COM ETF: First Quarter 2022 Recap

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Commodities were one of the better performing asset classes in 2021 and that trend continued during the first quarter of this year. Supply-chain issues initially brought on by the onset of COVID have still not dissipated, and the added geopolitical risk of the war in Ukraine further exacerbated supply concerns sending commodity prices soaring. All three major commodity sectors showed positive returns for the quarter with agriculturals leading the way, followed closely behind by energies. Although a laggard by comparison, metals still produced a solid quarter.

Most broad commodity benchmarks had some of their strongest quarterly performance in history. The Auspice Broad Commodity Excess Return Index (ABCERI), which is the rules based long/cash broad commodity benchmark that the Direxion Auspice Broad Commodity Strategy ETF (COM) seeks to track was up +15.72% for the quarter. Those commodity indices that were more energy-focused produced the highest returns along with extraordinary volatility for the quarter.

INFLATION IS REAL

Inflation turned into a more persistent issue, culminating with the highest level in 40 years. Historically, growing inflation has coincided with higher commodity prices. Thus, commodities have proven to be an asset class that has performed well during these periods. The scenario we're in can take years to play out and, as a result, can be a tailwind for commodities for some time to come.

INVERTED YIELD CURVE, FOR NOW

U.S. interest rates are starting to play catch up to the inflation narrative, as U.S. 10 Yr. Treasuries hit their highest levels since 2019. However, the recent inversion of the Treasuries yield curve could signal a slower growth environment, and possibly curtail the demand for commodities, although there is little sign of this at present. The fear of a recession could take some time to play out, if at all, but bears watching. Note: An inverted yield curve doesn't always predict a recession.

Food and energy prices were already soaring before the onset of the Russia's invasion of Ukraine in the latter part of February. Unfortunately, this new geopolitical risk, exacerbated the already fragile supply constraints and created another leg higher for areas such as grains and energies. Since Russia and Ukraine are major exporters of a broad spectrum of commodities, this conflict continues to have major short and longer term implications on commodities markets.

AGRICULTURALS AREN'T SOFT ANYMORE

The agricultural/softs sector produced the biggest gains for COM in the first quarter. Ukraine and Russia are two of the largest exporters of grains such as wheat. With concerns of already tight supplies before the conflict, the outbreak of war sent grains (soybeans, wheat, and corn) even higher as all finished up +20% for the quarter. The ability of COM to have broader based diversification and differentiating performance attribution relative to peers was evident by this quarter's biggest gains being in agriculturals.

ENERGY POWERS RETURNS

The energy complex provided strong gains for the COM ETF this quarter. The momentum already seen in the energy markets picked up even more steam as a result of the Ukraine conflict. Russia is one of the largest world exporters of oil, and concerns are high over tight world supplies. Now the potential ramifications over the length and impact on sanctions, infrastructure damage, and transportation out of major ports such as Odesa are adding to the price volatility of oil. Although prices have settled back down a bit with the U.S. announcing the release of supply from the Strategic Petroleum Reserve, as well as a fear of demand slowing down with the latest COVID outbreak in China; one only needs to look at prices at the gas pump or your electric bill to see its ripple effect.

Although the metals lagged the other sectors for the quarter, the precious and industrial metals (gold, silver and copper) all closed in positive territory. Precious metals got a boost from the mostly risk-off sentiment during the quarter on weaker equity markets and fear that the Fed was going to hike more aggressively than originally thought. Copper has recently stalled a bit with the most recent outbreak of COVID within China.

WE BELIEVE YOUR COMMODITIES STRATEGY SHOULD BE SMART

There are a number of things to note that differentiate the Direxion Auspice Broad Commodity Strategy ETF (COM) from most if its broad commodity peers. First is the COM ETF scaled back the weightings of the majority of its positions due to the extreme volatility within most of its individual commodity markets during the quarter. COM has embedded risk controls within the index it tracks (ABCERI), which scales back a position if the underlying volatility of that individual commodity exceeds a predetermined level. This is purely formulaic in nature and is reviewed regularly.

Second, the COM ETF is not always 100% static long like other notable broad commodity benchmarks. Based on price trends, an individual commodity will be either long or in cash. As of the writing of this update, the COM ETF is now long 11 out of the possible 12 commodities within the portfolio. The lone commodity that remains in cash for now is sugar.

As we enter the second quarter, the ongoing inflationary pressures and geopolitical risk will be the main areas of focus with which the commodity markets must contend. As the supply constraints continue to mount and barring a major economic slowdown, it seems that supply might have trouble meeting demand for some time to come, and this more often than not can translate into higher overall commodity prices.

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Shares of the Direxion Shares ETF Trust 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 seeks investment results, before fees and expenses, that track the Auspice Broad Commodity 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 – Effective August 31, 2021, COM tracks, before fees and expenses, the performance of the Auspice Broad Commodity Index. Prior to the close of trading on August 30, 2021, COM was an actively managed ETF that did not seek to replicate the performance of a specified index and was not required to invest in the specific components of its benchmark index. An investment in the Fund involves risk, including the possible loss of principal. The Fund is non-diversified and includes risks associated with concentration that results from the Fund's investments in a sector or specific commodity, 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 Index Correlation Risk, Index Strategy Risk, Derivatives Risk, Commodity-Linked Derivatives Risk, Futures Strategy Risk, Leverage Risk, Market Risk, Passive Investment 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 Index'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.

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