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On the Minds of Investors

What’s different about this commodity cycle?

Published: 1 day ago

Aaron Mulvihill
Global Alternatives Strategist

> **Metal prices have been climbing while energy prices face downward pressure.**

In modern industrial economies, energy and metals prices typically move in sync, rising and falling with periods of global expansion and contraction. Recently, that relationship appears to be changing.

Precious and industrial metals have been climbing while energy prices face downward pressure.

Analysts have dubbed this the “crocodile cycle”: picture a crocodile flashing its teeth, the top set representing metals (moving higher) and the bottom set being energy (resetting lower).

Whether this divergence proves durable will depend on how several structural forces play out.

Metals: constrained supply, steady demand

The supply picture for metals is straightforward: suppliers cannot quickly produce more metal when prices rise. Developing new capacity is slow, costly and a risky bet for miners. Global gold production, for example, has not increased substantially in the past decade. Natural disasters and labor issues have hindered copper production more recently. When supply can’t respond and demand holds steady or grows, prices rise, which is what we have been seeing lately.

Demand, meanwhile, has found new drivers. The energy transition requires metals for electric vehicles, charging infrastructure and electricity grid expansion. The AI revolution is adding to demand: the largest data centers can require 50,000 tons of copper. Additionally, central banks have been accumulating gold as part of a broader diversification of their reserves.

But metals can be inherently volatile as an investment and the demand-supply balance can change without warning. A meaningful slowdown in global growth, a reversal in central bank buying or a faster-than-expected supply response could shift the equilibrium. At higher prices, incremental supply can also be eked out from recycling of industrial scrap metals or the family silverware.

Energy: supply outpacing demand

Oil is a contrasting story. Global production capacity has expanded substantially, and technological advancements have unlocked new sources of oil and gas that have transformed the United States from an importer of energy to a major exporter.

While renewables like solar are a growing part of the energy mix, importantly, this is not a story of weakening demand for oil. Despite a shift towards renewables, petroleum consumption for now continues to trend upwards. The issue is simply that supply has grown faster than demand.

That said, energy markets have a long history of confounding expectations. Major supply disruptions from geopolitical events are not only possible, but probable, and could quickly tighten markets.

Commodities in portfolios

A modest allocation to commodities can serve as a hedge against monetary, geopolitical and systematic risks.

But investors should be mindful that they could be trading one set of risks for another: a supply-demand outlook that can shift quickly, higher volatility and an asset class that lacks predictability. The crocodile's jaw could snap shut without warning.

In terms of portfolio construction, volatility and taxes should not be ignored. Gold and silver are taxed as collectables, and are subject to higher capital gains tax rates than equities. More broadly, commodities typically generate no income, and the lack of an income buffer can heighten portfolio volatility.

When the outlook is uncertain, it can be helpful to "diversify the diversifiers". Investors might also consider allocations to alternatives such as private infrastructure or real estate which have historically low correlations to stocks, bonds and commodities.

Metals and energy pricing is diverging

Metals (LHS) vs. energy (RHS) index levels, weekly

Source: Bloomberg, J.P. Morgan Asset Management.

Metals: Bloomberg Commodity All Metals Subindex. Energy: Bloomberg Commodity Energy Subindex. Indices are calcualted on an excess return basis.

Data are based on availability as of January 27, 2026.

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