

A NEW REGIME FOR COMMODITIES: AN UPDATE

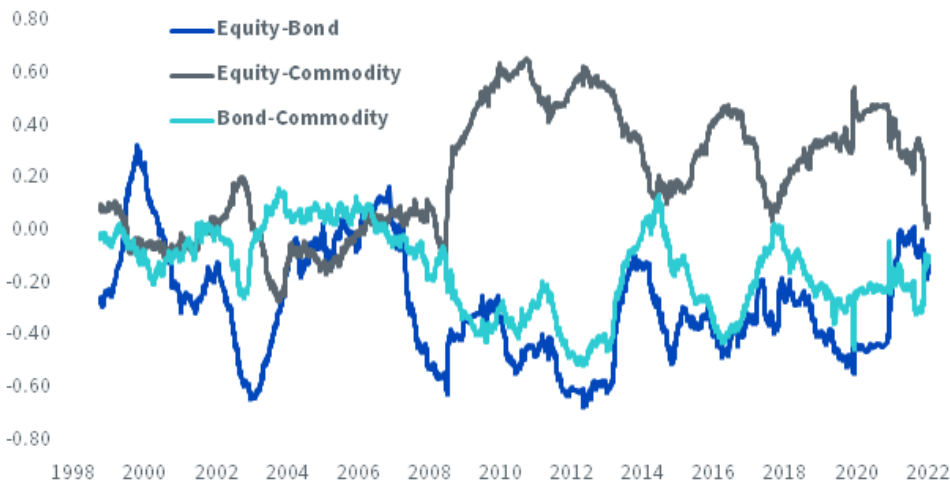
Jeremy Schwartz — Global Chief Investment Officer
05/31/2022

[Bonds](#) are not providing the diversification benefits they did historically, as both equities and bonds have declined materially in 2022, and the correlation between equities and bonds has risen to levels rarely seen over the last two decades.

With [inflation](#) being a key risk to both [stocks](#) and bonds, now is a useful time to consider strategies that can hedge inflation risks.

[Commodities](#) are one such asset. The correlation between equities and commodities has been declining, while commodity correlation with bonds remains in negative territory. (What is good for commodities—rising prices that fuel inflation—has been bad for bonds.)

252-Day Rolling Correlation Between Equities, Bonds and Commodities



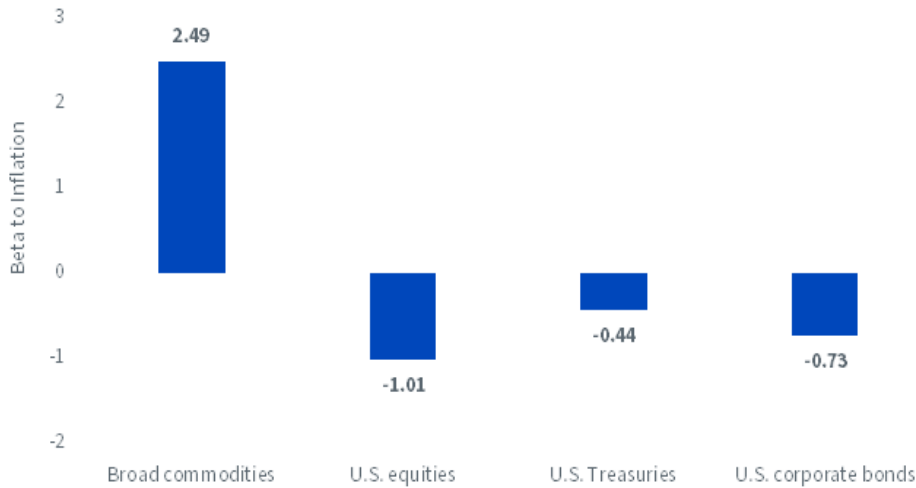
Sources: Equities are represented by the S&P 500 Index. Bonds are represented by the Bloomberg U.S. Treasury 7-10 Total Return Index. Commodities are represented by the S&P GSCI Total Return Index. Past performance is not indicative of future results. You cannot invest directly in an index. Data as of 4/30/22.

We previously wrote about the past environments when bonds failed to provide a downside cushion to stocks and how [commodities were often better hedges to stocks than bonds](#) during those periods.

Below are two charts that illustrate commodity sensitivity to inflationary dynamics.

The first chart represents the sensitivity of stocks, commodities, Treasuries and corporate bonds to inflation using a [beta](#) measurement. **Commodities were the only one of the four assets with a positive beta to inflation, as the other assets responded negatively to inflation.**

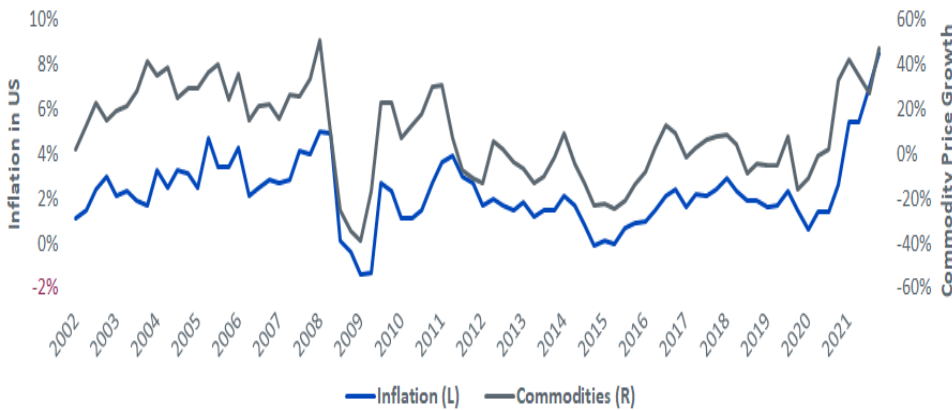
Commodities Have a High Beta to Inflation



Sources: WisdomTree, Bloomberg, S&P. From January 1960 to February 2022. Calculations are based on monthly returns. Broad commodities (Bloomberg Commodity Total Return Index) and U.S. equities (S&P 500 total returns) data started in January 1960. U.S. Treasuries (Bloomberg US Treasury Total Return Unhedged USD Index) and U.S. corporate bonds (Bloomberg US Corporate Total Return Unhedged USD Index) data started in January 1973. Past performance is not indicative of future returns. You cannot invest directly in an index.

This second chart illustrates the time series of commodity prices with inflation, and the directional impulse from commodities feeds into other inflation measures.

Commodity Prices Closely Aligned with Inflation

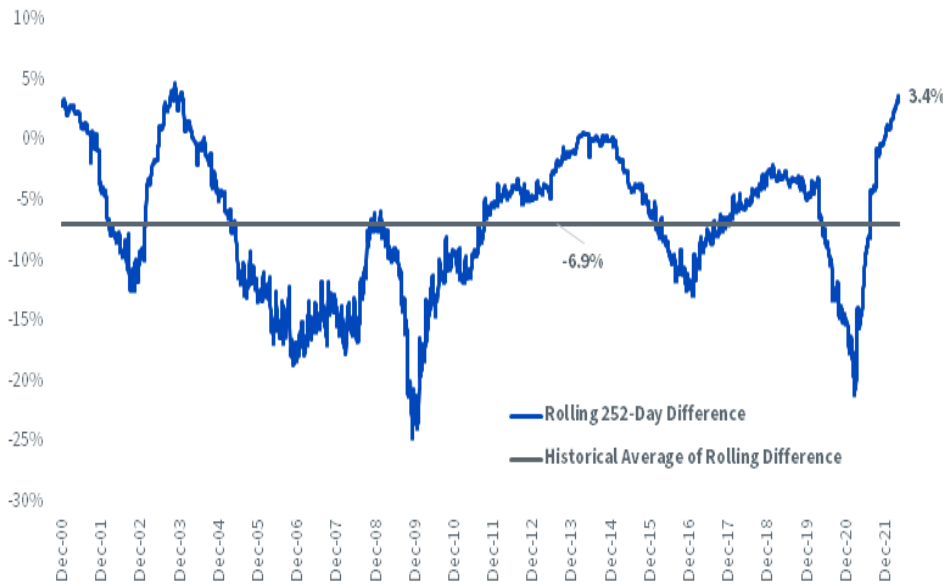


Sources: Bloomberg, WisdomTree, as of 3/31/22. Quarterly data from 12/31/1999 to 3/31/2022. Inflation refers to the US CPI Urban Consumers YoY NSA Index. CPI stands for Consumer Price Index and is a measure of how the price of a basket of consumer goods and services changes over time. Past performance is not indicative of future results. You cannot invest directly in an index.

If we go back to 1999, the average cost to roll [futures](#) (measured as the difference between the [Bloomberg Commodity Spot Index](#) and the [Excess Return Index](#) of the futures) was nearly 7% a year.

But the latest differentials show the costs have been declining, and they even turned into a positive contribution to returns.

Cost to Roll Broad Commodities Futures Contracts

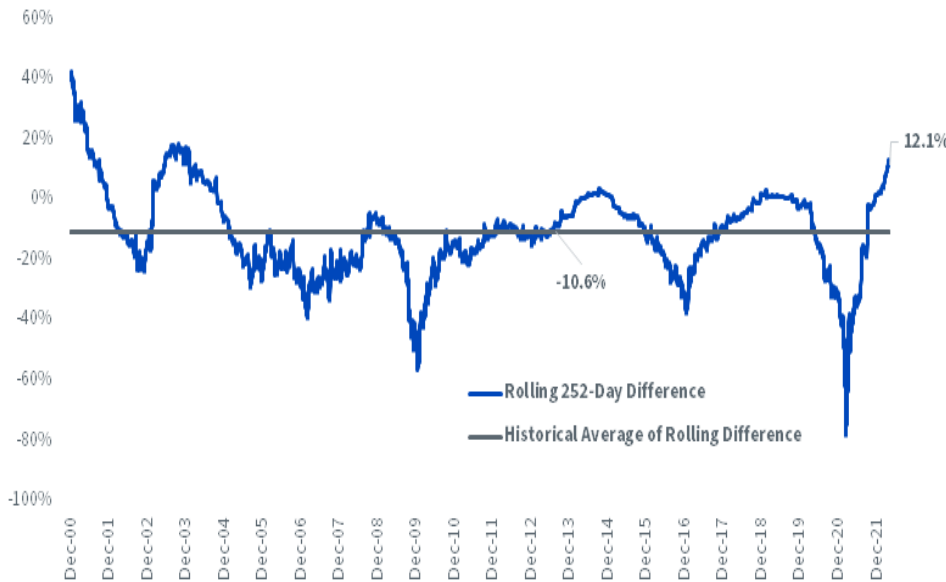


Sources: WisdomTree, Bloomberg, 12/20/00–4/29/22. Rolling 252-day difference of returns of Bloomberg Commodity Spot Index and the Bloomberg Commodity Index. Positive values indicate positive returns from rolling futures contracts. You cannot invest directly in an index. Past performance is not indicative of future returns.

In no sector is this more apparent than Energy, where very high levels of demand have pushed up [spot prices](#) while farther out prices remain relatively subdued.

While the average cost to roll Energy futures was 10.6% over the last 20 years, over the trailing 12 months, the net *benefit* has been 12%. The stories on how Energy futures funds are outperforming spot oil have been few and far between, though.

Cost to Roll Energy Futures Contracts



Sources: WisdomTree, Bloomberg, 12/20/00–4/29/22. Rolling 252-day difference of returns of Bloomberg Energy Spot Subindex and the Bloomberg Energy Subindex. Positive values indicate positive returns from rolling futures contracts. You cannot invest directly in an index. Past performance is not indicative of future returns.

While the Energy story is certainly positive, it is more than in Energy that the costs to roll the futures have declined dramatically.

Difference: Excess Return Minus Spot Return Index

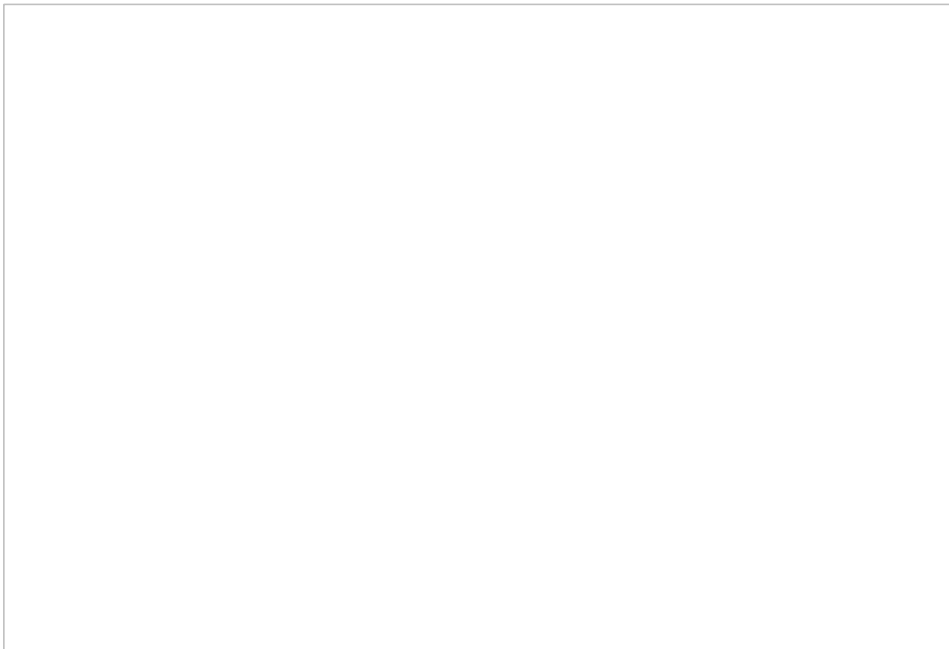
| | 1-Year | 3-Year | 5-Year | 10-Year | Since 1/4/00 |
|--------------------------|--------|---------|---------|---------|--------------|
| Broad Commodities | 3.55% | -6.21% | -5.32% | -4.94% | -6.76% |
| Energy | 12.82% | -15.10% | -9.61% | -9.98% | -10.97% |
| Industrial Metals | -0.04% | -1.59% | -1.58% | -2.24% | -2.11% |
| Livestock | -9.12% | -14.87% | -10.19% | -6.04% | -8.53% |
| Grains | 4.35% | -3.49% | -7.17% | -3.45% | -7.10% |
| Precious Metals | -0.92% | -2.50% | -2.49% | -1.63% | -2.49% |
| Softs | -1.33% | -6.17% | -6.11% | -6.40% | -9.22% |

Sources: WisdomTree, Bloomberg, 1/4/00–4/29/22. Return differential from excess return index and spot return index. Positive values indicate positive returns from rolling futures contracts. You cannot invest directly in an index. Past performance is not indicative of future returns.

For the [WisdomTree Enhanced Commodity Strategy ETF \(GCC\)](#), this can translate to meaningful contributors to returns. [GCC](#) had an average [implied roll yield](#) of 10.9% over the last year, and it is currently significantly higher still.

The Energy complex has some of the highest roll yields but so, too, do aluminum, nickel, cotton and sugar.

Annualized Weighted Implied Roll Yield



For definitions of terms in the chart, please visit our [glossary](#).

During a time when few assets have hedged inflation, commodities certainly look timely for this new regime.

Please visit our [Fund compare tool](#) for [GCC](#)'s latest performance.

Important Risks Related to this Article

Commodities and futures are generally volatile and are not suitable for all investors.

There are risks associated with investing, including the possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance. These factors include the use of commodity futures contracts. In addition, bitcoin and bitcoin futures are a relatively new asset class. They are subject to unique and substantial risks and, historically, have been subject to significant price volatility. While the bitcoin futures market has grown substantially since bitcoin futures commenced trading, there can be no assurance that this growth will continue. In addition, derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relates directly to the value of the futures contracts and other assets held by the Fund, and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. Because of the frequency with which the Fund expects to

roll futures contracts, the price of futures contracts further from expiration may be higher (a condition known as "contango") or lower (a condition known as "backwardation"). The impact of such contango or backwardation may be greater than the impact would be if the Fund experienced less portfolio turnover. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

+ [A New Regime for Commodities](#)

Related Funds

+ [WisdomTree Enhanced Commodity Strategy Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Bond : A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

Inflation : Characterized by rising price levels.

Stock : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

Commodity : A raw material or primary agricultural product that can be bought and sold.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

Bloomberg Commodity Spot Index : formerly known as Dow Jones-UBS Commodity Spot Index (DJUBSSP), tracks the spot prices of a broadly diversified basket of commodities that comprise the total return index.

Excess Return Index : Refers to an Index with the index type "Excess Return"

Spot price : The current price at which a particular security can be bought or sold at a specified time and place.

Implied yield : The annualized rate of return generated by a fund's investment in forward currency contracts. The calculation is intended to show the yield of forward currency contracts, assuming that foreign exchange rates remain constant.

Roll Yield : The yield that an investor in futures receives as the long position converges to spot.