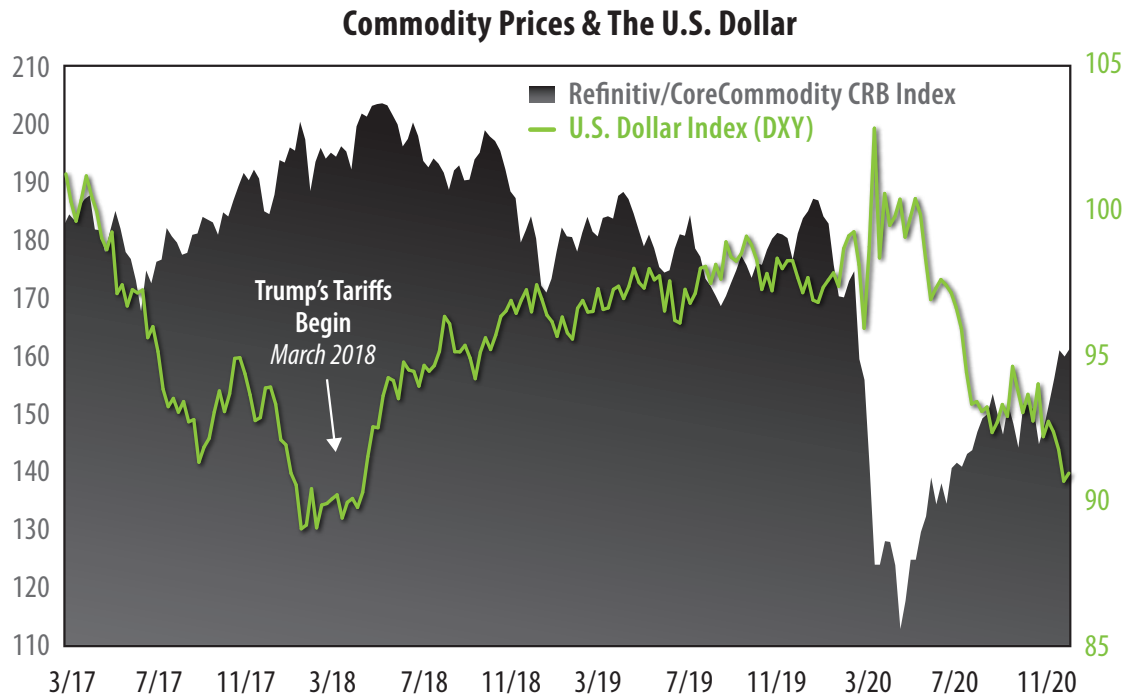


# Commodity Prices Rising As The U.S. Dollar Falls



Source: Bloomberg. Weekly data points. 3/10/17-12/11/20.

## View from the Observation Deck

1. The S&P 500 Index closed yesterday's (12/16) trading session at 3,701.17, just 0.03% below its all-time high of 3,702.25 set on 12/8/20, according to Bloomberg.
2. While the broader stock market has been setting new highs, commodity prices remain well below their record levels.
3. As of 12/16/20, the Refinitiv/CoreCommodity CRB Index stood 65.40% below its all-time closing high on 7/2/08, according to Bloomberg.
4. From 12/31/99-12/16/20 (current bull market), the S&P 500 Index posted a cumulative total return of 278.05%, compared to a return of 3.91% for the Refinitiv/CoreCommodity CRB Index, according to Bloomberg.
5. That is not a typo. Commodities, as a broad basket, have not prospered at all in the current millennium.
6. Commodity prices tend to have an inverse relationship with the U.S. dollar over time. A strengthening U.S. dollar can put downward pressure on commodity prices, while weakness in the dollar can help boost prices. Persistent low levels of inflation worldwide has likely contributed to the lackluster performance of commodities over the past decade or so, in our opinion.
7. The decline in the relative value of the U.S. dollar over the past few months has provided a nice tailwind for commodities. [Click here](#) to see our most recent post on the U.S. dollar.
8. It is no coincidence that the Trump administration's launch of new trade tariffs in March 2018, and the subsequent escalation of said tariffs, was followed by a fairly strong rally in the U.S. dollar (see chart). The U.S. dollar can serve as a temporary safe-haven destination for global investors during periods of geopolitical conflict. In February 2020, the White House admitted that President Trump's trade stance depressed economic growth and business investment, according to Bloomberg. The tariffs have gotten a bit long in the tooth at this point. We believe that investors are no longer deterred by them.
9. Looking ahead, commodity prices would likely benefit from a weaker U.S. dollar and some stronger inflationary pressures. Commodities could also be one of the beneficiaries of the reopening process (reopen the parts of the economy shutdown by the COVID-19 pandemic) if the rollout of the vaccine(s) is effective over the next few months, in our opinion.

*This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The Refinitiv/CoreCommodity CRB Index is an arithmetic average of commodity futures prices with monthly rebalancing, while the U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar relative to a basket of major world currencies. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance.*

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