Global Natural Resource Equities

The natural resource equities market, as represented by the S&P Global Natural Resource Equities Index, had a total return of 11.6% in the first quarter (in U.S. dollars, net of dividend withholding taxes).

Investment Review

Natural resource equities advanced in the first quarter, powered by gains in more cyclical, value-oriented companies. The period saw positive absolute and relative performance of cyclical stocks, with optimism about vaccines and economic reopenings lifting beaten-down names that may have the most to benefit from virus containment. The prospect of accelerating economic growth outweighed growing inflation concerns; the 10-year U.S. Treasury yield notably spiked in the quarter, as investors considered rising input prices and expectations for large fiscal policy stimulus.

The energy sector (19.8% total return[1]) rallied on an improving supply and demand profile. Energy fundamentals have strengthened fairly consistently over the past few months. For supply, the OPEC+ accord has remained mostly intact, with Saudi Arabia offering incremental supply cuts compared to the original agreement. This has kept a significant amount of global supply out of the market. At the same time, virus restrictions continued to ease, leading to more travel and steady increases in oil demand. Notably, energy sector volatility declined as the quarter progressed as the market factored in the prospect of higher inflation.

The agribusiness group (15.4%) benefited from higher crop prices amid a tight supply/demand outlook. Some grain processers continued to benefit from strengthening fundamentals for corn, soybeans and other crops. Proteins producers rose on strong protein prices along with an improving U.S. reopening outlook given vaccine rollouts, factors that offset higher feed costs as well as concerns about lockdowns as a near-term headwind to names with European exposure.

Metals & mining stocks (7.3%) saw dramatic differences in underlying sub-sector performances. Industrial metals names were up by double-digits, while gold/precious metals names were down during the quarter. Electric vehicle (EV) plays also lost steam as growth sectors collapsed amid a rise in interest rates. Fundamentals for industrial metals and EV remained favorable, with demand across construction, autos, appliances, and machinery coming in better than expected, and supply being restrained by continued impacts from COVID and delayed capacity expansion plans. Inventories remain below normal and restocking appears to be hindered by supply tightness.

Investment Outlook

We believe natural resource equities represent an attractive and growing opportunity for the next 18 months. Although the

Index Performance (US$)

	S&P Global Natural Resources Index (net)
Q1 2021	11.59%
1 Year	66.45%
3 Year	4.74%
5 Year	10.65%
10 Year	0.51%

Data quoted represents past performance, which is no guarantee of future results.

This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of fees, expenses or taxes.

Periods greater than 12 months are annualized.

Index Characteristics

	S&P Global Natural Resources Index (net)
Consensus Long-Term EPS Growth	14.0%
Price/Earnings	13.1x
Price/Book	1.7x
Price/Sales	1.2x
Dividend Yield	3.5%
Price/Cash Flow (2021E)	18.0x
5-Year Cash Flow Growth	0.6%
Weighted Average Market Cap.	$65.1B
Median Market Cap.	$23.7B
Number of Holdings	89

Source: Cohen & Steers.

Characteristics are market capitalization-weighted averages of estimates for companies in the S&P Global Natural Resources Index (net) and are subject to change over time.

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global economy appears to be in the early stage of a new business cycle, resource equities have not fully participated in the market recovery and valuations do not fully reflect the earnings potential of these companies, in our opinion. Wider availability of a vaccine and a return to a “normal” business environment would likely accelerate demand for natural resources. In the meantime, we recognize that delays in distributing a vaccine and renewed lockdowns might temper demand in the short run.

Food producers remain a compelling opportunity in agribusiness. China’s hog rebuilding efforts in the wake of African swine fever may continue to buttress strong grain export demand. We expect demand for soybeans and soybean meal to increase as the foodservice industry recovers, further aided by Argentina’s continued absence from the global meal export market. A growing interest in biofuels and a trend of traditional oil refiners expanding capacity in renewable diesel also bode well for soybean oil prices. Higher crop prices may also result in more spending on agriculture equipment. Fertilizer prices are strengthening on an industrial rebound, companies’ constructive outlooks and concerns about phosphate and potash supplies. We continue to hold out-of-benchmark exposure to packaged foods and meats companies. The sector benefits from elevated at-home consumption, which may continue to rise long term due to more flexible work-from-home arrangements.

Crude oil balances expected to improve further. We see crude oil demand steadily recovering, a trend that may accelerate as economies reopen. OPEC+ production compliance will be a key factor for the near-term upside potential of oil producers. Longer term, however, we think fundamentals are likely to continue to slowly strengthen. We see renewable diesel fuel as an attractive opportunity for 2021.

Metals & mining continue to display attractive fundamentals. Policy-driven demand (the green agenda and infrastructure stimulus), supply restrictions (from COVID disruptions and underinvestment) and a favorable macro backdrop (with a longer-term weakening in the U.S. dollar and reflationary pressures) may provide a structural tailwind for miners. We see a favorable supply/demand picture for copper and steel producers. We have a modest underweight in diversified miners, with a bias toward iron ore.

(1) All sector returns in this commentary are in local currencies. Sector classification of securities in the index is determined by the investment advisor.

COHEN & STEERS

Global Natural Resource Equities

Index Sector Performance

Sector	Q1 2021
Energy	19.83 %
Agribusiness	15.42 %
Metals & Mining	7.31 %
Others	7.10 %
Timber	7.09 %

Source: Cohen & Steers.

Sector returns are in local currencies. Sector classification of securities in the index are determined by the investment advisor.

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This is not an inducement to buy or sell commodity interests. Strategies and funds that trade in commodity interests involve a risk of loss. Investors should consider whether such services or products are suitable investments.

The S&P Global Natural Resources Index-net includes the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements and is net of dividend withholding taxes.

An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment.

The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any historical trend discussed above will be repeated in the future, and there is no way to predict precisely when such a trend might begin.

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