

BCOM: The Commodities Benchmark

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All About BCOM

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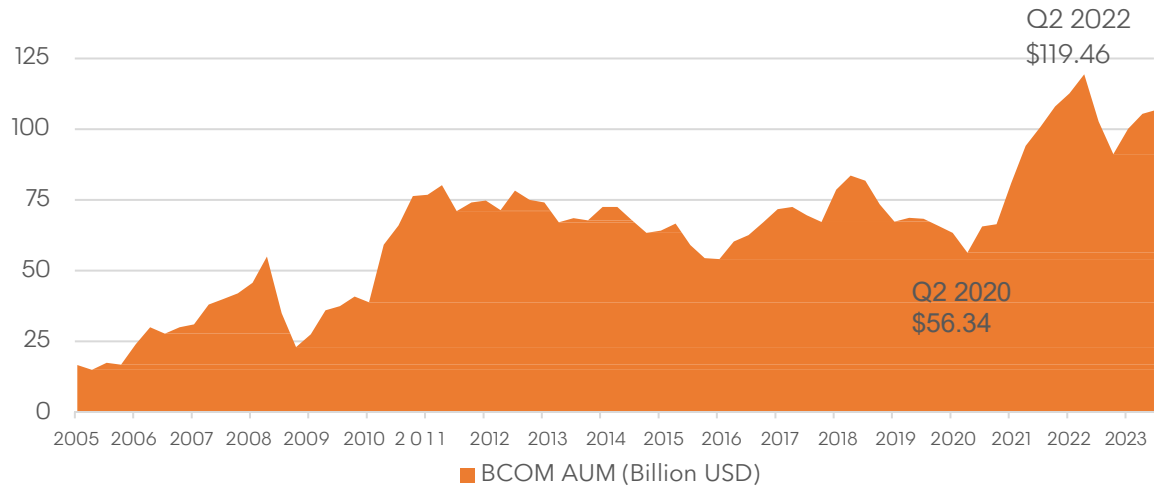
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The Bloomberg Commodities Index, known as BCOM, is a leading commodities benchmark. At its peak in 2022, BCOM had approximately \$120bn of global benchmarked assets with over \$100bn today. Looking back, we can see consistent AUM growth over the last two decades going back to 2005 when figures were first tracked (Figure 1). This document is intended for informational purposes only and to provide an overview of BCOM. For more details on BCOM, please refer to the BCOM methodology which can be found at: https://assets.bbhub.io/professional/sites/27/BCOM-Methodology-APR-2024_FINAL-1.pdf.

Figure 1

Bloomberg Commodity Index Benchmark Assets



Source: Bloomberg, BAUMBCOM Index <GO>

BCOM is a trusted benchmark to hundreds of institutional, retail and corporate clients for their investment and hedging needs with over 60 years of live and backdated history. Originally launched in 1998 by Dow Jones and AIG, BCOM was acquired by UBS in 2009. Bloomberg took over administration of the index in 2014 and fully acquired BCOM in 2021.

Commodities, like Infrastructure and Real Estate, are considered real assets which provide market participants with an alternative to other asset classes such as Equities and Fixed Income. Commodities consist of the raw materials that businesses and governments rely on in order to produce a good or deliver a service. The role of commodities in traditional asset portfolios has been documented by academics and investors across the world for multiple decades.

Building BCOM

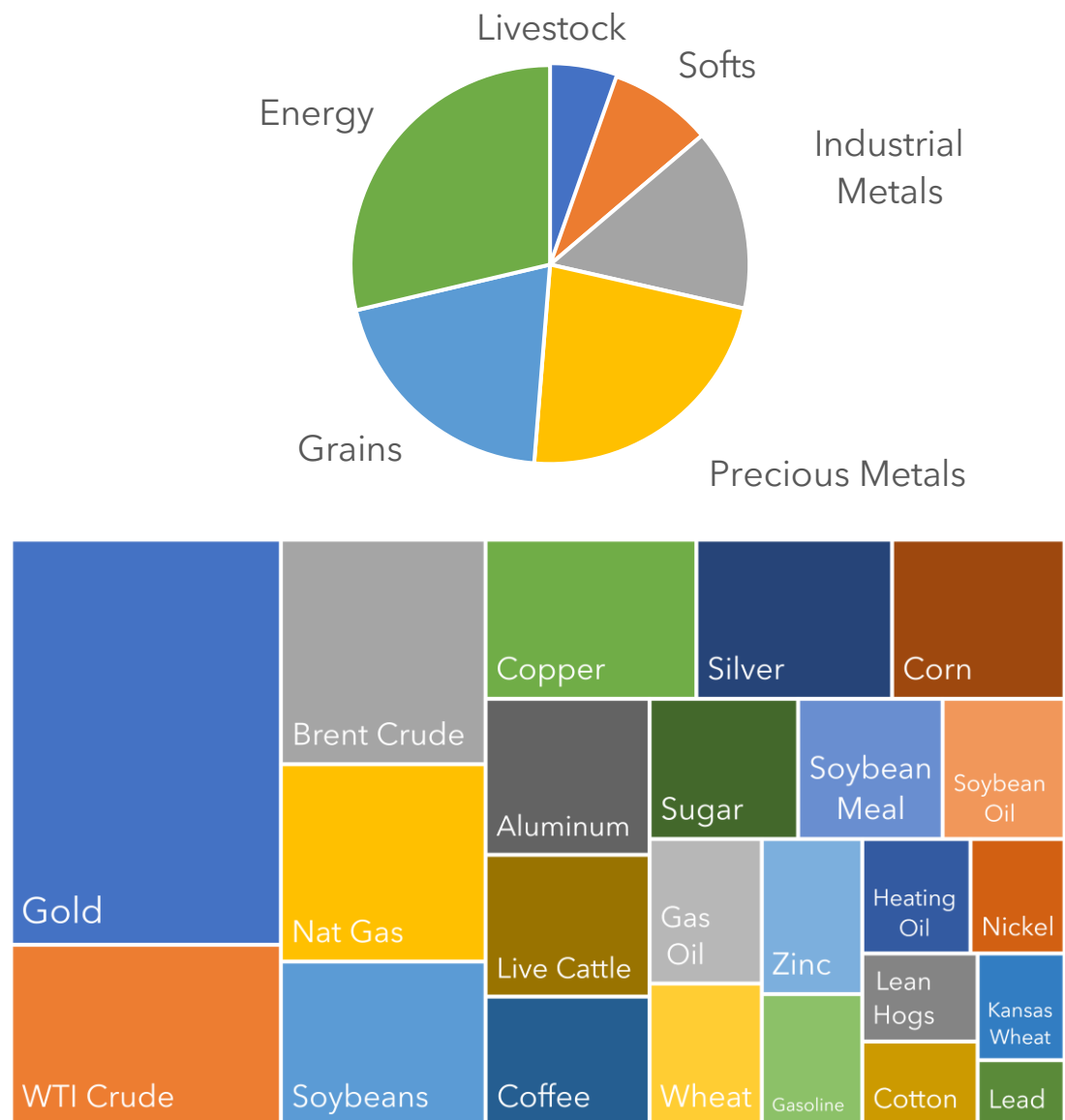
BCOM is constructed using 24 of the most traded commodities futures contracts across six sectors. One third of the target weights of the 24 commodities in BCOM is derived according to world production of each commodity and two thirds is derived from the underlying liquidity of each commodities futures market. Weights are then adjusted further to cap commodity and sector exposures enhancing diversification and reducing the impact of idiosyncratic risk. Each of the six sectors that make up BCOM: Energy, Grains, Softs, Industrial Metals, Precious Metals, and Livestock, is restricted to a maximum weight of 33% and each individual commodity is restricted to a maximum weight of 15%. BCOM indices use a consistent, systematic process to best represent the commodities markets today.

In order to ensure BCOM effectively represents today's commodities markets, the commodities are tested each year to see if they meet the minimum 0.40% index weighting threshold for inclusion during the reconstitution of the index next year. If liquidity of a commodity's futures market or world production of the commodity falls below this threshold, such commodity future becomes ineligible for inclusion. This aims to ensure that BCOM contains the most liquidly traded and most economically significant commodities today. During the annual threshold test for 2024, 27 commodities were tested

and three commodities failed to meet the threshold - Cocoa, Platinum, and Tin. While Platinum and Tin still have a long way to go, Cocoa just missed the 0.40% threshold at 0.36%. Either trading in these commodities futures markets needs to pick up or production of the commodities needs to increase or both before they make the cut.

Prior to the creation of BCOM, broad commodities benchmarks focused on world production were not built with diversification in mind. This led to heavy weightings of more than 60% for Energy commodities in other indices due to commodities like crude oil which have been the most produced and used in the world. The launch of BCOM introduced a more balanced, less volatile alternative to these expressions by introducing the 33% sector and 15% individual commodity caps, while also taking liquidity of the underlying futures markets into account. The 2024 BCOM sector weights demonstrate the balanced nature of the index with no single sector, or individual commodity, dominating the others (Figure 2).

Figure 2
2024 BCOM Sector Weights & Constituents



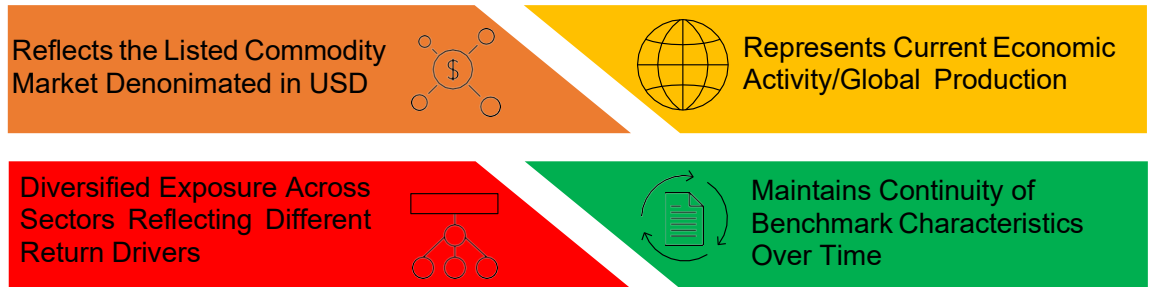
The BCOM capping methodology makes the index highly diversified and less volatile than other commodity-based indices by function of a relatively lower weighting to Energy which typically has the highest volatility of the commodities sectors. BCOM's 30-day volatility has averaged around 14% over the past ten years compared to 20% for competing commodity-based indices. Remarkably, BCOM was less volatile than equities (as measured by the B500) which exhibited a volatility of 15% over the same period.

Consistency: The Four Pillars of BCOM

BCOM is intended to address four investor requirements for a benchmark that is Consistent, Diversified, Liquid, and has Economic Significance (Figure 3).

Figure 3

Four Pillars of BCOM (Liquidity, Economic Significance, Diversification, Continuity)



The robustness of BCOM has stood the test of time and recently proved its resilience and consistency through significant commodities market disruption events including negative oil prices at the start of the COVID pandemic in April 2020 or the London Metal Exchange’s Nickel market closure in March 2022. Despite these being some of the most volatile events in commodities market history to start this decade, BCOM provided a reliable measure of commodities markets when it was needed most.

Diversification & Inflation Hedging Properties

Commodities are an effective way to gain exposure to the economic cycle, but investment into commodities is also driven by diversification and inflation hedging goals. BCOM characteristics are well suited to both objectives due to the benchmark’s low correlation to other asset classes and its high inflation beta or sensitivity to changes in inflation. Over the past 30 years, BCOM’s correlation to equities and fixed income were low to moderate which makes commodities a great diversifier within a portfolio (Figure 4).

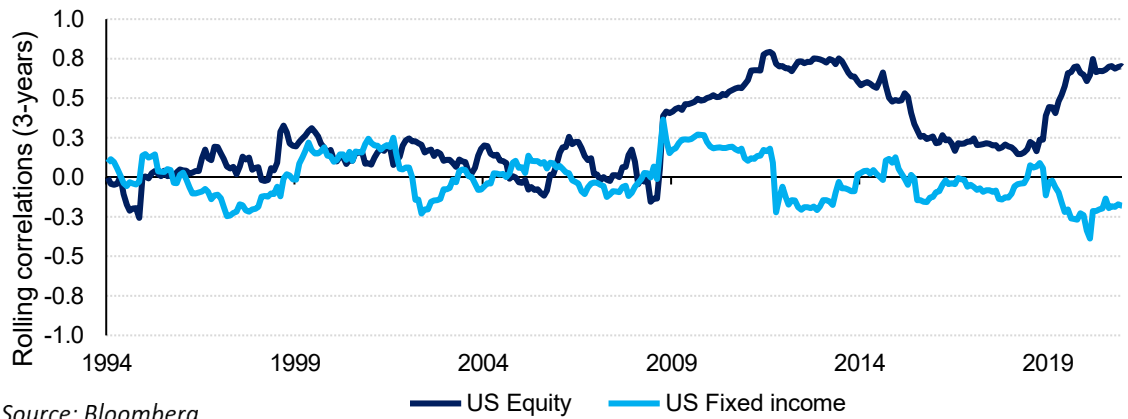
Figure 4

BCOM Correlation to Other Asset Classes

	BCOM	US Equity	US FI	US Dollar
BCOM		0.35	0.01	-0.44
US Equity			0.15	-0.28
US FI				-0.27
US Dollar				

Source: Bloomberg, US Equity (B500), US FI (Bloomberg US Agg TR Value Unhedged USD), US Dollar (DXY Index) Data from 1994 to 2023.

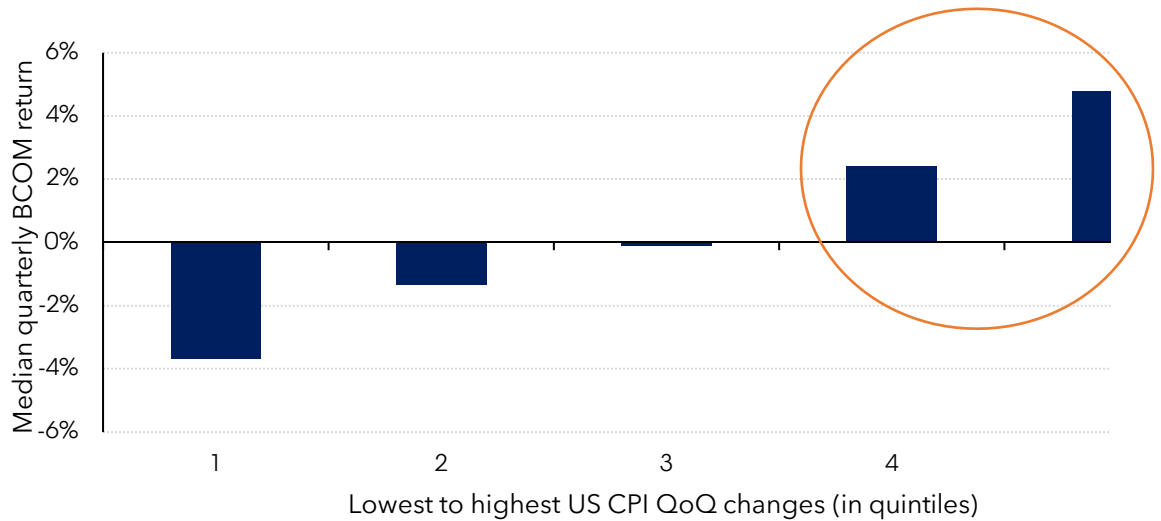
Figure 5
BCOM Rolling Correlation to Equities & Fixed Income



Source: Bloomberg

Commodities have a higher inflation beta than other major asset classes and therefore rank highly as an asset class in hedging against inflation to protect purchasing power. During unexpected inflation and high growth scenarios, commodities have historically outperformed other traditional asset classes if one holds exposure continually. Looking at median quarterly BCOM returns compared to changes in the US Consumer Price Index, the 4th & 5th quintile shows diversification benefits from exposure to commodities when needed the most (Figure 6).

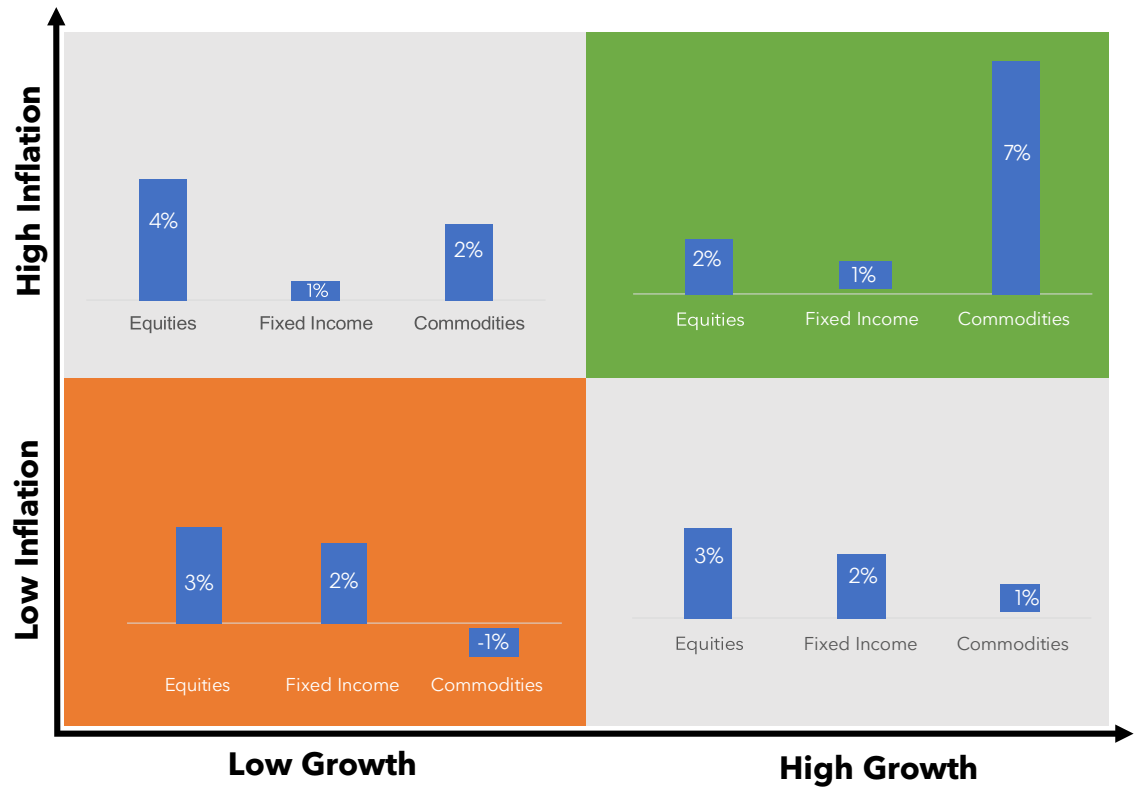
Figure 6
Inflation Hedging Performance of BCOM



Source: Bloomberg, Data from 1991 to 2023

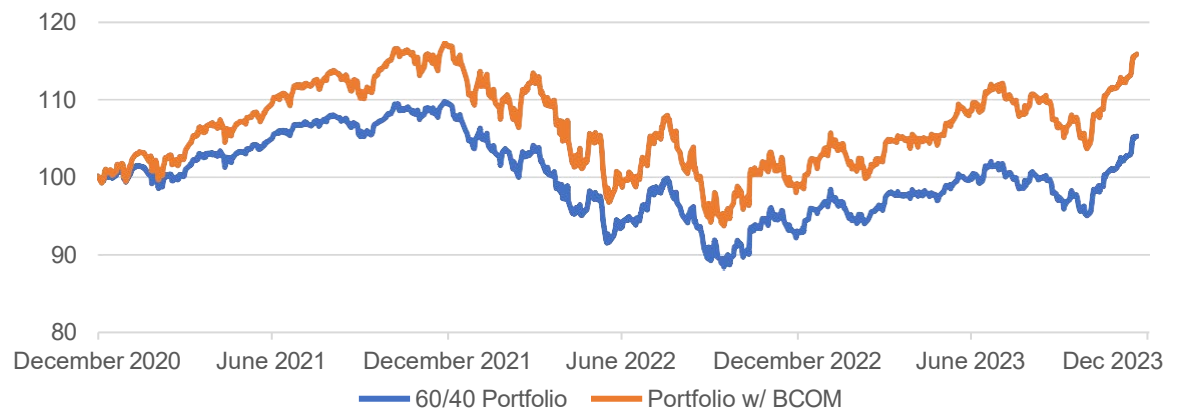
Looking back over five decades, commodities tend to appreciate during periods of rising inflation with negative returns occurring typically only in low inflation/low growth scenarios. Commodities strongly outperform traditional asset classes during periods where high inflation is coupled with high growth (Figure 7). In fact, over 2022 when bonds and equities fell by double digit percentages, Commodities posted gains of 16% - providing diversification when needed the most. Regardless of the macro environment, commodities have shown to lower overall portfolio volatility with even a relatively small allocation. A standard 5% commodities allocation consistently held in a portfolio tended to improve performance particularly in recent years (Figure 8).

Figure 7
Asset Class Performance during different investment regimes



Source: Bloomberg, Equities (B500), Fixed Income (Bloomberg US Agg TR Value Unhedged USD), Commodities (BCOM)
Data from 12/31/1970 to 12/29/2023

Figure 8
60/40 Portfolio Versus a Portfolio with 5% BCOM Allocated



Sources: Bloomberg, 60/40 Portfolio defined as 60% Equities (B500T Index) and 40% Fixed Income (LBUSTRUU Index)

BCOM is a well trusted benchmark representing commodities used by the markets today. It is designed using liquid, replicable futures contracts and weighted in a way so no one commodity or sector stands out. Whether using it for diversification or inflation hedging purposes, BCOM represents a leading option to consider for a commodities allocation within a portfolio.

BCOM: The Commodities Benchmark, is the first in a series of papers outlining Bloomberg's full commodities offering and capabilities.

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