

Is It Time For Commodities To Be Seen Clearly in 20/20?

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Very few asset classes are happy to turn the page into a new decade more than Commodities. It has been one of the worst performing asset classes over this time frame.

That being said, no asset class that I'm aware of, goes straight up or down indefinitely. They might extend in one direction longer than we could ever fathom, but at some point, gravity takes hold and reversion to the mean takes shape.

We may be at an inflection point with Commodities as we enter into 2020. It was a mixed bag last year as the Energy sector and Precious Metals took center stage. Some notable commodity benchmarks had their best year in a number of years. However, is the recent upward movement we have seen with Commodities sustainable? Thus far in 2020, the answer is "no", as Coronavirus has adversely impacted most commodity prices. There are a number of factors that might lend itself to a cyclical upward move in Commodities as we enter this decade.

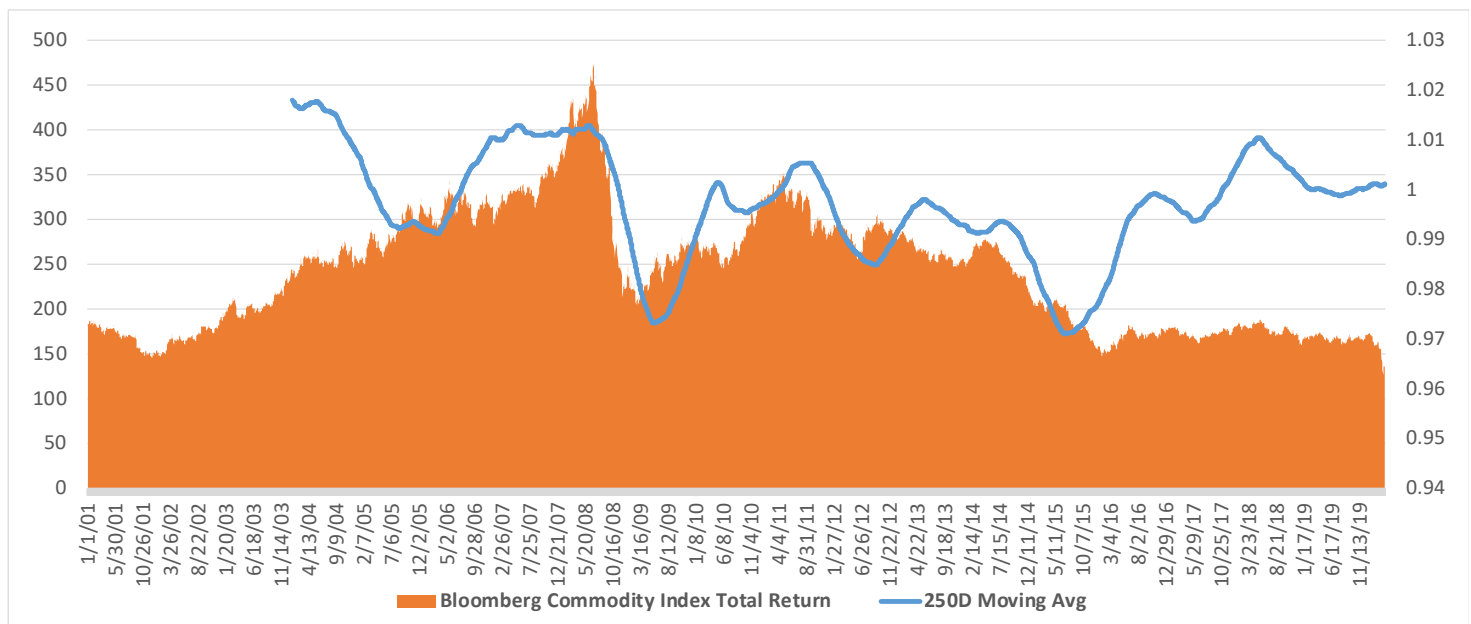
One green shoot could be the possible bottoming out of global economic data overseas, and specifically with Emerging Markets. Emerging Markets are a key driver to commodity prices. Their under performance as a whole has been a contributor to overall lower commodity prices. Case in point is the relationship between the MSCI EM equity index and commodities. Over the last 20 years, over 80% of those calendar year returns had those two benchmarks moving in tandem.

In particular, China and India will be two areas to watch in regards to an economic revival.

Let's also not forget the ongoing geopolitical risk and macro events that can roil individual commodity markets. Right now, the biggest immediate risk to global growth is the Coronavirus. If this continues to spread around the world, with no short term solution, this could have a significant impact on supply chains as well as a decrease in overall demand. There are countless other geopolitical subplots that will continue to unfold in 2020 including Brexit, continued advancement in U.S./China trade agreement, an upcoming U.S. Presidential election, and North Korea, among others that might influence commodity markets.

In the case of commodities, first and foremost supply and demand supersedes all else. The health of the global economy will be a significant contributor to the upward price movement for most commodities. The Coronavirus may lead to short term supply constraints, which might actually help with the drawing down of excess supply, and offset some of the weakening demand picture. For most commodity markets to push consistently higher, we need to see the supply/demand ratio tilt more in favor of demand exceeding supply.

GLOBAL SUPPLY AND DEMAND DYNAMIC



Source: Bloomberg. As of April 15, 2020 the performance data quoted represents past performance. Past performance does not guarantee future results. One cannot invest directly in an index. 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 the most recent month-end performance please visit the funds website at www.direxion.com.

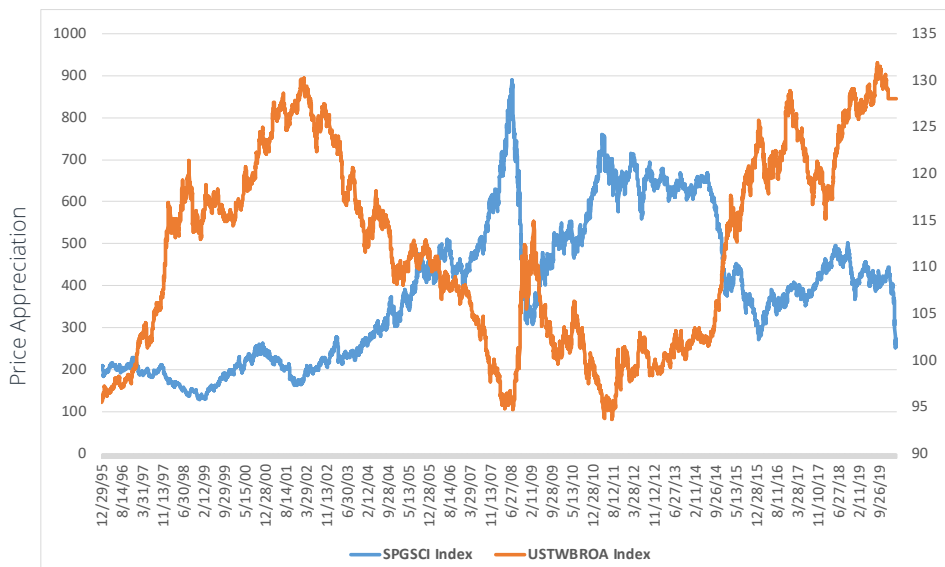
One of the worst performing commodity sectors over the last decade have been the Grain markets. Some would argue technological advances might have contributed to putting pressure on this sector. That might have some merit, but when it comes to the development of global economies, one area that will always be paramount is the ongoing necessity of basic needs such as food. Grains are front and center in this regard, and macro events such as weather can reverse the current downward trend quickly and lead to significant upside.

AS THE COMMODITY WORLD TURNS WITH THE U.S. DOLLAR

When referencing commodities, the discussion has to include the direction of the U.S. Dollar. The U.S. Dollar has been in an upward trend over the last number of years and that has represented a headwind for commodities, as they are mostly priced in U.S. Dollars.

It looks as if the U.S. Dollar might be topping and as a result could create a positive impetus for commodity prices as we move into 2020. Despite the U.S. Dollar strengthening for the majority of 2019, this still didn't prevent some notable broad commodity benchmarks from having their best year since 2016.

REVERSING TRENDS? STRONG BUCK, WEAK COMMODITIES



Source: Bloomberg (from 09/30/2010- 12/31/2019). Past performance does not guarantee future results. One cannot invest directly in an index. **S&P Goldman Sachs Commodity Index (S&P GSCI)**, a composite index of commodity sector returns representing an leveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. **US Trade Weighted Broad Dollar Index**- a weighted average of the foreign exchange value of the U.S. Dollar against the currencies of a broad group of major U.S. trading partners.

COMMODITIES BASING AT HISTORIC LOWS RELATIVE TO U.S. EQUITIES

Based on where commodities are priced today, one might think this could be an opportune time to invest in commodities, especially if you believe in "reversion to the mean" story. To put this in perspective, one doesn't have to look any further than the price ratio of the S&P 500 relative to GSCI (a broad commodity index) as a gauge. Currently this price ratio is at 50 year lows, meaning that commodities are the cheapest that they have been relative to the S&P 500 in the last 50 years. Of course, there is a chance that commodities can continue to languish for some time to come, but history suggests that at some point the tide is going to shift upward for commodities.

GSCI/S&P 500 RATIO: EQUITIES EXPENSIVE, COMMODITIES CHEAP?



Source: Dr. Torsten Dennin, Incrementum AG. As of April 15, 2020 in relation to the S&P 500® Index, the GSCI commodity index is currently trading at the lowest level in 50 years. Also, the ratio sits significantly below the long-term median of 4.1. Following the notion of mean reversion, we should be seeing attractive investment opportunities. Past performance does not guarantee future results. One cannot invest directly in an index.

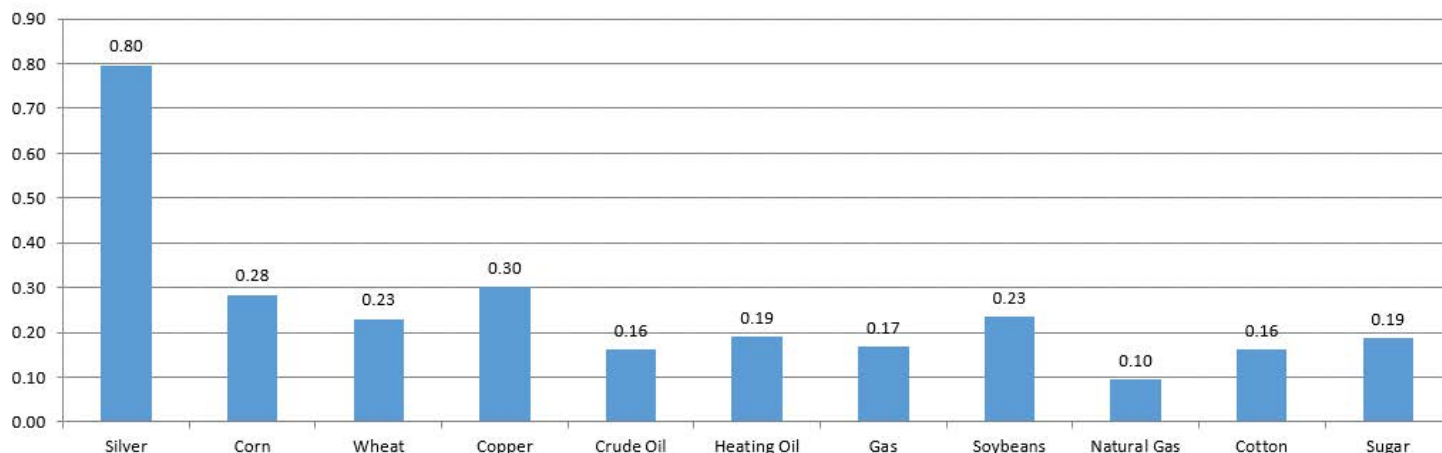
GOLD- JUST ONE PIECE OF THE COMMODITY PUZZLE

We've have been in a historically low inflationary environment for quite some time, along with the longest period on record where U.S. stocks hadn't seen a recession. Diversification is always important within a portfolio, but especially now in this current backdrop.

Historically, Commodities have shown the ability to behave differently at times to stocks and bonds making them a potentially good diversifier within an overall portfolio. There are a number of ways to gain exposure to Commodities through ETFs and mutual funds. You can invest in a single commodity like Gold, and/or a broad basket of commodities within one investment.

Gold is one way to invest in commodities, but has concentration risk and can go through significant pullbacks, like any individual commodity. You may not achieve the desired effect putting all your eggs in this single commodity. Since Gold has a low correlation to most other commodities (excluding Silver), one might consider a satellite allocation to Gold in combination, with a broader basket of commodities, as a core holding, to diversify your overall commodity exposure.

Gold Correlations 2006-2019



Source: Bloomberg. Data range: 1/1/2006 – 12/31/2019. The 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. The above listed commodities represent some of the individual components of that index. They qualify for inclusion in the S&P GSCI on the basis of liquidity and are weighted by their respective world production quantities. Past performance does not guarantee future results. One cannot invest directly in an index.

Diversification does not protect against a loss or ensure a gain. Correlation is a statistical measure of how two securities move in relation to each other and ranges between -1 and +1. A correlation of +1 indicates the two returns move perfectly together, 0 indicates movements are random, and -1 indicates opposite movements.

TAKING A TACTICAL APPROACH TO COMMODITY INVESTING

The Direxion Auspice Broad Commodity Strategy ETF (symbol COM) is a unique approach to commodity investing as it attempts to capture the majority of upside returns associated with commodities, while seeking to mitigate downside risk. The COM ETF seeks to accomplish this by tracking a rules based index that invests in those individual commodities showing a positive price trend, and gets defensive by going to Cash with those individual commodities showing a downward price trend. Individual commodities can perform differently at times, and as a result you do not necessarily want to own a broad basket of commodities that is always 100% invested. The COM ETF is a tactical approach that allows you to have a "buy and hold" option for your commodity allocation.

10/1/2010 – 3/31/2020	ABCERI	S&P GSCI	Bloomberg Commodity Index	DBC
Annualized Return	-2.58%	-10.71%	-7.59%	-7.81%
Annualized Standard Deviation	8.38%	20.10%	13.67%	17.23%
Max Drawdown	-43.08%	-74.58%	-64.02%	-66.81%
Correlation	1.00	0.64	0.77	0.71

Source: Bloomberg. Data range: 10/1/2010-3/31/2020. Past performance does not guarantee future results. One cannot invest directly in an index. Index returns are historical and are not representative of any fund performance. Total returns of the index include reinvested dividends. ABCERI represented by the Auspice Broad Commodity ER Index. The ABCERI went live 10/1/2010. S&P GSCI represented by the S&P GSCI TR Index. Bloomberg Commodity Index represented by the Bloomberg Commodity Index formerly known as the Dow Jones UBS Commodity Index. DBC represented by the DBIQ Optimum Yield Diversified Commodity ER Index. Gold represented by S&P GSCI, a composite index of commodity sector returns, with gold represented by the individual gold component of that index.

Standard Deviation is a measure of the dispersion of a set of data from its mean.
Correlation is a statistical measure of how two securities move in relation to each other.
Maximum Drawdown is the greatest percent decline from a previous high.

Only time will tell, but now might be the time to look at commodities from both a relative as well as absolute standpoint.

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.

COM - 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.

COM 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 risks related to investment in commodity-linked derivatives and commodities, Futures Strategy Risk, Leverage Risk, Market Risk, 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.

Market Disruptions Resulting from COVID-19. The outbreak of COVID-19 has negatively affected the worldwide economy, individual countries, individual companies and the market in general. The future impact of COVID-19 is currently unknown, and it may exacerbate other risks that apply to the Fund.

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