Investment Strategy Update

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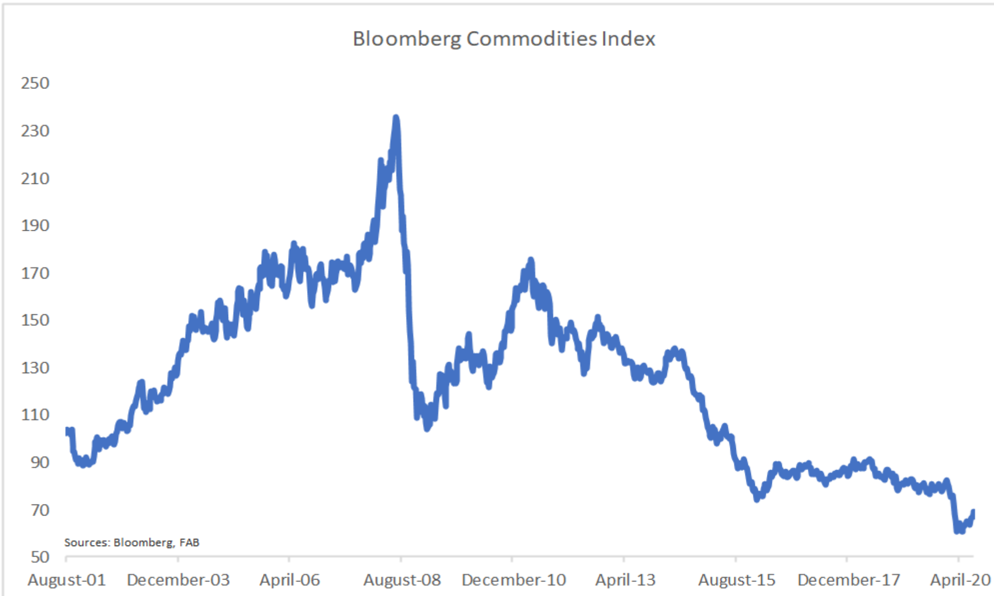
It's early to tell, but commodities may no longer be in bear trend

- **Gold has held above US$2,000 for the past two days as the dollar drops.**
- **Oil prices have moved above their 200-day moving average, a bullish sign.**
- **Copper prices have risen 38% since 23 March, their recent low.**
- **Iron ore prices have risen 56% in the same period amid supply issues and rising global demand.**
- **Much of the next round of fiscal stimulus may be focused on infrastructure construction, which benefits commodities.**
- **The FAB AAC remains overweight in investment grade corporate bonds and emerging market dollar debt.**



Most of the great commodities bull markets in the past century developed around big infrastructure spending plans.

In 1933, the New Deal prompted the price of many commodities to nearly double. The decade after the Second World War, amid the reconstruction of Europe, prompted another massive rally in raw material prices. Then, in the 1970s there was a double whammy of higher inflation and the build-up of the Asian Tigers.

Finally, the decade that began in 2000 was marked by the infrastructure push in China and a 77% increase in the Bloomberg Commodities index. Since 2014, when that supercycle finished and amid slowing infrastructure investment in developed countries, commodities have endured one of their worst bear markets in history. The Bloomberg Commodities index is down 48%, from its peak in 2014.

That same index seems to have bottomed on 23 March, the same day when the global stock markets began to recover from the Covid-19 sell-off. Since then, the Bloomberg Commodities index has gained more than 15%. However, some of its components which are more sensitive to infrastructure investment are signaling much stronger gains ahead.

Copper, often referred to as a proxy indicator to the health of the economy, has rallied 38% since that March low. Iron ore, without which it is nearly impossible to build anything these days, has rallied 56%. To be sure, both metals had a boost from supply issues, with new mining capacity constrained from years of underinvestment along with virus-related disruptions. Still, there is something here.

Recently oil prices have picked up too. There is still a huge inventory built-up during the pandemic slowdown that needs to be cleared, but traders seem to be counting on a significant rise in demand.

On 23 March, the Bloomberg Commodities index hit its lowest level in 44 years

Then there is gold, which is often used as a store of value when investors start to expect higher inflation ahead. The yellow metal hit an all-time high this week and has held above US$2,000/oz for two days.

It is still early to tell and commodities investors may be counting on investment that could fail to materialize. But the rationale makes sense. If developed economies focus their next rounds of stimulus on infrastructure investment, that should benefit commodities prices.

Furthermore, monetary and fiscal stimulus when combined have often led to inflation. That was not the case after 2008, but it could be this time. If all these stars align, commodities may really break their multi-year bear market.

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