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The ‘Disruptive Ds’ Powering Commodities Markets

Commodities exposure could help adapt diversified portfolios for a changing world—eight trends explain why.

The Chinese proverb “May you live in interesting times” appears to capture today’s zeitgeist, combining uncertainty and opportunity. The macro regime is shifting, inflation is stickier, policy is more interventionist and geopolitics are more contested.

In these times, we believe that portfolios built solely around financial assets like stocks and bonds may not always keep up with the economic realities that drive prices. In our view, a prudent response may be to add exposure to assets with direct links to physical scarcity and pricing power—commodities—both for return potential and as “insurance” against policy error and inflation surprises.

The case for commodities is reflected in eight transformational trends, which we outline below.

1. Demographics: Fewer Workers, More Spenders

The population pyramid is flattening. Where seven workers once supported each retiree, the U.S. is heading toward roughly 2.5, a profound shift in the “support ratio.” The implications are twofold: First, a growing, wealthier retiree cohort could be a major and durable source of consumption—of fuel, food, health care and travel, among others. Second, labor scarcity has grown, which could push wages higher on a long-term basis.

Policy responses matter. Immigration could relieve shortages, but faces political headwinds; artificial intelligence could boost productivity, but its impacts are uncertain in timing and scope. As such, we believe that the demography will likely flip from disinflationary to inflationary. As stores of value, commodities could act as a direct hedge to demography-driven inflation.

2. Debt: Overspending Raises Systemic Risk

Global debt, both public and private, is growing at a breakneck pace, with little sign of restraint. Policymakers have increasingly adopted a “borrow now, worry later” approach, expanding deficits and accumulating liabilities in response to economic and political challenges. For years, traditional stock and bond markets have largely looked through these risks, buoyed by central bank support and investor confidence in future growth. But as debt-to-GDP ratios climb and fiscal discipline erodes, the risk of a market reckoning grows—potentially leading to simultaneous weakness in stocks and bonds—a phenomenon previously seen in periods of inflation and rate volatility.

In such an environment, commodities could stand out. Unlike stocks and bonds, which are claims on future cash flows and inherently exposed to the solvency and credibility of issuers, commodities represent real, tangible value, unburdened by debt or future obligations. When fiscal excess becomes too great to ignore, and traditional risk assets reprice, commodities can act as a buffer, providing insulation from inflation when it is most needed.

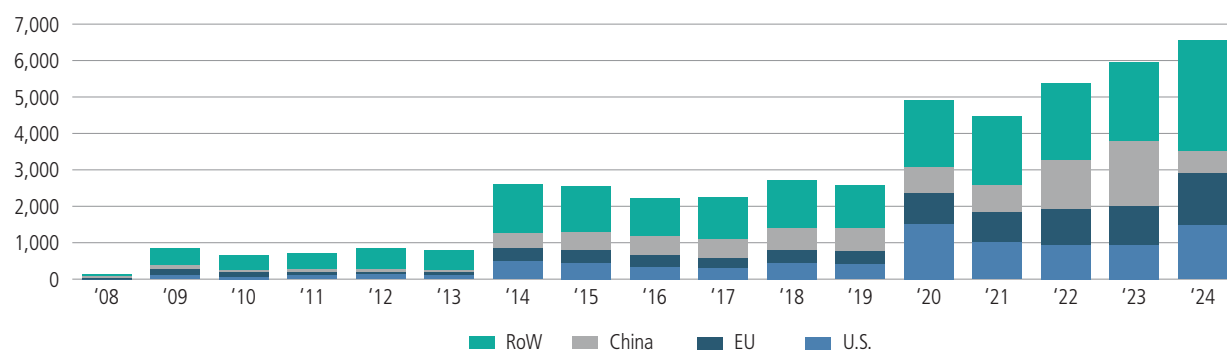
3. Deglobalization: More Friction, Higher Costs

The long arc of globalization—and ever-freer flows of goods, capital and ideas—has bent toward fragmentation. Fewer trade agreements, more investment restrictions and lower trade openness signal a new regime, and the current U.S. policy mix of broader tariffs, stricter industrial policy and tighter export controls could accelerate these trends. Tariffs are inherently inflationary, raising input costs, and can be growth-dampening at scale; future retaliation risks from China and Europe add complexity to the situation.

Yet production and trade do not vanish, they re-route. We expect more regionalization, rising inventories and “friend-shoring,” all of which are commodity-intensive as firms duplicate capacity, rebuild grids and secure raw materials. Meanwhile, various foreign markets are creating their own trade groupings, potentially amplifying non-U.S. demand for energy and metals.

TRADE CONFLICT AND SANCTIONS ARE FOSTERING MONETARY DIVISION, DRAWING ON GOLD SUPPLY

Protectionist Trade Policies Enacted by Region (2008 – 2024)



Source: Global Trade Alert, as of March 2025. RoW = rest of world. Nothing herein constitutes a prediction or projection of future events or future market behavior. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. Investing entails risks, including possible loss of principal. **Past performance is not indicative of future results.**

4. Defense: Spending and Stockpiling

A multipolar world raises the premium on deterrence and secure supply lines. NATO partners still have room to lift defense outlays toward targets, and renewed U.S. pressure could push them higher. Even a move toward 3% of GDP for major economies would represent massive annual spending, but with limited payoff in productivity—an inflationary scenario. Defense procurement is materials-heavy (aluminum, titanium, specialty steels), and governments tend to stockpile strategic inputs (oil, refined products, rare earth minerals). At the same time, larger budget deficits could nudge interest rates higher and increase the odds of financial weakness. In that context, real assets, particularly those with finite supply, could offer portfolio ballast when many financial assets are most vulnerable.

GLOBAL TENSIONS ARE CONTRIBUTING TO RESHORING—AND COMMODITY DEMAND

Geopolitical Risk Index



Source: <https://www.matteociacoviello.com/gpr.htm>, data through September 1, 2025. For illustrative purposes only. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is not indicative of future results.**

5. De-dollarization: Emergence of Rival Monetary Systems

As geopolitical blocs harden, monetary authorities are diversifying. Many central banks have been accumulating gold, heightening its role as a neutral reserve amid tariff frictions. The BRICS¹ nations' efforts to foster independent payment systems and the increased use of gold in trade reinforce the trend. With U.S. equities seemingly expensive and credit spreads tight, investors also value gold's hedge against currency debasement, particularly amid turbulence at the Federal Reserve. Gold's long history in official reserves and deep liquidity support its defensive utility amid uncertainty. Digital gold bitcoin, silver and rare earth baskets can complement this exposure.

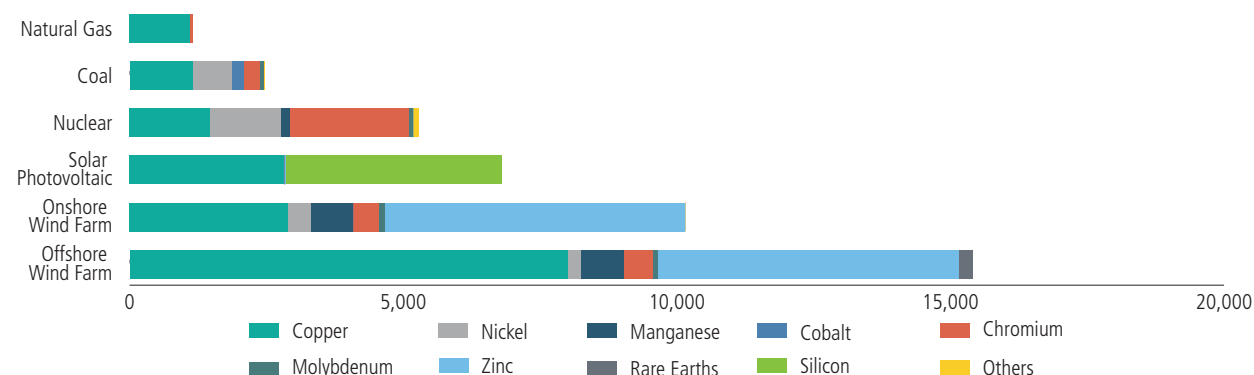
6. Decarbonization: Security, Jobs and Metals Intensity

The energy transition is not solely a climate project; it is an energy security and industrial policy project as well. Regardless of U.S. political swings, the incentives for local manufacturing, grid reinforcement and the "electrification of everything" remain powerful. Metals are crucial to this trend: Copper, aluminum and nickel go into conductors and components; lithium, cobalt and manganese are essential to batteries; silver and polysilicon drive solar; and natural gas and nuclear will be needed to maintain the electrical grid. The road to clean energy remains resource-intensive, especially as we wait for renewables to reach the necessary scale.

¹ Brazil, Russia, India, China and South Africa, as well as Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates.

THE ENERGY BUILDOUT WILL RELY ON KEY METALS

Metals Used in the Production of Different Energy Sources (kg/MW)



Source: IEA, Goldman Sachs Global Investment Research, as of March 2022.

7. Divestment: Underinvestment Sets the Stage

For years, capital expenditure on commodities fell sharply. Pressure from environmentalists, the high cost of capital, policy uncertainty and a tech-led equity rally diverted funds from long-term development efforts. The result? Fewer oil and copper projects, reduced reserves (notably in oil) and production bottlenecks. Historically, this is how bull markets in commodities have often begun: not with booming demand, but with brittle supply. In such regimes, small demand surprises or modest disruptions have often driven sharp price moves and “backwardation,” where pricing for shorter-dated commodity futures becomes richer than for longer-term futures (because the market assumes that pricing will eventually decline), opening up an additional return avenue for portfolio managers.

8. Data Centers: AI's Power and Copper Footprint

AI is not weightless. Data centers are extraordinarily electricity- and copper-intensive, from grid interconnects to transformers to internal wiring. Industry estimates suggest it takes 11 – 80 tons of copper to produce a megawatt of electricity, and data-center power demand is compounding at double-digit rates, suggesting to us that copper demand could grow rapidly through the end of the decade.

Power constraints are already occurring across the U.S. With nuclear developing slowly, marginal supply often comes from natural gas, which is supportive for U.S. gas pricing, liquid natural gas infrastructure and related “midstream” pipelines. Aluminum and nickel also benefit from server, “rack” and cooling buildouts. For investors wary of paying peak multiples for AI leaders, commodities can serve as a more conservative proxy for the same secular theme.

Capitalizing on the Disruptive Ds

Given the potential significance of the current opportunity, what do we see as effective ways to capitalize?

- **Treat commodities as both offense and defense.** Not only could they be direct beneficiaries of the eight Ds, but they have often proven resilient when inflation accelerates and policy credibility is questioned.
- **Focus on scarcity.** This may mean copper and aluminum for the electrical grid and data centers; select battery metals where supply is hardest to add; refined product cracks where capacity is tight; natural gas and uranium (nuclear) for the undersupplied grid; and precious metals for monetary hedging.

- **Look to futures.** Emphasizing futures-based (rather than equities) exposure avoids idiosyncrasies associated with owning shares, and in periods of “backwardation” can add to return opportunities. That said, it can make sense to complement such exposures with commodity-linked equities carrying sound fundamentals.
- **Mind volatility.** Commodities tend to move rapidly amid macro shocks, requiring appropriate sizing of positions and diversification to help weather declines.
- **Be timely.** Tariff announcements, defense budgets, permitting changes and central bank reserve data can all be catalysts for price movement.

In a rapidly changing world, commodities stand at the intersection of need and scarcity. In our view, augmenting portfolios to help capture this dynamic and diversify beyond traditional asset classes can both enhance return prospects and generate valuable diversification at a time of heightened uncertainty.

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