What does today's commodity market mean for broad allocations?

Published 16 July 2026

Tobias Lazar
Associate Director, Quantitative Research

Key Takeaways

- Commodity futures markets have largely normalised as supply concerns from the Strait of Hormuz disruption have eased.
- Historically, elevated backwardation has often preceded stronger commodity returns.
- Enhanced commodity strategies can systematically tilt toward backwardated markets, improving returns across market regimes.

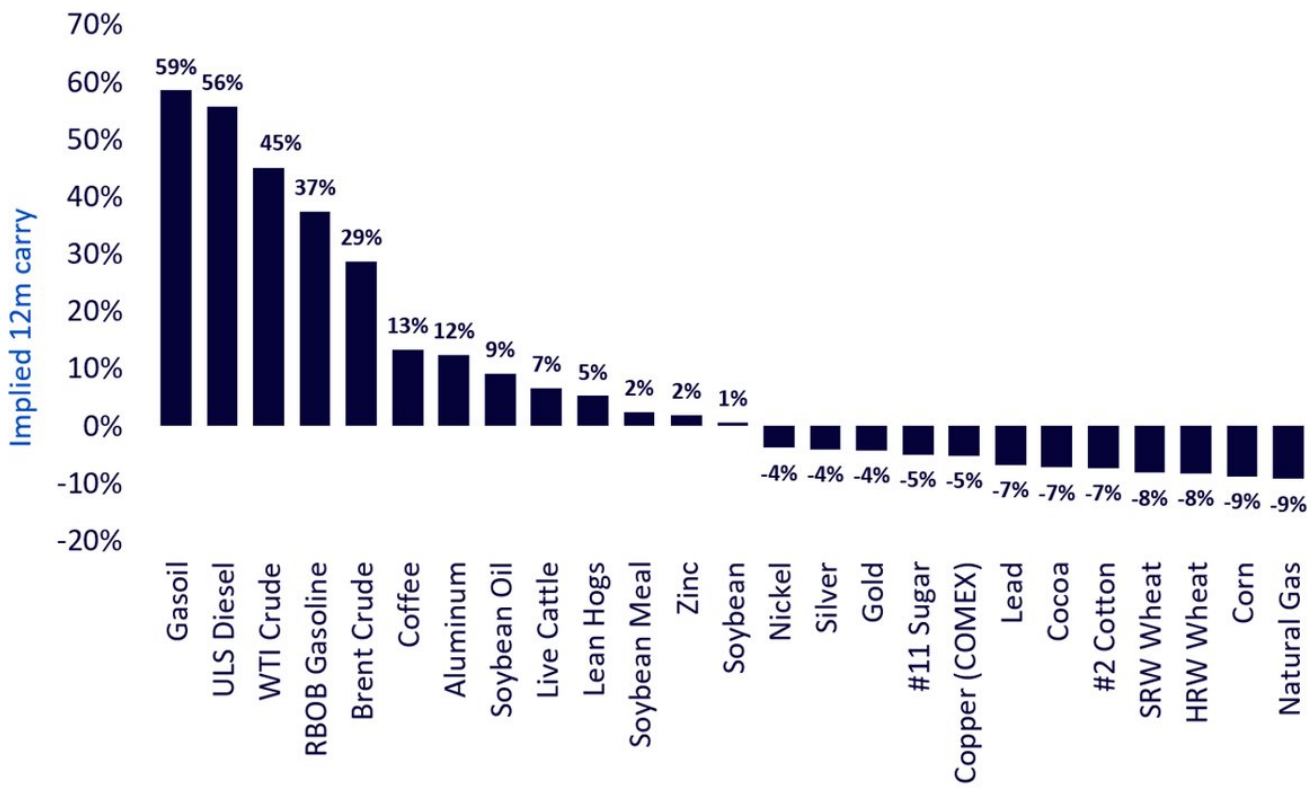
The sharp rise in commodity backwardation following the closure of the Strait of Hormuz (SoH) earlier this year pushed commodity markets into one of the highest backwardation regimes observed in over a decade, a market environment that has historically been followed by stronger commodity returns. Backwardation describes a state of the commodity futures curve where contracts for near-term delivery trade at higher prices than those for later delivery. It reflects a high convenience yield, indicating that market participants are willing to pay a premium to secure access to a commodity sooner rather than later. More recently, however, supply concerns have eased, and futures curves have largely normalised.

In this blog, we examine the current state of commodity markets, explain why periods of backwardation have historically been associated with stronger subsequent commodity returns, and assess whether it is too late to benefit from the ‘backwardation opportunity’ that emerged earlier this year.

The state of commodity markets

The effective closure of the SoH from late February 2026 removed significant supply from the energy complex, aluminium, and other important industrial inputs. As a result, many commodities quickly turned into backwardation, indicating elevated short-term market tightness (Figure 1).

Figure 1: Energy markets drive broad commodity backwardation following SoH closure (March 2026)

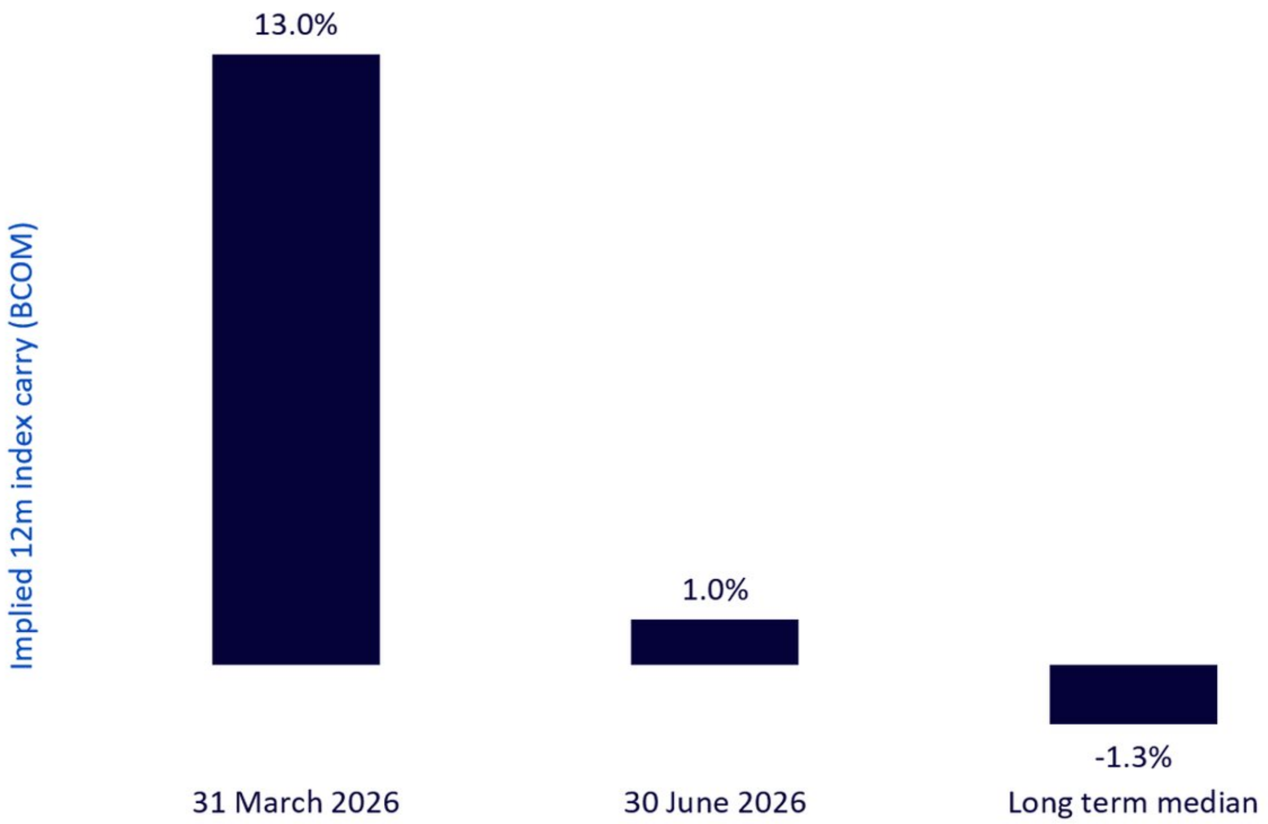


Source: WisdomTree, Bloomberg Finance L.P., as of 31 March 2026. Implied carry is calculated as the relative price difference between the current BCOM futures contract and the contract with a maturity approximately 12 months later. **Historical performance is not an indication of future performance and any investments may go down in value.**

Aggregating the implied 12-month carry, defined as the percent spread between the current and 12-month deferred future, across constituents using Bloomberg Commodity Index weights shows that the index was in a strong backwardation on a weighted-average basis. We use positive implied carry and backwardation interchangeably here.

As of 31 March 2026, the Bloomberg Commodity Index exhibited an index-weighted implied carry of 13%. This is a relatively rare occurrence: since May 2011, the median weighted-average implied carry of the index has been firmly negative at -1.3% (Figure 2), implying that commodities for future delivery are generally more expensive than for immediate delivery, most of the time. If the implied carry is negative, we generally speak of a ‘contango’ market.

Figure 2: Signs of SoH re-opening ease backwardation toward long-term norms



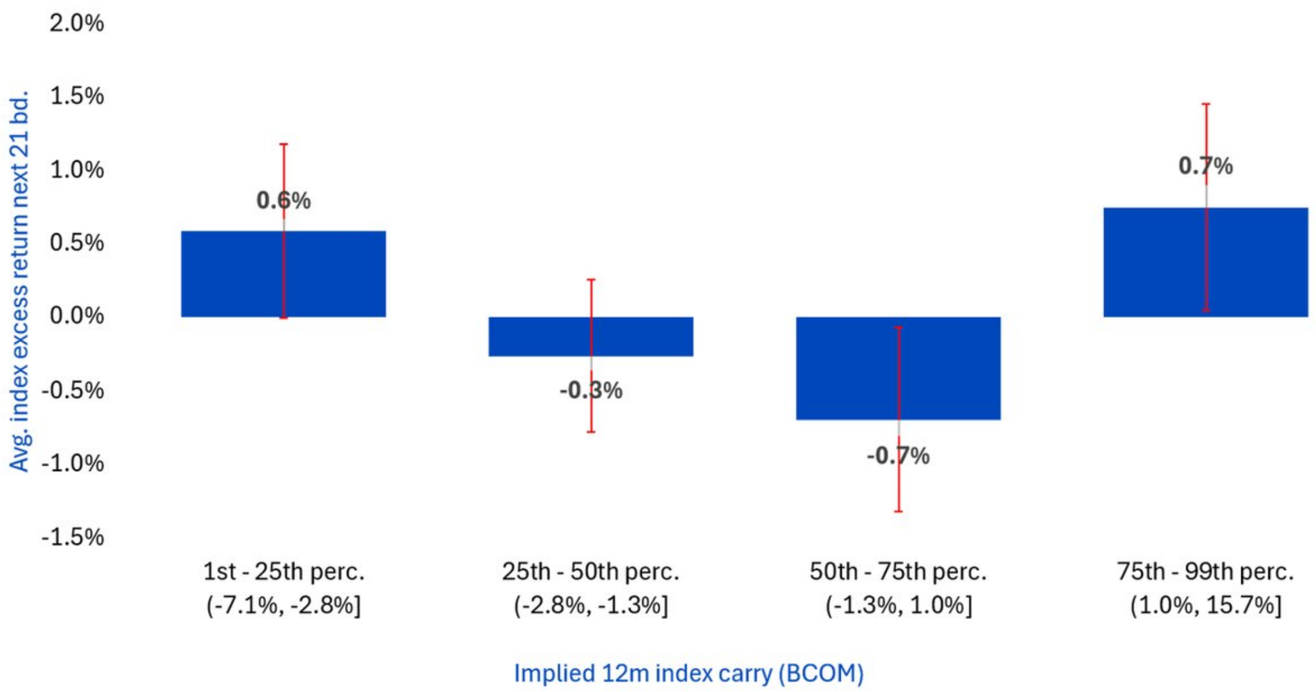
Source: WisdomTree, Bloomberg Finance L.P. The long-term median is calculated from May 2011 to May 2026, based on month-end observations. Implied carry is calculated as the relative price difference between the current BCOM futures contract and the contract with a maturity approximately 12 months later. The figures represent the weighted-average implied carry using the month-end index weightings. **Historical performance is not an indication of future performance and any investments may go down in value.**

Moving a few weeks forward, with strong signs of a permanent SoH reopening and tightness in the oil markets easing, the weighted-average implied carry dropped to 1%, as of 30 June 2026.

Does backwardation predict returns?

Figure 3 shows that periods of pronounced backwardation (3rd to 4th quartiles) were historically associated with positive excess returns over the subsequent month.

Figure 3: Elevated backwardation historically supported stronger near-term commodity returns



Source: WisdomTree, Bloomberg Finance L.P. from 31 May 2011 to 30 June 2026 based on monthly observations of 21-business-day forward returns. Red error bars represent 95% confidence intervals. **Historical performance is not an indication of future performance and any investments may go down in value.**

At first glance, this may appear counterintuitive, as a backwardated futures curve is often interpreted as implying that the market expects lower future spot prices. However, realised commodity performance has historically been positive following periods of backwardation. Our interpretation is that backwardation primarily reflects constrained near-term supply or elevated immediate demand, with buyers willing to pay a premium for prompt delivery relative to future delivery. It therefore indicates a bullish near-term outlook, whereas a commodity with a curve in contango likely has ample supply or relatively lower demand, implying a bearish near-term outlook.

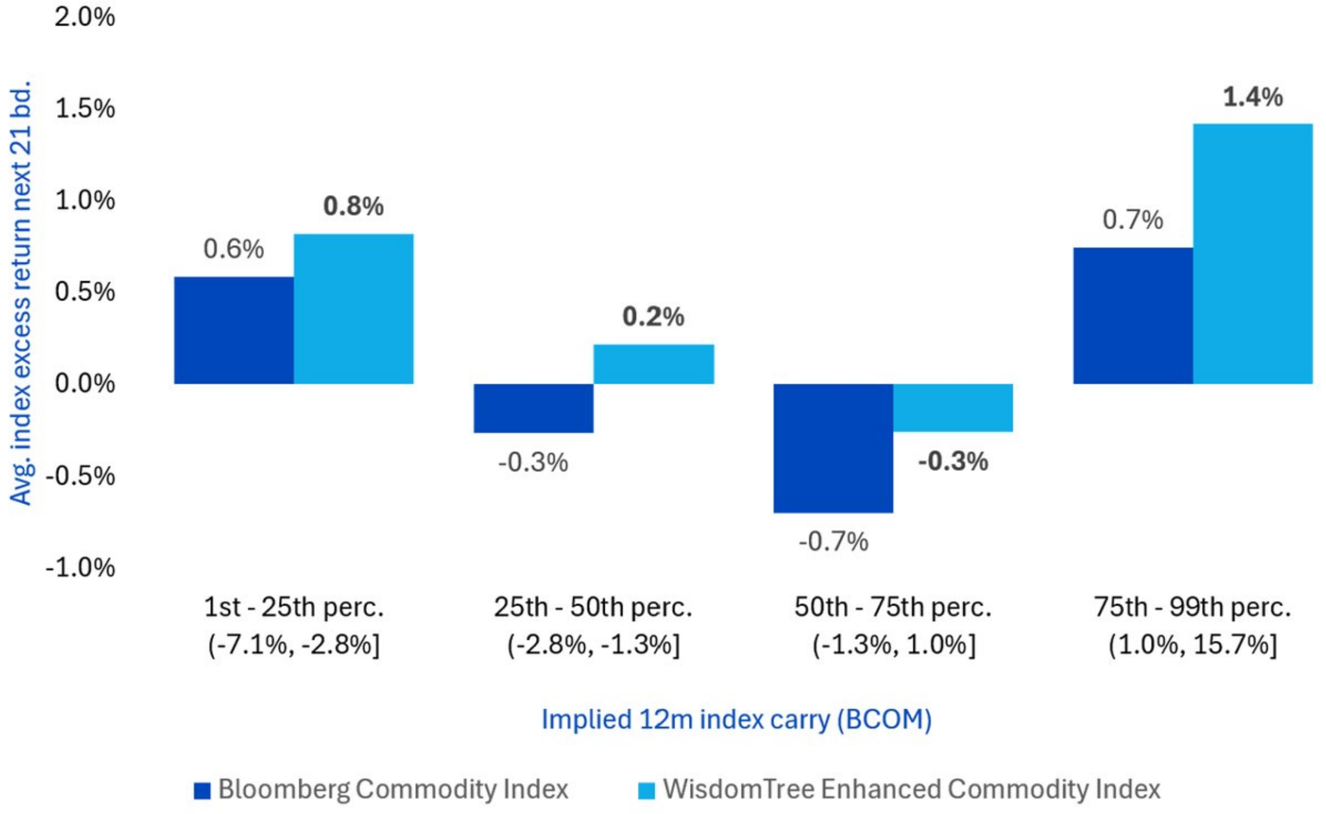
Capturing backwardation across market environments

As mentioned in the introduction, the backwardation level of the broad Bloomberg benchmark has significantly come down in recent weeks. Does that mean the opportunity for elevated expected returns has passed?

In our view, the opportunity is not necessarily over. In fact, commodity investors today have the choice to invest in so-called next-generation commodity indices. These are commodity baskets that dynamically tilt towards commodities that exhibit a stronger level of backwardation.

One example is our WisdomTree Enhanced Commodity Index, which is tracked by the **WisdomTree Enhanced Commodity UCITS ETF**. The Index uses the observed backwardation level, among other quantitative signals, to tilt towards those commodities exhibiting relatively stronger backwardation. Historically, the strategy produced higher average returns across different market regimes (Figure 4).

Figure 4: Systematic over-and-under weighting was associated with outperformance across market regimes



Source: WisdomTree, Bloomberg Finance L.P. from 31 May 2011 to 30 June 2026 based on monthly observations of 21-business-day forward returns. **Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

The apparent re-opening of the SoH led to easing market tightness and therefore dropping backwardation levels. While the backwardation seen earlier in 2026 was a historically rare occurrence, our analysis shows that such periods of pronounced backwardation have historically been followed by positive near-term excess returns. While backwardation usually comes and goes with the natural commodity cycle as well as geopolitical or weather events, investors seeking commodity exposure may also consider strategies that systematically incorporate backwardation and other quantitative signals rather than relying on periods of elevated backwardation alone. The **WisdomTree Enhanced Commodity UCITS ETF** systematically over- and underweights commodities based on backwardation and other quantitative signals, with the objective of enhancing risk-adjusted returns.

Commodity prices can be volatile and may be affected by supply disruptions, geopolitical events, weather conditions and changes in investor sentiment. The value of investments may go down as well as up.

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.

This marketing communication is intended for all investors; however, the WisdomTree products described in this document and related materials may be restricted in certain jurisdictions and may only be available to particular categories of investors in accordance with applicable laws and regulations. Where a product is not authorised or its distribution is restricted in your jurisdiction, it is the responsibility of any person or entity in possession of this information to inform themselves of, and comply with, all relevant restrictions. Before making any investment, investors should seek appropriate legal, regulatory, tax and investment advice to assess the suitability and implications of investing in these products. Information about WisdomTree products is available at wisdomtree.eu. WisdomTree does not offer investment advice tailored to individual circumstances. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. 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 content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in 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 in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. 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.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

Certain funds referred to in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an open-ended, umbrella-type Irish Collective Asset-management Vehicle with segregated liability between sub-funds and is authorised by the Central Bank of Ireland ("CBI") as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Irish law. Each fund is represented by a separate class of shares (the "Shares") issued by WT Issuer.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

WisdomTree Enhanced Commodity UCITS ETF

The base weightings for each commodity in the WisdomTree Enhanced Commodity Index are determined by reference to Bloomberg® Commodity Indices. “BLOOMBERG®” and the Bloomberg indices listed as index components therein (the “Bloomberg Indices”) are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the Bloomberg Indices (collectively, “Bloomberg”) and have been licensed for use for certain purposes by WisdomTree Issuer ICAV as the umbrella Irish collective asset-management vehicle of the Fund (the “Licensee”). Bloomberg is not affiliated with Licensee, and Bloomberg does not approve, endorse, review, or recommend the Fund. Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to the Fund.

For Investors in Switzerland:

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree’s website: https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For WisdomTree UCITS products only: the representative and paying agent of the ETPs in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA may only be available to Qualified Investors.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

For Investors in Israel: Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15a of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law “), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum (“the Addendum”) to the Securities Law, “Sophisticated Investors”) who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.