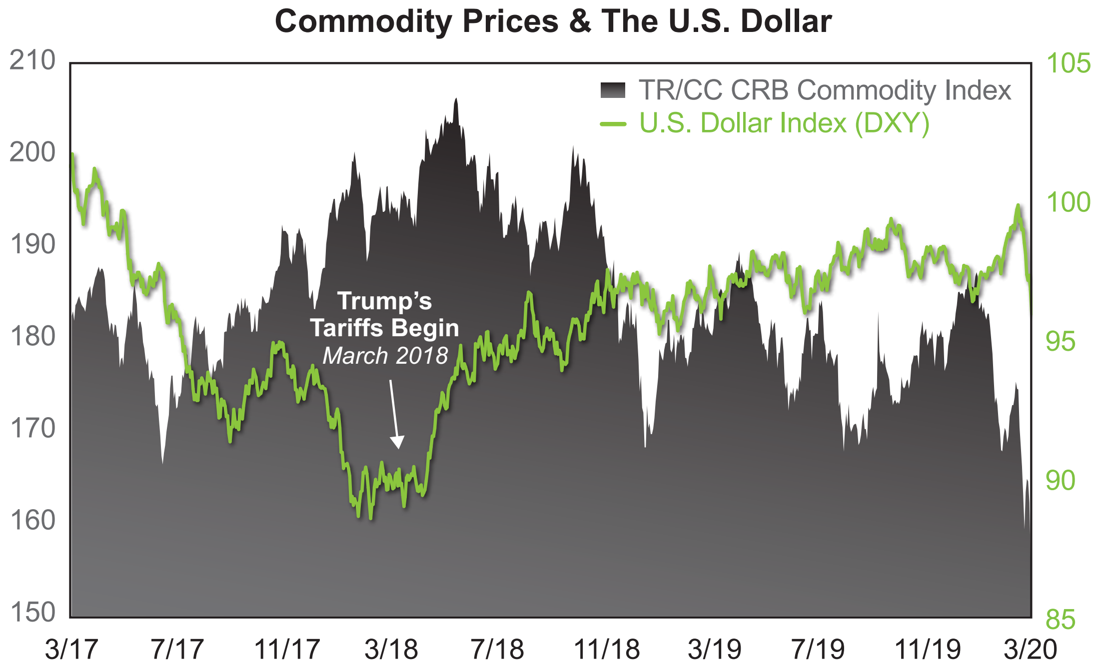
Commodities Can't Catch A Break



Source: Bloomberg. Weekly data points. 3/10/17-3/6/20.

View from the Observation Deck

1. As of this morning, the S&P 500 Index crossed over into bear market territory (a 20% or more price decline from the most recent high). If it is still down by 20% or more at the close of trading the 11-year bull market will be no more.
2. From 3/9/09-3/11/20 (current bull market), the S&P 500 Index posted a cumulative total return of 409.73%, compared to a return of -29.08% for the TR/CC CRB Commodity Index, according to Bloomberg.
3. That is not a typo. Commodities, overall, have not participated in the second-longest bull market in history. The recent plunge in the S&P 500 Index, which naturally has investors on edge, is in the vicinity of the percentage decline experienced by commodities since 3/9/09.
4. The strength in the U.S. dollar has negatively influenced commodity prices of late, in our opinion. As indicated in the chart above, commodities were enjoying a nice rally from mid-2017 to mid-2018, while the U.S. dollar (green line in chart) was trending back towards its historical average, as measured by the U.S. Dollar Index. Click here to see our latest perspective piece on the U.S. dollar.
5. From 3/9/09-3/11/20, the U.S. Dollar Index was up 8.43%, according to Bloomberg.
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. 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 safe-haven destination for global investors, especially when global economic growth is slowing. In February 2020, the White House admitted that President Trump's trade stance depressed economic growth and business investment, according to Bloomberg.
8. Looking ahead, commodity prices would likely benefit from a weaker U.S. dollar and some stronger inflationary pressures, in our opinion. We intend to monitor the climate for commodities moving forward.

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 Thomson Reuters/CoreCommodity CRB Commodity Index is an 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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