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Investing for a world of change

Natural resources equities vs. commodities: understanding the structural advantages of equity exposure

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Key takeaways

- Natural resources equities[1] have outperformed commodities over long investment horizons.
- Natural resources equities offer exposure to commodity price upside with embedded leverage, but are more volatile than commodities.
- Equity holders can benefit from shareholder returns through dividends and buybacks, as well as value creation by well-run natural resources companies independent of commodity price appreciation.
- The equity opportunity set is wider; some commodities cannot be invested in directly.

1. Past performance is not a reliable indicator of future results, losses may be made. Compares performance of Bloomberg Commodity Index and the MSCI ACWI Select Natural Resources Capped Index. Please refer to Figure 1.

Investors seeking exposure to natural resources typically choose between:

> **Physical commodities**, often accessed via futures; indices like the Bloomberg Commodity Index gain exposure in this way.

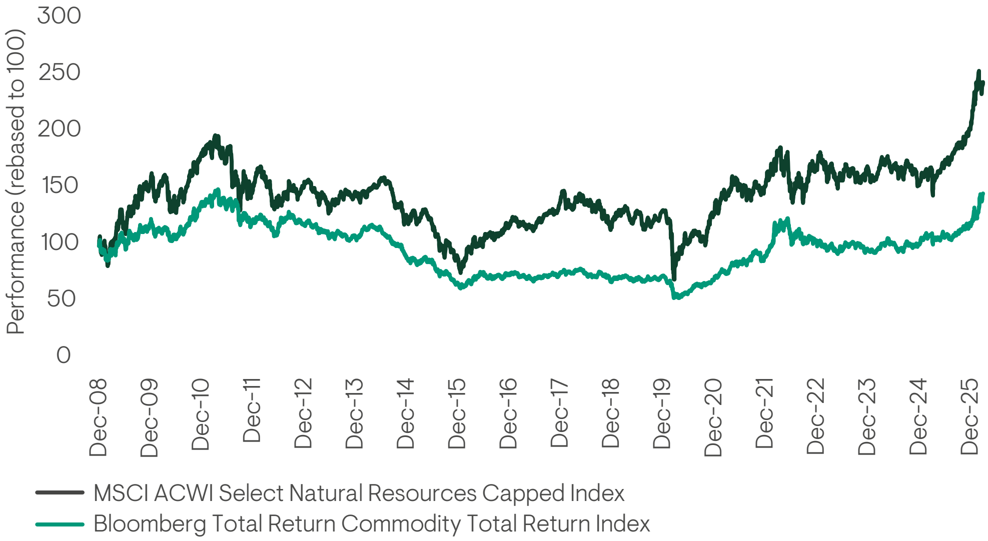
> **Natural resources equities**; i.e., the shares of companies that produce and process commodities.

These investments share many of the same drivers of risk and return. They tend to perform well when inflation is higher, and they offer exposure to real-asset cycles and structural growth themes such as electrification and AI infrastructure spending.

However, their risk and return profiles differ, and over the longer term natural resources equities have tended to outperform the underlying commodities (Figure 1). This paper explores why, and discusses the differences and trade-offs for allocators getting exposure to natural resources directly or via equities.

Figure 1: Natural resources equities have outperformed since 2008

Performance of Bloomberg Commodity Index and natural resources equity benchmark (2008 - 2026)



Past performance is not indicative or a guarantee of future results.
Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.
Source: Ninety One, 31 March 2026. For further information on indices, please see the Important Information section.

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1 Companies can create value without commodity price appreciation

Direct investments in commodities are passive exposures, whereas equities represent stakes in productive assets. A well-managed natural resources company can grow output and reserves, innovate to improve operating efficiency, and allocate capital dynamically across projects and cycles. This offers the potential for value creation independent of commodity price moves.

Put another way, while the returns on direct natural resources allocations reflect commodity price changes, the returns on natural resources equities are also impacted by management decisions and business quality. This highlights the potential value of active management in this part of the equity universe: skilled active managers can generate alpha from both bottom-up security selection (i.e., focusing the portfolio on companies with greater potential to create shareholder value), and from sector and sub-sector allocations based on directionally accurate commodity price forecasts.

2 Avoiding structural drags in commodity investing

Investing in commodities via benchmarks such as the Bloomberg Commodity Index typically involves futures-based exposure, which introduces structural performance headwinds. First, futures may experience a return drag from negative roll yield. This occurs when expiring contracts need to be replaced with more expensive contracts with longer maturities, which has historically been a persistent headwind in many commodity markets[2]. Physical commodity investments may also incur a performance drag from storage and insurance costs. Natural resources equities allow investors to gain commodity exposure without these structural inefficiencies.

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For further information on indices, please see the Important information section.

2. Storage costs mean physical commodity markets are typically in 'contango'; i.e., longer maturity contracts are more expensive than shorter maturity contracts.

3 Income, shareholder returns and compounding

Commodities do not generate income. Natural resources equities, in contrast, can deliver shareholder returns through dividends and share buybacks. This shareholder yield is particularly valuable when commodity prices are stable or range-bound. For example, at the time of writing gold miners' margins are wide relative to history[3]. If the gold price remained flat and physical gold did not produce a return, gold producers would maintain a high level of profitability and could continue making cash returns to shareholders.

In addition, the value of natural resources companies can appreciate over time through the compounding of reinvested earnings. This is an important reason natural resources equities have tended to outperform commodities over longer periods.

4 Broader opportunity set

Some commodities are difficult to access directly. Natural resources equities span a broader set of underlying commodities, giving investors the potential to select additional sources of potential return and diversification. Figure 2 shows the diversity of natural resources subsectors.

Active equity investors can also allocate across the commodity value chain of producers, processors and service providers. This expands the return-generation and risk-management options open to them, enabling active managers to fine-tune portfolio exposures in response to evolving market dynamics. For example, in the energy equity sector, exploration & production, refining and oilfield services are different exposures, and the performances of these equity subsectors can diverge significantly. In precious metals, equity investors can choose between companies with varying degrees of leverage to precious-metals prices, with royalty and streaming companies (which provide financing to mining companies in exchange for a share of future production or revenue) typically at the more defensive-equity end of the spectrum.

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3. Based on spot gold prices as at end-March 2026.

Figure 2: Natural resources subsectors

Energy

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Oil and gas

Pipelines

Liquified natural gas

Renewable energy

Uranium

Thermal coal

Metals and mining

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Iron ore

Metallurgical coal

Copper, nickel, zinc, aluminium

Lithium/battery minerals and metals

Steel production

Precious metals

Agriculture

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Seeds, crop protection, fertilisers

Agriculture and farm equipment

Grains trading and processing

Forest-based building products

Pulp, packaging and paper products

Protein

Source: Ninety One.

5 Inflation protection

The Bloomberg Commodity Index and natural resources equities have both outperformed in inflationary periods. Consequently, futures and equity natural-resources allocations could both have an important role to play in portfolios if, as we expect, this financial cycle is more inflationary than the previous one, due to structural factors including deglobalisation, electrification, and shifting debt and demographic trends.

However, since December 2001, natural resources equities have outperformed all asset classes, including global equities and futures-based commodities, during 'high-inflation' environments (Figure 3). They have also provided competitive returns in normal inflationary environments vs. global equities, while still outperforming futures-based commodities.

Figure 3: Natural resources equities tend to perform well in inflationary environments

Annualised return during (2002 – 2025)	Fixed Income	Global Equities	TIPS	Futures-based commodities	**Natural resources equities**	Gold	Global Infrastructure	Global real estate
High inflation (>3.3%)	0.2%	9.6%	3.5%	15.4%	**22.2%**	16.2%	11.5%	8.1%
Normal inflation (1.6% – 3.3%)	5.5%	15.6%	5.6%	3.9%	**13.6%**	13.0%	15.9%	14.8%
Low inflation (<1.6%)	2.2%	1.0%	2.5%	-16.0%	**-10.5%**	6.2%	-3.6%	-1.2%

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Source: Ninety One, Bloomberg. High inflation is above 3.3% (the 75% percentile of the data). Low inflation is below 1.6% (the 25th percentile of the data). Normal inflation is between 1.6% and 3.3%. Inflation proxied by CPI US YoY. Data from 31 December 2001 through 31 December 2025. **Fixed income** = Bbg Global Agg UH USD, **Global equities** = MSCI ACWI USD, **TIPS** = Bbg US Treasury Inflation Notes (TIPS), **Futures-based commodities** = BCOM Index (TR), **Natural resources equities** = S&P GNR Index, **Gold** = US4/oz, **Global infrastructure** = S&P Global Listed Infrastructure Index USD, **Global real estate** = MSCI World/Real Estate Index USD.

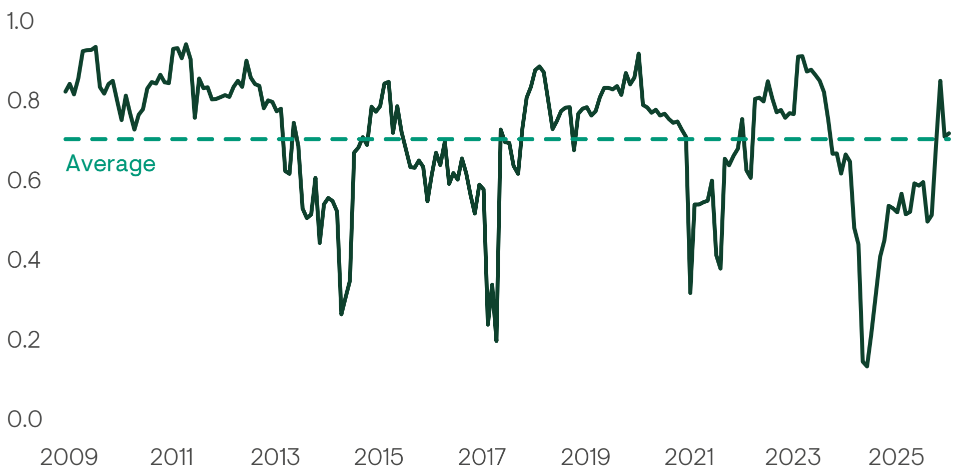
For more information on indices, please see the Important information section.

6 Correlation and volatility

Commodity prices and natural resources equity prices do not move in lock-step. Conceptually, an important difference between them is that commodity prices are set to balance supply and demand, whereas equity prices are 'anticipatory' – they reflect expectations about the future and are influenced by discount rates, risk appetite, and broader equity market dynamics. As noted earlier, the profitability of natural resources companies is not solely tied to commodity prices. Figure 4 shows the rolling correlation of the Bloomberg Commodity Index and the MSCI ACWI Select Natural Resources Capped Index. The long-term average correlation since 2008 has been 0.71.

Figure 4: Natural resources equities can decouple from commodity beta

Rolling 12-month correlation: equities (MSCI ACWI Select Natural Resources Capped Index) vs. commodities (Bloomberg Commodity Index)



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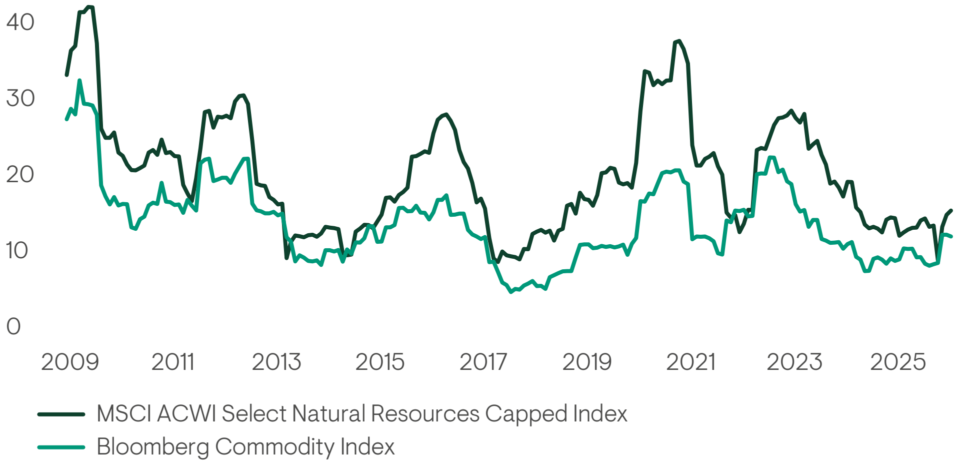
Natural resources equities tend to be more volatile than the underlying commodities due to embedded leverage in business models (Figure 5). Operational leverage (arising from the fact that commodity producers' costs are often relatively fixed) means that changes in commodity prices translate into disproportionately larger changes in profitability and equity valuations. This is often amplified by financial leverage, broader equity market dynamics, and company-specific risks. Physical commodities are not exposed to these effects, resulting in comparatively lower volatility through time. For example, the shares of gold producers typically trend in the same direction as gold, but with perhaps 1.5-2x larger moves in both directions (this ratio varies considerably over time and from company to company).

While the natural resources sector remains cyclical and sensitive to commodity price swings, improved capital discipline and shareholder return frameworks have mitigated some of the causes of equity volatility in the past.

Figure 5: Equity volatility reflects additional risk beyond commodity exposure

Rolling 12-month volatility: equities (MSCI ACWI Select Natural Resources Capped Index) and commodities (Bloomberg Commodity Index)



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7 Alpha potential

We believe there is significant potential for active managers to generate alpha in the natural resources equity sector. Relative to investors in commodities, active equity managers have two potential sources of alpha: bottom-up security selection, and dynamic sector and sub-sector allocations across the natural resources equity universe.

In our view, the optimal active investment approach to this asset class combines directionally accurate medium-term commodity price forecasts with deep fundamental analysis of the individual companies. Experience also matters: this is a relatively small sector and, in our experience, the insights into companies and management teams gained over many years of engagement as active shareholders are invaluable.

Summary

While both commodities and natural resources equities provide exposure to real assets and inflation dynamics, their investment characteristics differ. Natural resources equities offer a more complete way to access commodity-driven themes, combining exposure to price movements with additional potential return drivers including income, growth and active management.

While the equities come with higher volatility, their wider opportunity set and structural advantages have historically supported stronger performance outcomes than direct commodities over longer investment horizons.

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