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Commodities: A Speculative Diversifier, Not a Core Holding

Every time energy prices spike and the cost of living climbs with them, investors start asking the same question: should I own some commodities in my portfolio? It is a fair question, and an honest answer has two sides.

Commodities can help. Oil, metals, grain, and gold move to their own rhythm, driven by the supply and demand for physical goods rather than by corporate earnings, so they often hold up in the very inflationary stretches that punish stocks and bonds at the same time. In 2022, when a diversified mix of stocks and high-quality bonds fell together, a broad basket of commodities was one of the few things that gained.

But there is a downside that rarely makes the headlines. A barrel of oil earns nothing. An ounce of gold pays no dividend. These assets produce no income and no earnings, so they cannot compound the way a business or a bond can. Since 1991, a broad commodity index has returned about 3.6% a year, against roughly 9.8% a year for U.S. stocks over the long run. Stretched over decades, that gap is the difference between a portfolio that grows and one that mostly treads water.

So the case for commodities is real, but narrow. They belong in the conversation as a speculative diversifier, not as a core holding. What follows is a plain-English look at what commodities can and cannot do in a portfolio, and how to size them if you decide they belong in yours.

What counts as a commodity

Commodities are physical goods, and they fall into two broad groups. Hard commodities are mined or extracted: crude oil, natural gas, gold, copper. Soft commodities are grown or raised: wheat, corn, soybeans, coffee, cattle. What unites them is that one unit is interchangeable with the next. A barrel of West Texas crude is a barrel of West Texas crude, wherever it comes from.

Most investors never touch the physical goods. You can, in principle, own commodities directly, trade futures contracts, or hold the shares of the companies that produce them. In practice, the accessible route today is a mutual fund or ETF that tracks a commodity index or a basket of futures. That structure matters more than it first appears, and it comes up again below.

The long-run return record

Start with the uncomfortable part. Over long periods, commodities have been a poor engine of growth. They have trailed not only stocks but, over the life of the modern commodity indexes, bonds as well.

What commodities have returned - and what they pay

Asset class	Long-run annualized return	Pays income?
U.S. stocks (S&P 500)	**9.8%**	Yes - dividends
U.S. bonds (10-yr Treasury)	**4.7%**	Yes - interest
Broad commodities (Bloomberg Commodity Index)	**3.6%**	No

U.S. stocks and bonds: NYU Stern (Damodaran), 1928-2025. Commodities: Bloomberg Commodity Index, since 1991.
Returns are nominal and annualized. Past performance is no guarantee of future results.

The reason is structural, not bad luck. Stocks represent ownership of businesses that reinvest, innovate, and grow their earnings. Bonds pay contractual interest. A commodity does neither. Its price can rise with scarcity or inflation, but it throws off no cash along the way, so the only way to profit is to sell it to someone else for more than you paid. That is closer to speculation than to investing, and it is why even long stretches of rising commodity prices have not compounded into stock-like wealth.

Commodities also travel in long, punishing cycles. The 2000s brought a genuine supercycle, as rapid industrialization in China pulled up the price of nearly everything that came out of the ground. The following decade gave much of it back. An investor who bought near the top of one of those waves could wait ten years or more just to return to even.

The path matters as much as the average. The chart below follows a $10,000 investment in the Bloomberg Commodity Index on a total-return basis. Over roughly two decades it grew to about $19,400, an annualized 2.7%, with the exact figure depending on where you start the clock. More telling is the shape of the line. It more than doubled into the 2008 peak, surrendered most of that gain within months, ground down to new lows by 2016, plunged again in the 2020 shock, then spiked in 2022 and once more in 2026. That jagged path is the volatility this guide keeps returning to, and it is the reason a modest, regularly rebalanced position is the only sensible way to hold the asset.

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Why price gains rarely last

There is a deeper reason commodities struggle to build lasting wealth, and it is worth understanding. High prices in a commodity tend to contain the seeds of their own reversal. When wheat becomes expensive, farmers plant more of it, and the larger harvest pushes the price back down. When oil spikes, drillers bring on new wells and shale that were uneconomic at lower prices, and the added barrels eventually cap the rally. Copper, natural gas, and most of the rest follow the same logic.

This is where commodities part company with stocks. A good business can compound for decades because it reinvests its earnings and grows; a commodity cannot, because its own high price calls forth the new supply that erodes it. Traders put it bluntly: the cure for high prices is high prices. Scarcity and inflation can still drive sharp, genuine rallies, and those rallies are exactly what make commodities useful at the right moment. But the gains tend to be cyclical rather than cumulative, which is why the long-run line goes sideways even as individual prices soar and collapse along the way.

So here is the honest question. If commodities have returned almost nothing over decades, pay no income, and can leave a long-term holder with less than they started, why would a thoughtful investor ever own them? There is a real answer, and it is where this guide turns from what commodities are to how to use them.

Why they might earn a place

If the long-run return is that weak, why discuss commodities at all? Because return is only half of what an asset contributes to a portfolio. The other half is how it behaves relative to everything else you own.

Commodities have historically shown low, and at times negative, correlation with stocks and bonds. They tend to do their best work precisely when the rest of the portfolio is struggling. The clearest recent example is 2022. Inflation surged, the Federal Reserve raised rates aggressively, and stocks and high-quality bonds fell together, an unusual and unwelcome combination for anyone counting on bonds to cushion a decline in stocks. A broad commodity index rose that year and offset part of the damage.

The link to inflation is direct. Commodities are the raw materials whose prices help define inflation in the first place, so when the cost of living jumps, commodity prices are often already moving. Research from Goldman Sachs has found commodities to be among the more reliable inflation hedges available, gaining real value in the periods when an inflation surprise quietly erodes the real return on both stocks and bonds. Gold plays a related but distinct role, valued less for its industrial uses than as a long-standing store of value when confidence in currencies or governments wavers.

None of this turns commodities into a growth engine. Their value is defensive: a potential shock absorber for the rare stretches when everything else is falling at once. That is worth something, even when the asset itself appreciates very little on its own.

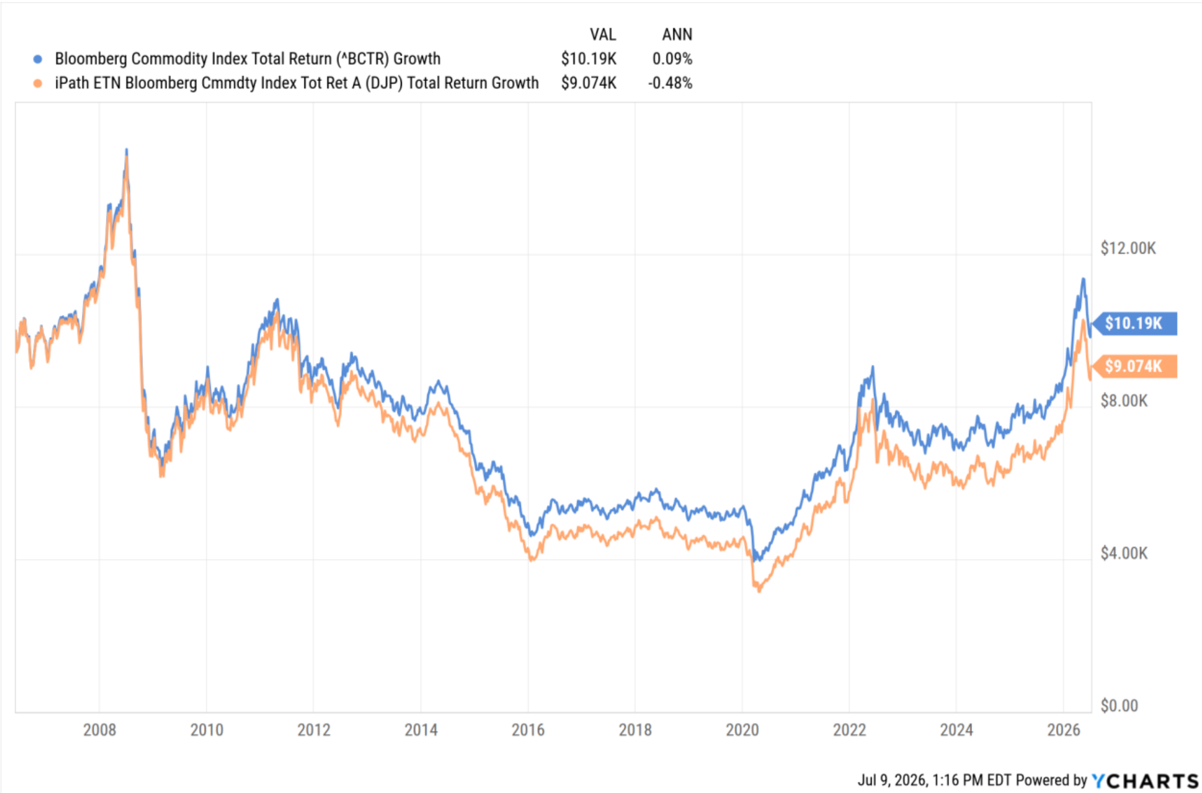
But there is a catch

The diversification benefit comes wrapped in real costs and complications, and they are worth understanding before you commit a dollar.

Volatility is extreme. Commodities are among the most volatile asset classes an individual can own, with prices whipped around by weather, geopolitics, supply shocks, and technological change. Single commodities are far worse than the basket. Natural gas is the cautionary tale: over the roughly two decades through 2024, a natural gas index lost on the order of 30% a year, a near-total wipeout, even though the fuel itself remained essential to the economy the entire time. Owning a single commodity is a bet. Owning a broad basket is closer to a strategy.

The futures structure adds another wrinkle. Because most funds hold futures rather than the physical goods, they must continually sell contracts as they expire and buy later-dated ones. When those later contracts cost more than the ones rolling off, the process quietly bleeds return, which helps explain why a commodity fund can lag the headline spot price you see quoted in the news.

That gap is not theoretical. An index is frictionless; a real fund is not. DJP, the longest-running commodity ETN, has tracked the same Bloomberg Commodity Index since 2006. The chart below sets the two side by side. Over roughly twenty years the index itself returned almost nothing, about 0.1% a year, turning $10,000 into $10,190. The investable product fared worse: DJP returned about -0.5% a year, leaving that same $10,000 at roughly $9,070. The gap of more than half a percentage point a year is the toll of fees and the mechanics of rolling futures, and it compounds against the investor. In plain terms, someone who bought the most established commodity fund available two decades ago has less money today than when they started, before even accounting for inflation.



The same pattern shows up across the whole category, and it is starker when you set commodities next to stocks and bonds. The table below shows annualized total returns for the major commodity ETFs, with the S&P 500 and the U.S. Aggregate Bond index included for comparison. Over the past five and ten years the broad commodity funds did well, riding the post-2020 inflation surge, and several compounded at 7% to 9% a year over the decade. But stretch the window to fifteen or twenty years and they fade. The broad commodity funds annualized only about 0.5% to 2.5% a year over that span, while U.S. stocks compounded at roughly 11% to 15% a year and even bonds, for all their own struggles, stayed positive. One of the oldest commodity funds, the iShares S&P GSCI trust, actually lost money over the past fifteen years. The lesson from the earlier chart repeats at the fund level: commodities reward the investor who buys before a cycle turns and punish the one who arrives late.

Gold is the conspicuous exception. SPDR Gold Shares annualized about 9.4% a year over twenty years, nearly matching stocks and far ahead of every broad commodity fund on the list. That gap is a reminder that commodities are not one asset. Gold has behaved less like an industrial commodity and more like a monetary one, a store of value in its own right, which is why it deserves a separate discussion rather than being folded in with oil and grain.

Commodity ETFs vs. stocks and bonds, annualized

Annualized total return over each trailing period, as of July 9, 2026

Fund / index		1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr
STOCKS & BONDS (for comparison)							
SPY	S&P 500 (U.S. stocks)	21.5%	20.8%	13.1%	15.2%	14.1%	11.3%
AGG	U.S. Aggregate Bond	4.0%	4.4%	**-0.2%**	1.4%	2.1%	3.2%
COMMODITY ETFs							
BCI	abrdn Bloomberg All Commodity	28.1%	12.5%	10.0%			
FTGC	First Trust Global Tactical	33.3%	15.8%	13.1%	7.4%		
DBC	Invesco DB Commodity Index	28.6%	11.4%	11.1%	8.2%	0.6%	1.6%
PDBC	Invesco Optimum Yield Dvsfd	29.6%	10.9%	10.7%	8.0%		
COMT	iShares GSCI Dynamic Roll	30.1%	12.6%	11.7%	8.3%		
GSG	iShares S&P GSCI Trust	32.9%	14.6%	13.7%	7.3%	**-1.1%**	
GLD	SPDR Gold Shares	23.1%	28.0%	17.3%	11.1%	6.3%	9.4%
USCI	United States Commodity Index	30.1%	21.1%	19.6%	8.5%	2.6%	
GCC	WisdomTree Enhanced Cmdty	26.0%	16.1%	11.0%	6.1%	0.4%	

Source: YCharts, annualized total returns as of July 9, 2026. Blank = fund not yet that old. Stocks = SPY; bonds = AGG.
Funds and indexes are shown to illustrate the range of outcomes and to compare with stocks and bonds. They are examples and benchmarks, not recommendations to buy, sell, or hold, and not an endorsement. Past performance does not indicate future results.

One important caveat. The funds and indexes above are shown only to illustrate the range of outcomes across commodities and to compare them with stocks and bonds. They are examples and benchmarks, not recommendations, and their appearance here is not an endorsement or a suggestion to buy, sell, or hold any of them. Which specific vehicle, if any, belongs in a portfolio depends on cost, structure, tax treatment, and how it fits the rest of your holdings, the kind of judgment our fund research library is built to inform.

There is also the income question, again. Commodities pay no dividends or interest to help carry you through their swings, and the tax treatment of some commodity funds is less favorable than that of stocks or bonds. Timing is treacherous on top of all this. Commodity cycles are long and turn on events, a drought, a war, an OPEC decision, that no one forecasts reliably. Even professional investors rarely catch them.

How to own commodities, if you do

If, after all of that, commodities still appeal to you as a diversifier, a few principles keep the decision sensible.

Keep the allocation modest. For most investors, something in the range of 2% to 5% of a diversified portfolio is enough to provide meaningful diversification without letting a volatile, low-returning asset drag on long-run results. This is a seasoning, not a main course.

Own the basket, not the bet. Broad-based funds that track an index such as the Bloomberg Commodity Index or the S&P GSCI spread exposure across energy, metals, and agriculture, and they spare you the storage, insurance, and logistics of holding physical goods, as well as the concentration risk of a single commodity. The principle that guides the rest of a well-built portfolio applies here too: favor low-cost, broadly diversified funds, and understand exactly what you own.

Rebalance with discipline. Because commodities swing so widely, they will drift far from your target weight. Trimming after a strong run and adding after a weak one feels uncomfortable in the moment and pays off over time. If you don't rebalance your portfolio, the market will likely do it for you, and you may not like the results.

The bottom line

Commodities occupy an unusual place in a portfolio. They have delivered weak long-run returns, pay no income, and swing violently, all of which argues against them. Yet they have also earned their keep in the rare, painful periods when stocks and bonds fall together, which argues for a small and deliberate position.

That tension is the whole point. Investing is not about maximizing your return; it is about earning a competitive return, one sufficient to reach your long-term goals, while managing risk. Commodities are a poor tool for the first job and an occasionally useful one for the second. Treated as a speculative diversifier rather than a core holding, and sized accordingly, they can play a supporting role. Mistaken for a road to wealth, they tend to disappoint.

From Insights to Action

Knowing the principles is the easy part. The harder, more valuable work is building the portfolio that puts those principles to work. That means choosing the specific, low-cost funds for diversification, the right high-quality bonds for ballast, and a sensible cash reserve, while knowing which products to avoid. That is what our fund research library and model portfolios are built for: an in-depth look at the funds that meet our high standards, plus model portfolios that combine them for broad, low-cost diversification. Explore the research library at investmentinsights.com.

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