

Alternative Investing

Commodities for the Long Run

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Using a novel dataset consisting of daily futures prices going back to 1877, we find that returns of commodity futures indices have, on average, been positive over the long run. Although return premiums are associated with both carry and spot returns, commodity returns in different economic states (inflation up/down, expansion/recession) vary mostly as a result of moves in the underlying spot price. These economic states are important drivers of commodity returns, even after conditioning on whether commodity markets are in backwardation or contango. The evidence supports commodities as a potentially attractive asset class in portfolios of stocks and bonds.

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