

New Commodities Supercycle Update: Commodities and COM ETF Up Notably

BY: EDWARD EGILINSKY, MANAGING DIRECTOR, HEAD OF ALTERNATIVE INVESTMENTS

THIRD QUARTER 2021 COMMODITY MARKET UPDATE

The third quarter was a strong one for the overall commodity markets as most of the notable broad commodity benchmarks were up significantly. The [Direxion Auspice Broad Commodity Strategy ETF \(COM\)](#), which seeks to track the Auspice Broad Commodity Excess Return Index (ABCERI) finished the quarter +4.6% and +25.6% YTD. Traders and investors are asking themselves if the recent strength is a commodity supercycle. See what sectors are benefitting and how commodity investors can trade this market.

The Energy complex and Softs sector, not only were the strongest performers for this quarter, but also YTD as well.

Learn more on:

- Hurricane Impacts on Natural Gas & Crude Oil
- Cotton & Sugar Supplies Tightened
- Strong Corn & Soybean Harvest Yield

HURRICANE IMPACTS ON NATURAL GAS & CRUDE OIL

The Energy markets had a strong quarter led by Natural Gas. The onset of hurricane season has impacted the production and transportation of natural gas and crude oil along the Gulf of Mexico, which has added to the already fragile supply chain issues. In addition, OPEC+* has continued to remain steadfast in their production cuts contributing further to tight supply. Both Crude Oil and Natural Gas hit multi year highs as we ended the recent quarter. If we get an early winter in the U.S. this could propel Heating Oil and Natural Gas prices even higher.

COTTON & SUGAR SUPPLIES TIGHTENED

The strongest performers in the quarter were the Soft commodities (Cotton and Sugar). Cotton has been rallying throughout 2021, as a delayed harvest in the U.S., along with a drop off in reserves, and surging freight costs have propelled Cotton to 10-yr highs. In addition, Sugar prices have been rising as two of its largest exporters, Brazil and Thailand, are having major issues in growing sugar cane, due to difficult weather conditions, while concurrently supplies are tightening.

One of the distinguishing characteristics with the Direxion Auspice Broad Commodity Strategy ETF (COM ETF), relative to other broad commodity indices is the COM ETF's ability to have a meaningful weighting in areas like Soft commodities. Most commodity benchmarks can be skewed towards Energy and/or are underweighted in areas like Soft commodities.

STRONG CORN & SOYBEAN HARVEST YIELD

The Grains sector had mixed performance for the quarter, as gains in Wheat were more than offset by losses in Corn and Soybeans. The drop in prices with Corn and Soybeans during the quarter could largely be attributed to recent crop reports stating that these could be the best U.S. harvest in years for both commodities. The downward price action resulted in COM going to Cash with Soybeans and Corn.

Commodities and futures are generally volatile and are not suitable for all investors.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For Standardized Fund Performance, [click here](#).

PRECIOUS METALS: GOLD AND SILVER DULL

The one commodity sector that has struggled throughout 2021 is Precious Metals. However, due to the Direxion COM ETF's ability to be tactical in nature, the strategy is currently in Cash with both Gold and Silver. A combination of a strengthening U.S. Dollar along with a predominantly risk on environment has led to declines with both Precious Metals.

While Copper has rebounded overall this year, the 3rd quarter was a difficult one for the Industrial metal. A fear of an economic slowdown in China, along with troubling headlines emerging about property developer Evergrande towards the end of the quarter, is bringing some concern to Chinese markets and its indirect tie to Copper, causing some downward pricing pressure of the Metal.

INVESTING IN THE COMMODITIES SUPERCYCLE

As we move into the last quarter of 2021, the signs continue to be prevalent that price and wage inflation are not transitory and may be with us for quite some time. As we have touched on previously, commodity cycles tend to be somewhat long in duration and what we are currently seeing could be signs of the early stages of a longer commodity supercycle resurgence.

The Direxion Auspice Broad Commodity Strategy ETF (COM) is a rules-based, tactical way to invest in the broader commodity markets, while seeking to mitigate downside risk. The strategy has some compelling risk/return metrics relative to its peer group, and this is evident by its overall 5-star rating within the Morningstar Broad Commodity category.¹

¹ Out of 98 US Fund Commodities Broad Basket funds based on risk adjusted returns as of 9/30/2021.

Definitions

* **OPEC+**: Organization of the Petroleum Exporting Countries Plus (OPEC+) is a loosely affiliated entity consisting of the 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations.

Disclosures

An investor should carefully consider a Fund's investment objective, risks, charges, and expenses before investing. A Fund's prospectus and summary prospectus contain this and other information about the Direxion Shares and Direxion Funds. To obtain a Fund's prospectus and summary prospectus call 866-476-7523 or visit our website at direxion.com. A Fund's prospectus and summary prospectus should be read carefully before investing.

Auspice Capital Advisors Ltd. is a registered Portfolio Manager / Investment Fund Manager in Canada and a registered Commodity Trading Advisor (CTA/CPO) and National Futures Association (NFA) member in the US. Diversification does not guarantee protection against market losses or ensure a gain. Shorting can result in unlimited loss.

Shares of the Direxion Shares are bought and sold at market price (not NAV) and are not individually redeemed from a Fund. Market Price returns are based upon the midpoint of the bid/ask spread at 4:00 pm EST (when NAV is normally calculated) and do not represent the returns you would receive if you traded shares at other times. Brokerage commissions will reduce returns. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Some performance results reflect expense reimbursements or recoupments and fee waivers in effect during certain periods shown. Absent these reimbursements or recoupments and fee waivers, results would have been less favorable.

The Fund is an actively managed ETF that does not seek to replicate the performance of a specified index and is not required to invest in the specific components of its benchmark index. Investing in the Fund may be more volatile than investing in broadly diversified funds. The Fund is not suitable for all investors and should be utilized only by sophisticated investors who understand leverage risk and intend to actively monitor and manage their investment.

Short-term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes. For additional information, see the fund's prospectus.

Direxion Shares Risks - Through the close of trading on August 30, 2021, COM is an actively managed ETF that does not seek to replicate the performance of a specified index and is not required to invest in the specific components of its benchmark index. Effective August 31, 2021, the ETF will track, before fees and expenses, the performance of the Auspice Broad Commodity Index. An investment in the Fund involves risk, including the possible loss of principal. The Fund is nondiversified and includes risks associated with concentration that results from the Fund's investments in a particular industry, sector, or geographic region which can result in increased volatility. The Fund's use of derivatives such as futures contracts and swaps are subject to market risks that may cause their price to fluctuate over time. Risks of the Fund include risks related to investment in commodity-linked derivatives and commodities, Futures Strategy Risk, Leverage Risk, Market Risk, Natural Disaster/Epidemic and Market Disruption Risk, Counterparty Risk, Cash Transaction Risk, Subsidiary Investment Risk, Interest Rate Risk, and Tax Risk. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund. Exchange-traded commodity futures contracts generally are volatile and are not suitable for all investors. The value of a commodity-linked derivative investment typically is based upon the price movements of a physical commodity and may be affected by changes in overall market movements, volatility of the index, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, embargoes, tariffs and international economic, political and regulatory developments. Commodity-linked derivatives also may be subject to credit and interest rate risks that in general affect the value of debt securities. The Fund's investments in derivatives may pose risks in addition to, and greater than, those associated with directly investing in securities or other investments. Risks associated with the use of futures contracts are (a) the imperfect correlation between the change in market value of the instruments held by the Fund and the price of the futures contract; (b) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the Adviser's inability to predict correctly the direction of securities prices, interest rates, currency exchange rates and other economic factors; (e) the possibility that the counterparty will default in the performance of its obligations; and (f) if the Fund has insufficient cash, it may have to sell securities or financial instruments from its portfolio to meet daily variation margin requirements, which may lead to the Fund selling securities or financial instruments at a time when it may be disadvantageous to do so.

©2021 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. The Morningstar Rating™ for funds, or "star rating", is calculated for managed with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Direxion Auspice Broad Commodity Strategy ETF (COM) was rated against the following numbers of US Fund Commodities Broad Basket funds: 98 funds in the last three years. As of 9/30/2021, the fund received a 5-Star rating for the 3-year period and overall. Past performance is no guarantee of future results.

Distributor: Foreside Fund Services, LLC.