It is no secret that we are skeptical of commodities, which over the long haul return nothing. In inflation adjusted terms, commodity prices have been essentially flat since records began in the 1850s.¹ Stocks, bonds...just about any other investment has generated better returns. Punctuating the fundamentally stagnant arc of commodity prices, however, are long boom-and-bust cycles, which create periods of opportunity. We are entering one now.

Driven by easy money, reduced supply and increased demand, commodity prices are poised for a comeback in the 2020s. That's a good sign for the many emerging economies that rely on commodity exports. At a time when the global pandemic is also forcing some positive change, including economic reform (Tales, November 2020) and an acceleration of the digital revolution, the coming revival of commodity prices is another reason to expect a good decade for emerging markets.

It is not that commodity prices are outright cheap. In absolute terms prices are in fact close to their long-term trend. It is that every other financial asset is so expensive. Pumped up by easy money pouring out of the Fed to fight the pandemic, our composite index of stock and bond prices has gone parabolic, and is now four times above the long-term trend.²

So in relative terms, commodities look hugely attractive. Investors are deeply underweight commodities, which have fallen to record low shares of both U.S. and emerging stock markets.

¹ Source: The Economist All-Commodity Index, which starts in 1850 and covers agricultural commodities and metals, not oil; MSIM, Bloomberg, Factset, Global Insight. As of November 2020.
Compared to stocks and bonds, commodity prices are well below their long-term trend.\(^3\)

Though market dynamics are different for each commodity, the big picture is that supplies are generally tight, and demand is likely to rise faster than the market expects. Government spending to fight the pandemic threatens to push inflation higher and weaken the dollar—an environment in which commodity prices tend to rise.

The overlooked demand driver is aggressive government stimulus and regulation. In China, much of the stimulus is going to new (commodity-intensive) infrastructure projects. Record low rates are fueling house building from China to the United States, further boosting consumption of raw materials. And with the Biden administration likely to commit to “net-zero” carbon emissions, countries representing more than half of global GDP will have made this pledge, providing another boost to demand for the materials used in low-emission homes, cars, batteries and other green infrastructure.

Moreover, rising demand will hit tight supplies for many commodities. Over the last decade, weak prices led to light investment and supply cuts in everything from oil fields to copper mines. In the oil industry, by one estimate, under investment could reduce global production by eight million barrels a day over the next five years.\(^3\) Stocks of base and bulk metals are now at lows last seen in the early 2000s. Owing in many cases to disruptions caused by the pandemic, global supplies are expected to fall sharply this year for commodities ranging from platinum and silver to certain kinds of coal.\(^4\)

Wise investors will choose commodities carefully. Broadly speaking, the increasingly rapid spread and sweeping impact of the net-zero movement is pushing every investor, large and small, to turn green. In energy, this new era frowns on oil and favors solar power, electric vehicles and hydrogen fuels. In agriculture, prospects are bright for soybeans, as a new U.S. administration is expected to revive support for biofuels. In metals we still see opportunity in gold and even more in its cheaper alternative, silver, driven by investors seeking a hedge against the threat that expanding government balance sheets will revive inflation. But we are particularly bullish on metals required for green electrification, including copper and platinum.

There is no substitute for copper, the most efficient conductor. Demand is expected to rise as the world rewires the economy in a greener image, and supply has been declining for years. Copper miners have been discovering fewer new veins, launching fewer high-return projects, and investing less in capital expenditure. Inventories are low. Over the next five years, rising demand for solar power, wind power and electrical vehicles could increase annual demand for copper by three million tons, or roughly 10 percent.\(^5\)

Platinum meanwhile is critical to the future hydrogen economy. A durable catalyst, it is used in both the production of hydrogen and hydrogen fuel cells, now a leading alternative to the combustion engine. Compared to batteries, fuel cells are lighter and potentially more practical for long-range vehicles. They can be installed in existing cars and trucks, and emit only water. With more and more governments pushing to develop hydrogen power, demand for energy and transportation applications alone is expected to boost annual demand for platinum by around one million ounces, or roughly 12 percent.\(^6\)

The wider implications for emerging countries are clear. Many developing economies tend to rise and fall with global prices for their leading commodity exports. The result is that they go nowhere in the long run. Brazil is a case in point. A major exporter of oil, copper and soybeans, its average income is essentially the same today, relative to that of the United States, as it was a century ago.\(^7\)

---

\(^3\) Source: Goldman Sachs, “Moving toward a structural bull market”. As of October 2020.

\(^4\) Source: Citi Research, Cochilco, Minem, Wood Mackenzie, Bloomberg, ILZSG, ICSG, INSG, Camimex, identified losses include price-related closures. As of November 2020.

\(^5\) Source: MSIM, UBS. As of November 2020.

\(^6\) Source: MSIM. As of November 2020.

\(^7\) Source: MSIM, World Bank, GFD. As of November 2020.
In the shorter run, however, commodity price booms can redefine the fortunes of major exporters and raise prosperity across the emerging world. For each decade going back to the 1970s, we’ve looked at the share of emerging economic activities growing fast enough to “converge,” meaning their average income was catching up rapidly with the United States (Display 1). The share converging has tracked commodity prices throughout — rising together in the 1970s, falling together in the 80s and 90s, rising together again after 2000 before slipping backward in the 2010s.  

Now, after a down decade, a revival in commodity prices could give a boost to many emerging economies. A diversified commodity exporter like Brazil will benefit from the general rise in commodity prices. Rising demand for green power will benefit in particular leading platinum exporters like South Africa and Russia, and copper producers like Chile and Peru. As the market for hydrogen fuel grows, demand is expected to rise particularly fast for “green” hydrogen, produced with renewable energy rather than fossil fuels. Because it is already a major source of wind and solar power, Chile is also expected to emerge as the low-cost producer of green hydrogen.

To be clear, rising commodity prices would not be enough to generate rapid, sustained growth in all emerging nations. Some will be held back by incompetent leadership; a bloated state and other factors. Few are likely to invest a commodity windfall wisely enough to continue growing once the price boom ends. But just as emerging markets suffered as a class in the commodity slump of the 2010s they will get a broad lift if, as we expect, commodity prices rise in the 2020s.

**Display 1.**

**Rapid commodity convergence** is defined as the top quartile of the distribution of changes in the ratio of a country’s GDP per capita relative to that of the US from 1960 to 2010. This corresponds to an increase in the convergence ratio of 2.8%pts or greater. 

Commodity prices use the CRB Raw index as a proxy for commodity prices and refers to the change in prices over the defined decade. Data as of October 2020.

**Risk Considerations:** There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, equities securities values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, and market risks. The risks of investing in emerging market countries are greater than the risks generally associated with investments in foreign developed countries. Stocks of small- and medium-cap companies entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies. Derivative instruments can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio’s performance. Illiquid securities may be more difficult to sell and value than public traded securities (liquidity risk). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility.

**About Morgan Stanley Investment Management**

Morgan Stanley Investment Management, together with its investment advisory affiliates, has 729 investment professionals around the world and approximately $715 billion in assets under management or supervision as of September 30, 2020. Morgan Stanley Investment Management strives to provide outstanding long-term investment performance, service and a comprehensive suite of investment management solutions to a diverse client base, which includes governments, institutions, corporations and individuals worldwide. For more information, please visit our website at www.morganstanley.com/im. This material is current as of the date specified, is for educational purposes only and does not contend to address the financial objectives, situation or specific needs of any individual investor.

*Source: Penn World Tables 7.1, Commodity Research Bureau, IMF. Rapid convergence is defined as the top quartile of the distribution of changes in the ratio of a country’s GDP per capita relative to that of the US from 1960 to 2010. This corresponds to an increase in the convergence ratio of 2.8%pts or greater. Commodity prices use the CRB Raw index as a proxy for commodity prices and refers to the change in prices over the defined decade. Data as of October 2020.*

*Assets under management as of September 30, 2020. Morgan Stanley Investment Management (“MSIM”) is the asset management business of Morgan Stanley. Assets are managed by teams representing different MSIM legal entities; portfolio management teams are primarily located in New York, Philadelphia, London, Amsterdam, Hong Kong, Singapore, Tokyo and Munich offices. Figure represents Morgan Stanley Investment Management’s total assets under management/supervision.*

**Definitions:** Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

**Important Disclosures:** The views and opinions are those of the author as of the date of publication and are subject to change at any time due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all portfolio managers at Morgan Stanley Investment Management (MSIM) or the views of the firm as a whole, and may not be reflected in all the strategies and products that the Firm offers. Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific MSIM product. Certain information herein is based on data obtained from third party sources believed to be reliable. However, we have not verified this information, and we make no representations whatsoever as to its accuracy or completeness. The information herein is a general communications which is not impartial and has been prepared solely for information and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The material contained herein has not been based on a consideration of any individual client.
circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Past performance is no guarantee of future results.

This communication is not a product of Morgan Stanley’s Research Department and should not be construed as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Prior to investing, investors should carefully review the strategy’s product’s relevant offering document. There are important differences in how the strategy is carried out in each of the investment vehicles.

DISTRIBUTION: This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.


Dubai: Morgan Stanley Investment Management Limited is a registered entity with the Dubai Financial Services Authority. Registered Office: Offshore Unit, Floor 6, Unit 601 and 602, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0) 4 709 7158.

Germany: Morgan Stanley Investment Management Limited Niederlassung Deutschland, Große Benrather Straße 63, 50639 Cologne, Germany, 506312, registered with the commercial register of the Court of Bonn, Zweigniederlassung (FDI) gem. § 53b KWG.

Italy: Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, and is authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968.


Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.


U.S.: A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy before deciding whether a separate managed account sponsored by Morgan Stanley is suitable for your assets.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus please download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

Morgan Stanley Distribution, Inc. serves as the distributor for Morgan Stanley Funds.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE UNDER ANY FEDERAL GOVERNMENT AGENCY | NOT A BANK DEPOSIT

Hong Kong: This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to “professional investors” as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

Singapore: This publication should not be considered an offer of an invitation to subscribe or purchase whether directly or indirectly, to the public or any member of the public in Singapore other than to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”), (ii) to a “relevant person” (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any applicable provision of the SFA. In particular, units in private funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the contents of such prospectuses does not apply. An offer of units in private funds shall only be made if and in so far as the Board of MSIM has determined that the investment is appropriate for them. This publication has not been reviewed by the Monetary Authority of Singapore. Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited (AFSL No. 312896), which accepts responsibility for its contents. This publication, and any access to it, is intended only for “wholesale clients” within the meaning of the Australian Corporations Act.

Japan: For professional investors, this document is circulated or distributed for informational purposes only. For those who are not professional investors, this document is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")’s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for execution of the investment decisions based on the investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of the investment advisory service. For IAA, the client may be charged the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee rate. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This document is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Institutions Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Firms above. Indirect charges, IMA.

IMPORTANT INFORMATION: EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited (“MSIM”). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 198121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is no longer endorsed, sponsored, sold or promoted by the applicable licensor and shall not have any liability with respect thereto.

Charts and graphs provided herein are for illustrative purposes only.

The information contained in this communication is a research recommendation or ‘investment research’ and is classified as a ‘Marketing Communication’ in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this information. Any such distribution is in accordance with the conditions specified in section 305 of the Financial Services and Markets Act 2000 (FSMA) in the UK. If you are in any doubt as to whether the information is suitable for you, you should consider the information contained in this communication in the context of your own financial circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The whole or any part of this work may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without MSIM’s explicit written consent. This work may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

All information contained herein is proprietary and is protected under copyright law. All rights reserved. No part of this document may be reproduced, redistributed or transmitted without written permission from Morgan Stanley.