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ARC Commodity Factor Risk Model
Monthly Report August 2026

August at a Glance

- **Gains everywhere, Agriculture in front.** All three headline sectors rose again in August with Agriculture +5.9%, Metals +3.6%, and Energy +2.6%, a second consecutive month of broad gains.
- **Refined Products keep stretching the gap.** Up another 2.9% in August and now +44.7% YTD, against Crude Oil at -0.7% YTD. Even with crude recovering to nearly flat on the year, the intra-Energy gap has widened to roughly 45 points, still the single largest dislocation in the model.
- **Precious Metals snap back.** The month's strongest sub-sector at +7.2%, flipping positive on the year (+3.0%) after two months as the model's outlier drawdown. Base Metals slipped (-0.7%) but remain +12.3% YTD.
- **Momentum turns; Volatility stalls.** The Momentum factor rebounded +2.7% after two sharp down months, though it remains -5.8% YTD. Volatility was flat (0.0%) and is still the weakest factor of the year at -10.4%.
- **Tilts all positive again but the laggards led the month.** High Basis (+11.7%) and Low Trading Activity (+11.6%) topped the table in August, a counter-trend month for the two long-run underperformers. Low Basis remains the YTD standout at +31.7% versus BCOM's +28.9%.
- **Inflation.** For August, our model points to an increase in the month-over-month CPI print and an acceleration 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.

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Sectors and Factors Performance Report:

Table 1: Sectors and Subsectors Performance

Sectors	August 2026 (MTD)	YTD 2026	5-Yr Ann. Return*	5-Yr Ann. Volatility*
Agriculture	**5.9%**	**10.4%**	**4.8%**	**12.0%**
Grain And Oilseed	8.5%	19.9%	2.6%	14.8%
Lumber And Pulp	-4.5%	-7.8%	-10.1%	35.0%
Proteins	-0.4%	-8.3%	9.1%	11.9%
Softs	5.0%	3.1%	3.0%	14.8%
Energy	**2.6%**	**11.9%**	**2.9%**	**13.1%**
Crude Oil	2.7%	-0.7%	-1.3%	13.8%
Natural Gas	2.3%	6.4%	4.3%	15.7%
Petrochemicals	2.6%	11.9%	-1.6%	15.1%
Refined Products	2.9%	44.7%	9.3%	17.8%
Metals	**3.6%**	**6.9%**	**14.5%**	**15.9%**
Base	-0.7%	12.3%	8.4%	16.4%
Precious	7.2%	3.0%	20.9%	19.3%

Annualized over the trailing 5 years.

Agriculture led in August (+5.9%), powered by Grain and Oilseed, which rose 8.5% — the largest sub-sector gain of the month outside Precious Metals — and extended its year-to-date return to +19.9%, comfortably the strongest agricultural sub-sector on the

year. Softs added 5.0% (+3.1% YTD) while Proteins slipped a further 0.4% and remained the deepest year-to-date decline in the model at -8.3%.

Metals gained 3.6%, and the split we tracked through the summer inverted: Precious Metals rebounded sharply (+7.2%) and turned positive on the year (+3.0%), erasing the drawdown that followed June's fall, while Base Metals posted their first monthly loss in some time (-0.7%) yet still lead the complex year-to-date at +12.3%. Precious Metals continue to hold by far the highest 5-year annualized return in the table (20.9%), so August's recovery looks like a reversion to long-run trend rather than a new development.

Energy rose 2.6% in a notably even month across the complex: Crude Oil +2.7%, Refined Products +2.9%, Petrochemicals +2.6%, Natural Gas +2.3%. Crude's gain pulled it back to nearly flat on the year (-0.7%), but because Refined Products advanced in step, the crack-spread dislocation we have tracked since the spring did not close — at +44.7% YTD for Refined Products, the separation between two sub-sectors of the same complex is now roughly 45 points, wider than ever.

Table 2. Styles/Trading Factors Performance

Factor	August 2026 (MTD)	YTD 2026	5-Yr Return*	5-Yr Volatility*
Basis	-0.5%	-3.9%	-7.2%	4.3%
Open Interest	1.2%	4.2%	2.0%	4.2%
Momentum	2.7%	-5.8%	1.6%	8.8%
ST Momentum	1.1%	1.6%	-6.4%	5.4%
Trading Activity	0.1%	1.4%	-1.0%	2.4%
Volatility	0.0%	-10.4%	-0.9%	9.4%
ST Volatility	0.3%	5.6%	-0.4%	7.7%

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 August's strongest factor, rebounding 2.7% after two consecutive sharp declines; it remains -5.8% year-to-date. The Volatility factor, July's biggest loser, was exactly flat on the month and is still the weakest factor of 2026 at -10.4% YTD. Basis slipped 0.5% and remains structurally negative (-3.9% YTD, -7.2% over 5 years), while the short-term factors were quietly positive: ST Momentum +1.1% (+1.6% YTD) and ST Volatility +0.3% (+5.6% YTD). Open Interest added 1.2% (+4.2% YTD).

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
July 2026 (MTD)	9.4%	7.2%	6.8%	11.7%	11.6%	7.1%
YTD	24.7%	31.7%	21.0%	28.6%	21.1%	28.9%
Annualized	11.1%	12.1%	27.2%	6.0%	3.8%	8.1%
Volatility	10.4%	15.4%	17.7%	13.0%	16.2%	15.7%
Sharpe	1.1	0.8	1.5	0.5	0.2	0.5

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 gained for a second straight month, but the leadership was unusual: High Basis (+11.7%) and Low Trading Activity (+11.6%) — the two tilts that reliably underperform over the long run — topped the table, well ahead of BCOM's +7.1%. Year-to-date, Low Basis remains the standout at +31.7% versus +28.9% for BCOM, with High Basis close behind at +28.6% and Low Volatility at +24.7%; Low Trading Activity (+21.1%) and High Momentum (+21.0%) bring up the rear. Over the trailing 5 years the long-run pattern is intact: High Momentum remains the strongest risk-adjusted performer (27.2% annualized, Sharpe 1.5), Low Volatility delivers 11.1% annualized on just 10.4% volatility for a Sharpe of 1.1, and Low Basis returns 12.1% annualized with a Sharpe of 0.8. All three clear BCOM's 8.1% annualized and 0.5 Sharpe, while High Basis (Sharpe 0.5) and Low Trading Activity (Sharpe 0.2) do not.

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 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	0.26	0.31	(0.05)	(0.06)	0.06	0.17	0.08	0.16	0.19
Energy	0.25	1.00	0.21	(0.10)	0.33	0.05	0.09	(0.15)	0.05	0.17
Metals	0.33	0.18	1.00	(0.19)	(0.07)	0.04	0.08	0.10	0.08	0.10
Basis	(0.09)	(0.09)	(0.19)	1.00	(0.12)	0.05	(0.18)	0.08	0.06	(0.09)
Open Interest	(0.07)	0.31	(0.11)	(0.08)	1.00	0.00	0.05	(0.57)	(0.18)	(0.00)
Momentum	0.09	0.12	0.04	0.07	0.09	1.00	0.29	0.01	0.41	(0.07)
ST Momentum	0.25	0.14	0.11	(0.22)	0.06	0.31	1.00	0.03	(0.07)	0.49
Trading Activity	0.11	(0.13)	0.15	0.04	(0.54)	(0.04)	0.01	1.00	0.14	0.02
Volatility	0.13	0.06	0.09	0.04	(0.14)	0.42	(0.09)	0.13	1.00	(0.55)
ST Volatility	0.22	0.15	0.09	(0.07)	(0.03)	(0.05)	0.56	0.03	(0.54)	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 August, 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 risk and exposures to styles. Ex-Ante Volatility went up to around 30% for both indices.

Table 5: Factor Exposures

Factors Exposures	BCOM	GSCI
Agriculture	0.35	0.24
Energy	0.36	0.54
Metals	0.29	0.22
Basis	0.12	0.06
Open Interest	2.26	2.01
Momentum	0.60	0.74
ST Momentum	0.39	0.21
Trading Activity	1.27	0.57
Volatility	0.54	0.69
ST Volatility	0.68	1.00

Exposures, z-scores for BCOM and GSCI as of 8/31/2026

A portfolio that is long/short would be evaluated on the breakout between systematic exposures and idiosyncratic risk. Long-only managers will want to find their exposures relative to their benchmark. As shown 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 6: Risk Attribution of BCOM and GSCI

Index	BCOM	GSCI
Total Risk	25.1%	27.5%
Agriculture	2.3%	1.6%
Energy	2.6%	4.2%
Metals	2.6%	1.5%
Basis	-0.1%	0.0%
Open Interest	4.3%	3.9%
Momentum	5.5%	6.9%
ST Momentum	2.0%	1.0%
Trading Activity	-0.2%	-0.2%
Volatility	3.4%	4.4%
ST Volatility	2.2%	3.6%
Specific Risk	4.2%	5.4%

Ex-Ante Annual Volatility Decomposition for BCOM and GSCI as of 8/31/2026

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.