

C'mon C'mon Commodities - 3C Macro Strategy

Market Mavericks

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What is Happening Right Now?

Trump Has Glossed Over High Prices. Republicans Worry It Will Cost Them.

The president talks more often about federal workers, diversity programs and foreign policy than the price of eggs

How Trump Tariffs Are Shaking Up Markets

WSJ's Take On the Week co-host Telis Demos is joined by Chad Bown, a senior fellow at the Peterson Institute for International Economics, to talk about how the Trump administration's tariff policies could affect companies and markets. Photo: WSJ

How Climate Change Puts the Safety of Drinking Water at Risk

Wildfires, floods, intense heat, droughts, and other extreme events fueled by climate change are threatening water systems in the U.S. and around the globe. Experts warn of the increasing threat of contamination and the need to improve infrastructure to keep drinking water safe.

A majority of Americans are worried about the Trump administration's prospects

Global Shares Fall After Renewed U.S. Tariff Threats Spook Investors

Markets responded to Trump's warning that the U.S. plans to impose an additional 10% tariff on imports from China, as he confirmed that 25% tariffs on products from Canada and Mexico will go ahead.

Worries Mount That Trump Agenda Is Testing Economy's Resilience

While it's too soon to tell if growth is in trouble, "soft" survey data and markets show growing concern.

Canada Says New Economic and Security Partners Needed Due to U.S. Policy Shift

Foreign Minister Melanie Joly said Canada needs more intelligence sharing and cooperation on defense from countries "we are not that close to."

U.S. to Hit Chinese Ships With Hefty Port Fees

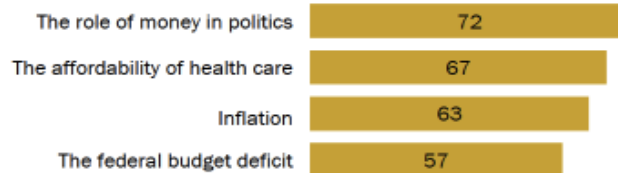
Rising temperatures, drought conditions helping fuel wildfires across the country

How Much Do Tariffs Raise Prices?

Lots of factors determine how much of a tariff is 'passed through' to customers. We break it down.

Economic issues top the public's list of national concerns – including the role of money in politics

% who say ___ is a **very big problem** in the country today



Executive Summary



Strategy

Our investment strategy focuses on real assets and essential commodities, positioning our portfolio to benefit from **inflation protection, geopolitical uncertainty, and long-term infrastructure trends**. The selected ETFs offer diversification across key economic sectors that are resilient to market fluctuations and macroeconomic shifts.



Performance

With an expected annualized return of ~9%, standard deviation of ~10% , a low beta of 0.38, and correlation of 0.4 with equities, this strategy provides diversification benefits, inflation protection, mitigate downside risks and ensure resilience in uncertain market conditions.



Recommendation

Buy – Market Mavericks recommends allocating **\$50,000** towards this strategy



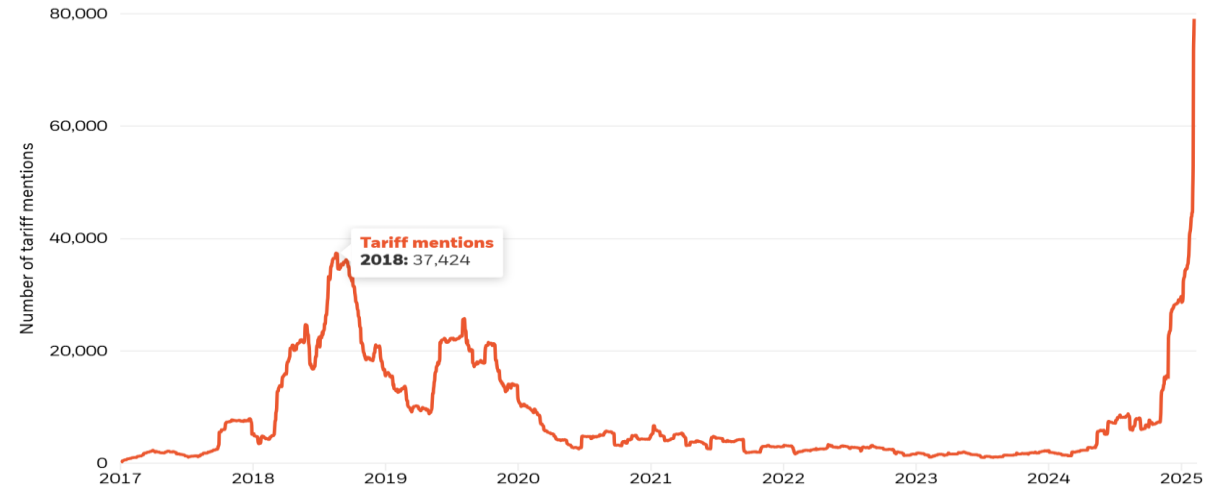
Rationale #1- Tariffs + Supply Chain

1. Impact of Tariffs on Global Supply Chains and Inflation

- **Financial Times on Tariffs Disrupting Global Supply Chains:** The Financial Times reports that President Trump's recent tariffs on Canada, Mexico, and China have caused significant disruptions in global supply chains, leading to increased costs for businesses and consumers.
- **Wall Street Journal on Tariffs Fueling Inflation Concerns:** The Wall Street Journal highlights that the new tariffs are expected to raise consumer prices, contributing to inflationary pressures in the U.S. economy.

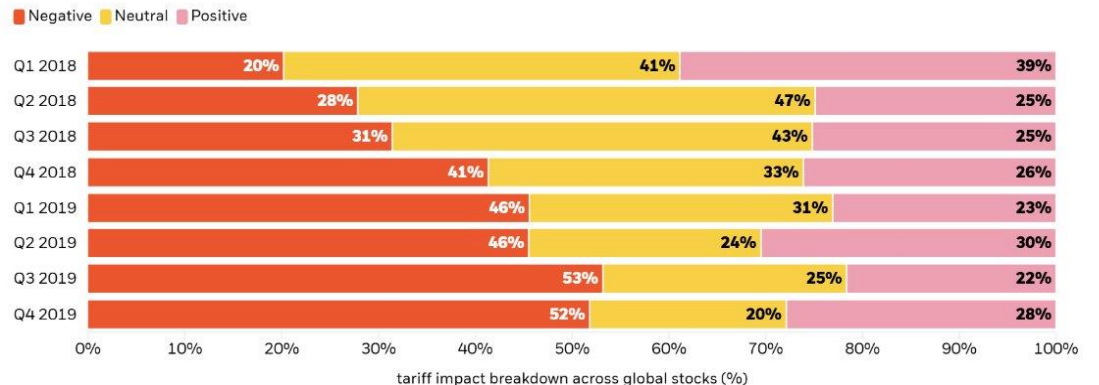
Figure 2: Attention to tariffs across news articles has already surpassed 2018/2019 highs

Tariff mentions in news articles (rolling 90 day)



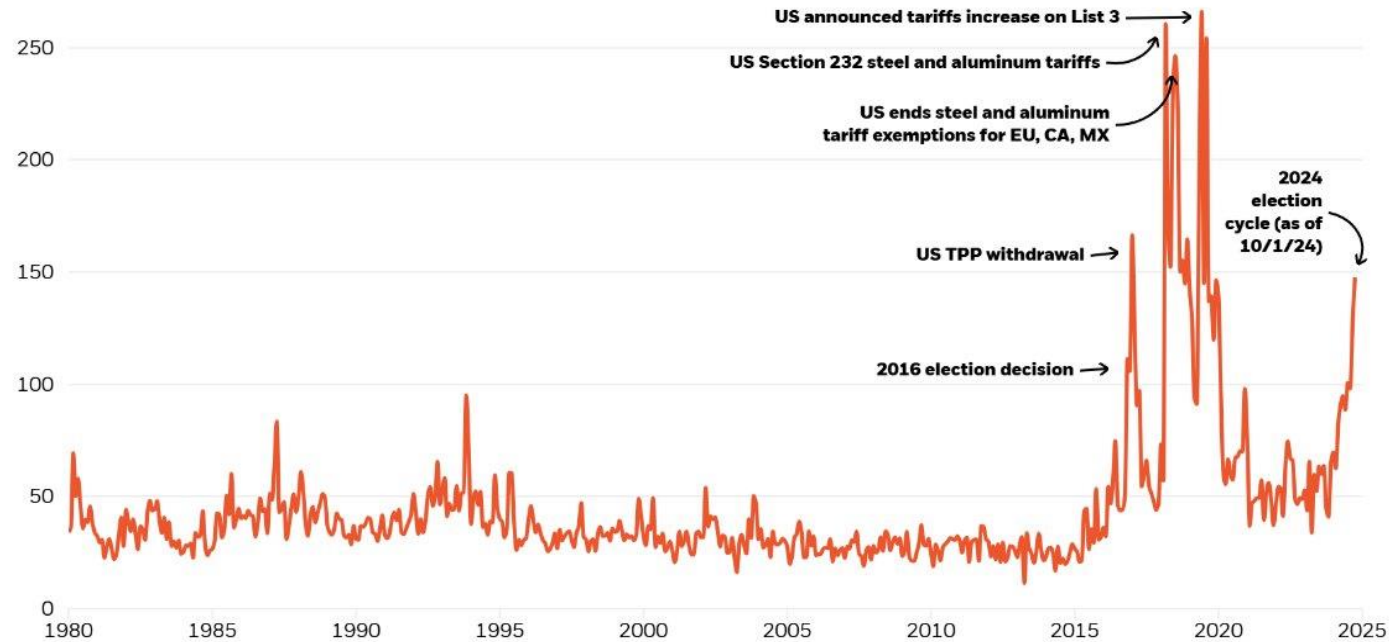
Source: BlackRock Systematic, with data from Dow Jones, as of February 2025.

Business impact of tariffs reflected in conference calls



Rationale #1- Tariffs

Trade policy uncertainty (TPU) Index



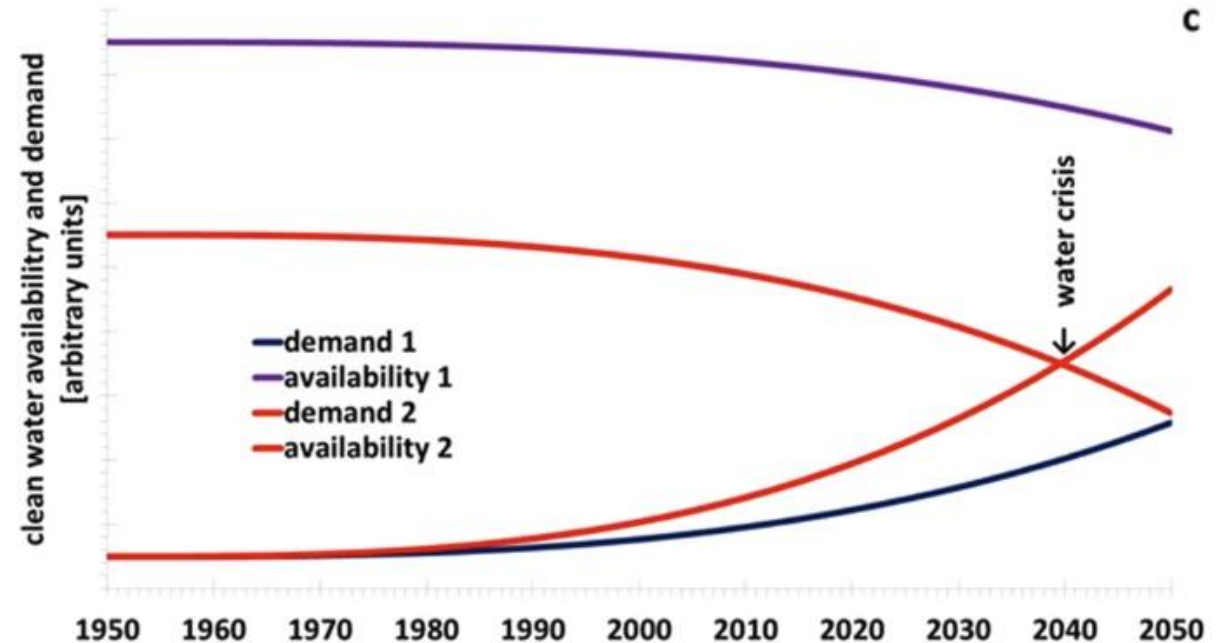
Enthusiastic Optimistic Pessimistic Afraid



Rationale #2- Climate Change

2. Climate Change & Water Security

- **UN World Water Development Report:**
The United Nations' report predicts a 40% global water shortfall by 2050, emphasizing the need for investments in water purification, desalination, and conservation technologies.
- Extreme weather events and geopolitical tensions are driving volatility in agricultural commodities like wheat, rice, and soybeans. Example: The 2024 drought in South America caused a 15% spike in global soy prices.



Rationale #3- AI Boom

3. U.S. Spending Boom

- **Artificial Intelligence and its impact** : The AI boom is likely to significantly increase demand for certain commodities, particularly industrial metals like copper and water, leading to potential price rises due to the high energy consumption required to power AI systems and the need for more advanced materials in chip manufacturing
- **CNBC on Infrastructure Spending and ETFs**: CNBC analyzes how the infrastructure bill boosts ETFs focused on water resources and clean energy, directly benefiting funds like PHO and DBC.

Trump announces a \$500 billion AI infrastructure investment in the US

TSMC Poised to Announce \$100 Billion Investment in US Plants

Apple will spend more than \$500 billion in the U.S. over the next four years

The robots haven't taken over yet, but AI investments are powering more of the American economy

The Golden Opportunity for American AI



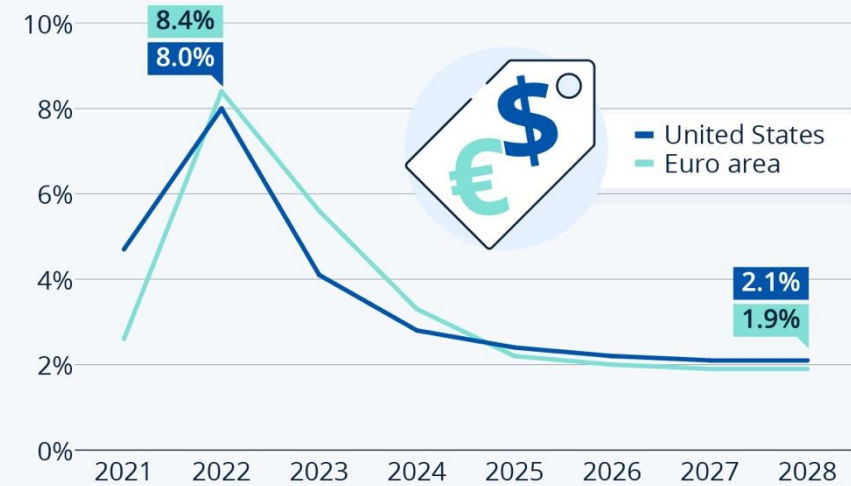
Rationale #4- Inflation

4. Inflation Trends & Commodity Supercycle

- **Federal Reserve Data on Inflation and Supply Chain Constraints:** The Federal Reserve's research paper discusses how supply chain constraints have contributed to recent inflationary pressures, highlighting the role of real assets as hedges against such uncertainties.
- **Bloomberg on Rising Commodity Demand:** Bloomberg reports on the increasing demand for commodities driven by global supply chain constraints, energy market volatility, and trade disruptions.

IMF: Inflation to Remain Elevated Until 2025

Estimated/projected year-over-year change in average consumer prices in the United States and the Euro area



Source: IMF World Economic Outlook October 2023



statista



Strategy Design

Origin

This strategy was developed to address **market uncertainty, inflationary pressures, and the need for diversification**. Given the fund's current equity concentration, adding commodities provides a **hedge against macroeconomic risks**. With historically low correlation to stocks, commodities enhance **risk reduction and portfolio stability**.

Goal

The strategy aims to **enhance resilience, reduce volatility, and improve risk-adjusted returns** by diversifying into broad commodities (DBC), agriculture (DBA), gold (USG), and water infrastructure (PHO).

Outcome

This strategy provides an **expected ~7% annual return, Standard deviation of ~10%, beta of 0.3, and 0.4 correlation with equities**



All Weather Portfolio (AWP)

- The All Weather Portfolio is an investment portfolio whose purpose is to perform well under different economic environments. Because of this mandate, the portfolio consists of 55% U.S. bonds, 30% U.S. stocks, and 15% hard assets (Gold + Commodities).
- We took inspiration because this mixture performs well under the four economic environments highlighted by Ray Dalio:
 - Rising prices (inflation)
 - Falling prices (deflation)
 - Rising growth (bull markets)
 - Falling growth (bear markets)
- **During periods of *rising* prices, commodities and gold tend to do well and during periods of *falling* prices, bonds tend to do well.**
- During periods of *rising* growth, stocks tend to do well and during periods of *falling* growth, bonds tend to do well.

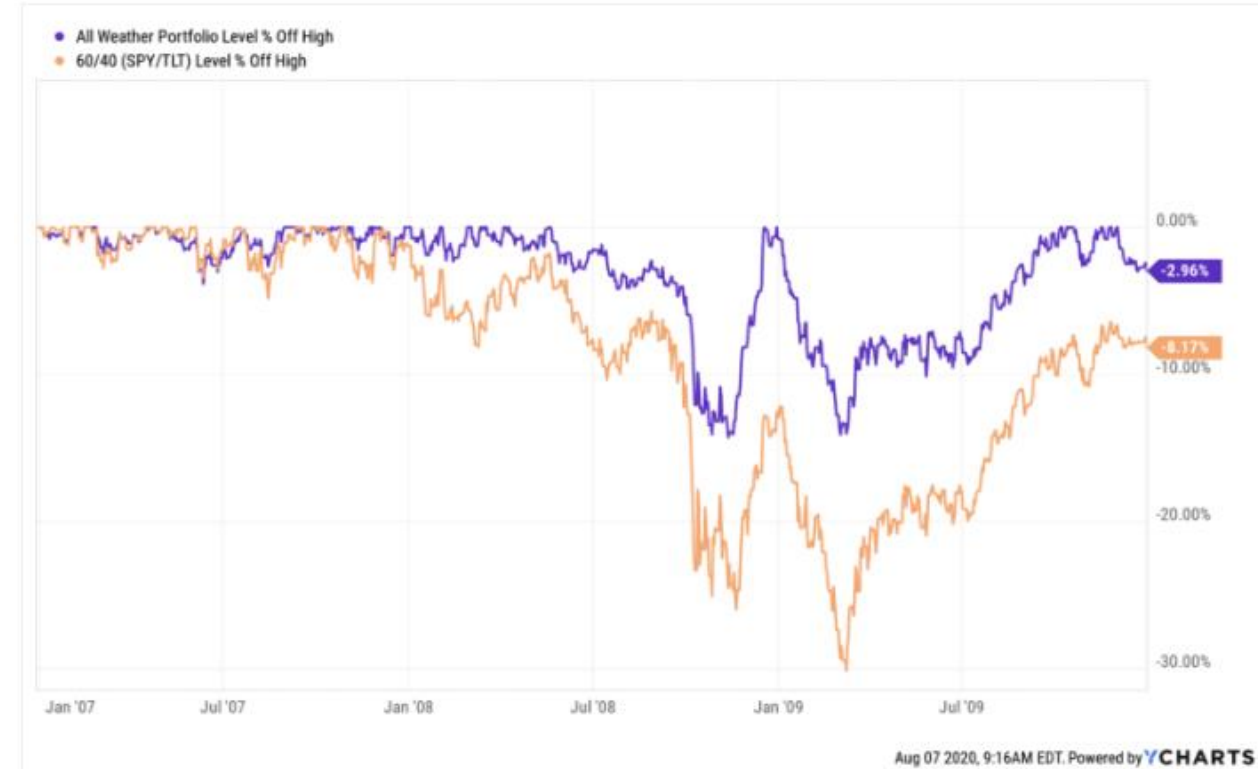
		Growth	Inflation
Market Expectations	Rising	Stocks	Commodities Gold
	Falling	Bonds	Bonds



AWP: not the Strongest Return...



AWP: ...BUT has Smaller Drawdowns



Historical Context

Historical context:

Investing in **commodities during a bearish market** is a strategy rooted in historical market cycles and economic downturns. Commodities—such as oil, gold, agricultural products, and industrial metals—have long been considered **inflation hedges and safe-haven assets** when equities decline.

Key Historical Examples:

1. 1970s Stagflation & Oil Crisis

- During the **1973-74 oil embargo**, the stock market collapsed, and inflation soared. However, **commodity prices surged**, particularly oil and gold.
- Investors turned to **gold and energy commodities** as protection against rising prices and economic stagnation.

2. 2008 Global Financial Crisis

- Equities plunged, but **gold and agricultural commodities** outperformed as investors sought tangible assets with intrinsic value.
- The **U.S. dollar weakened**, pushing commodity prices higher, reinforcing their role as a hedge.

3. 2020 COVID-19 Market Crash & Recovery

- The initial crash in March 2020 caused a sharp dip in oil and industrial metals, but **gold rallied to record highs** as a safe-haven asset.
- As the economy rebounded, **commodities surged**, with oil, metals, and food prices rising due to supply chain disruptions and stimulus-driven demand.



ETFs Selection

DBC: Invesco DB Commodity Index Tracking Fund (40%)

DBA: Invesco DB Agriculture Fund (20%)

USG: United States Gypsum Corporation (30%)

PHO: Invesco Water Resources (10%)



Why We Picked these ETFs

- Two most important criteria we looked at while deciding which ETF to pick for particular commodity were Returns and Expense Ratio.

ETF	Our Pick		Industry	
	Return	Expense Ratio	Avg Return	Expense Ratio
DBA	4.09%	0.93%	1.80%	1.70%
DBC	7.15%	0.77%	3.74%	0.71%
USG	14.11%	0.45%	9.30%	0.80%
PHO	10.71%	0.60%	8.98%	0.96%



DBC (Invesco DB Commodity Index)

- **Commodities as an Inflation Hedge & Economic Uncertainty Buffer**
 - Broad commodity exposure across **energy, metals, and agriculture**, making it an effective hedge against inflation and supply chain disruptions.
 - **Why Now?** Despite inflation, commodities remain a strong play due to geopolitical risks, energy market fluctuations, and potential central bank pivots.
 - **Risks:** Futures-based exposure means potential price impacts due to **contango and backwardation**.



DBA (Invesco DB Agriculture Fund)

- **Food Inflation & Agricultural Resilience**

- Agricultural commodities have **inelastic demand**, making them a solid hedge against food price spikes driven by supply chain shocks, climate change, and geopolitical events.
- **Why Now?** Persistent **El Niño effects**, grain export restrictions from major producers (Russia, Ukraine), and rising global food demand.
- **Risk:** Weather patterns and government policies (subsidies/tariffs) can impact performance.



USG (USCF Gold Strategy Plus Income)

- **Gold as a Defensive Asset & Income-Generating Hedge**
 - Unlike **GLD (pure gold play)**, USG combines **gold exposure + an options overlay** to generate yield, making it a more stable alternative to traditional gold holdings.
 - **Why Now?** If market volatility rises or rate cuts accelerate, gold remains a strong hedge. USG provides stability and income generation in uncertain conditions.
 - **Risk:** If gold prices surge rapidly, **GLD may outperform USG** since USG's options strategy limits upside gains.



PHO (Invesco Water Resources ETF)

- **Water Scarcity, Long-Term Infrastructure Growth & AI boost**
 - **Water is an essential infrastructure asset with low correlation to equities, making it a great diversification tool.**
 - **Why Now?** Increasing investments in **water purification, desalination, and infrastructure** due to rising scarcity and population growth. Also, with advancement in AI, datacenters are becoming ever more pervasive and need ever-more energy to operate. They also need to build water cooling towers to cool the massive racks of servers they have set up in giant warehouses.
 - **Risk:** Unlike commodities, PHO invests in **water-related companies** (utilities, technology firms), making its returns more dependent on corporate performance than raw water prices.



Quantitative Reasoning

Correlation with SPY					
Correlation	<i>SPDR</i>	<i>DBA</i>	<i>PHO</i>	<i>DBC</i>	<i>USG</i>
SPDR	1.00	0.28	0.89	0.19	0.26
DBA	0.28	1.00	0.16	0.59	0.34
PHO	0.89	0.16	1.00	0.04	0.23
DBC	0.19	0.59	0.04	1.00	0.30
USG	0.26	0.34	0.23	0.30	1.00

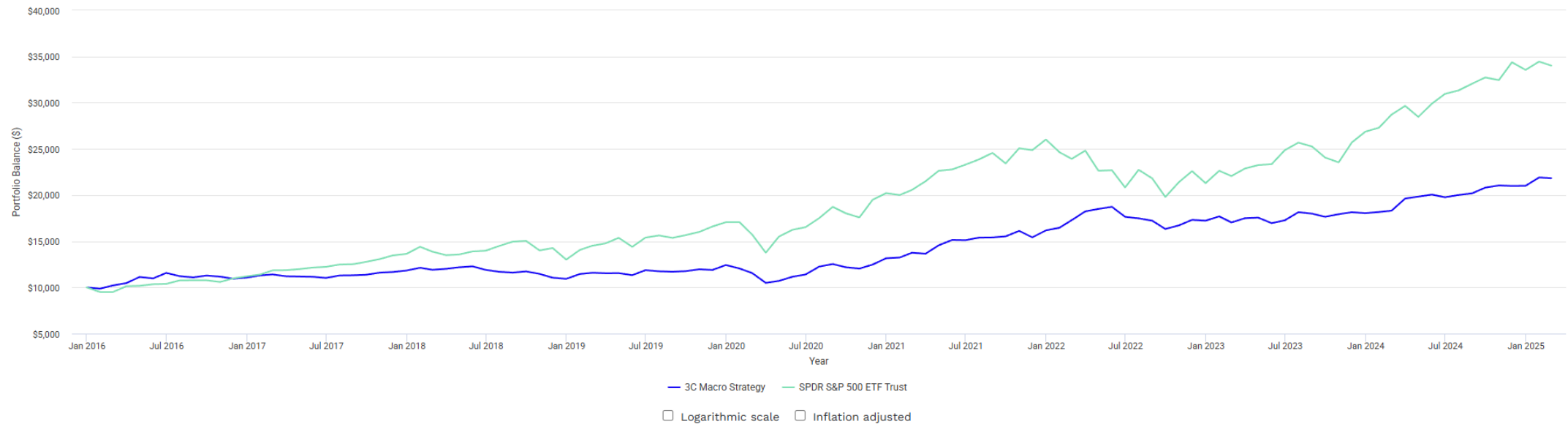
	Weights	Returns	Std Dev	Beta	Allocation
DBA	25%	4.09%	12.12%	0.33	12500
PHO	10%	10.71%	17.50%	0.78	5000
DBC	35%	7.15%	17.26%	0.37	17500
USG	30%	14.11%	14.34%	0.31	15000
3C Strategy	100%	8.83%	10.70%	0.38	50000

Period	Return (C)	Return (A)	α^*	β^*	σ^*	Max DD*	Sharpe*	Correl
10yr 3C	118.25%	8.83%	0.15%	0.38	10.7%	-15.60%	0.40	0.4
10yr SPY	239.7%	15.5%	-	1.00	17.6%	-33.7%	0.36	1.00



3C Performance over 10 Years

Portfolio Growth



3C Strategy vs SPY Drawdown

Drawdowns



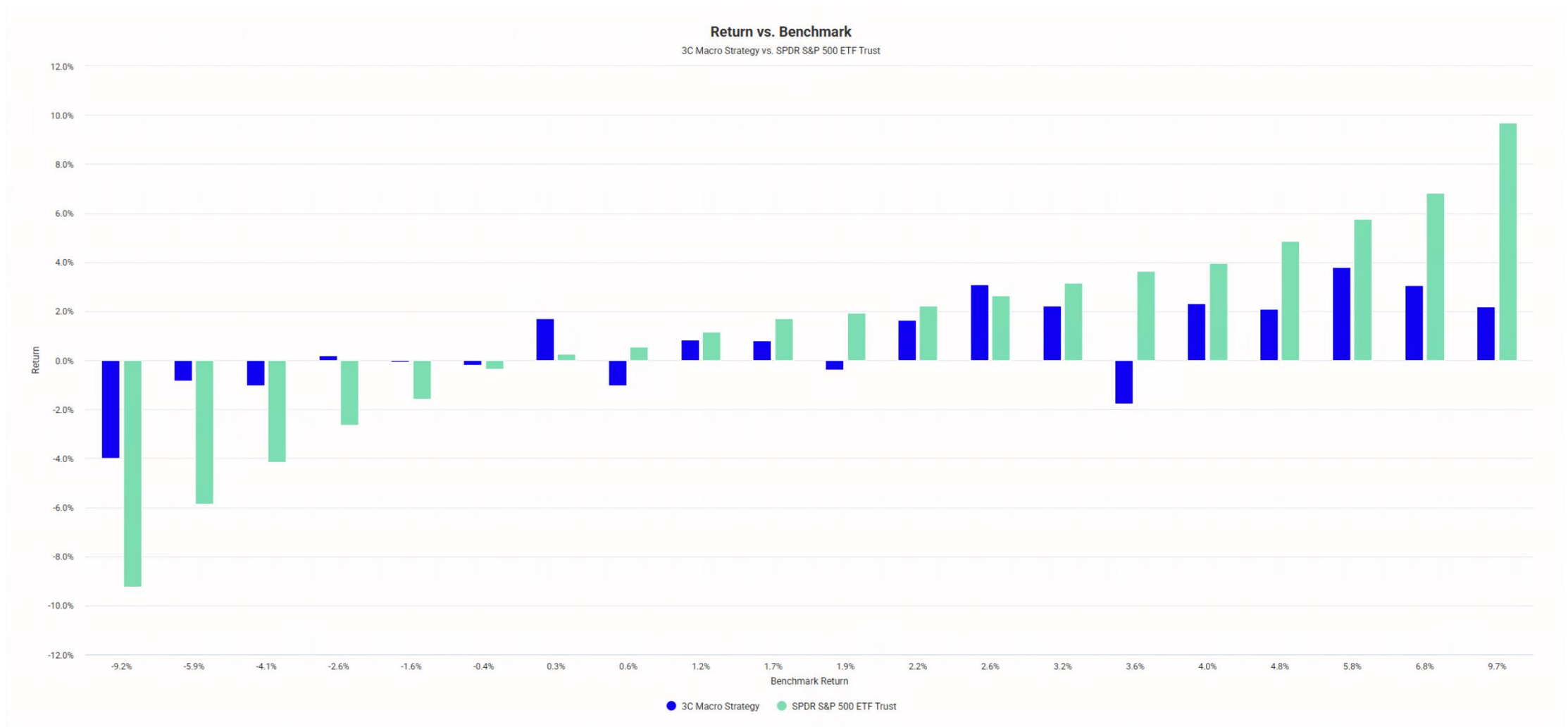
3C Macro Strategy UP vs. Down Trend

3C Macro Strategy vs. SPDR S&P 500 ETF Trust

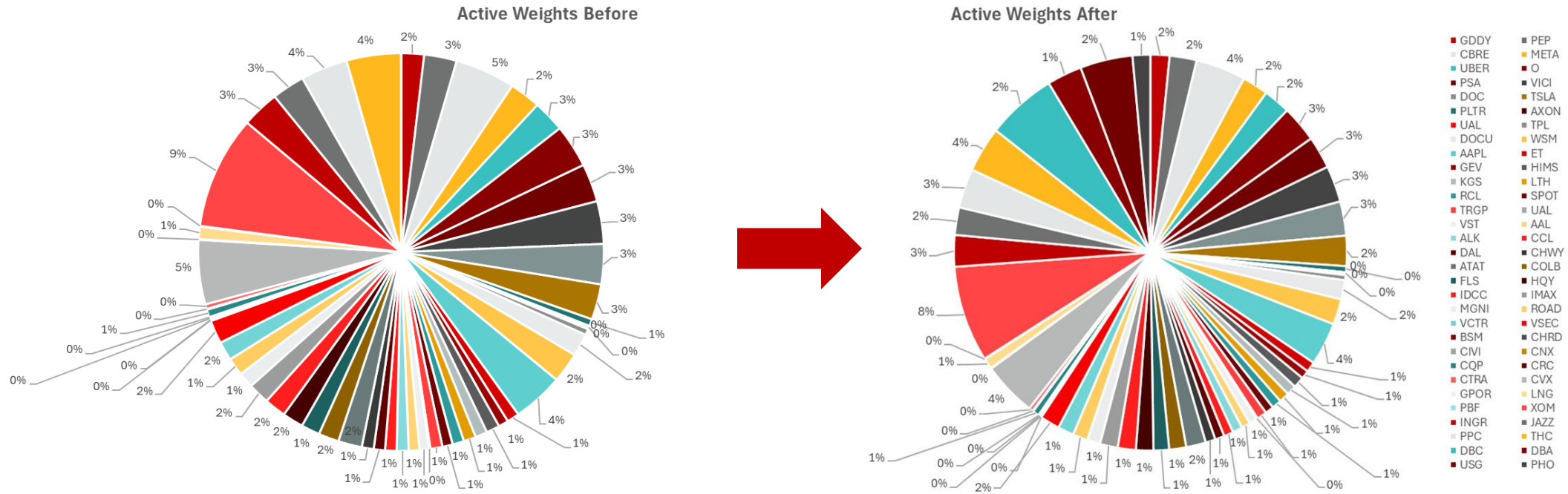
Market Type	Occurrences			% Above Benchmark
	Above Benchmark	Below Benchmark	Total	
Up Market	23	55	78	29%
Down Market	29	3	32	91%
Total	52	58	110	47%



3C Return vs. Benchmark



Effect on the Portfolio



Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*
Existing	22.92%	9.15%	0.99	2.01	2.51%
Adjusted	22.12%	9.28%	0.95	1.90	2.12%



Summary & Recommendation

Strategy Merits



- **Diversification & Risk Reduction** → With a **low beta of 0.38** and a **correlation of 0.4 with equities**, the strategy enhances portfolio stability and minimizes reliance on stock market performance.



- **Inflation & Economic Hedge** → Commodities historically perform well during **inflationary periods and macroeconomic uncertainty**, helping protect the portfolio from rising prices and geopolitical risks.



- **Lower Volatility & Drawdowns** → By reducing exposure to equities, the strategy helps mitigate **large market drawdowns**, ensuring a smoother return profile.



- **Underperformance in Equity Bull Markets** → If stock markets continue to rally without inflationary pressures, **commodities may lag**, leading to a lower overall return compared to a stock-heavy portfolio.



- **Prolonged Commodity Weakness** → In a **deflationary or low-growth environment**, commodity prices could stagnate or decline, **reducing the effectiveness of the strategy** and leading to underperformance.

Action Plan



Buy – Market Mavericks recommends allocating **\$50,000** towards the *CCC Strategy*



Appendix



Sources

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