WELLS FARGO
Investment Institute

Market Commentary

Weekly perspective on current market sentiment | April 24, 2024

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Last week's S&P 500 Index: -3.1%

Moving higher

Key takeaways

- While gold has grabbed many of the headlines, the prices of other widely used commodities are also on the rise.
- We expect a better economy over the course of next year to lead to higher prices for a wide range of commodities.

While gold has grabbed many of the headlines as the price per ounce has climbed to multiple record highs this year, the prices of some other widely used commodities are also on the rise. Crude oil prices have not risen on current Middle East tensions as much as many consumers, who fill their tanks with gasoline each week, have feared. But other commodities, like major agricultural grains (soybeans, corn, and wheat), have fallen meaningfully in price.

In general, most commodities are seeing some degree of shortage relative to demand. This plays into our big-picture theme of a commodity bull super-cycle, which is a period of sustained commodity price increases caused by chronically short supply. We believe this cycle began in March of 2020 as COVID exploded onto the global scene. These super-cycles have typically lasted anywhere from 10 to 20 years. In a bull (prices rise) or bear (prices fall) super-cycle, prices rarely move steadily in one direction over this long period of time. There are noticeable pauses and retracements, sometimes for extended periods of time along the way.

The Industrial Metals group includes raw materials such as copper, aluminum, iron ore, zinc, nickel, and lead. Based on the Bloomberg Industrial Metals Index, prices for this group have risen slightly more than 20% since mid-February through April 22. The price of copper wire has jumped. Copper is heavily used in the construction of data centers tied to artificial intelligence (AI) and semiconductor fabrication factories as well as upgrades to the electrical grids necessary to run these power-hungry facilities. We continue to carry a favorable (overweight) rating in the Materials sector, largely based on demand from AI-related projects and the U.S. government's Infrastructure Investment and Jobs Act that was signed into law in 2021.

Better than expected economic growth and anticipated Federal Reserve (Fed) rate cuts have helped commodities in general. Gold has also benefited from expectations of Fed rate cuts as well as ongoing purchases by global central banks. Middle East and Ukraine uncertainties are also likely helping the price of gold. Gold producers are also in the favored Materials sector.

We expect oil prices to stay elevated, and we see crude in the $85 to $95 range at the end of next year. While there is some risk that prices could suffer should a more meaningful economic downturn occur or that OPEC+ (Organization of Petroleum Exporting Countries and other oil-producing countries) increases production, we see an improving global economy as we move through 2025 as a positive for the price of crude oil.

The bottom line is we expect a better economy over the course of next year to lead to stronger demand and higher prices for a wide range of commodities.

Risk considerations

Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets** are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. The **commodities markets** are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in gold, silver, or other precious metals involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Definitions

Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel, and zinc. It reflects the return of underlying commodity futures price movements only.

An index is unmanaged and not available for direct investment.

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