

Commodities After a Breakout Year

Is the Story Over – or Just Beginning?

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Dear Reader,

After more than a decade in the shadow of equities and bonds, commodities staged a powerful comeback in 2025. Precious and industrial metals delivered some of their strongest returns in decades, forcing investors to revisit an asset class many had sidelined. Gold, silver, and copper stood out not only for their performance, but for why they performed so well. Gold surged about 72% over the year, repeatedly setting fresh all-time highs, while silver rose almost 150%, its strongest annual performance since the late 1970s. Copper also posted solid gains of roughly 16%, reflecting tightening supplies and robust demand from clean energy and infrastructure projects.

This mid-month insight examines the drivers behind the 2025 rally, the outlook as we enter 2026, and what these developments mean for portfolios.

2025 Lookback: The Drivers behind the Historic Gains

Geopolitical and Policy Tailwinds:

Geopolitical tensions were a key tailwind for precious metals in 2025. Ongoing conflicts and trade frictions led investors toward real assets, echoing past periods when gold and silver surged amid instability. Policy expectations added momentum, as markets increasingly priced in future U.S. rate cuts. Trade-related uncertainty, including tariff threats and export restrictions, further reinforced the appeal of hard assets as hedges against political and currency risk.

Monetary Easing and Inflation Dynamics:

The monetary backdrop was highly supportive. Persistent inflation and easing expectations lowered real interest rates, reducing the opportunity cost of holding non-yielding assets like gold. Late in the year, the U.S. Federal Reserve signaled a pause and potential pivot in rate hikes. Combined with a softer dollar, this environment boosted demand for precious metals as inflation-resistant stores of value.

Investor Flows and Speculative Interest:

Investor demand amplified the rally. Central banks continued accumulating gold, while private investors increased allocations through bullion products and retail demand, particularly in Asia. In silver, late-year inventory tightness triggered heightened volatility and speculative positioning. While speculative activity rose, flows were largely supported by fundamental motives such as inflation hedging and diversification.

Supply Constraints and Clean-Tech Demand:

Supply-demand fundamentals provided a structural foundation for the rally. Years of underinvestment left limited spare capacity as demand rebounded. Silver faced its fifth consecutive supply deficit, with mine output lagging industrial and investment demand. Copper markets also tightened as project delays and low inventories met rising usage. Clean energy and technology trends added pressure, with industrial applications now accounting for over half of silver demand and electrification continuing to drive copper consumption. With demand accelerating and supply slow to respond, these imbalances magnified price gains across the complex.

2026 Outlook: Sustained Momentum Amid New Risks

Commodities entered 2026 with continued strength. The first weeks of January saw broad gains across metals. Silver extended its rally, rising +26.20% year-to-date by mid-January and crossing \$90/oz level, following last year's deficit-driven surge. Gold gained roughly +7.10% YTD, reaching fresh record highs above \$4,600/oz, while copper added around +6.60%, breaking through the \$13,000/ton mark for the first time. This early momentum suggests that the forces driving last year's rally remain in place (numbers as at time of writing).

Monetary conditions continue to favor real assets, with real interest rates still low by historical standards and central banks tilting toward a more accommodative stance. As expectations for further rate cuts build, the opportunity cost of holding metals remains limited. Supply constraints are also unlikely to ease quickly. Developing new mines or expanding refining capacity takes years, leaving production bottlenecks from 2025 largely intact. Inventories remain tight, while geopolitical risks and trade policy uncertainty continue to add friction to global supply chains. Together, these factors point to a supportive fundamental backdrop for metals in 2026.

Demand trends remain a key pillar: The global energy transition is a multi-year driver of metal consumption, fueled by investment in renewable energy, electric vehicles, and energy storage. Digital infrastructure — including data centers and network expansion — adds further demand, particularly for copper. The rapid growth of artificial intelligence and high-performance computing is also metals-intensive, requiring substantial investment in power generation and grid capacity. These structural drivers suggest that even if economic growth moderates, demand for key metals is likely to remain resilient.

That said, volatility should be expected. Speculative activity has increased alongside the rally, particularly in Asian futures and physical markets, raising the risk of short-term price swings. Periods of consolidation or pullback would be normal after such strong gains. However, the rally to date has been driven primarily by fundamental supply-demand imbalances rather than speculation alone. Barring a major shift in macro or supply conditions, commodities appear positioned to build on their strength through 2026, albeit with intermittent volatility.

Portfolio Perspective: Positioning in Gold, Silver, and Copper

Beyond performance, recent years have reinforced why commodities remain relevant in portfolio construction. In 2025's broadly positive market environment, commodities participated in the reflationary upswing rather than acting as defensive offsets. Their strategic value, however, lies in their behavior across full market cycles. Commodities often perform differently from equities and bonds during periods of inflation pressure, monetary regime shifts, or geopolitical stress, making them useful conditional diversifiers. Gold remains the clearest example. Despite rising alongside risk assets recently, its long-term role as a store of value remains intact, particularly in environments of falling real yields and rising public debt. Silver shares some of these defensive characteristics, while its higher industrial usage gives it greater sensitivity to economic upswings. Copper plays a more cyclical role. Closely tied to global growth, it does not offer defensive protection during downturns. However, its importance in electrification, infrastructure, and energy transition themes provides structural support over the long term. Given its volatility, it is best positioned as a smaller, supporting allocation rather than a core defensive holding.

Did You Know?

- Electrification and renewable energy require significantly more copper than traditional technologies.
- New copper mines typically take more than a decade to reach full production, limiting supply flexibility.
- Industrial uses now account for the majority of global silver demand.

Final Thoughts

The resurgence of commodities in 2025 challenged assumptions formed during a decade of low inflation and abundant liquidity. As we move through 2026, real assets such as gold, silver, and select industrial metals deserve renewed consideration as tools for diversification and portfolio resilience.

Warm Regards,
Nico

