What does the US manufacturing recovery mean for commodities?

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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 PMI[1] 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 FOMC[2] 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.

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