as investors took profits ahead of US Treasury Secretary Scott Bessent's planned announcement of "economic D-Day" sanctions targeting Iran and its trading partners. In an FT opinion piece, Bessent vowed to launch the "single greatest financial offensive ever marshalled against an adversary."

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 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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