

# Is the COMmodity Party Just Getting Started? COM ETF: 2nd Quarter 2022 Commodity Recap

BY: EDWARD EGILINSKY, MANAGING DIRECTOR, HEAD OF SALES/DISTRIBUTION & ALTERNATIVES

---

The second quarter was a mixed one for the notable broad commodity benchmarks. The energy sector once again led the way for the quarter. This resulted in the outperformance of those commodity indices heavily tilted toward Energies. Although the Auspice Broad Commodity Index (ABCERI) finished the quarter -3.2% (its first negative quarter in over 2 years), it did outperform some other more balanced commodity benchmarks. Throughout the quarter, volatility picked up within numerous commodity markets and that led to the ABCERI implementing risk controls by reducing position sizes with those individual commodities where volatility spiked.

The quarter started with the realization that the Ukraine-Russia conflict may unfortunately not be resolved in short order. This definitely added some fuel to the rising inflation narrative concerns and contributed to global food commodity prices reaching new all-time highs earlier in the quarter.

With inflation data hitting 40+ year highs, the Fed started to play catch up by raising rates during the quarter, with the highest single increase in nearly three decades at 75 basis points (1 basis point = 1/100th of 1%). Historically, rising inflation has coincided with higher interest rates. With U.S. Treasury Bonds having one of their worst starts ever to a calendar year, investors are looking for investments that have the ability to perform independently from stocks and bonds. Through the first half of 2022, the Direxion Auspice Broad Commodity ETF (COM), which seeks to track the Auspice Broad Commodity Index, was able to show a positive return +11.76% YTD, while both stocks and bonds were down considerably.

*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 performance [click here](#) or visit <https://www.direxion.com/etfs>.*

Although there are some signs that the global economy might be slowing, the overall sentiment for commodities remains strong. As we have experienced with any commodity cycle, there will be ebbs and flows on which commodity markets lead the way, and that will vary depending on market environment. There a number of factors that support the narrative that we are in the early innings of a bullish commodity cycle and that inflation will remain elevated. This includes ongoing supply concerns based on scarcity and supply chain challenges, geopolitical risks with the Ukraine and the Middle East, and global alternative green energy policies.

The energy sector produced the strongest gain for the quarter as overall energy prices continued to rise largely due to continued tight supplies and OPEC remaining steadfast on slowly bringing more barrels onto the market. The U.S. refineries are currently producing at near capacity and the lack of capex spending for fossil fuels over the last few years has led to more reliance on oil producers like Saudi Arabia to help pick up the shortfall created by the Russia sanctions. We will see if President Biden's planned visit to Saudi Arabia will help with that situation. In the quarter, U.S. gasoline prices rose to their highest average per gallon level on record. With the summer travel season underway, the seasonality aspect might help support gasoline prices further.

The agricultural markets had some give back in the second quarter as most of the sector experienced some level of losses. The mounting fears of a global recession pushed prices lower for the quarter, although the sector is still up strongly YTD. One of the key wildcards within the sector is the ongoing Ukraine-Russia conflict and the continued impact it will have on agricultural supplies as well as the export capabilities from the Black Sea ports. There is a fear that global food shortages could arise, resulting from a prolonged war in Ukraine.

In addition, weather conditions will always play a major role with grain markets, as hot and dry conditions in the U.S. could limit yields for corn and soybean harvests during the heart of their growing season. Continued drought conditions in Argentina could also lead to shortfalls in their wheat crop. Towards the end of the quarter, the [COM ETF](#) went to cash in cotton.

It was a challenging quarter for the metals complex as both the precious (gold and silver) and industrial metals (copper) experienced sizable corrections. Our strategy was able to mitigate the downside risk within the complex as COM went to cash with all three positions during the course of the quarter. The precious metals struggled alongside a strengthening U.S. Dollar and a rising interest rate environment. In regard to copper, its price broke below some key technical support levels and saw a -20% drop. Recessionary fears really took their toll on the metals, despite continued talks from both the U.S. and China on their commitment to additional spending on infrastructure initiatives.

As we enter the second half of the year, the [COM ETF](#) will continue seeking opportunities within those individual commodities that provide upside price momentum.

The uniqueness of the strategy is its disciplined rules-based approach to commodity investing, where performance attribution can be diverse in nature relative to peers, as evident by sugar currently being the largest holding within the portfolio.

Each of the 12 individual commodities that can comprise our strategy will be both leaders and laggards at times. The COM ETF's edge is not being static in its approach, allowing it to take action when a commodity is showing price weakness by going to cash. This distinguishing characteristic results in COM's favorable risk/return characteristics relative to most broad commodity peers.

#### INDEX POSITIONS (AS OF 06/30/2022)

Index	Contract	Target
Copper	HGU2	-
Corn	C Z2	5.98%
Cotton	CTZ2	-
Crude Light	CLH3	3.16%
Gold	GCQ2	-
Heating Oil	HOQ2	3.49%
Natural Gas	NGJ23	1.88%
RBOB Gasoline	XBX2	4.01%
Silver	SIU2	-
Soybeans	S X2	-
Sugar	SBN3	10.77%
Wheat	W Z2	-

FOR INFORMATION: 877-437-9363 | [INFO@DIREXION.COM](mailto:INFO@DIREXION.COM) | [DIREXION.COM](http://DIREXION.COM)

*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 ETF Trust and Direxion Funds. To obtain a Fund's prospectus and summary prospectus call 866-301-9214 or visit our website at [direxion.com](http://direxion.com). A Fund's prospectus and summary prospectus should be read carefully before investing.*

Performance data quoted represents past performance; past performance does not guarantee future results. Index performance is not illustrative of fund performance. One cannot invest directly in and index. Please visit [direxion.com](http://direxion.com) for fund performance.

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 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.

**Distributor:** Foreside Fund Services, LLC.