



**T**he term ‘commodities’ effectively includes any raw material that can be grown and harvested, mined or extracted, from the earth, and then bought and sold. Agricultural produce, like corn, wheat, rice or cocoa beans before they are processed into foods, crude oil, minerals from salt and coal to silver, platinum and gold, lithium and uranium. Commodities might be used in food production, construction, technology, jewellery, or could play a purely monetary role.

Investment comes in multiple forms, including the direct purchase of physical assets, and indirect investment through equities and bonds, the traditional mainstays of pension investment. Shares in mining companies, for example, or holding government bonds in mineral producing territories such as Kazakhstan, the biggest producer of Uranium, will bring exposure to commodities without the investor owning the product directly.

#### ✦ Summary

- Commodities are a huge field comprising of raw materials that can be harvested, mined or extracted from the earth and then bought and sold.
- Assets have different uses, including food production, industrial, or monetary.
- Investment can be direct – purchasing and holding assets – or indirect, through equities and bonds, and derivatives.
- Exposure for pensions typically comes through multi-asset funds with commodities allocation.
- Gold is one of the most followed commodities and has soared in value as investors seek safety against a backdrop of geopolitical uncertainty.
- Commodities are generally highly volatile, sensitive to weather, geopolitics and more.
- They all tend to have little correlation with equities and bonds and so can provide useful diversification for funds.

## A golden commodity

✦ **Sandra Haurant explores commodities as investment possibility, examines whether they are suitable for a pension fund portfolio**

Where pensions schemes have commodity exposure, it's often through

multi-asset funds or hedge funds, as part of a diversified portfolio. These

funds frequently invest in commodities through derivatives, and because of the mechanisms of derivatives, rising prices do not necessarily lead to positive commodity investment returns.

### The benefit of bucking trends

“Commodities tend to have low correlation to stocks and bonds, performing well when other assets struggle, so can in some cases improve portfolio diversification, although this relationship can be easily misread,” says XPS Group head of multi-asset research, Josh Pilley. “Commodities can also be viewed as an inflationary hedge – rising commodity prices are often the cause of inflation,” he says. So, when prices go up, the value of investments also goes up, in theory, although he adds a note of caution in this front, too: “The inflationary link is often overplayed and holds only in certain scenarios, therefore we’re hesitant to label this as a reliable positive characteristic.”

### The golden rule

When it comes to low correlation, gold is, to use an almost inexcusable pun, often used as a shining example here. In January, while stocks, in the US and elsewhere, tumbled as Donald Trump threatened to take over Greenland, and to impose tariffs on European countries who disagreed, ahead of the World Economic Forum in Davos, gold soared to record highs as the price hit more than \$4,700 an ounce for the first time.

However, gold also demonstrates commodities’ tendency for volatility; prices saw the largest fall in 40 years when the US president named Kevin Warsh as head of the Federal Reserve at the start of February, only to rebound significantly the following day.

Gold holds an unusual position among commodities. “Because it’s a pure monetary asset, gold is a good indicator of the monetary backdrop,” says Global X ETFs Europe commodities investment strategist, Matt Lodge. It is also a good

indicator of metals more generally, he says. But, says Pilley, it’s important not to be dazzled. “Gold’s deep and complicated history as a store of value, and the ability for it to capture the imagination, means that it naturally takes most of the headlines,” he says.

“However, whilst the 2025 dollar return on gold of 65 per cent was impressive, it paled in comparison to the 149 per cent return on silver and the 122 per cent return on platinum. It’s therefore important that investors in commodities look more broadly across different individual commodities rather than focusing solely on gold.”

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Indeed, says Keyridge Asset Management’s senior fund manager, multi-asset, Jordan Sriharan: “Gold is unique and garners much attention given the prevailing geopolitical winds. The industrial use case for gold is weaker but its increasing structural position as a store of value is pushing it to record highs.”

But changing industrial requirements, and increasing electrification of processes and products, mean that the precious metals landscape is changing, says Sriharan. “For other commodities in the precious metals complex, there is a more equal split to their industrial usage and their store of value, which complicates their role in

portfolios,” he says. “Silver is utilised in solar energy and electric vehicles (EVs) while platinum is important in the hydrogen transition and in chemical manufacturing. Both are used in the manufacturing of jewellery, but their industrial use case makes their prices more susceptible to economic growth.”

Take copper, a highly conductive material, it is used in multiple fields, including the construction industry, the manufacture of EVs, and with antimicrobial properties it has increasing applications in the medical sphere. “For a more bullish view on economic growth, copper makes for a more pureplay opportunity. Best thought of as the metal of electrification and connectivity, it is indispensable across multiple industries,” says Sriharan. “Consequently, it is highly correlated with global industrial production, with inelastic supply forcing prices to rise in line with macroeconomic expectations.”

### Costs and challenges

One of the challenges commodities present to investors is that they do not generate a yield – apart from where investment is through equities and bonds. “Consequently, they are harder to quantitatively value for investors,” says Sriharan. “This makes it difficult to appropriately position size within portfolios, if indeed the qualitative argument is strong enough to warrant investment.” Indeed, far from providing an income, they can in fact incur costs relating to storage of physical assets, which increases transactional costs, he adds.

And while assets such as gold are traditionally seen to provide a reliable ‘safe haven’, commodities more widely are sensitive to all manner of elements, from extreme weather to geopolitical uncertainty. “Different commodities behave very differently, the drivers of gold pricing are very different to wheat, for example,” says Pilley. “Commodities have high levels of volatility, often

eclipsing volatility from stock markets. While this can deliver very attractive returns – as we saw over 2025 – prices can also see sharp falls. In exceptional cases, commodity prices can become negative, as we saw briefly with oil prices during the Covid pandemic. A practical challenge is to consider whether to invest in one specific commodity or to invest in a more diversified basket of commodities.”

Russell Investments head of multi-asset EMEA, Alain Zeitouni, adds: “Operationally, gaining commodity exposure usually involves derivatives and therefore implementation complexity is higher relative to holding physical assets. Pension investors should have a thorough understanding of these risk factors before making meaningful allocations.”

Another serious consideration is that of integrating this complex range of assets into a scheme’s sustainability objectives, he warns. “Commodities are raw materials, not companies. This

creates structural challenges that make them difficult to align with sustainability objectives. Moreover, many commodities are fossil-fuel heavy (about 30 per cent of the Bloomberg Commodity index is exposed to energy commodities), which makes them structurally misaligned with sustainable policies or net-zero trajectories.”

For Pilley, the lack of income makes it harder to justify commodities as an investment choice for pensions – even if prices do keep rising. “While the exceptional returns seen over 2025 instinctively encourages some caution to avoid investing at the top of the market, supply and demand dynamics could persist in driving prices up further. However, most pension schemes adopt a conservative approach to investments, and we generally do not consider the risk profile of commodities as a suitable standalone investment allocation,” Pilley argues.

Royal London Asset Management head of multi-asset, Trevor Greetham, agrees: “Most pension



schemes have little or no exposure to commodities, and adding a large allocation could be seen as risky in an environment where there is growing regulatory focus on relative performance and ‘value for money,’” he says. “However, while commodities are volatile, very low correlations with stocks and bonds mean you can allocate a modest amount out of fixed income, maintaining the same portfolio risk profile without sacrificing equity exposure.”

“We don’t often take positions in individual commodities, given the sometimes-extreme level of volatility and unpredictability of supply,” adds Greetham. “We make an exception with gold. We have held a tactical long position over the past two years as a hedge against increasing US political risk. Central banks started buying gold after Russian US dollar reserves were impounded in 2022. Since then, unpredictable White House policy and fears the Fed will lose its independence have fuelled a significant rally that is likely to continue in the run up to the US midterm elections in November.”

As ever, then, in the vast and complex world of commodities, gold remains the exception.

**Written by Sandra Haurant, a freelance journalist**

