



SOLVING
FOR 2022

Commodities: Short-Lived Bull Market Or New Super-Cycle?

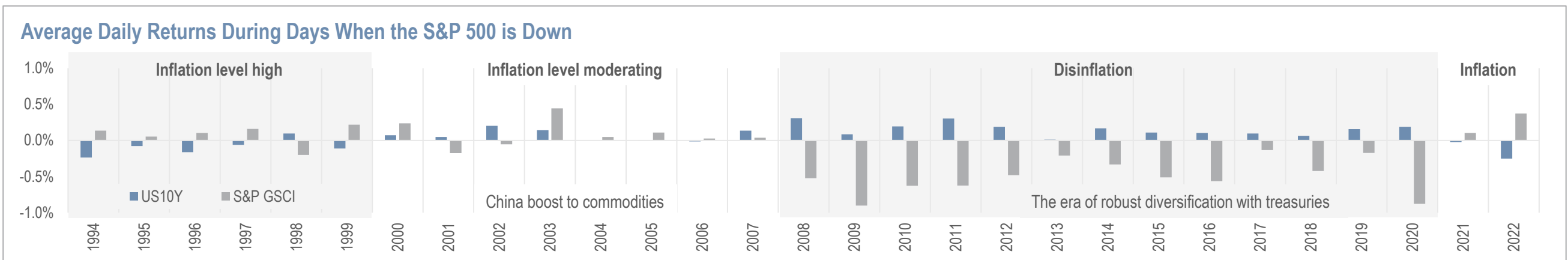
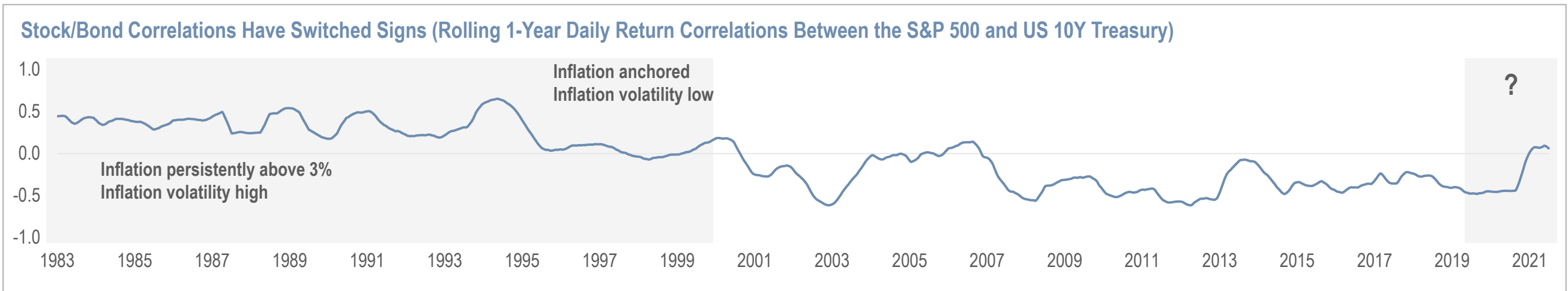
Hakan Kaya, Senior Portfolio Manager, Quantitative And Multi-Asset Class Investments

NEUBERGER BERMAN

Rethinking Diversification: The Strategic Value Of Commodity Allocations

Higher Inflation Has Started To Challenge Traditional Diversification

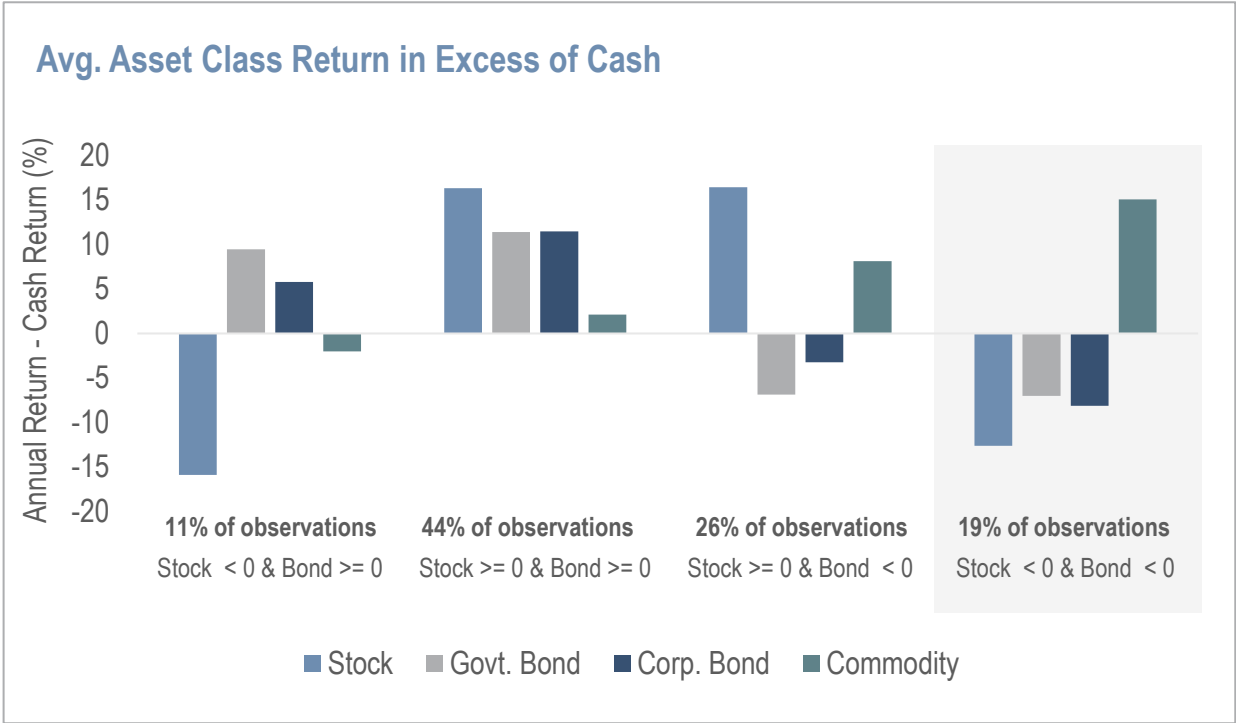
The key impact of inflation on asset allocation is the downside stock/bond coupling – commodities can help



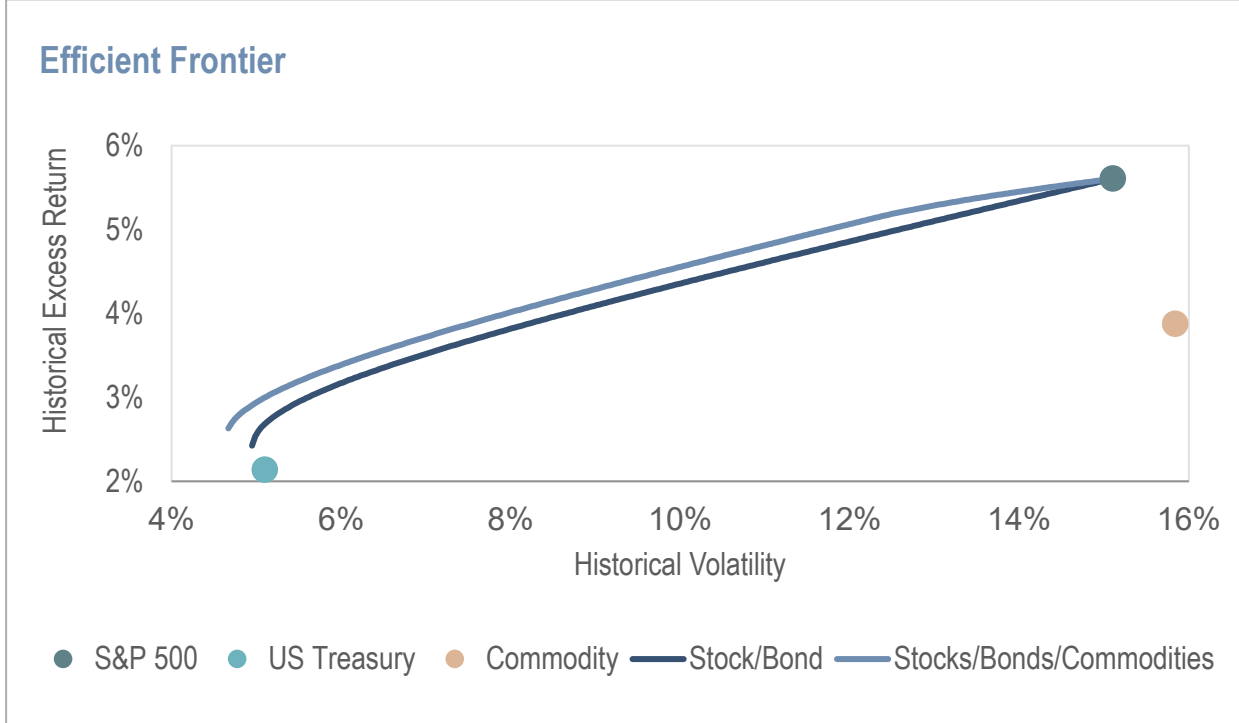
Source: Bloomberg, Neuberger Berman. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. See "Additional Disclosures" at the end of this presentation, for additional information regarding the Neuberger Berman Multi-Asset Investment Team and Asset Allocation Committee and the views expressed.

The Strategic Case For Commodities: Diversification Against Coupled Stock & Bond Sell-Offs

Commodities have complementary payoffs compared to traditional asset classes



- Commodities tended to lag traditional assets during stock sell-offs driven by risk aversion and in investment environments where stocks and bonds couple on the upside
- Commodities tended to add value during government bond sell-offs
- **Commodities added the most value when stocks and bonds couple on the downside**

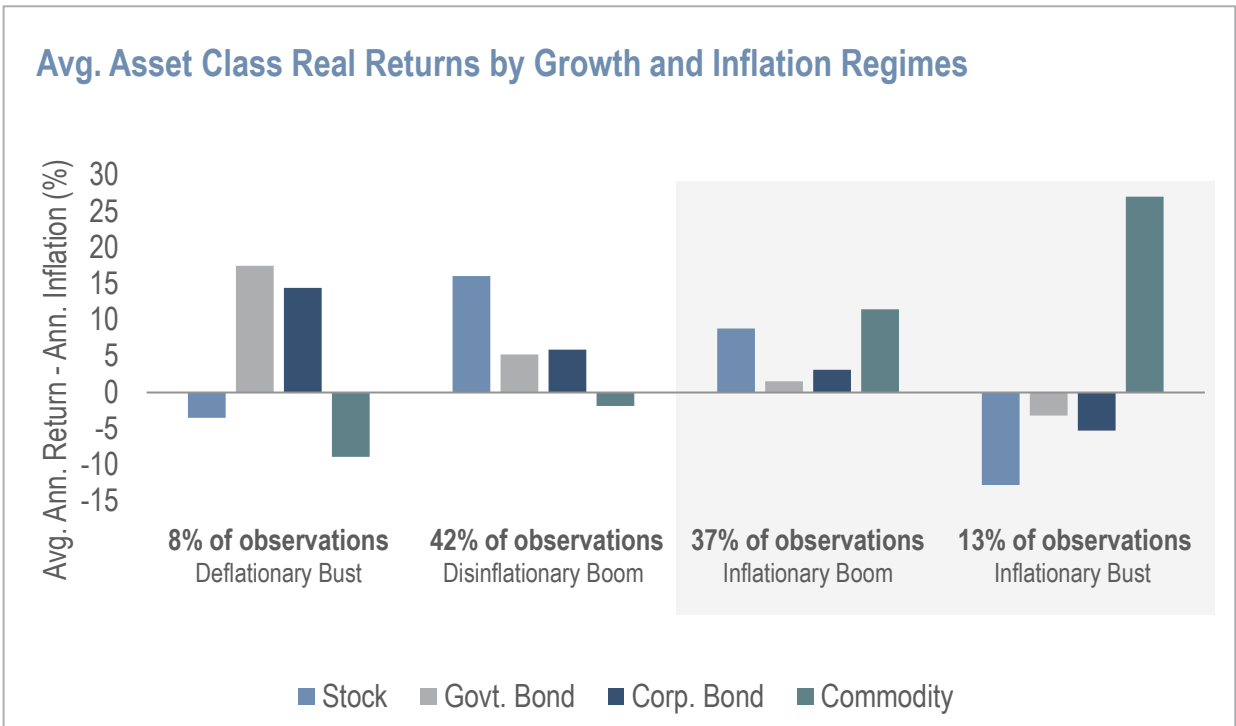


- Commodities have historically provided positive excess returns over cash and inflation
- Due to their low correlation, adding commodities to traditional portfolios has historically resulted in enhancements in returns at all levels of risk appetite

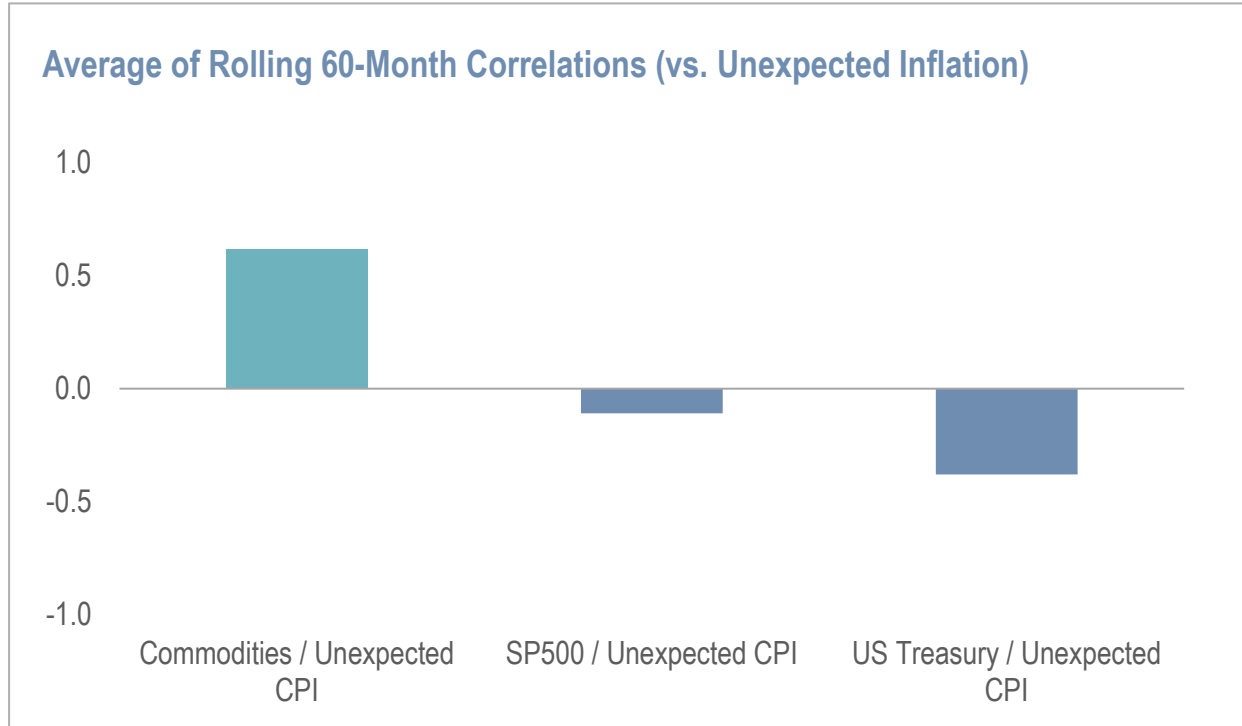
Source: Bloomberg. Data from January 1, 1970 to Present. Stocks are represented by the S&P 500 Index, Bonds by the Bloomberg Barclays U.S. Treasury Index (Backfilled by Ibbotson data prior to 1973) and Commodities by the S&P GSCI Index. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. See Additional Disclosures at the end of this piece, which are an important part of this presentation.

Strategic Case for Commodities: Commodities Can Be an “Offensive-Defensive” Inflation Bet

Commodities can help make portfolios robust against macro outcomes



- Commodities **outperformed traditional assets in inflationary periods**
- Commodities have been **a reliable hedge for inflationary busts or stagflations**



- Commodities have been correlated very robustly with unexpected changes in inflation
- Overall stocks and bonds were negatively impacted by unexpected inflation shocks.

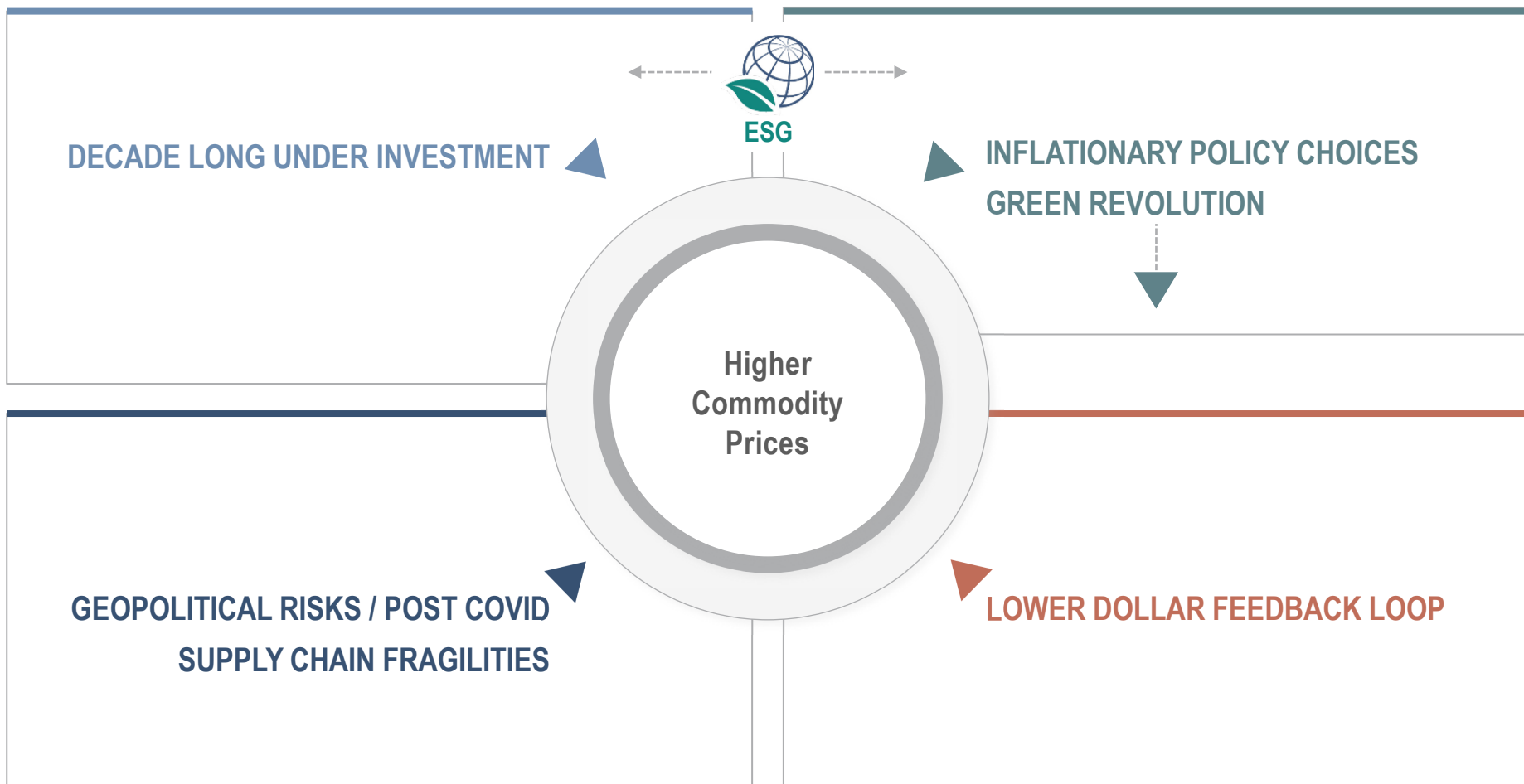
Source: Bloomberg. Data from January 1, 1970 to Present. Stocks are represented by the S&P 500 Index, Bonds by the Bloomberg Barclays U.S. Treasury Index (Backfilled by Ibbotson data prior to 1973) and Commodities by the S&P GSCI Index. CPI is the year over year percent change in the CPI Index. Unexpected inflation is the rate of change in CPI. Bust and boom regimes are defined by the change in the level of Gross Domestic Product (GDP) compared to the previous year. If the current year-over-year (YoY) GDP minus the YoY GDP lagged one year is less than zero, it is considered a bust regime and vice versa. Inflationary and deflationary regimes are defined by the change in the level of the Consumer Price Index (CPI) compared to the previous year. If the current YoY CPI minus the YoY CPI lagged one year is less than zero, it is considered a deflationary regime and vice versa. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. See Additional Disclosures at the end of this piece, which are an important part of this presentation.

The Tactical Value Of Commodity Allocations



Why Now?

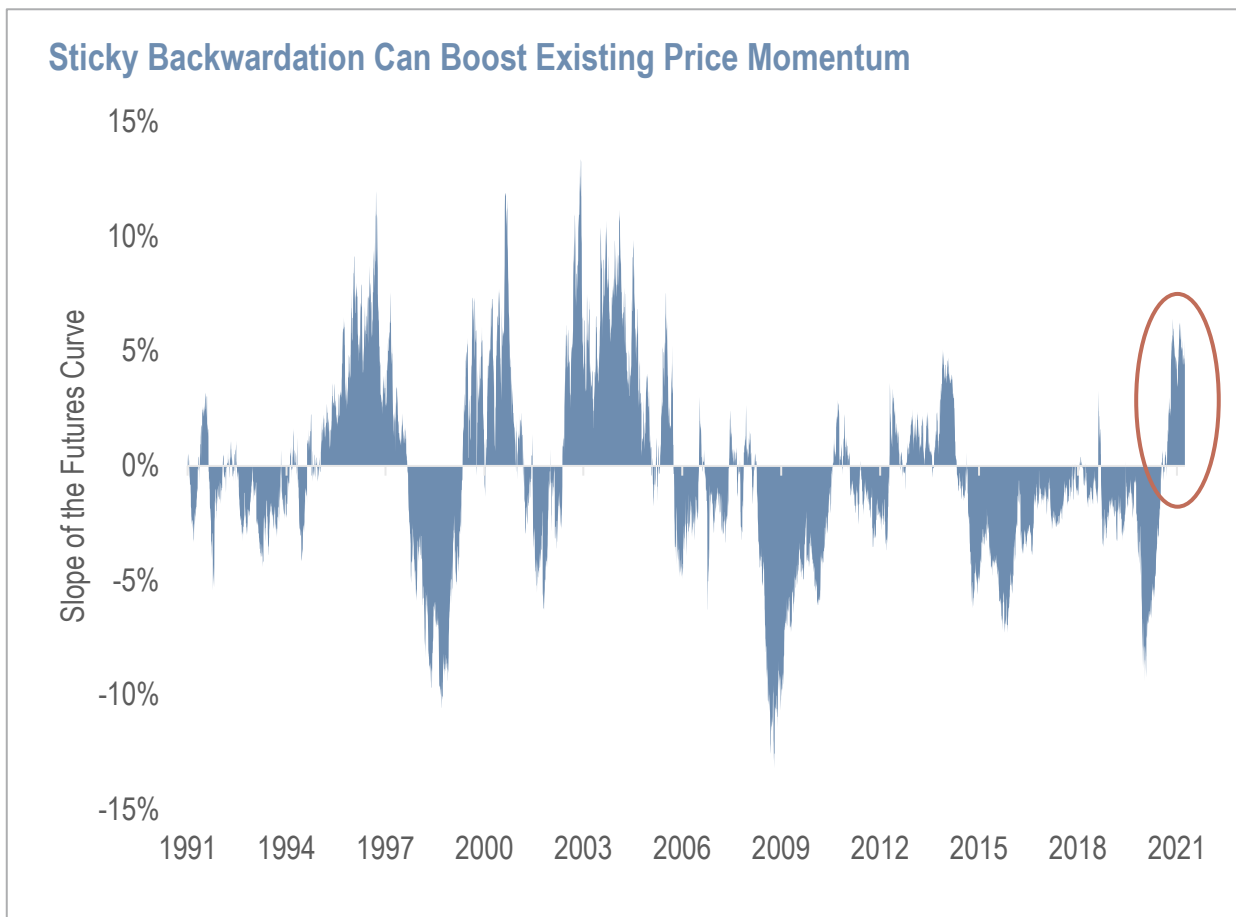
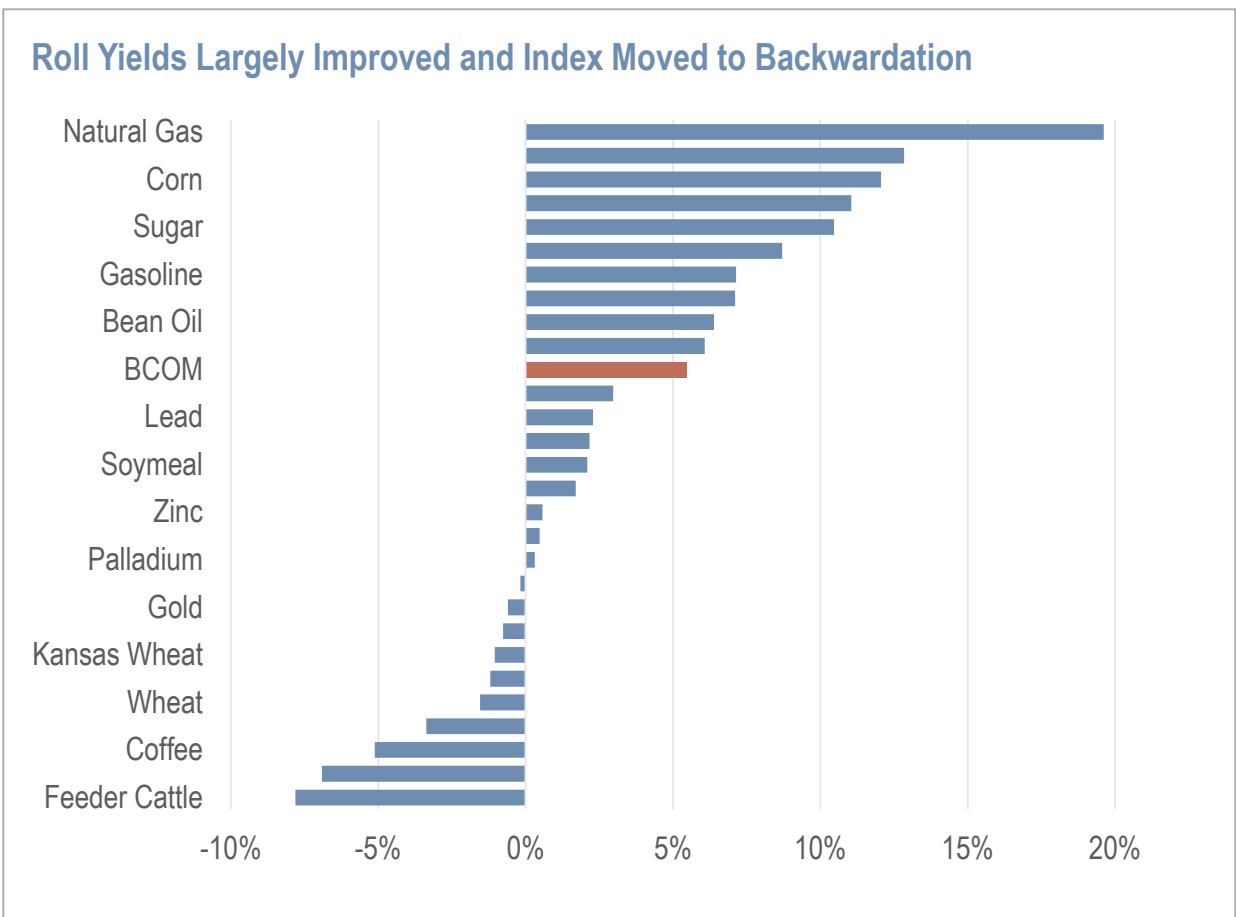
Both supply and demand factors are aligning in a way to create the beginning of the next up cycle



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Favourable Supply / Demand Conditions: Commodity Term Structures Reflect Scarcity

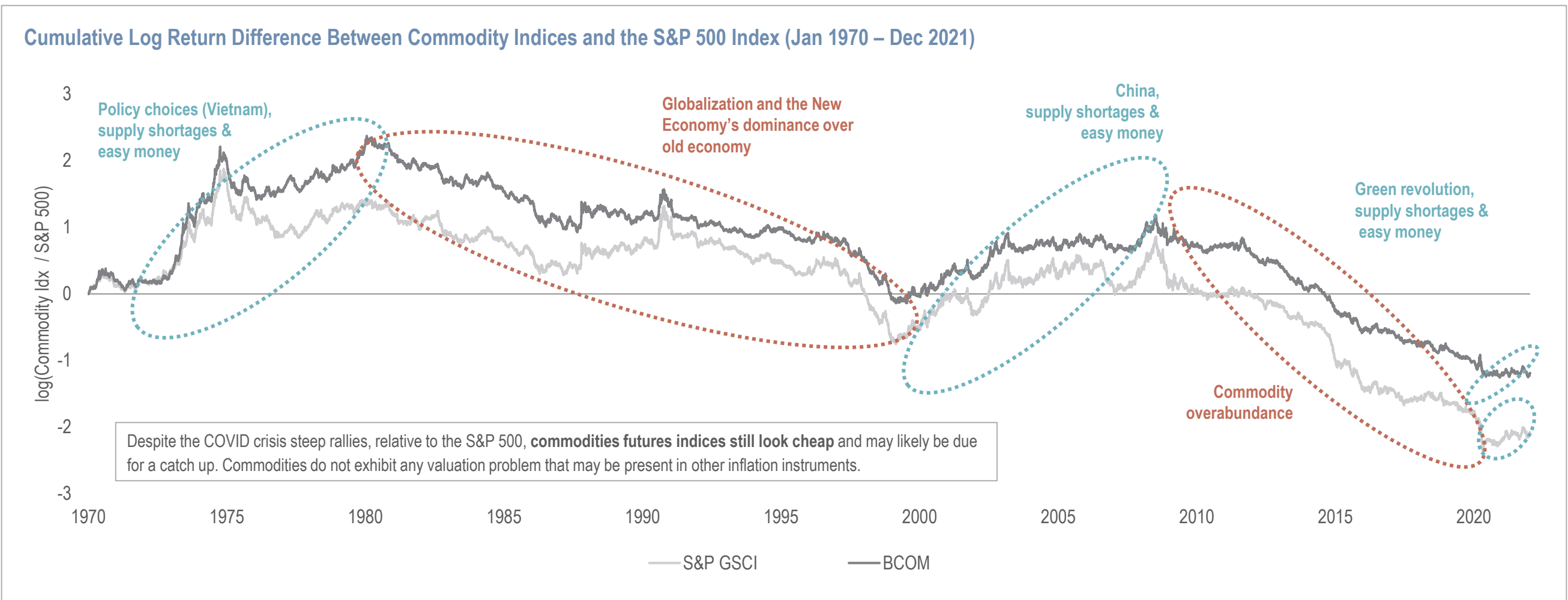
Inventory normalization is bringing the futures curves into backwardation implying sticky roll yields



Source: Bloomberg. Data as of November 30, 2021. Slope is based on contracts one year apart with nearby being the most active contract. Nothing herein constitutes a prediction or projection of future events or future market or economic behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed or any historical results. Investing entails risks, including possible loss of principal. See Additional Disclosures at the end of this piece, which are an important part of this presentation. Past performance is not necessarily indicative of future results.

Commodities Are Still A Bargain Compared To Traditional Assets

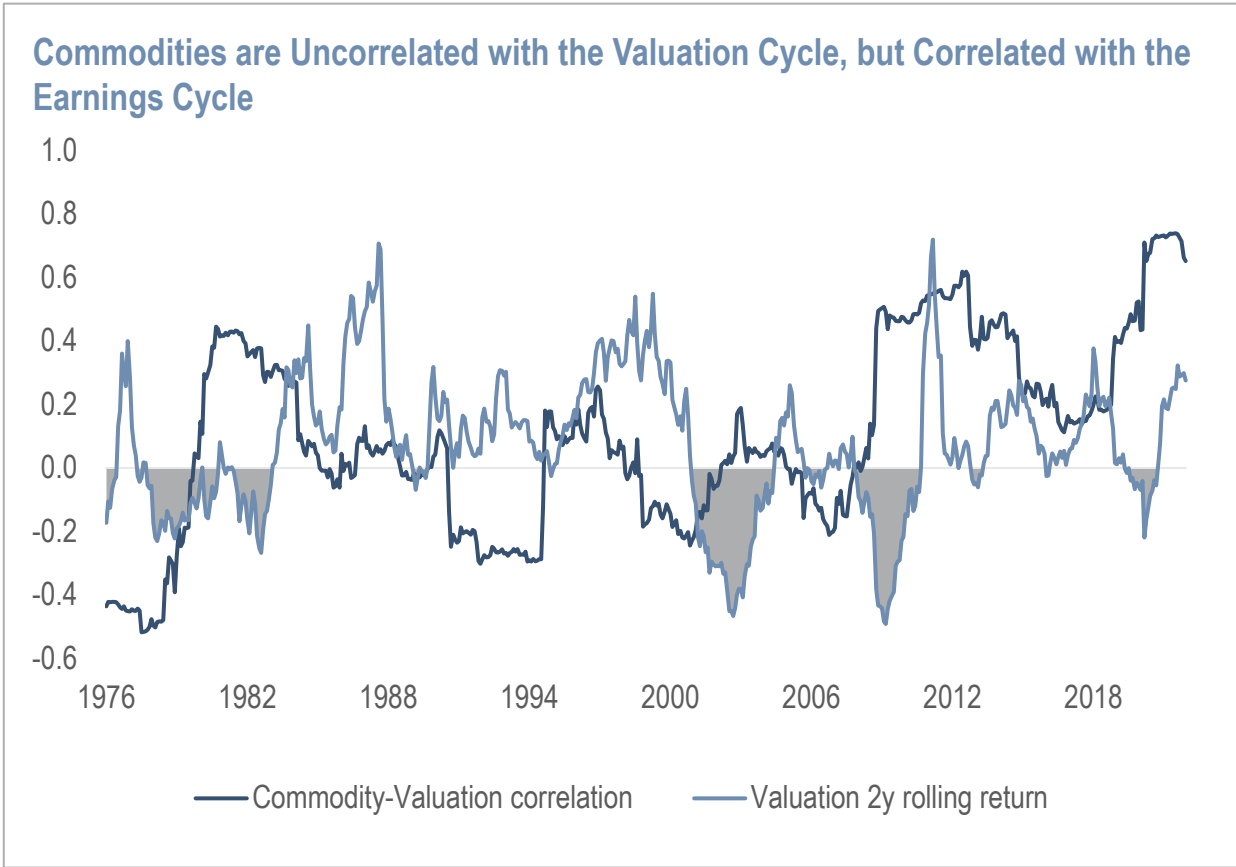
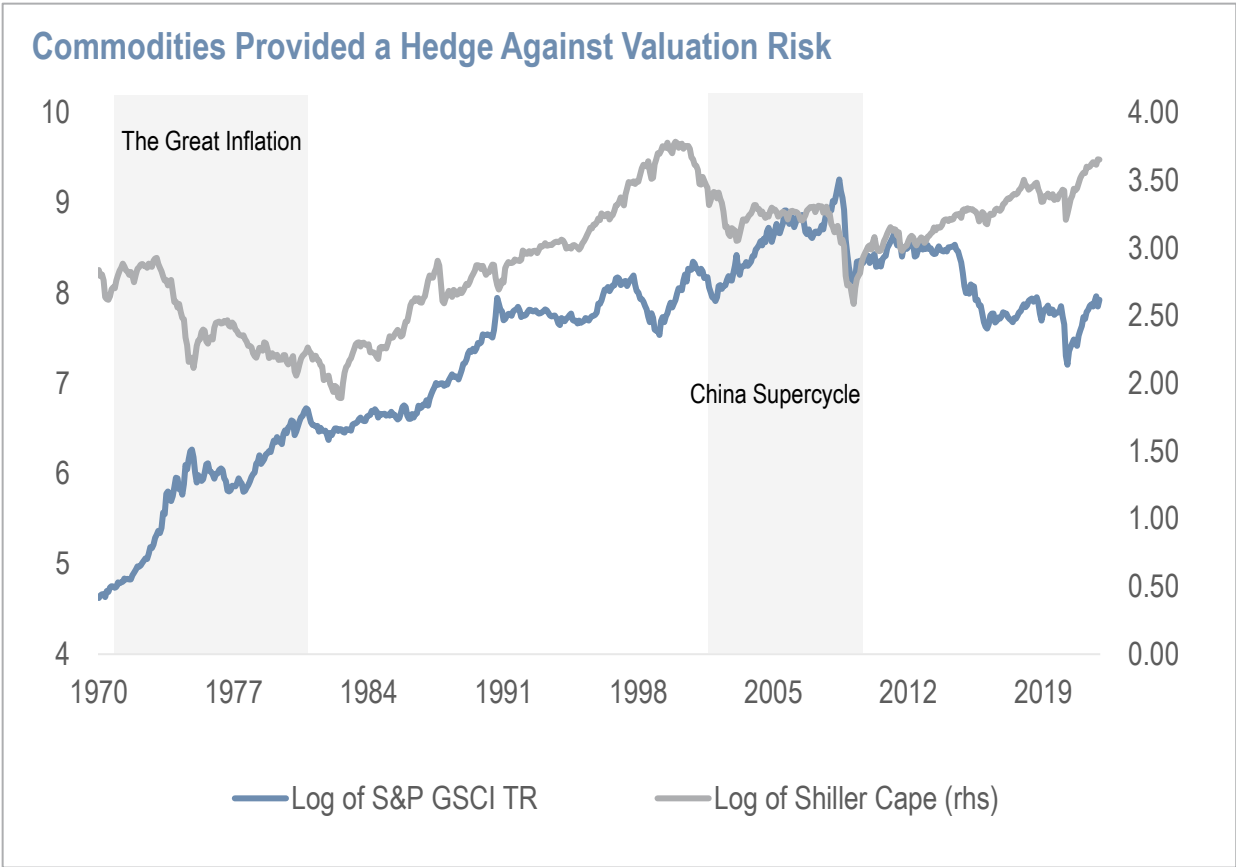
Historically, structural bear markets started when stocks were significantly overvalued against commodities



Source: Bloomberg.

Commodities Can Help Hedge Valuation Risks

Commodities can be an effective hedge to valuation re-pricing while being correlated with the earnings cycle



Source: Goldman Sachs.

Commodities Tend To Be Immune To Monetary Tightening

Commodity scarceness continues in tightening regimes



Source: Goldman Sachs.

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Additional Disclosure

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Bloomberg Commodity Index (formerly known as the Dow Jones-UBS Commodity Index):

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