
REBALANCING COMMODITIES: THE RISE OF DIVERSIFIED STRATEGIES AMID GLOBAL CHALLENGES AND MARKET VOLATILITY

Alejandro Saltiel – Head of Indexes, U.S., Luca Berlanda – Associate Director,
Quantitative Research at WisdomTree in Europe
05/08/2024

For more than a decade after oil peaked in 2008, [commodities](#) exposures were akin to a dirty word because of poor performance that weighed on portfolios. Oil went negative with the COVID-19 pandemic, furthering pressure on commodity indexes, but inflation became a top-of-mind concern as pandemic relief measures were put in place and the economy reopened. Then Russia invaded Ukraine and sent commodity prices higher.

Bonds are no longer hedging stocks in multi-asset portfolios the way they used to because of elevated inflation concerns, causing investors to look for alternatives. We believe that commodities, being a driver and input to inflation, may be one of the most natural hedges for overall portfolios.

When WisdomTree reviewed many of the commodity indexes, we found a heavy concentration of risk, as many commodity strategies have as much as 50% exposure to Energy and three-quarters of the risk is attributed to that one sector. We set out to create a more diversified commodity strategy.

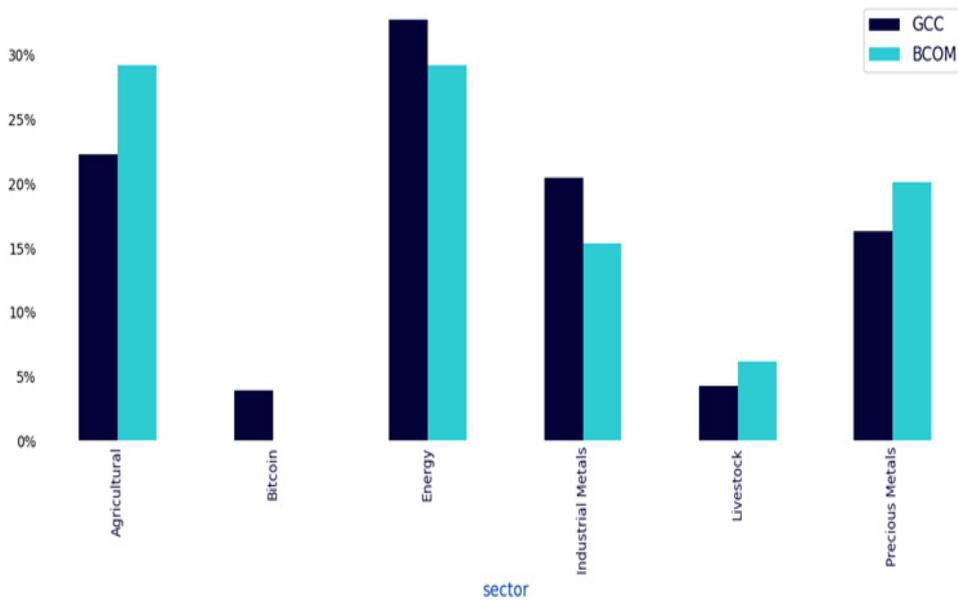
WisdomTree Enhanced Commodity Strategy Fund

The [WisdomTree Enhanced Commodity Strategy Fund \(GCC\)](#) intends to provide broad-based exposure to four commodity sectors—Energy, Agriculture, Industrial Metals and Precious Metals—primarily through investments in futures contracts. The Fund may also invest up to 10% of its net assets in any combination of shares of one or more exchange-traded products that primarily hold [bitcoin](#) and in bitcoin futures contracts. The Fund will not invest in bitcoin directly.

[GCC](#) selects contracts on the futures curve, following a rules-based process, to minimize the implied cost of carry.

Investing in the first or second contract can be quite expensive, depending on the shape of the futures curve. Notably, when the curve is positively sloping or in [contango](#) (which has historically been the “normal” shape of futures curves), the so-called cost of carry can be a drag on performance. [GCC](#) optimizes performance by selecting the contract with the highest roll yield (or, conversely, the lowest cost of carry).

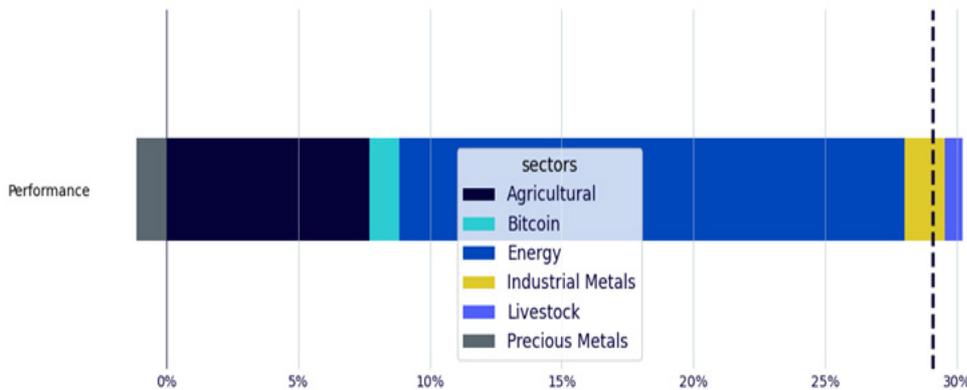
Figure 1: Sector weights



Source: WisdomTree. Data as of 3/28/24. Subject to change.

The chart above illustrates the allocation of the [GCC](#) and the [Bloomberg Commodity Total Return Index \(BCOM\)](#)—one of the primary benchmarks for broad commodities investing—as of the end of March. Notable differences characterize the [GCC](#): it includes bitcoin, has significantly lower weightings in Agriculture and places greater emphasis on the Energy complex.

Figure 2: GCC Sector Performance Contribution



Sources: WisdomTree, FactSet. Data from 12/21/20–3/28/24. Past performance is no guarantee of future results.

Above, we observe the performance contribution in absolute terms as of the end of March¹. The Precious Metals sector has been the only detractor over the full period, while Energy dominates with an almost 20% relative contribution. From a historical perspective, the chart below shows the performance of [GCC](#) versus BCOM [since the restructuring of the product](#).

Figure 3: GCC Performance vs. Benchmark



Sources: WisdomTree, FactSet. Net asset value (NAV) and index data from 12/21/20–3/28/24. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Performance data for the most recent month-end and full standardized performance are available [here](#).

In relative terms, we can broadly divide [GCC](#)'s history versus BCOM into two distinct periods: from inception up to September 2022 and from September 2022 to date. In the first period, [GCC](#) underperformed BCOM, while in the second, it consistently narrowed the gap and almost closed it, demonstrating a remarkable recovery. Through the full period, [GCC](#)'s [volatility](#) has been 0.70% lower than BCOM's. The main drivers for this behavior are as follows:

- [GCC](#) has been under-weight in Natural Gas since its restructure, having zero exposure until April 2022 and being under-weight 6.5% on average since then. This under-weight led to underperformance as Natural Gas rallied in 2021 and has since created positive relative performance after Natural Gas slumped starting in mid-2022. Also, contract selection (through [roll yield maximization](#)) contributed significantly to the Natural Gas overperformance in the period.

Figure 4: Energy Relative Performance vs. BCOM

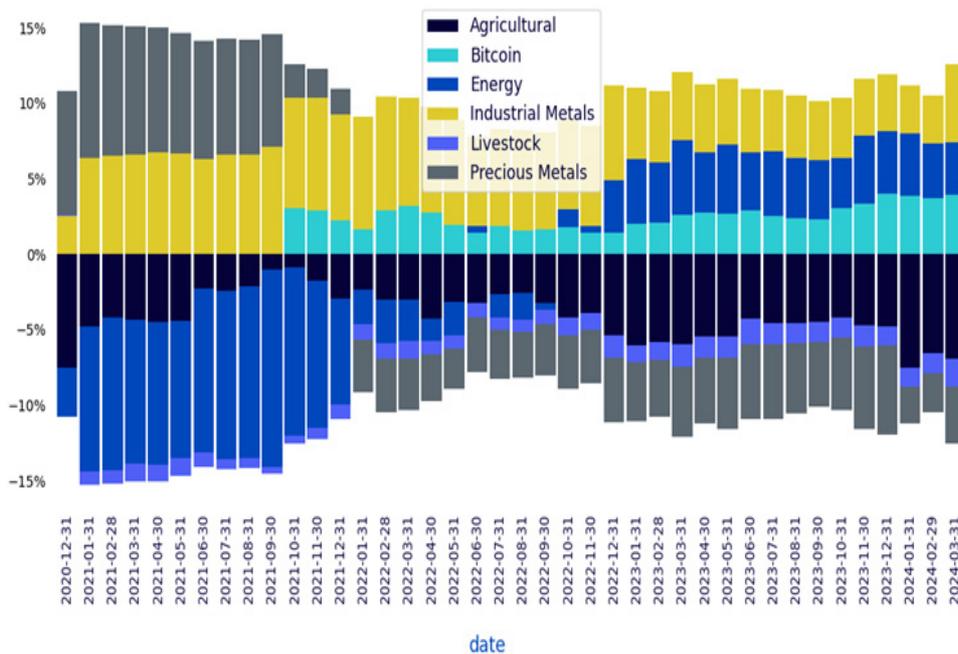


Sources: WisdomTree, FactSet. Data as of 3/28/24.

- **Cocoa** has been the second biggest contributor with a more than 4% relative performance contribution with respect to BCOM, which does not hold Cocoa. **GCC** has held it at an average 2% weight.
- **Bitcoin** has been the third most important contributor to **GCC**'s performance midterm recovery. It was included in the portfolio in late 2021 and initially lagged during the so-called "crypto winter." In the last year, exposure to Bitcoin started to rally and contributed positively to the overall relative performance versus BCOM.

Relative commodity sector over-/under-weights through time can be seen in the chart below.

Figure 5: GCC Over-/Underweights by Sector



Source: WisdomTree, as of 3/28/24. Subject to change.

During the March rebalance, [GCC](#) shifted some of its allocations in reaction to moves in individual commodity prices and their curve positioning.

[GCC](#) funded a 2.5% position in Tin, in which it had previously been under-weight, by reducing exposure to Bitcoin and Cocoa futures after they experienced a significant run-up. [GCC](#) also transferred 1% from Corn to Cotton exposure, given the shape of their curves.

Conclusion

[GCC](#) continued to provide investors with a diversified commodity exposure and, despite important exposure deviations from the BCOM, has managed to keep up in terms of performance. We believe that investors who are looking for exposure in this uncorrelated asset class could benefit from [GCC](#)'s lower relative volatility along with the systematic enhanced roll mechanism.

¹ All the contributions refer to the excess return portion of the return, hence excluding the interest rate on the collateral.

Important Risks Related to this Article

An investment in bitcoin equity traded products (ETPs) involves significant risks and may not be suitable for all shareholders. The extreme volatility of trading prices that many digital assets, including bitcoin, have experienced in recent periods and may continue to experience could have a material adverse effect on the value of the shares, and the shares could lose all or substantially all of their value.

There are risks associated with investing, including possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance. These factors include the use of commodity futures contracts. In addition, bitcoin and bitcoin futures are a relatively new asset class. They are subject to unique and substantial risks and historically have been subject to significant price volatility. While the bitcoin futures market has grown substantially since bitcoin futures commenced

trading, there can be no assurance that this growth will continue. In addition, derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relates directly to the value of the futures contracts and other assets held by the Fund, and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. Because of the frequency with which the Fund expects to roll futures contracts, the price of futures contracts further from expiration may be higher (a condition known as "contango") or lower (a condition known as "backwardation"), and the impact of such contango or backwardation may be greater than the impact would be if the Fund experienced less portfolio turnover. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For the top 10 holdings of GCC please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/alternative/gcc>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

+ [Introducing the New WisdomTree Enhanced Commodity Strategy Fund](#)

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Commodity: A raw material or primary agricultural product that can be bought and sold.

Bitcoin (the currency): A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Contango: A scenario when the futures price is above the spot price.

Bloomberg Commodity Index (BCOM): A broadly diversified commodity price index distributed by Bloomberg Indexes that tracks prices of futures contracts on physical commodities on the commodity markets.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Roll Yield: The yield that an investor in futures receives as the long position converges to spot.