What's Hot: Why the July Iran flare-up reinforces the strategic case for commodities

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Punti chiave

- Renewed hostilities in Iran pushed oil prices higher and tightened oil markets.
- No commodity sector leads the market all the time.
- Commodity index innovation has improved long-term return potential.

A plotted time series of crude oil reads like a global action thriller – think Tom Clancy, but running continuously since at least 1970. Each spike tells the story of global crises and regional conflicts over the past 50 or so years. The most recent one, the 2026 Iran war, was already thought to be over. A memorandum of understanding (MoU) was signed, and oil market participants expected a return to normal. Of course, there was a lot of wishful thinking behind it (after all, the vast majority of the world doesn't like high oil prices), so when hostilities started to flare up again in July, prices for the future delivery of crude oil adjusted, reversing expectations that oil would be flowing freely by the time of delivery.

"For me, I think it's over." – Donald Trump, speaking about the MoU at the NATO Summit in Ankara on 8 July 2026.

Most important to remember is that the situation remains unsustainable. In June, according to the International Energy Agency:

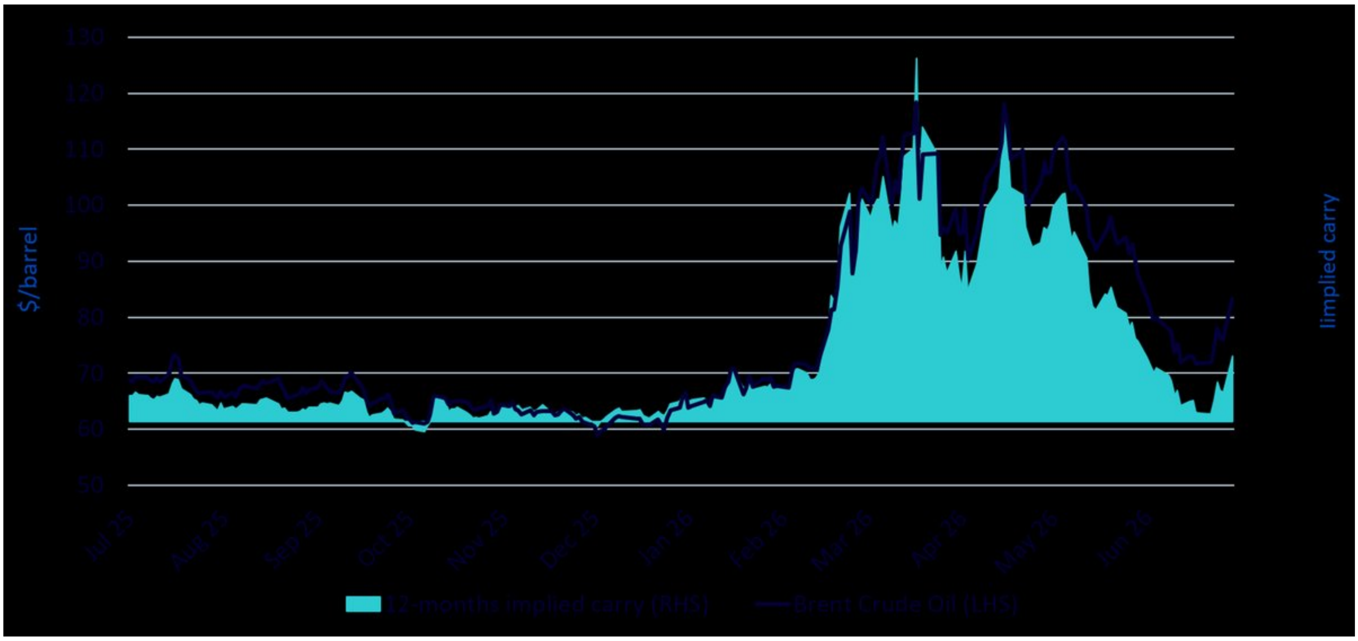
- World crude output was still 282 mb below pre-war levels.
- Global crude reserves fell by 99 mb (that's 24% of the US SPR at the end of 2025).

Hence, demand restraint and the release of stockpiles are still making up the difference, while higher prices distribute oil to the highest bidder. In a nutshell, it's a tight market. And that's what we can see in the futures curve, in particular in the difference between the price of oil for delivery at the nearest point in time and the price for delivery 12 months later (Figure 1).

While the price tells the story of expectations for the end of the conflict, the implied carry tells us how tight the market is. That is, how much more a buyer is willing to pay for sooner rather than later delivery of oil.

At one point, oil for delivery the following month was 50% more expensive than oil delivered a year later; it fell to almost the same price (0%); and after the recent flare-up in strikes, it's back to 10%.

Figure 1: Iran war drives oil prices higher and tightens the crude oil market



Source: Bloomberg Finance L.P. from 15 July 2025 to 13 July 2026. Implied carry is the relative difference between the front month and the contract for delivery 12 months later. **Historical performance is not an indication of future performance and any investments may go down in value.**

Sector leadership continues to rotate

Commodity price charts are seldom a straight line up (like when you squint your eyes and look at the S&P 500 Index time series). Rather, we often see a series of spikes, of booms and busts: rising prices are met with falling demand, and low demand is met with falling prices.

In 2026 so far, almost every month a different sector has been on top of the league table (see Table 1), which may reinforce investors' view that commodities are more of a tactical bet than a long-term, strategic allocation.

Table 1: Commodity leadership rotates throughout 2026

Rank	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026	Jun 2026	Jul 2026
1	Energy Index 20.3%	Precious Metals 12.1%	Energy Index 40.3%	Energy Index 7.4%	Industrial Metals 4.8%	Agriculture -4.0%	Energy Index 8.6%
2	Precious Metals 10.7%	Agriculture 2.8%	Agriculture 4.9%	Industrial Metals 4.7%	Precious Metals -0.7%	Industrial Metals -7.9%	Agriculture 6.3%
3	Industrial Metals 5.3%	Industrial Metals -0.3%	Industrial Metals -1.3%	Agriculture 2.2%	Agriculture -2.1%	Energy Index -12.0%	Industrial Metals 1.2%
4	Agriculture -0.6%	Energy Index -6.0%	Precious Metals -13.3%	Precious Metals -1.2%	Energy Index -9.1%	Precious Metals -14.0%	Precious Metals -1.3%

Source: Bloomberg Finance L.P. from 31 December 2025 to 13 July 2026, based on Bloomberg Commodity Sector Excess Return Indices in USD. **Historical performance is not an indication of future performance and any investments may go down in value.**

2026 wasn't just dominated by oil. In January, gold and silver experienced an eye-watering rally, which then reversed. Energy (oil, oil derivatives, and gas) took over in March and April, but gave way to industrial metals and agriculture in May and June.

The point is, no sector is necessarily winning all the time. It also means inflation, when triggered by higher commodity prices, isn't driven by the same input factors each time. Today it's the oil price felt at the gas station; tomorrow it's the price of bread in the supermarket. For investors looking to hedge inflation, but also for those looking to participate in commodity price movements, a broad basket across commodity groups offers a long-term, buy-and-hold solution.

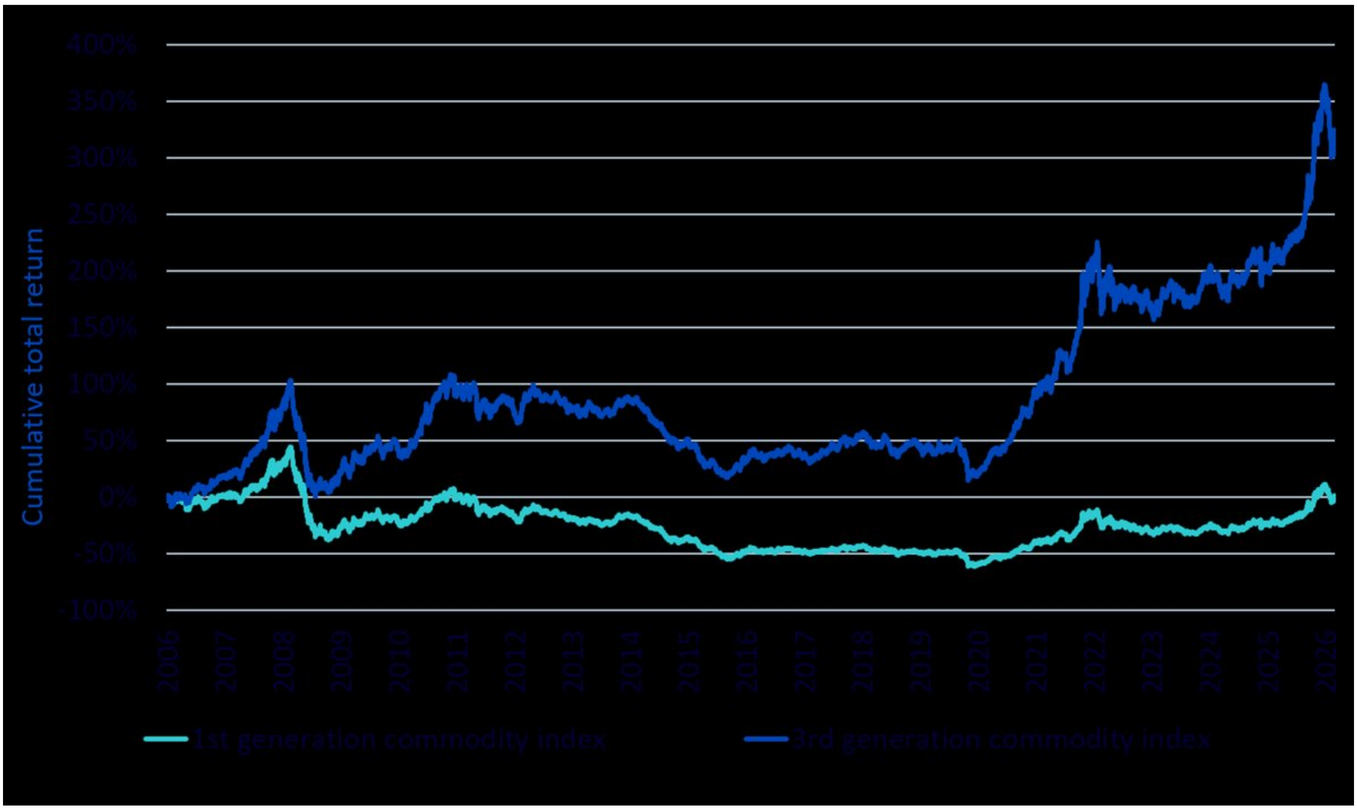
Not all commodity baskets are created equal

A tightly held view among multi-asset allocators is that commodity baskets have a low expected return. Since 2006, the most widely used commodity benchmark has returned 0.73%, versus the S&P 500's 753% total return over the same period1. Hence, standard literature has often ranked commodities fairly low in the strategic multi-asset mix.

However, we need to acknowledge that the first commodity indices were simple creatures: buy the first liquid futures contract of all tradable commodities and weigh them in proportion to their market liquidity as well as economic relevance (i.e., how much is produced).

Since then, however, index providers and fund managers have addressed the methodology’s shortcomings (for example, the high roll costs of nearby contracts and seasonality) and discovered signals around market tightening as well as price momentum.

Figure 2: Third-generation commodity indices challenge the traditional view of commodity returns



Source: Bloomberg Finance L.P. from 15 May 2006 to 13 July 2026, based on the total return version of the Bloomberg Commodity Index (1st generation) as well as the WisdomTree Enhanced Commodity Index (3rd generation) in USD. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

At WisdomTree, we developed one of the latest commodity indices within the cohort of third-generation indices. Our enhanced commodity basket implements:

- Optimal, seasonality-aware contract selection that reduces the cost of rolling futures.
- Overweighting commodities that experience market tightness (or tightening) as well as price momentum.

Hence, whereas first-generation indices returned 0.73% since 2006, our third-generation index would have returned 324%2. This rewrites the prior assumption about the expected returns of commodities and thus raises the question of whether commodities are receiving the correct weighting in a risk-return-optimised multi-asset portfolio.

Conclusion

The renewed escalation of the Iran war sent oil prices towards previous highs once more. While oil may dominate today's headlines, tomorrow's inflation shock could just as easily come from industrial metals or agricultural commodities. For investors, the lesson is not to predict which commodity sector will lead next, but to diversify commodity exposure to hedge inflation and participate in the return potential of commodities. And with advances in commodity index construction addressing many of the shortcomings of earlier index generations, the strategic case for commodities in a diversified multi-asset portfolio deserves renewed attention.

1 Source: Bloomberg Finance L.P. from 15 May 2006 to 13 July 2026, based on the total return version of the Bloomberg Commodity Index as well as the S&P 500 Index in USD. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

2 Source: Bloomberg Finance L.P. from 15 May 2006 to 13 July 2026, based on the total return version of the WisdomTree Enhanced Commodity Index in USD, which includes backtested data. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

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