Commodity Carry: the uncorrelated hedge with positive carry

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Key Takeaways

- The WisdomTree Enhanced Commodity Carry delivers uncorrelated returns through a systematic commodity carry strategy.
- Proven resilience during market stress, including the October 2025 correction.
- Benefits from curve dynamics - short front, long deferred futures.
- Acts as a hedge with positive carry, unlike traditional long volatility tools.

Every portfolio, like a successful team, relies on the right mix of characters. You have the defenders who make sure you stay in the game and the playmakers who help you control it. But in tight situations, the real difference comes from the player who sees the game differently — and thrives under pressure.

The WisdomTree Enhanced Commodity Carry (CRRY) isn't here to be like everyone else. It's here to zag when everything else zigs, delivering returns and diversification when traditional markets falter.

How the strategy works

Launched on 30 April 2025, CRRY now has six months of live performance.

In commodity markets, carry represents the gain or cost that arises as a futures contract converges towards the spot price over time. This premium reflects the compensation or expense associated with providing liquidity along the futures curve, influenced by storage costs, interest rates, and convenience yield. CRRY seeks to isolate and harvest this premium systematically.

In our first blog post on Commodity Carry, Harvesting Commodity Carry, we explained the index behind CRRY. It captures this premium by going short front-month futures, where carry costs tend to be highest, and long a basket of deferred contracts, where carry costs are typically lower, using the same commodity weights as the Bloomberg Commodity Index ex Precious Metals.

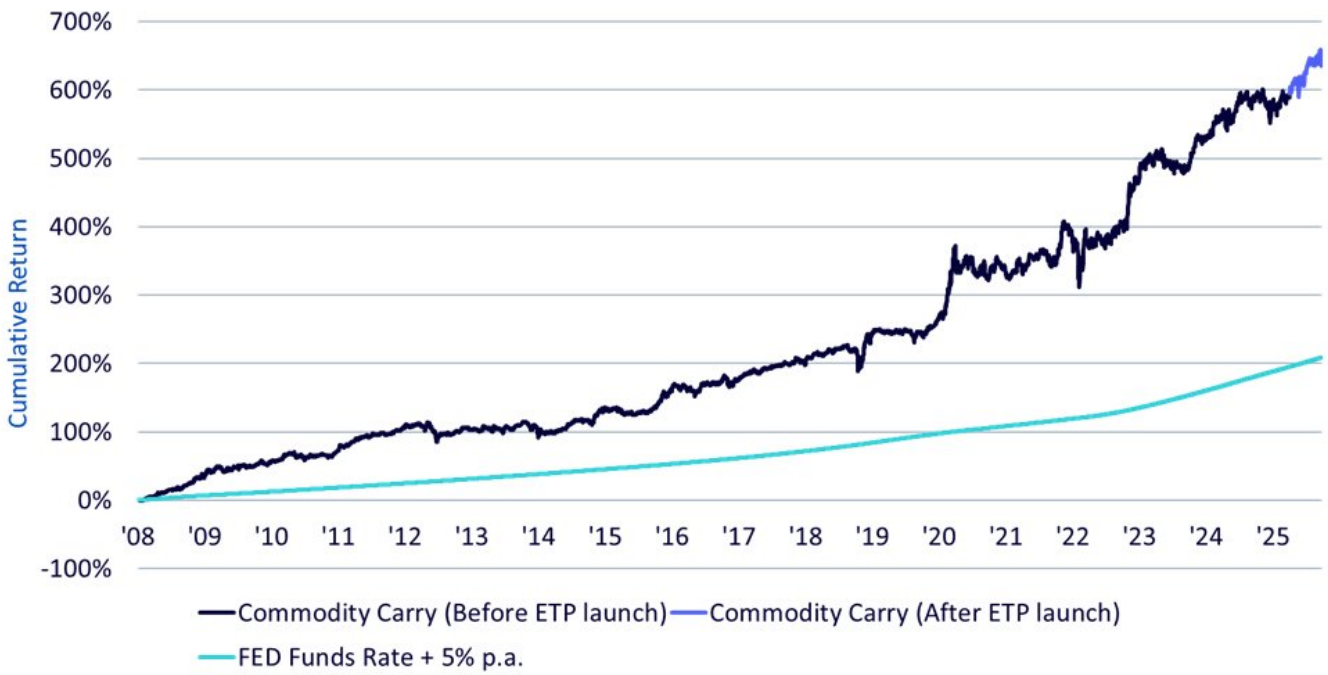
The short leg consists of the most liquid front-month contracts, which tend to exhibit the largest negative carry. The long leg is diversified across maturities to balance carry potential and liquidity:

- 60 per cent in contracts deferred by three months

- 30 per cent in contracts deferred by six months
- 10 per cent in contracts deferred by twelve months

This structure enables consistent exposure to the carry premium while keeping the strategy market neutral and broadly diversified across commodity sectors.

Figure 1: Commodity Carry Total Return Index backtest and live performance



Source: WisdomTree, Bloomberg. Data from 31 January 2008 to 23 October 2025. The timeseries includes backtested data. Since ETP launch period: 30 April 2025 – 23 October 2025. Commodity Carry refers to the BNPIF73T Index, the index underlying the WisdomTree Enhanced Commodity Carry ETP. FED Funds Rate +5% p.a. is the hypothetical cumulative return of the US federal funds effective rate plus 5% per annum, accrued daily. **Historical performance is not an indication of future performance and any investments may go down in value.**

Zagging in real time: Commodity Carry's early record

In its first six months, CRRY has already been tested by conditions that most strategies face only after years of trading. Renewed U.S.-China trade tensions, geopolitical flare-ups, and a sharp equity pullback in October have all challenged global risk assets. Through each episode, CRRY has demonstrated resilience, delivering positive returns and maintaining minimal correlation to traditional markets.

Since the ETP launch in April 2025, the strategy has achieved a total return of 5.6 per cent and continues to mirror the behaviour seen before the ETP launched, which delivered an annualised return of 11.9 per cent from February 2008 to April 2025, with an annualised volatility of 9.8 per cent.

Table 1: Commodity Carry Asset Class Correlations

Asset class	Since 2008 (including backtest)	Since ETP launch
Global Equities	-0.11	0.16
Commodities	-0.54	-0.59
Global Fixed Income	0.02	0.25

Source: WisdomTree, Bloomberg. Data from 31 January 2008 to 23 October 2025. The timeseries includes backtested data. Since ETP launch period: 30 April 2025 – 23 October 2025. Commodity Carry refers to the BNPIF73T Index, the index underlying the WisdomTree Enhanced Commodity Carry ETP. Global Equities refers to the MSCI ACWI Total Return Index, Commodities to the Bloomberg Commodity Total Return Index, and Global Fixed Income to the Bloomberg Global Aggregate Total Return Index (Unhedged). Historical performance is not an indication of future performance and any investments may go down in value.

Correlations have remained near zero compared to global equities and fixed income, and have been strongly negative versus broad commodities. In short, Commodity Carry has so far behaved exactly as anticipated, as a source of alternative carry that zags when the rest of the portfolio zigs.

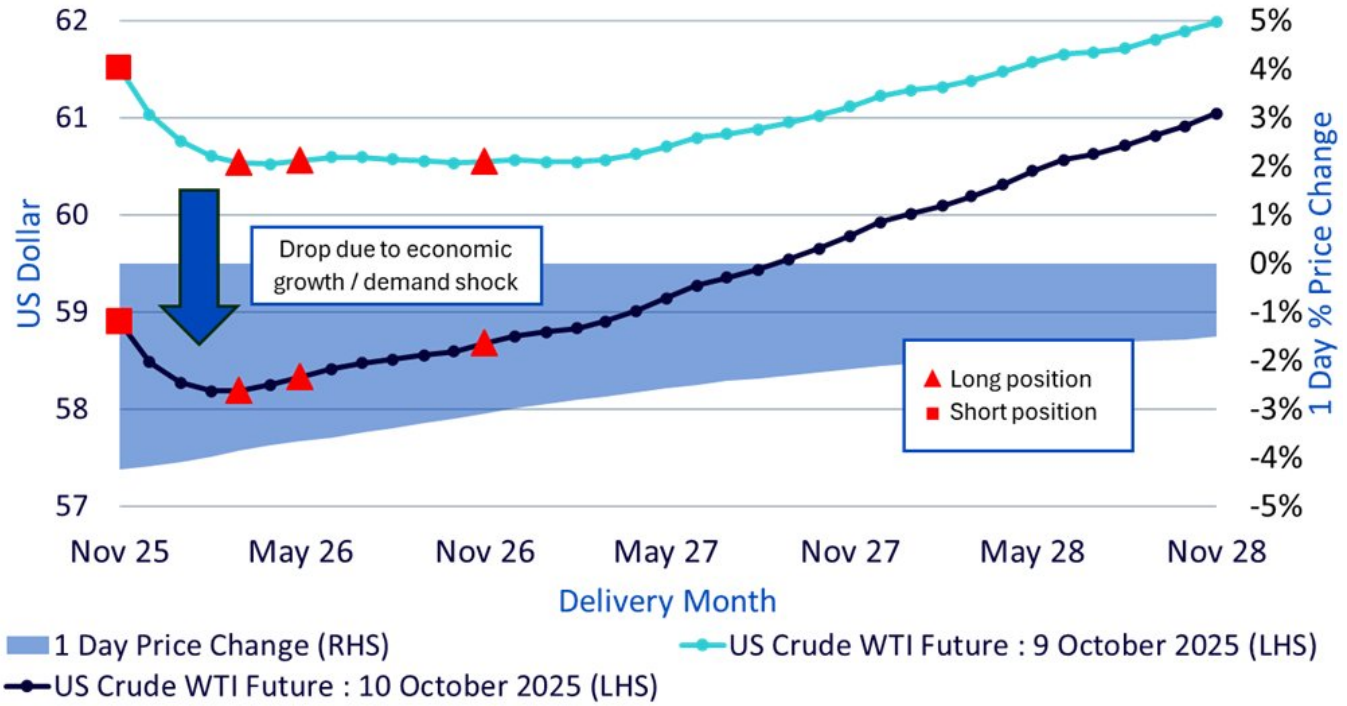
Why Carry works when markets fall

To understand why Commodity Carry zags when traditional markets zig, it helps to look at how information and volatility flow through the commodity futures curve. Research by Lautier et al. (2019)[1] shows that price discovery tends to concentrate in the front end of the curve, where liquidity and sensitivity to shocks are highest.

Imagine a stone hitting still water. The initial splash sends out a wave that loses strength as it moves outward. Commodity markets behave much the same way. The front month contracts absorb the shock first; deferred contracts adjust more gradually.

Commodity Carry captures that pattern. It is short the nearby futures, where shocks are most intense, and long the deferred ones, where volatility has already faded. The result is a structure that often benefits when expectations for economic growth suddenly decline, precisely the conditions that usually weigh on equities.

Figure 2: WTI Futures Curve Drop on 10 October 2025



Source: Bloomberg. Data from 9 October 2025 to 10 October 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

The correction on 10 October 2025 offered a clear test of CRRY's behaviour. That day, the S&P 500 fell 2.7 per cent and the MSCI World Index declined 2.3 per cent as renewed trade tensions between the United States and China reignited fears of slower global growth.

Energy and industrial metal prices dropped sharply because demand for these commodities is closely tied to economic activity. The impact was concentrated in the front of the futures curves, where contracts reacted most strongly to the growth shock. The shaded area in Figure 2, which represents the change in the futures prices over the day for WTI Crude Oil, clearly highlights how the curve moved more at the front than at the back. Commodity Carry has been positioned to capture that dynamic. By being short the nearby contract and long deferred ones, it benefited as the front end sold off while the back end remained relatively stable. On the day, the strategy gained 0.85 per cent, demonstrating its ability to provide diversification and resilience when equity markets stumble.

Why Commodity Carry defies the typical hedge trade-Off

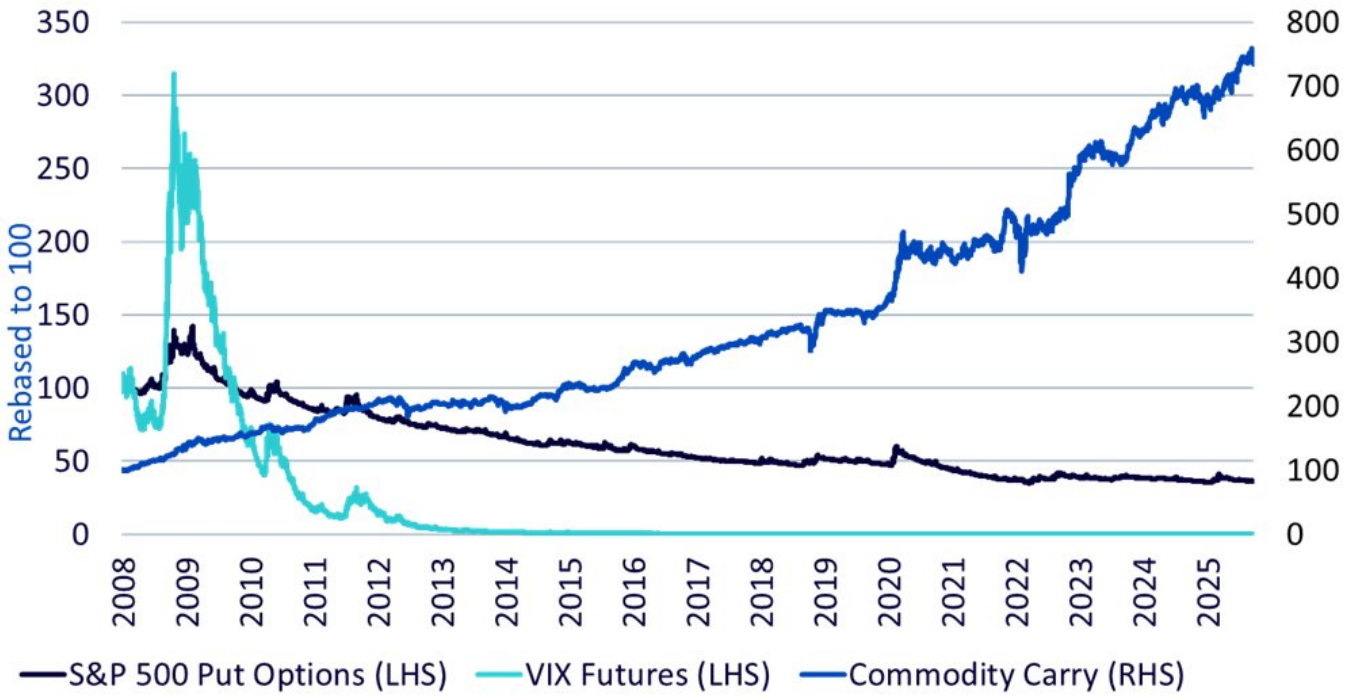
Looking at the ten worst days of the S&P 500 in Table 2, we find that Commodity Carry reacted with positive returns in nine out of ten instances. In this sense, Commodity Carry provides a portfolio hedge for equity downturns, similar to holding put options or being long VIX futures.

Table 2: Hedging properties of Commodity Carry (ten worst days of the S&P 500)

Date	S&P 500	Commodity Carry
16/03/2020	-12.0%	1.5%
12/03/2020	-9.5%	1.6%
15/10/2008	-9.0%	0.2%
01/12/2008	-8.9%	0.8%
29/09/2008	-8.8%	1.2%
09/10/2008	-7.6%	0.4%
09/03/2020	-7.6%	1.9%
20/11/2008	-6.7%	0.7%
08/08/2011	-6.6%	0.1%
19/11/2008	-6.1%	-0.5%

Source: WisdomTree, Bloomberg. Data from 31 January 2008 to 23 October 2025. Commodity Carry refers to the BNPIF73T Index, the index underlying the WisdomTree Enhanced Commodity Carry ETP. S&P 500 refers to the SPXT Index (S&P 500 Total Return Index). Historical performance is not an indication of future performance and any investments may go down in value.

Figure 3: The rare luxury of positive carry



Source: WisdomTree, Bloomberg. Data from 31 January 2008 to 23 October 2025. Commodity Carry refers to the BNPIF73T Index, the index underlying the WisdomTree Enhanced Commodity Carry ETP. S&P 500 refers to the SPXT Index (S&P 500 Total Return Index). S&P 500 Put Options is the hypothetical return of repeatedly purchasing a one-month, at-the-money put option and holding until maturity, while earning interest on the collateral. VIX Futures is the S&P 500 VIX Short-Term Futures Total Return Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

While hedging a portfolio with instruments like put options or VIX futures is effective in the short term, the long-term costs are significant (see Figure 3), as such strategies are long equity volatility. In other words, they perform well when market volatility spikes, which typically occurs during sharp market correction, but they also have “negative carry”, where they tend to lose money in good times.

Commodity Carry appears to be the exception, historically outperforming in bad times while still performing in good times.

There are two explanations for this. The first is that the futures curve for many commodities is typically in a state of contango with a curved profile that is steeper in nearby contracts and flatter in the deferred ones. Hence, by construction, being short the front and long the back of the curve results, all else equal, in a positive roll yield or carry.

The second, risk-based explanation is that while the strategy benefits from sudden demand shocks, it is negatively affected by unexpected supply shocks. In such cases, for example, when a winter turns colder than expected or when sanctions disrupt markets, the curve reacts most strongly at the front end, with near-term futures prices rising fastest. Because of its short position in those contracts, the Commodity Carry index is negatively affected in those scenarios.

Overall, both historical simulation and live results show that the strategy benefits from its positive carry to deliver consistent performance in good times while also demonstrating strong hedging capabilities in equity drawdowns.

Conclusion

Putting this together, we have a unique character: an uncorrelated, ‘anti-fragile’ instrument with positive carry. Every successful team needs the player who performs when the game heats up. In a portfolio, CRRY can play that role.

[1] Lautier, Raynaud & Robe (2019), “Shock Propagation Across the Futures Term Structure: Evidence from Crude Oil Prices”, The Energy Journal

Important Risks Related to this Article

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