Q1 2024 COMmodity Recap

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The broad commodity markets pushed higher in the first quarter of 2024, led by the move in Energies and Metals. The Direxion Auspice Broad Commodity Strategy ETF (Ticker: COM) produced a solid quarter, gaining +2.8%. This performance was competitive with other broadly diversified commodity benchmarks, while Energy-concentrated indices benefited from outsized gains.

Many assumed that inflation* would be more subdued in 2024 and the Fed would be cutting rates multiple times. However, this narrative has not materialized as inflation data remains sticky, pointing to a structural shift, given that the long-term average Consumer Price Index (CPI)* has been 4% since 1970. Historically, inflation has coincided with higher commodity prices. This trend is playing out right now with a broadening out of commodities trending higher.

As the quarter progressed, the COM ETF started to initiate more positions and, by quarter-end, was long six out of the twelve possible commodities.

For COM, the Metal sector produced the biggest gains for the quarter. Gold eclipsed new all-time highs as continued central bank buying and growing fears of heightened global conflicts sent the Metals sector higher. The momentum in Gold finally carried over into its sibling Silver towards quarter-end, as Silver also eclipsed its two-year highs. As global green energy initiatives continue to be enacted, Silver's use in chips and solar panels should help meet the demand for the metal. Although the Gold/Silver ratio has recently narrowed, Silver is still relatively cheap historically.

During the quarter, Copper finally broke through a major level of resistance at $4. Despite the Chinese economy showing little signs of life, the anticipation of India's infrastructure buildout along with the metal's use in artificial intelligence (AI)-technology might help increase demand. There is also growing concern that supply could be constrained due to weather-related conditions in areas such as Congo and Zambia, curtailing production, along with possible self-imposed production cuts in China. The strategy was long all three Metal components heading into April.

The Energy sector experienced strong gains for the quarter, except for Natural Gas. Crude Oil pushed higher largely due to Organization of the Petroleum Exporting Countries sticking to their production cuts as well as expanding geopolitical risk in the Middle East and Russia/Ukraine, two regions that are major exporters of Oil. Even though the U.S. is producing record levels of Oil, we still have not replenished our depleted Strategic Petroleum Reserve (SPR), so prices remain elevated. As the quarter ended, Crude Oil hit its highest level since October and was added in early April.

Gasoline led the push higher for the Energy complex, as a recent U.S Energy Information Administration (EIA) report showed daily demand for gasoline hitting some of its highest levels on record. In addition, the global electric vehicles (EV) initiative seems to have morphed into more of a hybrid focus and could be favorable to the commodity. As we enter the seasonality trade with upcoming summer travel season, there may be further lift to Gasoline.

Natural Gas prices continue to languish, and the COM ETF has remained out of this market. The warmer-than-expected winter combined with a glut of Natural Gas on the market has put continued pressure on prices. Despite Natural Gas producers limiting their production due to low prices, many Oil producers are pumping natural gas as a byproduct, resulting in plenty of Natural Gas on the market. As we enter the second quarter, we are long three out of the four Energy components, excluding Natural Gas.

We remain mostly on the sidelines with the broader Agricultural markets, inclusive of Grains and Softs. The first quarter saw all three major Grains (Soybeans, Wheat, and Corn) down in varying degrees. In the case of Wheat, the Russia/Ukraine conflict has not impacted supply from Russia or Ukraine, and in fact, there is an abundance of supply in the region. There is also a plentiful supply of Corn and Soybeans. This situation could change quickly, though, if Brazil has a poor harvest and/or China demand picks up.

The Soft commodities have been a different story, where "Agflation" is a reality, and Sugar and Cotton moved higher for the quarter. The strategy is currently long just Cotton among the five components within the sector.

To view the Fund's current positions, click here. Positions are subject to risk and change.

Despite a correction in numerous commodity markets last year, we believe the super cycle narrative is alive and well. The lack of capex spending on commodity infrastructure for a decade, adding a major new demand source in India, along with a rising global standard of living could be setting the stage for a demand shock that may have generational implications. In addition, the global green energy initiatives, although well-meaning, could have unintended consequences leading to higher commodity prices.

As evident this year, commodities do not move in lockstep, and therefore be feel it is imperative to have a nimble commodity strategy. The Direxion Auspice Broad Commodity Strategy ETF (Ticker: COM) is a unique, rules-based disciplined approach to broad commodity investing. The ability to go to Cash with an individual commodity when showing a downward price trend is a key differentiator of the strategy.

With the major U.S. indices currently hovering around all-time highs and the VIX at muted levels, we think considering commodities to diversify an overall portfolio might be more prudent than ever. 2022 was not that long ago! Regardless of the environment, diversification is something to consider for smoothing out the overall ride, and COM could be a potential solution.

*Definitions and Index Descriptions

*The Auspice Broad Commodity Index (ABCERI) is a rules-based long/flat broad commodity index that seeks to capture the majority of the commodity upside returns, while seeking to mitigate downside risk. The Index is made up of a diversified portfolio of 12 commodities futures contracts (Silver, Gold, Copper, Heating Oil, Natural Gas, Gasoline, Crude Oil, Wheat, Soybeans, Corn, Cotton, and Sugar) that based on price trends can individually be Long or Flat (in Cash). One cannot directly invest in an index.

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

Direxion Shares Risks - 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 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, but are not limited to, Index Correlation Risk, Derivatives Risk, Commodity-Linked Derivatives Risk, Futures Strategy Risk, Passive Investment and Index Performance 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 global pandemics, weather and other natural disasters, changes in supply and production, embargoes, tariffs and international economic, political and regulatory developments and changes in speculators' and/or investors' demand. 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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