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Investing for a
world of change



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Preparing for regime change: the role of natural resources equities

Key takeaways

- After a strong run for the US stock market, many global equity portfolios are concentrated by sector and style.
- A dedicated allocation to natural resources equities can improve portfolio resilience, adding exposure to an underrepresented sector that can benefit from inflation, physical investment cycles and changing stock-market leadership.
- Natural resources equities can mitigate vulnerability to equity market-regime shifts. The asset class has distinct performance drivers that may complement existing equity allocations.
- Beyond inflation protection, natural resources equities provide exposure to structural growth themes such as electrification and AI power demand growth.

The allocation challenge

After many years of US stock-market dominance, led by the tech sector, many equity portfolios have become concentrated by sector and style, increasing vulnerability to market regime shifts. This viewpoint explores why allocating part of an equity portfolio to natural resources equities – a sector that typically has little representation in broad equity portfolios – may strengthen resilience to this risk.

Concentration risk

With the technology sector now accounting for c.26% of the MSCI All Country World Index (ACWI) of global equities (Figure 1) versus c.14% a decade ago, equity investors have become increasingly exposed to concentration risk by sector and style – the latter manifesting in a bias towards growth equities. This makes equity portfolios more susceptible to market regime change, such as a transition to an inflationary environment when growth stocks tend to underperform. The ACWI has limited exposure to sectors that have historically protected against rising prices, such as natural resources.

Today’s uncertain macro backdrop reinforces the importance of monitoring exposure to market regime shifts. Geopolitical tensions are heightened, inflation remains a significant risk, and equity valuations are elevated in the dominant US market especially. At the same time, leadership in equity markets is becoming more diverse, most recently with the HALO (heavy-asset, low-obsolence) trade seeing capital rotate into businesses with physical assets as a defence against AI disruption.

Figure 1: Natural resources equities can address sector concentration

Sector weights of MSCI ACWI and natural resources equities index

	MSCI ACWI	MSCI ACWI Select Natural Resources Capped Index
Information technology	26%	0%
Financials	17%	0%
Consumer discretionary	9%	0%
Communication services	9%	0%
Health care	9%	0%
Industrials	11%	8%
Consumer staples	5%	3%
Energy	5%	46%
Utilities	3%	0%
Real estate	2%	0%
Materials	4%	43%

Source: Ninety One, MSCI factsheets. 31 March 2026.

The role of natural resources equities

A dedicated allocation to natural resources equities can complement core equity holdings.

1 Addressing inflation risk

Natural resources equities have historically tended to perform well during periods of higher inflation. Since December 2001, natural resources equities have outperformed all asset classes, including US equities, during ‘high-inflation’ environments (Figure 2). They have also provided competitive returns in normal ‘sticky’ inflationary environments.

Figure 2: Natural resources equities tend to perform well in inflationary times

Returns of natural resources equities in different inflation environments

Annualised return during (2002 – 2025)	Fixed Income	Global Equities	TIPS	Futures-based commodities	Natural resource 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%

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, 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.

2 Exposure to structural growth trends

Natural resources equities offer exposure to long-term structural growth, particularly the economic expansion fueled by AI adoption and electrification. Both of these era-defining trends are changing commodity demand, in magnitude and in the mix of materials required.

According to the International Energy Agency, a typical electric car requires about 6× more mineral inputs than a conventional internal combustion engine, while the race to build AI infrastructure is driving demand for a wide range of materials required for data centres, grid upgrades and power-generation facilities.

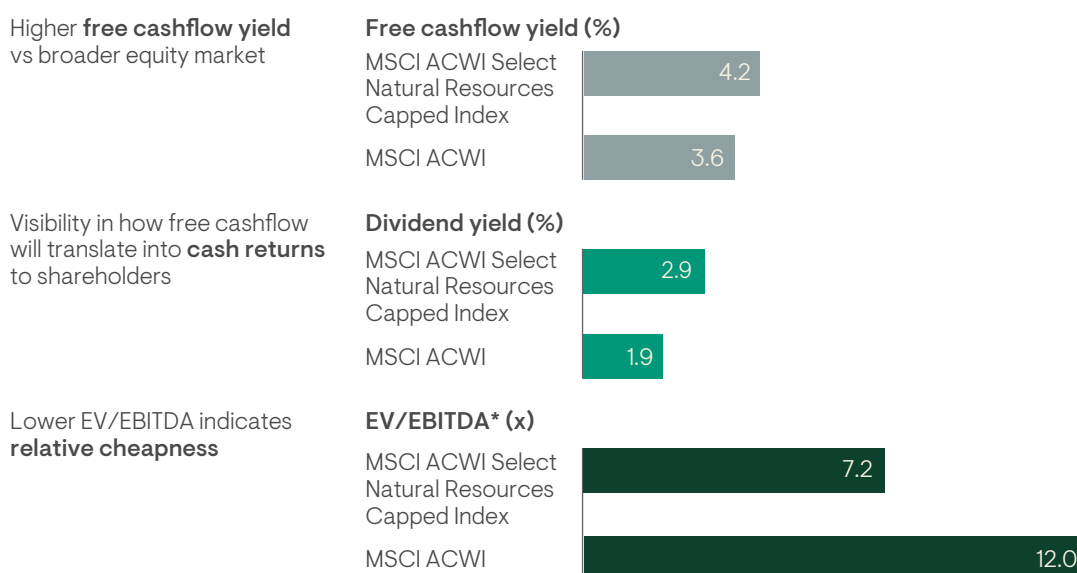
The wider context, as we argued [two years ago](#), is that the global economy is in the foothills of a capex ‘supercycle’ that could see global gross fixed capital formation (a measure of the net increase in investments by public and private sectors) 12-24% above trend by 2030. This cycle will primarily benefit ‘physical economy’ businesses, including natural resources companies. As we argued back in 2024, a new capex supercycle:

“...will result in very different market leadership to the last cycle, which is not well understood by all market participants. Stock beneficiaries are not restricted to the US but are spread across geographies and are primarily in physical asset-intensive areas ... sectors that lagged or tracked the market in the post- Global Financial Crisis period”.

3 A constructive valuation starting point

Natural resources equities currently trade at discounts vs. broad equity markets (see figure 3), in contrast to the tech stocks that dominate global equity indices. The cyclical nature of earnings in commodity sectors means cash-based measures (see figure 3) are more useful valuation metrics, in our view, than price/earnings, as cashflows tend to be more stable than earnings. We think strong free cashflow yields and shareholder returns will enhance natural resources equities' appeal to investors.

Figure 3: Natural resources companies are generating cash now, not tomorrow



*Enterprise value/earnings before interest, taxes, depreciation and amortisation.
Source: Bloomberg, 31 March 2026. For further information on indices, please see the Important information section.

4 Adding differentiated return drivers

Natural resources equities can add differentiated return drivers to a broad equity portfolio. The asset class has low-to-negative alpha correlation versus widely held equity styles such as growth and value, as well as to listed real assets. For example, MSCI's natural resource equity benchmark has correlations of 0.28 and -0.08¹, respectively, with the S&P Global Infrastructure Index and the S&P Global Property Index.

The natural resources equity universe itself comprises diverse drivers of returns. It includes both developed and emerging economies, and is spread across energy, metals & mining, and agriculture (see below).

Figure 2: Natural resources subsectors



Energy

—
 Oil and gas
 Pipelines
 Liquefied natural gas
 Renewable energy
 Uranium
 Thermal coal

Metals and mining

—
 Iron ore
 Metallurgical coal
 Copper, nickel, zinc, aluminum
 Lithium/battery minerals and metals
 Steel production
 Precious metals

Agriculture

—
 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.

1. Source: Bloomberg, Ninety One, as at 31 March 2026.

5 Equities vs. commodities

We are often asked why investors might choose to invest in natural resources equities rather than the commodities themselves. The equities offer similar exposure to commodities, but with certain important differences:

| The equity opportunity set is broader, as some commodities cannot be invested in directly.

| Natural resources companies are able to grow production and reserves, as well as innovate to drive efficiencies. This creates shareholder value (which cannot occur with direct commodity investments).

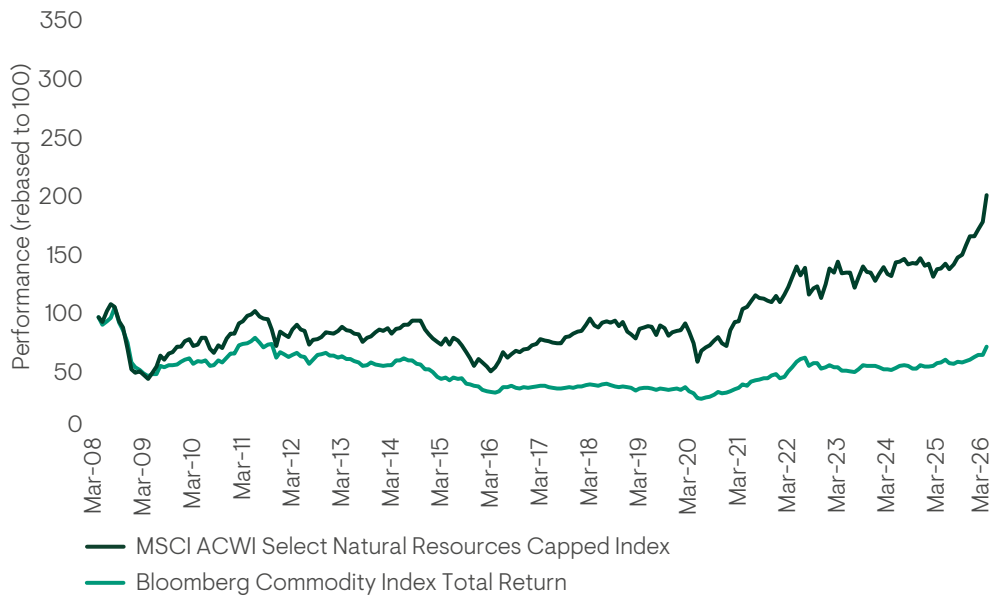
| Physical commodities often experience a return headwind from insurance and storage costs (of varying degrees depending on the commodity).

| Investing in commodities via futures/options may cause a return drag from negative roll yield (i.e., when expiring contracts need to be replaced with contracts with longer maturities, which are more expensive in typical commodity markets).

| Natural resources equities can offer a positive yield through dividends or share buybacks.

As a consequence of some of the above, over the past two decades, natural resources equities have outperformed commodities. Figure 5 compares an MSCI natural resources equity index with a Bloomberg benchmark that tracks commodities directly.

Figure 5: Looking back: Resource equities have outperformed over time



Past performance is not a reliable indicator of future results, losses may be made. 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.

At a glance: five reasons to consider natural resources equities

Undervalued diversifier with leverage to improving commodity fundamentals

<p style="font-size: 2em; font-weight: bold; margin: 0;">1</p> <p style="font-weight: bold; margin: 0;">Electrification</p> <p style="font-size: 0.8em; margin-top: 10px;">Driving structural demand for metals, a super-cycle in power, pre-emptive under-investment in traditional energy.</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">2</p> <p style="font-weight: bold; margin: 0;">Inflation</p> <p style="font-size: 0.8em; margin-top: 10px;">Historical relationship between persistent inflation and performance of natural resource equities.</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">3</p> <p style="font-weight: bold; margin: 0;">Valuation</p> <p style="font-size: 0.8em; margin-top: 10px;">High FCF yields, high shareholder distribution yields, strong balance sheets.</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">4</p> <p style="font-weight: bold; margin: 0;">Performance</p> <p style="font-size: 0.8em; margin-top: 10px;">Natural resource equities have outperformed physical commodities over time.</p>	<p style="font-size: 2em; font-weight: bold; margin: 0;">5</p> <p style="font-weight: bold; margin: 0;">Diversification</p> <p style="font-size: 0.8em; margin-top: 10px;">Low to negative alpha correlation with widely held equity styles, as well as other real assets.</p>
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Past performance is not a reliable indicator of future results, losses may be made. Outperformance compares the MSCI ACWI Select Natural Resources Capped Index against Bloomberg Commodities Index since Global Natural Resources inception date, 01 March 2008.

Understanding the risks

It is important for investors to be aware that natural resources equities tend to be more volatile than the underlying commodities due to embedded leverage in their business models. 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. In contrast, physical commodities do not embed these effects, resulting in lower volatility over longer time horizons. 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 (though this ratio varies considerably over time and from company to company).

While the sector remains cyclical and sensitive to commodity price swings, improved capital discipline and shareholder return frameworks have strengthened the investment case relative to prior cycles.

Implementing a dedicated sleeve: choosing between investment approaches

We believe there is significant potential for active equity managers to generate alpha in the natural resources sector through bottom-up security selection and dynamic sector and sub-sector allocations.

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.

We also believe it is important to cover the entire asset class. The investible universe is large – spanning energy, metals & mining, and agriculture – and investors should cast the net wide to capture the full opportunity. Agriculture, for example, is a diverse and differentiated sector, but one that is often overlooked and underappreciated by active natural resources equity funds and global equity strategies alike.

Conclusion

Global equity portfolios have benefited from a strong run by a select group of primarily US stocks. But the dominance of these equities comes with risks: sector concentration, inflation exposure, and limited geographic diversification. As investors navigate evolving global equity markets, three factors support a strategic allocation to natural resources equities, namely the potential to:

Mitigate some of the sector, regional, and inflation risks associated with global equity allocations.

We see this as particularly valuable if the investment landscape shifts and inflation settles structurally higher.

Add distinct return drivers to an equity portfolio.

With different return drivers, natural resources equities have the potential to offer a complementary return profile to broad global equity portfolios.

Provide exposure to stocks with lower valuations.

Natural resources equities currently trade at significant discounts vs. broad equity markets. Strong free cashflow yields and shareholder returns will enhance their appeal to many investors.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments. Where charges are taken from capital, this may constrain future growth. Past performance does not predict future returns. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives may not necessarily be achieved; losses may be made. Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

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Derivatives: The use of derivatives is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Commodity-related investment:** Commodity prices can be extremely volatile and losses may be made. **Emerging market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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