



The Commodity Boom is Dead

Description

At least that's what Ruchir Sharma, the head of emerging markets and global macro at Morgan Stanley Investment Management, thinks.

For the past decade, commodity prices have benefitted from seemingly insatiable demand out of China and other "emerging" economies. For most of this period, supply was shrinking as not enough capital had been allocated to accommodate the surge of demand.

Growing demand and shrinking supply sent the likes of copper, oil, and gold prices up 450%, 365%, and \$500 respectively between 2000 and 2011.

Sharma argues the formula that led to these price gains no longer holds. Demand growth has flattened and all of the work that has gone on over the past 10 years to grow supply is now starting to kick-in. Capital invested in the resource space increased by 600% over the past decade. This compares to an average of 200% across the other sectors of the economy.

Flat demand growth and rising supply is a deadly combination for most resource-based companies.

The losers

The Canadian market has been a huge benefactor of the decade long commodity boom and if indeed it's over, investors here should brace themselves for a painful period of lacklustre returns.

This is already being reflected in stocks like **Barrick Gold** ([TSX:ABX](#)) and **Teck Resources** ([TSX:TCK.B](#)). Both have been weak in 2013, falling by 41% and 23% respectively.

The Energy space has managed to avoid much of the doom and gloom being felt by the Materials companies. However, investors in companies like **Suncor Energy** ([TSX:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#)) aren't going to enjoy opening their monthly brokerage statement very much if the price of oil heads lower.

Foolish Takeaway

If commodity prices follow a typical cycle, that is, one decade up, two decades down, Canadian investors are going to want to avoid a very significant portion of our market. This could have a positive impact, at least in the short-term, for several other sectors as investors seek shelter. A stock like **Loblaw** ([TSX:L](#)) may benefit from this flow of funds. It could also drive Canadian equity investors away to other, more diversified markets.

If you're considering taking some money out of the Canadian market and putting it to work in the U.S. you need to [click here](#) and we'll send you our special **FREE** report "**3 U.S. Stocks Every Canadian Should Own**" – **FREE!** The report profiles 3 dominant businesses that will ensure your portfolio is left relatively unscathed if the carnage-in-commodity land continues.

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Fool contributor Iain Butler is short \$26 August 2013 put options on Teck Resources and owns shares of Teck and Barrick Gold outright. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:L (Loblaw Companies Limited)
4. TSX:SU (Suncor Energy Inc.)
5. TSX:TECK.B (Teck Resources Limited)

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