



ARC Commodity Factor Risk Model Monthly Report September 2025

The Asset Risk Company (ARC) Commodity Model is a cross-sectional commodity factor model. The model contains 50 of the most widely traded commodity products with approximately 1,200 futures in total over all maturities. All futures in the model have exposures to sectors, sub-sectors, style and trading factors such as basis, momentum, and open interest. The model is estimated daily with 25 years of history. It provides a framework for managing risk and investment decision-making.

In this report, you will find:

- Performance of Sectors, Sub-Sectors and Style and Trading Factors
- Examples of Factor Tilted Portfolios (Low Vol, Value, Momentum, Backwardation)
- Factor Based Risk Decomposition of Popular Commodity Indexes (BCOM, GSCI)
- Inflation prediction

The ARC Commodity Model is a powerful tool to help many constituencies in the financial industry, trading, and real economy. Some of the applications of the model are very straightforward, but some uses of the model are more nuanced. We recommend this short piece that provides details on both common and novel use cases for a commodity factor model: <https://www.assetriskcompany.com/whyfactor.html>. You can access our latest research at <https://www.assetriskcompany.com/library.html>.



Sectors and Factors Performance Report:

Table 1: Sectors and Subsectors Performance

Sectors	Sept 25	2025	5-year Return	5-year Volatility
Agriculture	-2.0%	-2.8%	11.1%	12.8%
Grain And Oilseed	-3.2%	-3.9%	8.7%	15.8%
Lumber And Pulp	0.6%	-3.2%	-5.9%	45.9%
Proteins	0.1%	29.3%	16.4%	10.5%
Softs	-0.9%	-12.4%	9.6%	14.2%
Energy	0.2%	-2.2%	7.0%	13.2%
Biofuels	0.2%	-2.2%	15.6%	17.3%
Coal	0.2%	-2.2%	22.4%	24.2%
Crude Oil	-0.3%	-6.4%	3.3%	14.7%
Natural Gas	1.3%	5.0%	8.0%	15.5%
Petrochemicals	0.2%	-2.2%	4.5%	16.0%
Refined Products	-1.1%	-7.5%	9.2%	16.8%
Metals	10.0%	42.0%	14.0%	15.3%
Base	4.4%	23.6%	14.0%	18.6%
Precious	13.7%	54.9%	12.3%	17.3%

Energy markets show mixed results for 2025, with the sector overall remaining flat. A closer look reveals divergent trends: Crude Oil is down 6.4% year-to-date, while Natural Gas has gained 5%. Agricultural commodities face headwinds across most categories in 2025, with Proteins being the notable exception to an otherwise challenging year for



the sector. The standout performers for 2025 are metals, with both Base Metals and Precious Metals delivering strong gains.

As a reminder, ARC sectors and sub-sectors returns are **not** estimated using a static configuration of commodity weightings. The returns come naturally from a cross-sectional regression of the 1,200 assets in the model and therefore cover the entire term structure. For instance, Natural Gas has more than 120 maturities in the model. The model uses all of that information to derive sector and subsector returns and one can think of our sectors as risk weighted on the entire curve.

Table 2. Styles/Trading Factors Performance

Factor	Sept 25	2025	5 Year Return	5 Year Volatility
Basis	-0.4%	-4.5%	-7.9%	4.2%
Open Interest	-0.4%	-0.7%	2.0%	4.2%
Momentum	-1.1%	-4.3%	1.5%	5.9%
ST Momentum	-1.1%	-5.8%	-7.7%	5.5%
Trading Activity	-0.5%	-2.2%	-0.7%	2.2%
Volatility	-0.5%	4.4%	2.5%	8.7%
ST Volatility	0.0%	-7.4%	-1.4%	7.8%

The Basis And ST Momentum factors have a negative Sharpe of (-1.9 and -1.4 respectively) over 5 years. The factor replicating portfolios are not a practical way to trade and consist of positions (both long and short) in most of the instruments in the model's universe. We provide a much more parsimonious factor-tilted (long only) portfolio later in this analysis.



Factor Tilted Portfolios Performance Report:

As shown above there are some clear patterns emerging for the ARC Commodity Styles and Trading Factors. However in order to take advantage of these trends, ARC has created long-only tilted versions. Our findings, based on 25 years of data, are:

- Low Volatility and Low Momentum (Value), Low Basis (Extreme Backwardation) are reliable and produce much better performance and risk than traditional indices
- High Momentum performed well over the last 5 years
- High Basis is reliable in underperforming the indices

Table 3: Top 5 Futures Tilted Portfolios and BCOM Performance

Return & Risk	Low Vol	Low Mom/Value	Low Basis	Hi Mom	BCOM
Sept Returns	-0.7%	-5.1%	-0.6%	3.0%	1.8%
YTD Returns	6.1%	1.6%	-0.8%	10.5%	5.9%
5 Yr Returns	14.8%	18.7%	16.0%	24.3%	7.4%
5 Yr Volatility	7.0%	19.0%	13.6%	15.7%	14.0%
Sharpe	2.1	1.0	1.2	1.5	0.5

*Annualized 5 years

High Momentum had again a strong month (+3%) and is the best performing factor for the year (10.5%). Year-to-date, both Low Volatility and Low Momentum portfolios are ahead of BCOM. Over the five-year period, all tilted portfolios have delivered Sharpe ratios above 1.



Commodity Indices Risk Decomposition

Notably, we see a **significant increase** of total Ex-Ante volatility for both indices. BCOM displayed higher volatility than GSCI this month mostly due to a much larger contribution from Short Term Momentum.

Energy remains the largest sector in the GSCI, while it is the smallest in the BCOM index. Both indices exhibit elevated z-scores relative to Open Interest, highlighting their concentration in front-month contracts.

We use a 6 month half-life for this risk decomposition so the model is fairly reactive to market conditions. Despite different sector allocations, both indices have similar risk and exposures to styles. We noticed an uptick on the ex-ante volatility for both indices.

Table 4: Factor Exposures

Factors Exposures	BCOM	GSCI
Agriculture	0.34	0.28
Energy	0.26	0.49
Metals	0.40	0.23
Basis	-0.34	-0.42
Open Interest	2.43	2.31
Momentum	0.17	0.10
ST Momentum	0.39	0.14
Trading Activity	1.65	1.17
Volatility	0.01	-0.02
ST Volatility	0.17	0.22

Exposures, z-scores for BCOM and GSCI as of 9/30/2025



A portfolio that is long/short would be evaluated on the breakout between systematic exposures and whether idiosyncratic risk. Long-only managers will want to find their exposures relative to their benchmark. As shown below in the correlation tables, sector correlations with style factors are relatively small. The model is able to separate risk due to sector allocation and styles risk. All risk is not equal. Systematic risk can display non-normal behavior when compared to specific or idiosyncratic risk. Both types of risks are driven by fluctuation, but systematic risk is driven by the “crowd” expressing some thematic bet. The systematic risk is related to market risk.

Table 5: Risk Attribution of BCOM and GSCI

Index	BCOM	GSCI
Total Risk	23.0%	20.0%
Agriculture	1.3%	1.0%
Energy	1.7%	3.9%
Metals	4.6%	2.2%
Basis	0.3%	0.4%
Open Interest	4.3%	4.9%
Momentum	0.3%	0.1%
ST Momentum	6.3%	2.1%
Trading Activity	-0.2%	-0.3%
Volatility	-0.1%	0.1%
ST Volatility	4.1%	5.1%
Specific Risk	4.2%	4.1%

Ex-Ante Annual Volatility Decomposition for BCOM and GSCI as of 9/30/2025



Inflation:

Empirical testing finds that the ARC Commodity Model is an excellent predictor of breakout moves in the headline number, both in bouts of inflation and deflation. For September, we predict an increase in CPI level, and an increase year-on-year (Inflation). Reach out to info@assetriskcompany.com for our estimate.

Factor Correlations:

Long-term correlations between sectors and style factors are very low. The model is able to separate sector allocation risk from style risk providing key insights in the real key drivers of risk and performance of a portfolio.

Table 6. Factor Correlations

Correlations	Agriculture	Energy	Metals	Basis	Open Interest	Momentum	ST Momentum	Trading Activity	Volatility	ST Volatility
Agriculture	1.00	0.23	0.27	0.02	(0.03)	(0.03)	0.02	0.05	0.13	0.07
Energy	0.21	1.00	0.27	(0.09)	0.29	(0.11)	(0.03)	(0.13)	(0.01)	0.14
Metals	0.29	0.25	1.00	(0.20)	0.02	(0.08)	0.00	0.03	0.02	0.05
Basis	0.00	(0.07)	(0.20)	1.00	(0.19)	0.01	(0.13)	0.14	0.02	(0.05)
Open Interest	(0.02)	0.24	(0.01)	(0.17)	1.00	(0.11)	0.04	(0.57)	(0.26)	0.05
Momentum	(0.01)	(0.03)	(0.12)	0.03	0.04	1.00	0.22	0.07	0.15	0.00
ST Momentum	0.09	(0.01)	0.03	(0.17)	0.06	0.25	1.00	0.04	(0.17)	0.52
Trading Activity	0.09	(0.08)	0.08	0.11	(0.52)	(0.02)	0.01	1.00	0.16	(0.03)
Volatility	0.08	(0.01)	0.02	(0.02)	(0.22)	0.06	(0.23)	0.15	1.00	(0.65)
ST Volatility	0.08	0.11	0.03	(0.01)	0.03	0.06	0.64	(0.03)	(0.67)	1.00

1 yr correlations on the right (above the diagonal), 30 days on left (below the diagonal).

Conclusion:

In this report, we have shown the factor performance driving the commodity markets. Using the ARC Commodity model, style-tilted portfolios have shown great performance and seem to be suitable benchmarks for active managers to track. We then conducted an analysis into the risk dynamics of two major commodity indices. The view of commodities as diversifiers is quite accurate. All of this was possible with the ARC model. The model enables the user to look at their book or portfolio and how it fits into their thesis as well as how it fits in the broader economic landscape.