

Actionable Ideas for the Power to Optimize Your Trades

A Smarter Route to Commodity Beta Exposure

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Ms. Reska: Broad-based Commodities index beta investments have traditionally attracted clients looking for portfolio diversification, tactical yield opportunities and a hedge against inflation. As inflationary pressures have risen, interest in commodity beta investing has grown, with \$80 billion in price-adjusted commodity index inflows since 2015.

The industry's commodities index benchmarks continuously roll a diversified set of commodities futures contracts at the front of the commodities curves over a narrow trading window. However, there are many key simple index enhancements available to improve the performance of Commodities in your portfolio over time.

First, many indices roll their listed futures contracts over the fifth through ninth business days of their roll months which may cause time spreads to widen during these days and hurt long-only performance. You can enhance your exposure by changing this roll timing. Second, commodities futures contracts periodically need to be rolled to new futures contracts prior to their expiration. Smart contract selection can contribute to positive roll returns and also enhance performance. Third, a more dynamic approach to commodity selection can help allocate exposure to commodities that have more favorable market environments. Lastly, you can overlay your beta allocation with listed options to improve your allocation through well-established strategies like call overwriting.

To give an example of performance improvement, our Commodities Enhanced Backwardation index, launched in 2012, uses several of these enhancements.

For other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep.