

Goldman backs case for holding commodities

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Goldman Sachs Group Inc said that the case for holding commodities in a portfolio remains strong, bolstering the rationale for investments in oil and metals even as other banks scale back their presence.

Commodities still offer a way to diversify holdings together with equities and bonds, and are best suited as a hedge against inflation, analysts led by Damien Courvalin and Jeffrey Currie wrote in a report dated yesterday. The appeal of holding commodities will improve as global growth is expected to pick up in the next few years, they wrote, without giving a forecast.

While returns from commodities lagged behind those from shares and bonds over the past five years, the case for retaining an allocation in a portfolio over the long term remains, the Goldman analysts wrote. Barclays Plc, JPMorgan Chase & Co, and Morgan Stanley are leaving parts of their commodities businesses, boosting speculation that Goldman will be able to increase its market share.

“The strategic case for commodities still holds strong,” the analysts said. “Given our expectation that global growth will continue to improve over the next few years, leading to a shift into an expansion phase for the business cycle, we expect the appeal of holding commodities to continue to improve.”

Goldman’s nearer-term commodities outlook is for a decline, according to an April 13, 2014 report from analysts led by Currie. The Standard & Poor’s GSCI Enhanced Commodity Index may drop 4% over 12 months, according to that report.

Commodity Performance

The S&P GSCI Enhanced Commodity Index has risen 4.4% this year after declining last year and in 2012. Equities as tracked by the MSCI All-Country World Index are up 1% in 2014, extending an advances from last year and in 2012. The Bloomberg US Treasury Index has climbed 2.2% this year, after a 3.4% loss in 2013 and 2% advance in 2012.

“Updating our analysis of commodity returns shows that the key benefits of including commodities in a portfolio are intact,” Courvalin and Currie wrote. “In particular, returns from investing in commodities since 2007 have been consistent with their historical performance when allocated to the various stages of the business cycle.”

Barclays is exiting from most of its commodities business, the bank said this week, after Morgan Stanley in December agreed to sell its oil-merchant unit to OAO Rosneft, Russia’s state-run producer. In March 2014, JPMorgan said that it would sell its physical commodities unit to Mercuria Energy Group Ltd for US\$3.5 billion (RM11.2 billion), ending a five-year stint in the business.

The case for having commodities in a portfolio was also supported as they were best suited to hedging against rising prices, according to Courvalin and Currie. As central banks around the world cut interest rates and boosted stimulus after the financial crisis, there’s an increased risk that inflation will accelerate in the years ahead, according to the report.

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