WMs predict a bull market for commodities

By **Ashley Lowe** / 18 May, 2018

Low valuations in the commodity sector have opened the door for attractive investment opportunities, two wealth managers have told *Citywire Switzerland*.

'In relation to the S&P 500, the GSCI commodity index is currently trading at its lowest level for 50 years, and the ratio sits significantly below the long-term median of 4.1,' said Ronald-Peter Stöferle, fund manager and managing partner at Liechtenstein-based Incrementum.

'The scene seems to be set for a new bull market for commodities.'

That sentiment was echoed by Pablo Gonzalez, Independent Capital Goup's portfolio manager for commodities and energy investments.

'Oil and gas companies are now generating, not just earning, a lot of free cash. Free cash flow generation is in the best shape ever, more than double the levels seen in 2009.

‘The energy sector has record low valuations – absolute as well as relative – with strongly improving fundamentals. We’re keeping a high overweight to oil and gas companies.’

Their comments come in the wake of president Trump’s decision earlier this month to violate the terms of the Iran nuclear deal and to reinstate sanctions against Iran.

This move initially rocked the oil market, with Brent Crude prices falling from $76.17 to $74.85 overnight. Since then, oil prices have been on the rise, with Brent Crude climbing to $79.53 on 18 May.

According to Gonzalez, the full implications of these sanctions will not be felt now. What's more, he adds that Latin America will also play a significant part in the future state of the oil market.

‘While the US sanctions on Iran oil exports could affect between 300 and 800 kilobarrels per day, we think there are bigger risks from 2020 onwards. On the supply side, we have geopolitical risk that isn’t just about Iran and the wider Middle East, but Venezuela too, with a relatively low level of spare production capacity within Opec.

‘Taking into account the forward cover in days to year-end 2018, we may end up at the low end of the five-year average due to strong oil demand growth.’