

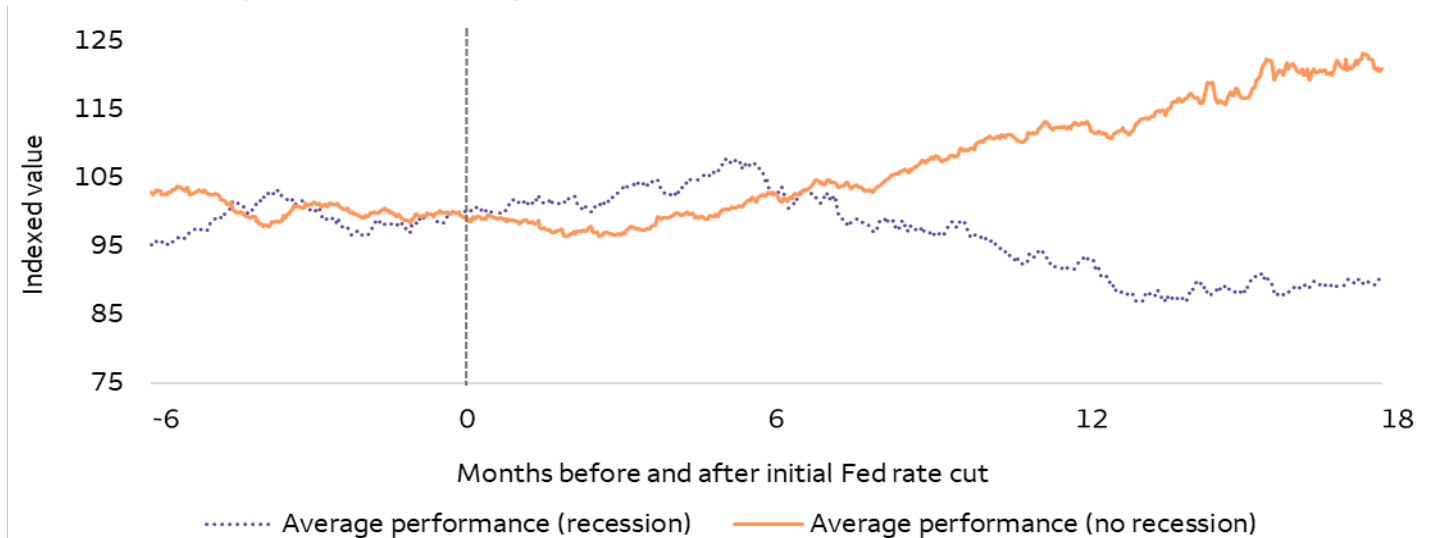


Chart of the Week

Weekly analysis of key themes in markets

October 1, 2024

Commodity prices likely to trend up as rates decline



Sources: Bloomberg and Wells Fargo Investment Institute. Daily data is from November 30, 1978 – September 18, 2024. Fed = Federal Reserve. Bloomberg Commodity Index performance is indexed to 100 as of the first Federal Reserve interest-rate cut. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Recession cases include the cutting cycles that began May 30, 1980; November 2, 1981; January 3, 2001; September 18, 2007; and July 31, 2019. No recession cases include the cutting cycles that began November 21, 1984; June 6, 1989; July 6, 1995; and September 29, 1998.

Absent a recession, commodities have shown strong performance following the first Fed rate cut

After the Federal Reserve (Fed) cut rates on September 18, the Bloomberg Commodity Index rose by 3.4% (through September 24). Looking out over the longer term, we expect the positive impact to continue. This is substantiated by the chart above, which shows average performance following the first rate cut of a cycle — commodity prices had either increased 39% or fallen 6% at the 18-month point, with the distinguishing factor being whether there was a recession.

Because we do not expect the U.S. to tilt into a recession in the coming months, we believe that the Fed lowering interest rates will help spur a new global liquidity cycle, increased commodity demand, and positive commodity performance in 2025. Each cycle is different, and it could take a few months for lower borrowing costs to materialize into stronger demand. Nonetheless, we suspect that commodity prices are close to resuming their bull super-cycle¹.

What it may mean for investors

We expect commodity performance to improve through 2025 as demand strengthens from an improved outlook, a recovery in economic growth, and interest-rate cuts. We therefore view the past year's corrections and corresponding weakness in individual commodities a potential opportunity for investors. Ultimately, we remain favorable on the Commodities asset class and believe that the bull super-cycle is intact.

John LaForge, Head of Real Asset Strategy

Mason Mendez, Investment Strategy Analyst

Excerpted from *Investment Strategy* (September 30)

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1. Commodity bull super-cycles are multiyear periods, often lasting over a decade, in which commodity prices trend higher.

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and 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. 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.

Definitions

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

An index is unmanaged and not available for direct investment.

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