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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **February 22, 2024**

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Last week's S&P 500 Index: -0.4%

Super-cycle time-out

Key takeaways

- Our view is we are in a bull super-cycle[1] for commodities that started as the pandemic began in March 2020.
- It is not unusual for these long cycles to take a time-out along the way.

Commodity prices, virtually across the board, jumped higher starting in April of 2020 as the COVID-19 pandemic began to force many businesses to close and shut consumers in their homes with little to do other than order goods online. Looking at the Bloomberg Commodity Index (BCOM), which is based on the movements in the futures markets of a broad swath of commodity prices, it rallied just over 128% from the April 2020 low to the June 2022 high. Everyday consumers know what happened to the prices of everything from milk and eggs to home construction materials and automobiles.

A big part of the rally was built on the fact that in the 10 years before the pandemic commodity prices were in a steep slide as the U.S. and global economies recovered from the 2007 –2008 financial crisis but grew only slowly. Lower prices made commodity producers reluctant to invest in their businesses, much to the detriment of infrastructure. And, of course, few producers were looking for ways to expand production given the dramatic fall in prices. When demand soared and global supply chains collapsed during the pandemic, producers couldn't increase output quickly enough to meet the appetite of end users. Increasing output is not like turning on a light switch. It takes time and investment.

Since the June 2022 BCOM highs, the index gradually moved lower in a choppy fashion as global economies began to open back up and supply chains started to run more smoothly. It also helped that consumers' demand for goods as they were largely trapped at home by COVID-19 evolved into a demand for services. Finally, consumers could go out to their favorite restaurants, take a cruise, or go to a movie.

Commodity super-cycles exhibit trends up (bull) or down (bear) typically for an extended period of time. Our view is we are in a bull super-cycle for commodities that started as the pandemic began to affect the global markets in March 2020. There have been seven such bull cycles since 1800. While the last two bull super-cycles (starting in 1971 and 1999) lasted only nine years, the prior six cycles lasted an average of 17 years. It is not unusual for these long cycles to take a time-out along the way. As with most longer-term market trends, the movement is not always linear and there can be bumps and setbacks along the way. We believe the current bull super-cycle is in a time-out period now.

We remain favorable on commodities generally and look for the commodity bull super-cycle to resume its upward path as stronger global growth develops. The outlook for a slowing U.S. economy as we move toward and through midyear along with near-recessions in the eurozone and Japan and a major slowdown in China have weighed on the BCOM, but we believe investors should use this opportunity to allocate funds for what we believe should be a higher price environment for commodities in general.

1. Bull super cycles are an extended period of time, historically 15-20 years, where commodity prices move upward together.

Risk considerations

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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