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Investment Institute

# Market Commentary

**Weekly perspective on current market sentiment** **January 23, 2025**

[Scott Wren](#)
Senior Global Market Strategist

Last week's S&P 500 Index: +2.9%

## Commodities

### Key takeaways

- The price of the commodities asset class as a whole didn't do a whole lot last year, finishing slightly less than 6% higher than it began the year.
- We believe the commodity bull super-cycle that started in March 2020 remains intact. Lack of supply growth remains a key issue.

The price of the commodities asset class as a whole, as tracked by the Bloomberg Commodity Total Return Index (or BCOMTR), didn't do a whole lot last year. The index finished slightly less than 6% higher than it began the year. But that isn't the case when you look at the individual components that make up the index. Midwestern grain farmers were not happy in 2024 as the soybean, corn, and wheat price drops that started in 2022 continued through last year. Take soybeans as an example. Last year the price of a bushel of soybeans fell from $12.80 at the start of the year to close out the year just under $10, according to Bloomberg data. That is a price drop of nearly 22%. That means from the high of $17.69 in mid-2022, the price of soybeans is down just over 43%. Not good if you are a grain producer. Note that we currently carry a neutral rating on the Agricultural sector of the commodities asset class.

On the other hand, if you have been a gold investor, you are likely quite happy as the price of the yellow metal rose from just under $2,042 per ounce to $2,625 in calendar-year 2024. That was more than a 27% increase. Gold has continued to rally in the new year and now trades at over $2,700. We think there is more upside and carry a favorable rating on the Precious Metals sector of the commodities asset class with a year-end 2025 gold target range of $2,800 to $2,900. Continued central-bank buying, stubbornly higher-than-desired inflation, and global geopolitical uncertainties have all contributed to the rising price.

The price of crude oil (WTI or West Texas Intermediate), on the other hand, was volatile during calendar-year 2024 and traded in a better than $21 range, but the price at year-end was largely unchanged versus the start of 2024. WTI has traded higher thus far in the new year following new U.S. sanctions on Russian oil sales beginning late last year.

But looking ahead, our goal as investors is to try to figure out what is going to happen this year and what the appropriate allocation should be to this often volatile asset class. We currently carry a favorable rating on the commodities asset class as a whole. That means we want to commit more funds to this asset class than our long-term strategic allocations might suggest. Why? There are a number of reasons. First, we expect to see positive economic growth here and abroad and continued tight global commodity supplies overall. In addition, Federal Reserve interest-rate cuts as well as cuts from most of the other major global central banks should support improved economic growth and higher commodity prices as we look out through the second half of this year and likely beyond.

We believe the commodity bull super-cycle that started in March 2020 remains intact. Lack of supply growth remains a key issue. Our analysis suggests global demand is set to recover later this year as growth improves. We see this as an opportunity for investors who are under allocated to commodities.

**Risk considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investments in **gold** and gold-related investments tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments.

**Definitions**

Bloomberg Commodity Total Return Index reflects the returns that are potentially available through an unleveraged investment in the futures contracts on 19 physical commodities comprising the Index plus the rate of interest that could be earned on cash collateral invested in specified Treasury Bills. The Index is a rolling index rebalancing annually.

An index is unmanaged and not available for direct investment.

Super-cycle = If you look at commodity prices over the very long term (hundreds of years), it becomes evident that they tend to move in overall bull and bear cycles, some lasting decades. These are super-cycles.

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