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

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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.

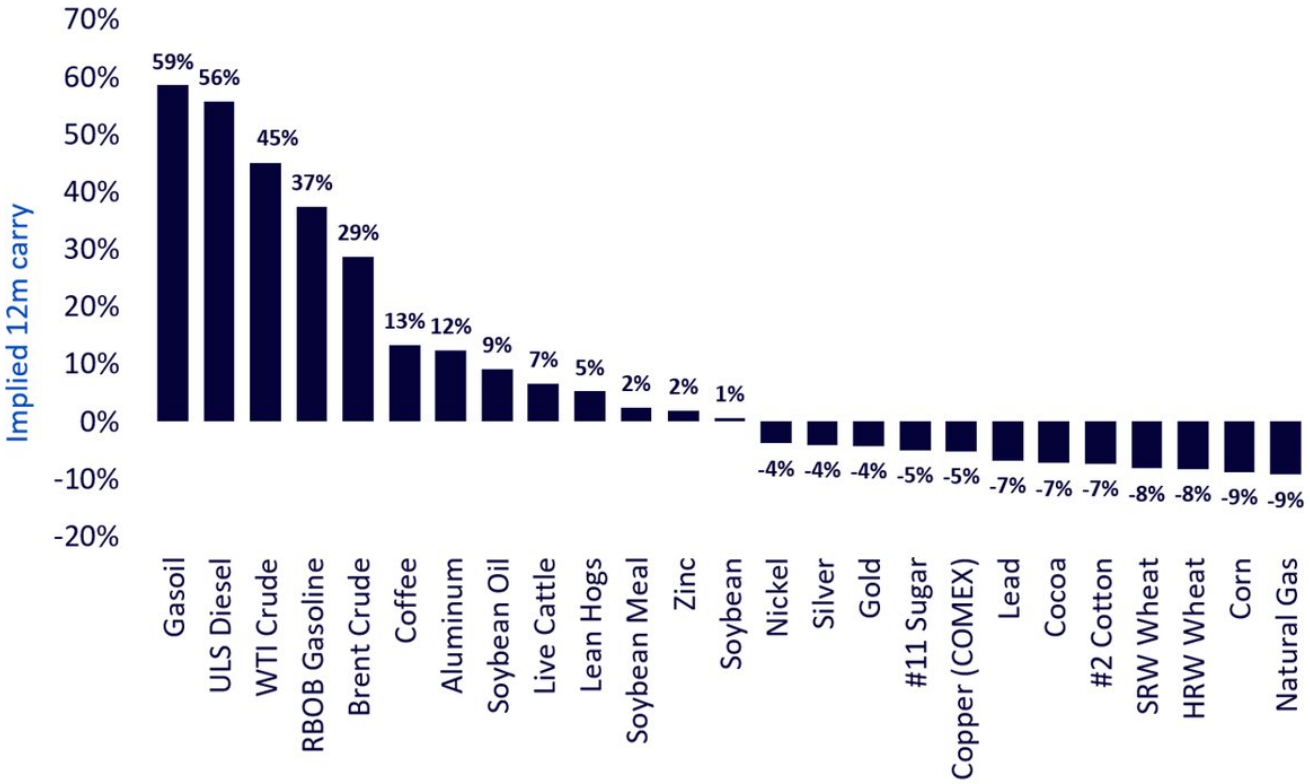
The sharp rise in commodity backwardation following the closure of the Strait of Hormuz (SoH) earlier this year pushed commodity markets into one of the highest backwardation regimes observed in over a decade, a market environment that has historically been followed by stronger commodity returns. Backwardation 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)

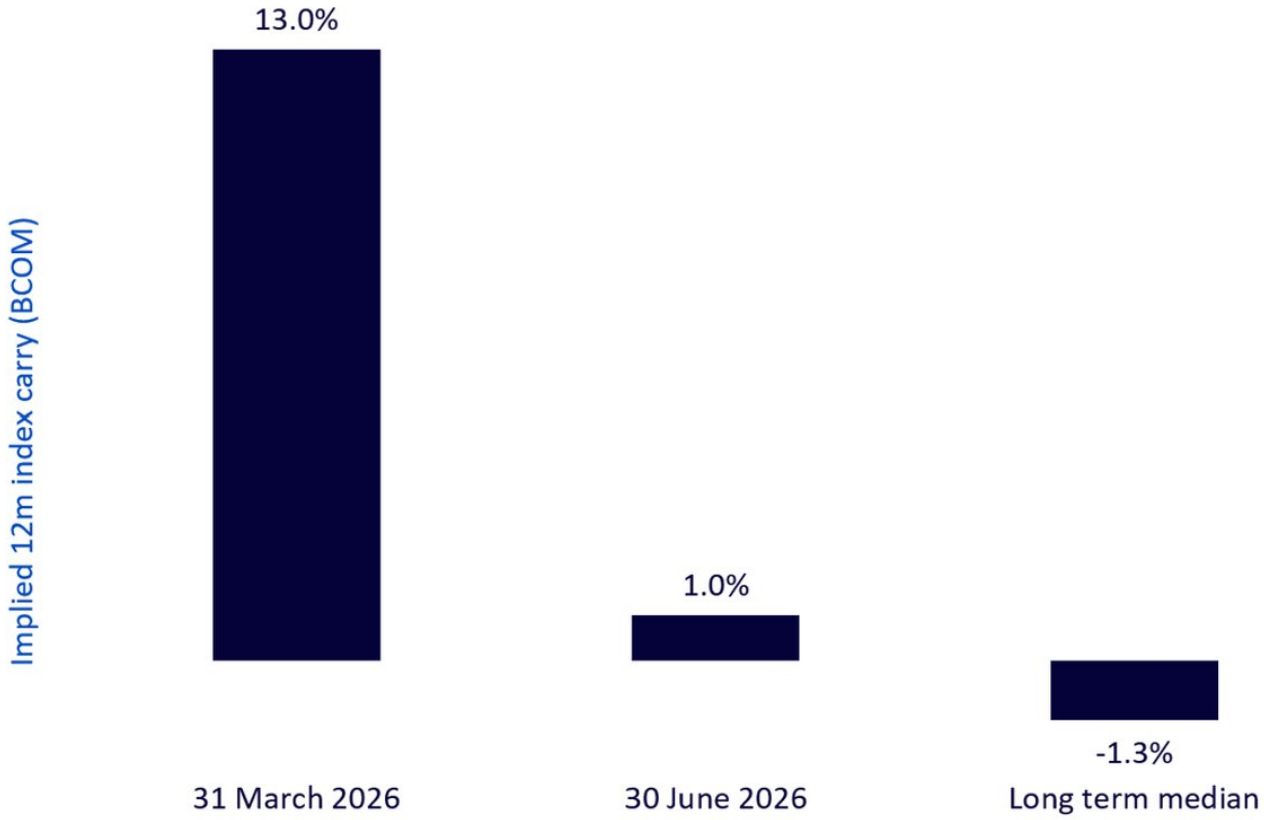


Source: WisdomTree, Bloomberg Finance L.P., as of 31 March 2026. Implied carry is calculated as the relative price difference between the current BCOM futures contract and the contract with a maturity approximately 12 months later. **Historical performance is not an indication of future performance and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



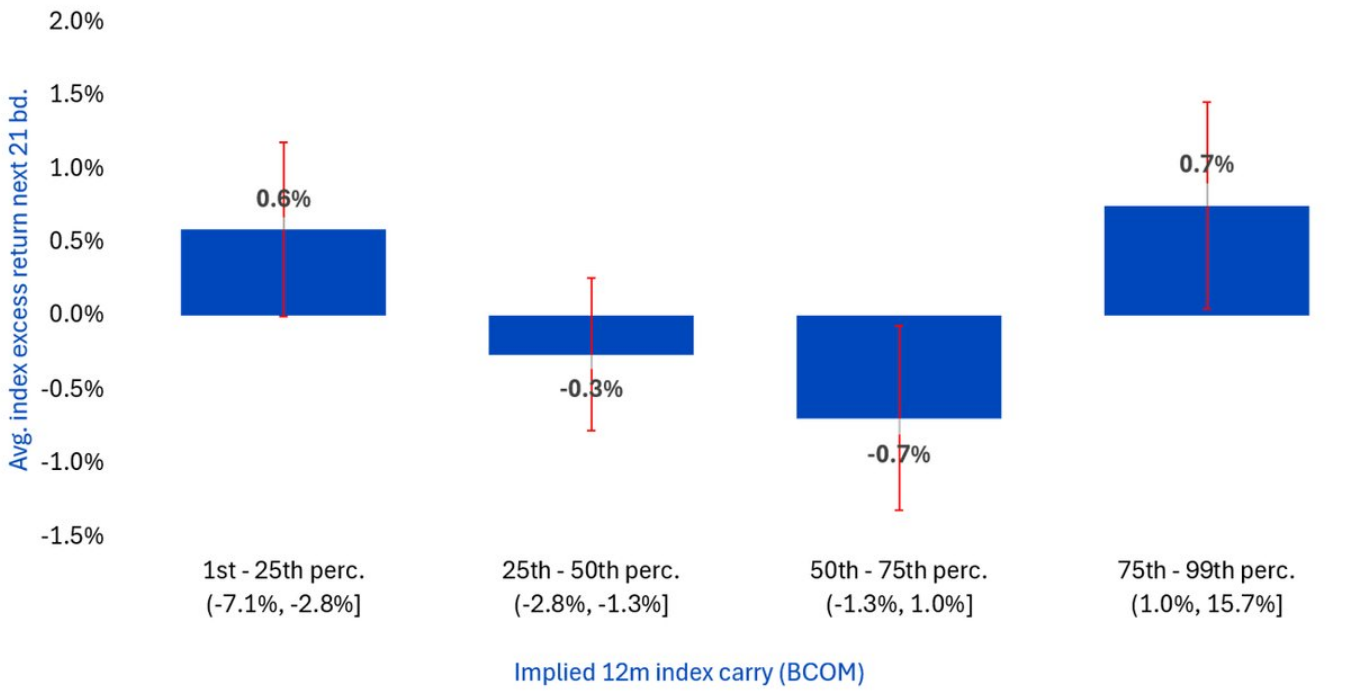
Source: WisdomTree, Bloomberg Finance L.P. The long-term median is calculated from May 2011 to May 2026, based on month-end observations. Implied carry is calculated as the relative price difference between the current BCOM futures contract and the contract with a maturity approximately 12 months later. 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.

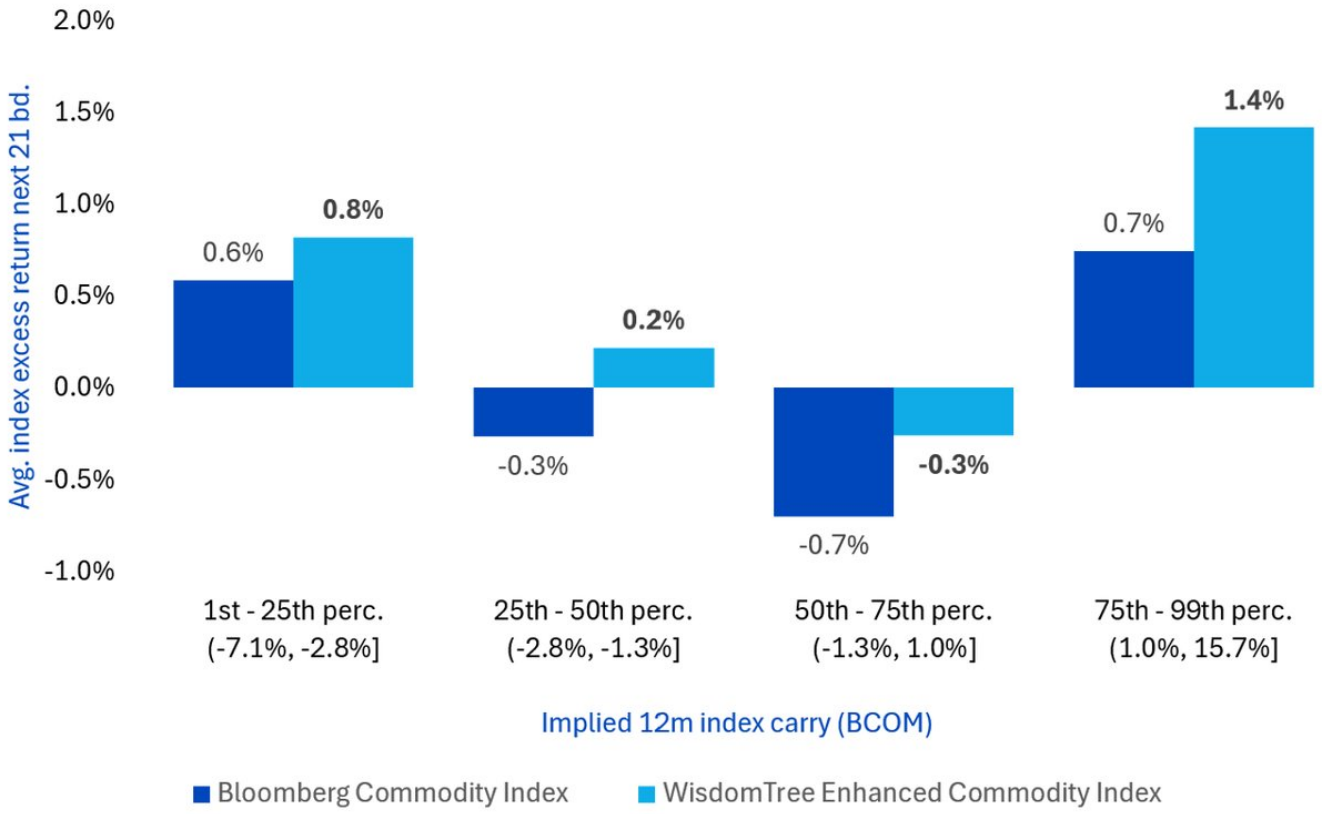
Capturing backwardation across market environments

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.

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