Direxion ETFs | Funds

Sugar Soars, Gold Falls: Inside COM ETF's Q3 Moves and Prep for Q4

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Year to date the Direxion Auspice Broad Commodity Strategy ETF (COM) has once again demonstrated impressive risk/return characteristics, standing at +3.82% YTD as of 9/30, outshining the majority of its peers (Bloomberg). Most broad commodity index peers have lagged behind COM year to date, grappling with higher volatility and significant drawdowns.

While the commodity markets exhibited a mixed performance in the third quarter, Crude Oil took the spotlight with a massive rally.

The Energy complex's robust quarterly performance boosted broad commodity indices overweighted to Energy, such as the S&P GSCI Excess Return Index (S&P GSCI) and Deutsche Banc Liquid Commodity Optimum Yield Index (DBC CI).

Examining the Auspice Broad Commodity Index (ABCERI) Index, the tactical rules-based broad commodity index that COM seeks to track; the strategy's ability to capture the majority of the commodity return stream while mitigating downside risks relative to commodity index peers becomes evident (ABCERI Index vs Bloomberg Commodity Excess Return Index (BCOM), S&P GSCI & DBC CI).

	ABCERI	S&P GSCI	BCOM	DBC CI
Annualized Return[1]	2.09%	-2.12%	-2.17%	0.57%
Annualized Standard Deviation[2]	8.83%	21.56%	14.66%	17.53%
Max Drawdown[3]	-43.08%	-79.62%	-66.09%	-64.99%
Correlation[4]	1	0.61	0.71	0.69

Source: Bloomberg Finance, L.P., from 9/30/2010 – 9/30/2023

Please click here for standardized performance of the fund.

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. Returns for performance under one year are cumulative, not annualized.

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.

[1]Annualized Return and past performance does not guarantee future results. Index returns and correlations are historical and are not representative of any Fund performance. Total returns of the Index include reinvested dividends. One cannot invest directly in an index. [2]Standard Deviation is a measure of the dispersion of a set of data from its mean. [3]Maximum Drawdown is the greatest percent decline from a previous high. [4]Correlation is a statistical measure of how two securities move in relation to each other.

COM avoided long positions within the Energy complex throughout the first half of this year, sidestepping steep losses from the previous year. However, as some individual energy components started trending higher, the strategy implemented long positions from mid-July into August, excluding Natural Gas due to supply overhang. The Energy sector experienced significant gains in the quarter led by Heating Oil and Crude Oil. Although fears of a global demand slowdown pervaded throughout the quarter, it was more than offset by continued supply concerns. OPEC+ commitment to longer term supply cuts has limited already tight oil supplies. In addition, the green energy initiatives are helping to keep refinery output at muted levels, further hampering supply. Despite China's current economic doldrums, particularly in real estate, they continue to stockpile oil.

Other emerging markets economies such as India, have been faring much better economically this year, and their sustained demand has made up for any perceived China oil slowdown. In fact, India has supplanted China and is now the world's most populated country. India currently has the 3rd largest middle-class population and expected to be the largest by 2027. India is set to spend nearly 20% of its budget on capital investments for fiscal year 2023, the most in a decade. The Auspice team has indicated that by 2030 India is expected to have 3x the consumption China experienced in 2020. This should have significant ramifications for already tight commodity supplies. Lastly, perhaps the biggest wildcard when it comes to Oil prices is the ongoing geopolitical risk.

The Metals sector struggled overall during the quarter. Gold and Silver both sustained losses while Copper treaded water. Copper couldn't sustain any upward price momentum as the Chinese economy continued to be under pressure led by their real estate crisis, directly impacting the Industrial Metal.

During the quarter, COM went to Cash with both Silver and Gold, locking in gains in Gold from earlier in the year before selling off. The U.S. Dollar rallied strongly, partly due to U.S. interest rates climbing as the Fed's narrative became "higher for longer" regarding rates. As we have discussed, Gold and Silver are most susceptible to a stronger U.S. Dollar and as result sent metal prices lower. In addition, with interest rates eclipsing 15+ year highs, Gold tends to become a less attractive alternative to many investors.

The Grains and Softs had a mixed quarter as all three grain markets were down in varying degrees, while Sugar and Cotton showed some strong upside. Soybeans and Wheat led the decline as USDA stockpiles came in higher than analyst forecasts. Russia's plentiful wheat supply flooding the market along with above expected wheat yields sent prices to 3-year lows. The drop in Soybeans and Wheat led to some indirect pressure on Corn prices. One caveat is the ongoing Russia-Ukraine conflict and if Black Sea tensions reemerge after the collapse of a safe passage deal. The Black Sea is the artery for roughly 1/3 of the world's total wheat exports.

Sugar had another strong quarter as continued worries about the crop production in Asian areas hit by dry weather conditions led to USDA cutting Thailand (3rd largest sugar cane exporter) sugar estimates by over 10%. Also, possible restrictions by India on its sugar exports to keep prices within the country more stabilized could lead to further shortages. Additional use of sugar in the production of ethanol could also impact prices. Sugar is the top performer within the portfolio in 2023.

As the last quarter of 2023 unfolds, COM holds long positions in six commodities (Heating Oil, Crude Oil, Gasoline, Soybeans, Sugar and Cotton) out of the possible twelve, leveraging its ability to enter and exit positions based on price trends. In the face of persistent inflation, rising energy prices, elevated food prices, and increasing wages, commodities are poised for another upswing. With interest rates reaching pre-financial crisis levels, rising yields tends to coincide with higher commodity prices.

In conclusion, we believe COM ETF's strategic prowess shines in the ever-shifting commodity markets, offering investors a reliable "all weather" approach to broad commodity investing.

*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.

*S&P GSCI Excess Return Index (S&P GSCI) is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities

*Deutsche Banc Liquid Commodity Optimum Yield Index (DBC CI) is an index composed of futures contracts on 14 of the most heavily-traded and important physical commodities in the world.

*Bloomberg Commodity Excess Return Index (BCOM) is a broadly diversified index that allows investors to track 19 commodity futures through a single, simple measure.

Investing involves risk including possible loss of principal.

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