ARC Commodity Factor Risk Model
Monthly Report October 2026

October at a Glance

● **Metals and Agriculture extend the sell-off; Energy holds up again.** Metals fell 7.0% and Agriculture 5.4%, a second straight month of broad losses. Energy rose 1.3%, again the only headline sector in positive territory.

● **Refined Products keep pulling away.** Up another 2.7% in October and now +57.8% YTD against +2.6% for Crude Oil. Part of that gap is curve depth (124 maturities for CL, 28 for RB), but it remains the largest dislocation in the model.

● **Precious Metals fall for a second month.** Down 9.2% after September's 8.5% loss, the weakest sub-sector return again, taking the YTD figure to -14.5%. Base Metals lost 3.9%, a third straight decline, and are now +4.8% YTD.

● **Tilted Portfolios:** All five tilts fell and all trailed BCOM (-0.4%). High Momentum (-0.2%) held up best, while High Basis (-4.9%) and Low Trading Activity (-3.8%) lost the most. Low Basis remains the only tilt ahead of BCOM on the year, +29.5% against +28.7%.

● **Momentum dominates the risk picture.** Ex-ante volatility is 22.9% for BCOM and 29.2% for GSCI. Momentum contributes 6.7 and 12.0 points respectively, well ahead of Open Interest and Volatility, while the three sector factors together account for about 6 points on either index.

● **Inflation.** For October, our model points to an increase in the month-over-month CPI print and an increase in year-over-year inflation.

For common and novel use cases of a commodity factor model, see assetriskcompany.com/whyfactor.html. Our research library is at assetriskcompany.com/library.html.

ARC
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Sectors and Factors Performance Report:

Sectors	October 2026 (MTD)	YTD 2026	5-Yr Return*
Agriculture	**-5.4%**	**2.3%**	**2.7%**
Grain And Oilseed	-8.3%	7.6%	-0.4%
Lumber And Pulp	-7.6%	-19.0%	-15.7%
Proteins	-1.7%	-9.7%	9.1%
Softs	-0.9%	-0.6%	2.3%
Energy	**1.3%**	**14.9%**	**1.4%**
Crude Oil	1.9%	2.6%	-2.7%
Natural Gas	0.0%	5.1%	2.4%
Refined Products	2.7%	57.8%	9.4%
Metals	**-7.0%**	**-6.8%**	**11.9%**
Base	-3.9%	4.8%	7.5%
Precious	-9.2%	-14.5%	16.9%

Table 1: Sectors and Subsectors Performance

Annualized over the trailing 5 years.

Energy rose 1.3% for a second straight month and was again the only headline sector to gain. Refined Products led at +2.7%, Crude Oil added 1.9%, and Natural Gas was flat. Refined Products are now +57.8% YTD against +2.6% for Crude Oil, a gap of 55 points that widened again this month and remains the largest dislocation in the model.

Agriculture fell 5.4% in October, with all four sub-sectors down. Grain and Oilseed led the decline at -8.3%, giving back more than half its year-to-date gain, but remains the strongest agricultural sub-sector on the year at +7.6%. Proteins (-1.7%) extended their YTD loss to -9.7%, and Softs (-0.9%) slipped to -0.6% on the year.

Metals lost 7.0%, the largest sector move for a second month and enough to turn the sector negative on the year at -6.8%. Precious Metals fell 9.2% after an 8.5% loss in September and are now -14.5% year-to-date, though still the strongest sub-sector over 5 years (+16.9% annualized). Base Metals fell 3.9%, a third straight monthly loss, cutting their YTD gain to +4.8%.

Table 2: Styles/Trading Factors Performance

Factor	October 2026 (MTD)	YTD 2026	5-Yr Return*	5-Yr Volatility*
Basis	0.2%	-1.1%	-6.6%	4.5%
Open Interest	0.2%	4.0%	1.5%	4.1%
Momentum	1.6%	-3.7%	1.6%	8.7%
ST Momentum	1.1%	2.1%	-6.2%	5.3%
Trading Activity	-0.9%	1.2%	-0.8%	2.4%
Volatility	-3.4%	-13.1%	-2.1%	9.3%
ST Volatility	0.1%	4.4%	0.3%	7.3%

**Trailing 5 years. Factor-replicating portfolios are long/short theoretical constructs spanning nearly all instruments in the model universe; they are not directly tradable.*

Momentum was October's strongest factor at +1.6%, trimming its year-to-date loss to -3.7%, with ST Momentum close behind at +1.1% (+2.1% YTD). Basis (+0.2%, -1.1% YTD), Open Interest (+0.2%, +4.0% YTD) and ST Volatility (+0.1%, +4.4% YTD) were roughly flat, and Trading Activity slipped 0.9% (+1.2% YTD). Volatility fell 3.4%, the

weakest factor of the month, and at -13.1% YTD remains the weakest factor of 2026 by a wide margin. Basis is still structurally negative over 5 years (-6.6%).

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 liquid long-only tilted versions. Our findings, based on 25 years of data, are:

- Low Volatility, Low Basis (Extreme Backwardation) are reliable and produce better performance and risk than traditional indices. High Momentum has been the best risk adjusted performer over the last 5 years.
- High Basis and Low Trading Activity are reliable in underperforming the indices.

Table 3: Top 5 Futures Tilted Portfolios and BCOM Performance

Return/Risk	Low Vol	Low Basis	High Mom	High Basis	Low TA	BCOM
October 2026	-3.2%	-2.6%	-0.2%	-4.9%	-3.8%	-0.4%
YTD	17.0%	29.5%	19.9%	15.6%	14.9%	28.7%
Annualized	9.3%	10.2%	24.8%	2.9%	1.2%	6.4%
Volatility	10.5%	15.1%	17.4%	13.4%	16.2%	15.4%
Sharpe	0.9	0.7	1.4	0.2	0.1	0.4

**Trailing 5 years, annualized. Sharpe ratios are computed without a risk-free adjustment. Tilted-portfolio results are hypothetical model performance, gross of fees and costs*

All five tilts fell in October and all lagged a roughly flat BCOM (-0.4%). High Momentum (-0.2%) was the most resilient, followed by Low Basis (-2.6%) and Low Volatility (-3.2%). The two structural underperformers took the largest losses: High Basis fell 4.9% after a 5.5% loss in September, and Low Trading Activity fell 3.8%. Year to date, Low Basis (+29.5%) is still the only tilt ahead of BCOM (+28.7%). Over the trailing 5 years the

long-run pattern is unchanged: High Momentum remains the strongest risk-adjusted performer (24.8% annualized, Sharpe 1.4), Low Volatility delivers 9.3% annualized on 10.5% volatility for a Sharpe of 0.9, and Low Basis returns 10.2% annualized with a Sharpe of 0.7.

Factor Correlations:

Correlations between sectors and style factors remain moderate over the past year and are noisier on the 30-day window. The model separates sector allocation risk from style risk, providing key insight into the real drivers of risk and performance of a portfolio.

Table 4: Factor Correlations

Correlations	Agriculture	Energy	Metals	Basis	Open Interest	Momentum	ST Momentum	Trading Activity	Volatility	ST Volatility
Agriculture	1.00	0.32	0.35	(0.28)	(0.12)	0.18	0.44	0.11	0.25	0.49
Energy	0.14	1.00	(0.03)	(0.13)	0.46	0.33	0.45	(0.22)	0.21	0.29
Metals	0.49	(0.22)	1.00	(0.23)	(0.31)	0.17	0.21	0.26	0.28	0.19
Basis	(0.34)	(0.34)	(0.44)	1.00	0.11	0.16	(0.30)	(0.06)	0.20	(0.26)
Open Interest	(0.26)	0.13	(0.37)	0.45	1.00	0.16	0.11	(0.58)	(0.03)	(0.15)
Momentum	(0.37)	0.30	(0.25)	0.15	0.34	1.00	0.40	(0.06)	0.78	(0.17)
ST Momentum	(0.13)	0.32	0.24	(0.25)	0.00	0.30	1.00	0.02	0.16	0.44
Trading Activity	(0.18)	(0.26)	0.18	0.27	(0.26)	(0.18)	0.13	1.00	0.13	0.13
Volatility	0.51	0.05	0.63	(0.20)	(0.42)	(0.13)	0.01	0.28	1.00	(0.19)
ST Volatility	(0.02)	0.42	(0.26)	(0.10)	0.12	(0.11)	0.48	(0.01)	(0.43)	1.00

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

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 October, we predict an increase in CPI, and an increase in year-over-year inflation. Reach out to info@assetriskcompany.com for our estimate.

Commodity Indices Risk Decomposition

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 exposures to styles. Ex-ante volatility is 22.9% for BCOM and 29.2% for GSCI, down two points for BCOM and up about one point for GSCI from September. Momentum remains the largest single contributor on both indices, and on GSCI it now accounts for 12.0 of the 29.2 points, reflecting a jump in GSCI's momentum exposure from 0.85 to 1.27.

Table 5: Factor Exposures

Factors Exposures	BCOM	GSCI
Agriculture	0.32	0.22
Energy	0.41	0.58
Metals	0.27	0.2
Basis	0.18	0.12
Open Interest	2.2	2.01
Momentum	0.78	1.27
ST Momentum	0.1	0.29
Trading Activity	0.73	0.48
Volatility	0.63	0.79
ST Volatility	0.60	0.62

Exposures, z-scores for BCOM and GSCI as of 10/30/2026

Table 6: Risk Attribution of BCOM and GSCI

Index	BCOM	GSCI
Total Risk	22.9%	29.2%
Agriculture	1.8%	1.0%
Energy	2.5%	3.7%
Metals	1.8%	1.0%
Basis	0.0%	0.0%
Open Interest	4.3%	3.8%
Momentum	6.7%	12.0%
ST Momentum	0.4%	1.1%
Trading Activity	-0.2%	-0.2%
Volatility	3.7%	4.8%
ST Volatility	1.1%	0.8%
Specific Risk	4.3%	5.8%

Ex-Ante Annual Volatility Decomposition for BCOM and GSCI as of 10/30/2026

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.