The Commodity Cycle, Bubbles, & Your Money

In previous issues, I have spent time explaining wealth management topics ranging from dementia, investment policy statements, economics, the role of a financial advisor and issues in estates I have seen in my years of practice. Let's turn now to a topical area of the economy that affects your money – the current commodity cycle.

I am sure most of you have now heard about the new generation of automobiles to come – effectively the internet on wheels. In my opinion, **TAAS, which is known as transportation as a service**, may be the greatest wealth generation vehicle in our industry in many years. This is because TAAS drives demand for base metals to power batteries, software to drive communications, semiconductors to drive radar sensors and radio frequency signals and data management to control the fast data speeds necessary to handle commercial transportation as a service. Did you know that Anheuser Busch subsidiary Ambev in Brazil has ordered 1000 electric trucks to be in operation by the end of 2021? The reality of an electric world replacing carbon fuels is upon us and it appears to be occurring much faster than the investment industry envisioned just three years ago.

When you hire an experienced financial advisor, consider his or her expertise in economics, security valuation and of course a strong emphasis in planning so that your portfolio suits your objectives and goals. If you are going to look for growth, commodity cycles can be long in time frame. Here are some points to note about the current commodity cycle and how it can affect your money given the current excitement of battery metals for electric vehicles:

Commodity prices have actually remained in a downward trend since the price peak of mid-2008, although we are well off bottom troughs seen in copper, nickel, cobalt and lithium demand. The reality is that commodity investing has declined up to 80% in the last 13 years driven lower by the rise of the US dollar over that period. The reason is that the US dollar with political upheaval has accelerated upwards pressuring commodity prices globally. Battery technology requirements however have broken the downward trend in copper, nickel, graphite, cobalt and lithium. There are approximately 43 lbs of copper, 183lbs of graphite, 53 lbs of nickel, and 22lbs of lithium in current electric car batteries.

In portfolio management commodity sectors are notoriously volatile and advice is best left to a professional who has experience in the trends of these metals. A major factor to consider is the movement of exchange rates. In fact, commodity prices are very correlated to the rise or decline of the US dollar since commodities globally are priced in US dollars. Today's demands for these industrial metals due to insufficient mine builds and effects of lowered exploration budgets stemming from the 2010-2012 recession period have hampered metal supplies supporting higher metal price trends to offset periodic US dollar weakness.

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A Bubble Brewing?

Some claim that the markets are in a bubble since total market capitalization (all stock prices by aggregate shares outstanding) exceeds US GDP! Perhaps we may see 4200 on the S&P500, time will tell. M2 money supply is up 25% per Federal Reserve statistics 2021. Fiscal stimulus, currently on President Biden's desk, remains to be negotiated while vaccines continue to roll out. Corporate cash flows continue to remain stable to up. I continue to watch the direction of the 10-year US Treasury yield, currently at 1.29% and I feel this yield would have to hit 2% to begin any lag on equity markets generally.

Are commodities a suitable assets class for you? Are we in a bubble? How does this affect your money?

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