

What does the US manufacturing recovery mean for commodities?

Publié le 4 février 2021

Kevin Flanagan

Head of Investment and Fixed Income Strategy

Given the unfortunate second wave of the pandemic, it's easy to focus solely on what the negative impact could potentially mean for the US economy. However, somewhat lost in the shuffle of data headlines, there is one sector of the US economy that has been able to actually outperform expectations: manufacturing.

A closely watched factory gauge is the monthly release of the ISM Manufacturing PMI¹ report. For this index, a reading above 50.0 is viewed as being in expansion territory while a level below this threshold puts you in contraction territory. After plummeting to its lowest level since the financial crisis/great recession in April, the PMI reading has been on a visible ascending trajectory, hitting its highest level since early 2018 in December.

So, what's behind the resurgence you ask? With consumers unable to spend on leisure-type items such as dining out, vacations, etc., household spending has apparently shifted gears towards expenditures that are more stay-at-home centric, like appliances, household renovations/improvements, and automobile sales. With many of the nation's factories shutting down during the first wave of the pandemic, a trickle-down effect occurred whereby the production of industrial commodities fell, inventories declined and vendors/suppliers became overly cautious of the outlook going forward.

A January 24th, 2021 Wall Street Journal article, "Manufacturing Rebound Has Suppliers Struggling to Keep Up", highlighted these developments, and perhaps even more notable, what this renewed factory activity has meant for commodities prices; namely, the cost of prices for aluminium, copper, steel scrap and lumber have all gone up.

It doesn't end there though. The article mentions how "some manufacturers have stockpiled materials to guard against a lack of availability in the future." Although Federal Reserve (Fed) Chairman Powell stated at the January FOMC² presser that any upcoming increase in inflation should be viewed as "transient", if the law of supply and demand are any guide, could we be witnessing the long awaited first stages of inflation after all, and perhaps more importantly, how can investors position their portfolios for this possibility?

¹ ISM Purchasing Managers' Index: Represents the health of the manufacturing sector based on new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI above 50 signifies expansion while below 50 signifies contraction.

2 Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.