

# A new era for commodities?



From the Field  
May 2024

## Key Insights

- Commodities generally have underperformed U.S. stocks over the past several decades. Some investors may feel these assets have no place in a diversified portfolio.
- Major macro factors—deglobalization, decarbonization, and energy-hungry artificial intelligence applications—could reverse this trend in the next decade.



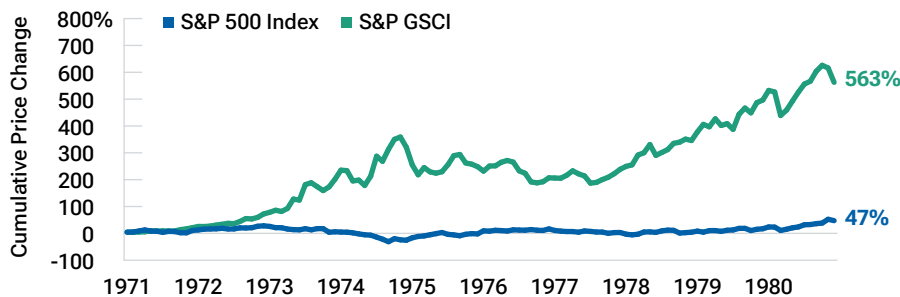
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Commodities have significantly underperformed stocks in recent years, particularly since the end of the 2008–2009 global financial crisis. From January 1, 1981, through April 30, 2024, the price of the S&P 500 Index rose more than 3,600%, cumulatively, while the S&P GSCI, an index of commodity prices, gained just 390%.

This lopsided result may have led some investors to conclude that commodities no longer have a place in a diversified investment portfolio. However, there have been long periods where commodities outgained stocks—most notably the inflationary decade of the 1970s (Figure 1).

## Commodities outperformed in the inflationary '70s

(Fig. 1) S&P 500 Index vs. S&P GSCI

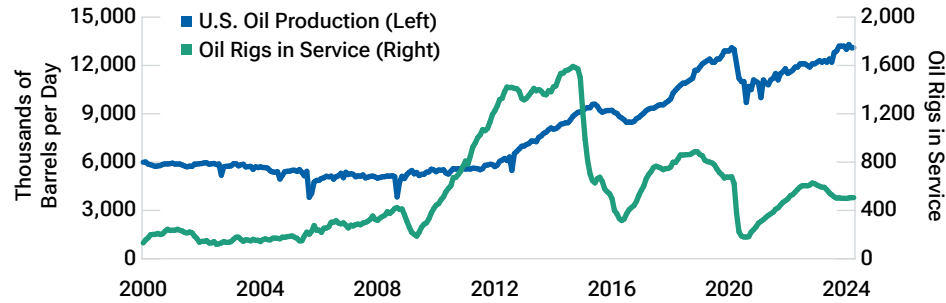


January 1971 through December 1980. **Past performance is not a reliable indicator of future performance.**  
Source: Bloomberg Finance L.P.

## Oil productivity may be peaking

(Fig. 2) Key measures of U.S. oil production

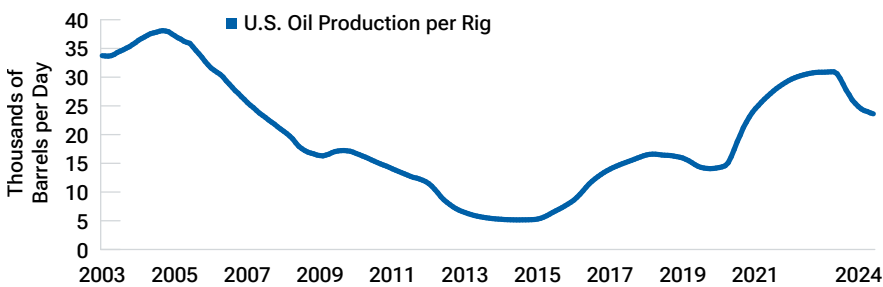
### Oil Production vs. Oil Rigs in Service



January 2000 through April 2024

### Oil Production per Rig

Trailing three-year monthly average



January 2003 through April 2024

Source: Bloomberg Finance L.P.

## Macro trends could favor commodities

There are reasons to believe we may be on the cusp of another period of strong commodity returns, thanks to three emerging “megatrends.”

- Deglobalization: Rising trade barriers, combined with the supply chain disruptions seen during the COVID pandemic, have led to a partial reversal of globalization, pushing up inflation.
- Decarbonization: The push toward green energy means that older, carbon-heavy fuels will need to be replaced. Energy supplies are likely to become tighter.
- Artificial Intelligence: AI applications require enormous computer processing power, which could drive energy demand.

## Tailwinds are emerging

We can already see evidence of tailwinds for commodity prices. Copper and natural gas futures have risen sharply in recent months. Meanwhile, peaking U.S. oil productivity has the potential to boost energy prices.

Advancements in shale technology have allowed oil companies to extract more oil even as the number of oil rigs in service has declined sharply. However, key measures of oil productivity have fallen steadily over the past year (Figure 2).

## Conclusion

Commodity price gains have been relatively modest for a long period of time, but we may now be facing a new environment. As a result, our Asset Allocation Committee currently holds an overweight position in real assets equities.

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