Strategic Asset Allocation and Intertemporal Hedging Demands: with Commodities as an Asset Class

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[Abstract]

This paper analyzes the role of commodities in the process of strategic asset allocation, with an attempt of computing the weight of commodities relative to traditional assets in a multi-period portfolio choice problem and understanding the economic interpretations to its importance. We find U.S. investors have a significantly stable intertemporal hedging demand for commodities in the long horizons, even when they have access to foreign equity markets, for example, foreign stock market. Our results provide support to institutional investors attempting to include commodities into their strategic asset allocation decision.

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