Commodity Outlook: The baton never drops but who carries it keeps changing

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Mobeen Tahir
Director, Macroeconomics and Thematic Research

Aneeka Gupta
Director, Macroeconomic Research

Tobias Lazar
Associate Director, Quantitative Research

Key Takeaways

- The Iran conflict has structurally thinned oil market buffers and lifted the geopolitical risk premium across energy.
- AI infrastructure and defence spending are adding fresh, structural demand onto an already tight market for copper and other strategic metals.
- Gold's 2026 correction looks like a healthy reset within a continuing structural bull market.

Picture the commodity market this year as a relay race. Gold and silver sprinted off first, hitting record highs in January. Then the Iran conflict jolted oil prices and drained inventories built up over the past year. Metals picked up the baton next, as artificial intelligence (AI) infrastructure and defence spending ran into supply that already looked tight. Now agriculture is reaching for the handoff, with El Niño returning just as fertiliser supply chains remain under a cloud of uncertainty. The runners keep changing, but nobody can say who carries the baton over the final stretch. Here are the main themes shaping that race through 2027, and why we like staying invested broadly across the commodity complex.

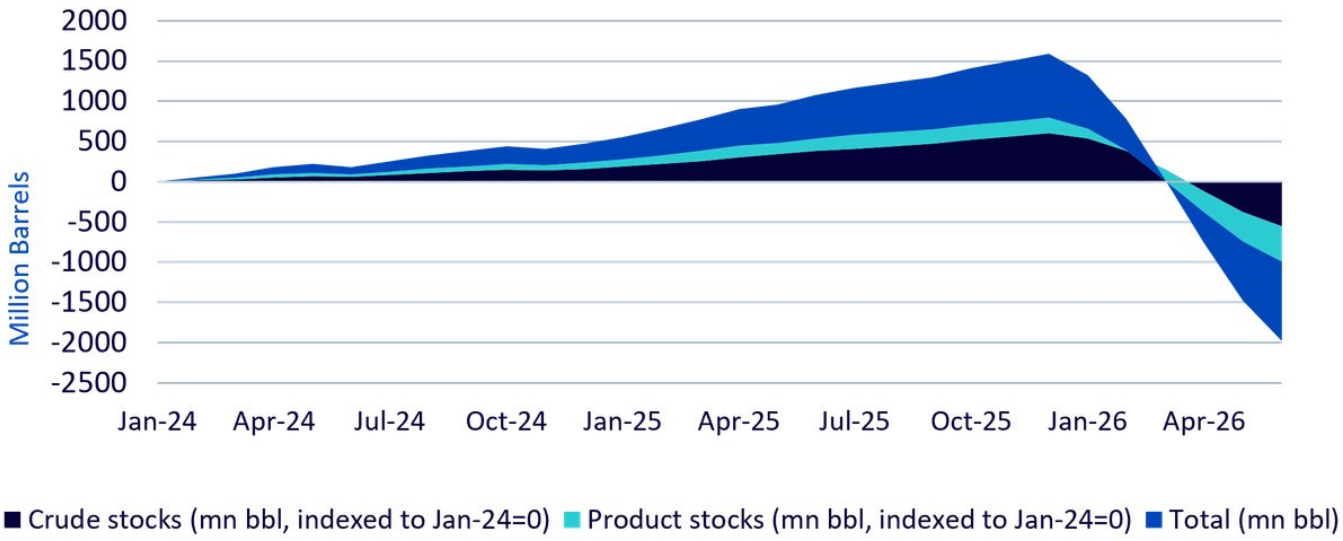
Read the full Autumn Outlook here.

Oil markets are running on a thinner safety net

War between the US and Iran disrupted the Strait of Hormuz, the world's most important energy corridor, and knocked out a major LNG facility in Qatar that could take years to repair. Oil prices roughly doubled at the peak of the disruption, and the inventory buffer we flagged in our last outlook absorbed much of the shock, but it has since been drawn down meaningfully, leaving markets with far less cushion against the next disruption. The strait also carries a third of the world's traded fertiliser, and prices there swung just as hard before reversing within weeks, leaving food inflation a live risk into 2027. While markets are

still hoping for durable peace, depleted stocks argue for a structurally higher risk premium across energy markets for a while yet.

Figure 1: Global crude oil and refined product inventories



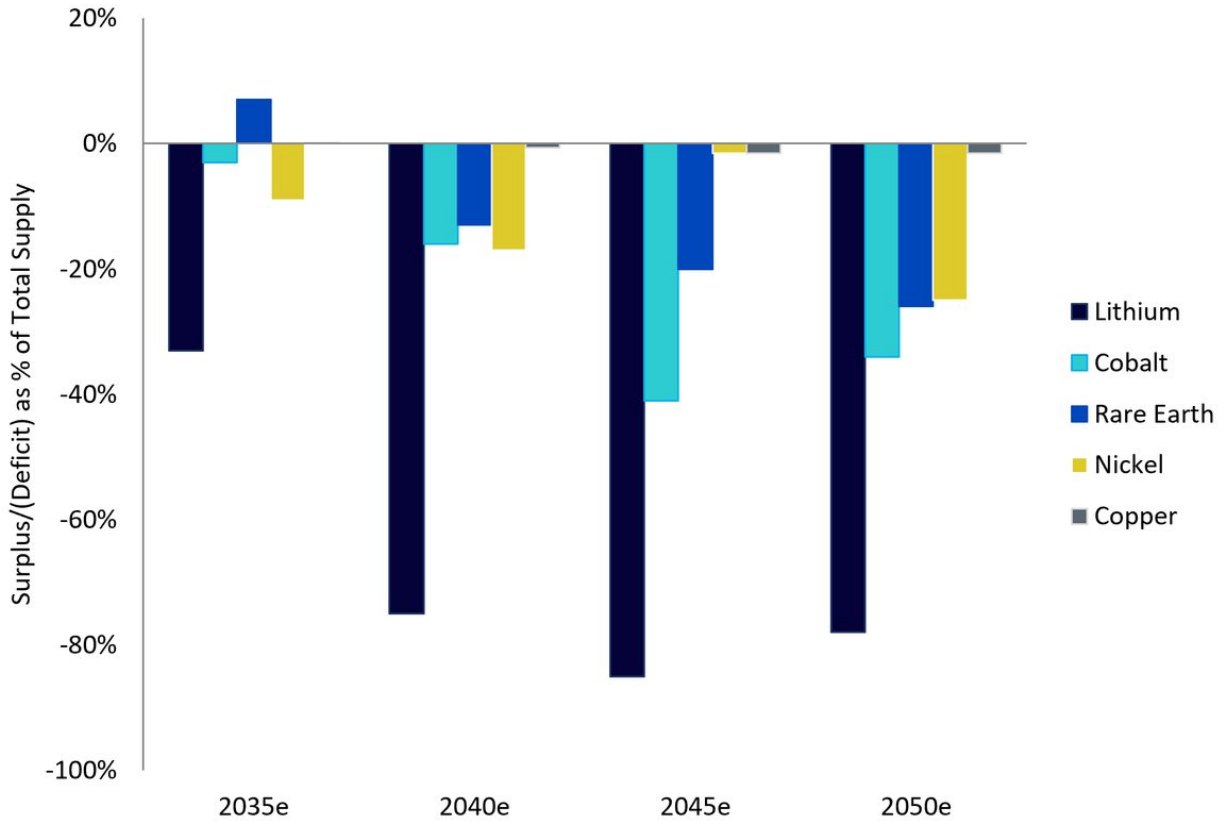
Source: WisdomTree, International Energy Agency, Bloomberg. January 2024 to June 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

US politics and the metals supply gap

Household energy bills have climbed sharply in the US since 2021[1], already shaping the political debate ahead of November's midterms. A Republican Congress would likely favour gas production and a Democratic one would ease pressure on renewables, while uranium sits above the fray with support from both sides. The longer-term structural story, however, still has metals as its protagonists.

Wood Mackenzie and Morgan Stanley expect deep supply deficits for lithium, cobalt, nickel, rare earths and copper over the next two decades, with lithium potentially short by 85% by 2045. China still controls most of the processing for all of them[2], which is why governments in the US, EU and Japan have started taking equity stakes and signing supply deals of their own. Copper's tariff saga this year, prices spiking then collapsing as US plans shifted, is a preview of the volatility tariffs will keep injecting into physical markets.

Figure 2: Many strategic metals are expected to face deep supply deficits



Source: Wood Mackenzie, Morgan Stanley Research estimates, May 2025. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Inflation keeps building the case for gold

Energy costs have pushed US and eurozone inflation higher again, and both the Federal Reserve and European Central Bank (ECB) have reversed course on rate cuts in response. AI adds a further twist. It should ease prices over time through productivity gains, but the buildout itself is absorbing power, equipment and labour right now, so we think AI is inflationary before it becomes disinflationary, and the floor under inflation now sits higher than it did over the past decade.

Gold lived through its own version of this in 2026, spiking to a record above $5,595 an ounce early in the year before correcting hard as a new Fed Chair calmed nerves and the Iran conflict triggered liquidity driven selling. We see that correction as a healthy reset within a rally that is still intact, with gold now closer to fair value and our model pointing to around $4,563 an ounce by the second quarter of 2027[3].

Electrification and defence are tightening metals further

Electricity's share of global energy use keeps rising, and the International Energy Agency expects demand to grow faster than the economy itself, led by data centres, cooling and electric vehicles. Copper sits at the centre of it, with data centre demand alone adding hundreds of thousands of tonnes a year against a market already facing a multi-million-tonne deficit by 2035. Defence spending pulls on the same metals, with global military budgets hitting a record $2.9 trillion in 2025[4] and a single F-35 using more than 400

kilograms of rare earth elements[5]. Copper, aluminium, silver, lithium and uranium all sit at the overlap between AI and defence demand, and we expect estimates for all of them to keep being revised higher.

El Niño is a slow burn risk for food prices

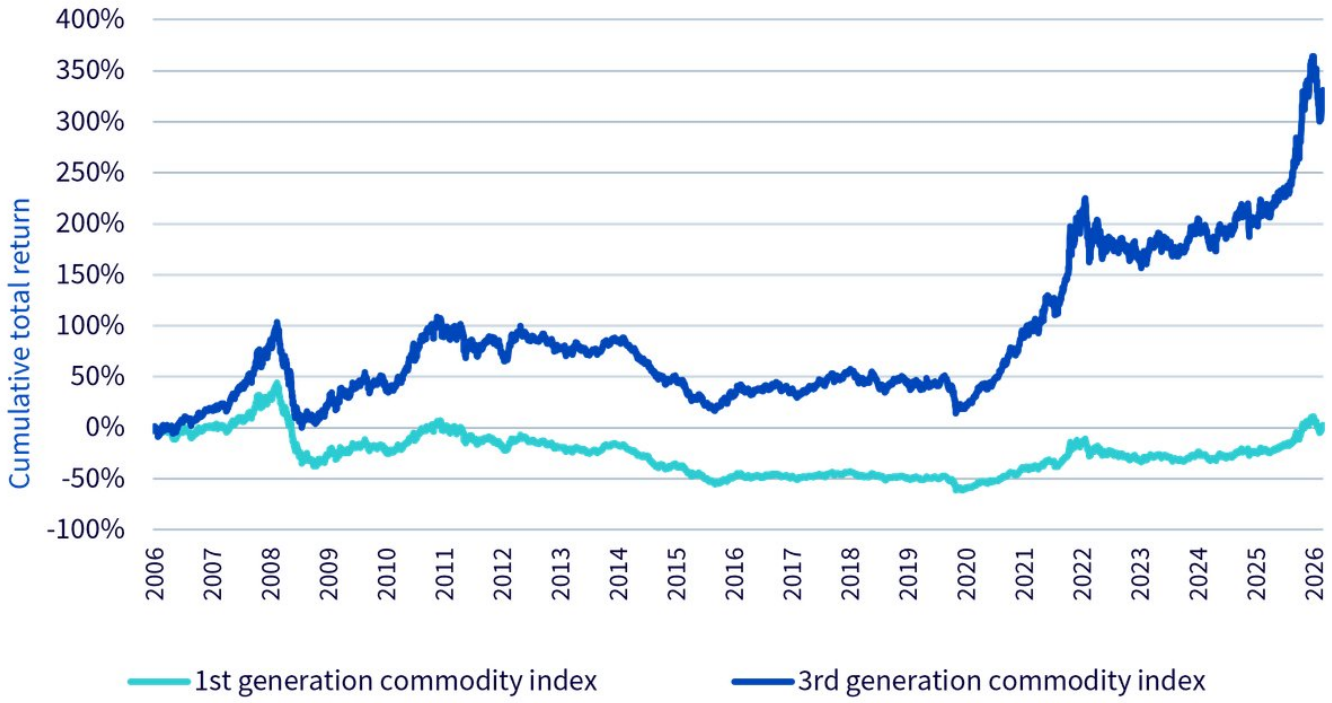
NOAA[6] has confirmed El Niño's return, arriving on the warmest baseline on record and into fertiliser supply chains still under the cloud of Hormuz disruption. El Niño could peak between November 2026 and February 2027, with the worst agricultural effects usually lagging the peak by six to twelve months, so the real pressure on crops and food prices is still ahead of us. South and Southeast Asia face the heaviest risk to rice, sugar and coffee, Australian wheat production could fall by around 9 million tonnes, and West African cocoa faces flooding risk on an already tight market[7]. Argentina and the southern US should offer partial relief, but with prices still well below their 2022 peak, we think the balance of surprises now leans to the upside.

A broad commodity allocation still makes sense

Fossil fuels are not disappearing quickly. Oil still supplied around a third of global energy in 2025[8], and even as renewables and nuclear accelerate, oil and gas demand are both expected to keep growing modestly through 2035[9]. That is one reason a broad commodity basket, spanning fossil fuels, industrial and precious metals, and agricultural commodities, still reflects the economy investors need to hedge against.

It also helps that commodity indices have improved. The first-generation Bloomberg Commodity Index has returned just 2.7% since 2006, which is why commodities often rank poorly in long-term asset allocation work. A third-generation index that accounts for market tightening and momentum, based in part on backtested data, would have returned over 330% across the same period (see figure 3).

Figure 3: Third-generation indices strengthen the case for strategic commodity allocation



Source: Bloomberg Finance L.P. from 15 May 2006 to 17 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. The time series 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.**

Conclusion

In a relay race, nobody wins by betting on a single runner. Energy is repricing, metals are tightening, food systems are under weather stress, and policy keeps shifting sentiment towards safe havens. The runners keep changing, but the pressures behind them, scarcity, fragmentation and structural demand, are not going away. Staying broadly invested across the commodity complex is still, in our view, a strong way to stay in the race.

Commodity markets can be highly volatile and the themes discussed above may not develop as expected. Commodity prices may fall if geopolitical tensions ease, global demand weakens, supply responds more quickly than anticipated or weather conditions prove less disruptive. Commodity investments may also be affected by futures-market dynamics, currency movements and changes in investor sentiment. The value of an investment may go down as well as up.

[1] Source: Powerlines report, Utility Bills are Rising', sourced July 2026. Reports - PowerLines.
[2] Source: Morgan Stanley, Wood Mackenzie, 2025.
[3] Source: WisdomTree Gold Outlook July 2026: https://www.wisdomtree.com/gb/insights/research/wisdomtree-gold-outlook-to-q2-2027/download. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**
[4] Source: Stockholm International Peace Research Institute, April 2026.
[5] Source: Admas Intel, 2026.

[6] National Oceanic and Atmospheric Administration.
[7] Source: WisdomTree as of 30 June 2026.
[8] Source: Energy Institute, Statistical Review of World Energy 2026 (75th edition).
[9] Source: IEA World Energy Outlook 2025. Stated Policy Scenario.

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