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Q2 2024 COMmodity Recap

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The Direxion Auspice Broad Commodity Strategy ETF (Ticker: COM) had a strong second quarter, as the Auspice Broad Commodity Excess Return Index (ABCERI)*, which the COM ETF seeks to track, outperformed most broad commodity index peers. The COM ETF finished the quarter +3.32% and is +6.21% YTD through June month end.

Although inflation* subdued a bit during the quarter, it remains above the Fed's target level (2%) but is very much in line with long term average inflation levels, as average Consumer Price Index (CPI)* over the last 100 years is 3% and is 4% since 1970. As such, these levels are "normal" and something investors may need to adjust to.

We saw yields move higher on the longer end of the curve as well as a slight uptick on the 10 yr. yield. The Federal Reserve meets two more times (July and September) before the election, and many believe in order to avoid the perception of being politically motivated, the Fed won't cut rates beforehand.

The commodity markets were mixed for the quarter as the Metal complex was the top performing sector, while the Grain and Softs were the biggest laggards.

The Metal complex continued to push higher in the second quarter as all three metals that the COM ETF tracks (Gold, Silver, and Copper) were positive to varying degrees. The COM ETF held a long position in all three metals throughout the quarter and was led by Silver with Copper and Gold also contributing to the returns.

The Silver markets had a strong quarter as the metal played catch up to its brethren Gold. As the quarter began, the Gold/Silver price ratio illustrated that Silver was underpriced relative to Gold from a historic standpoint. When referring to global clean energy initiatives, Silver is certainly a key component to the production of solar energy.

With the evolution of Artificial Intelligence (AI) and the broader build out of data centers, commodities like Copper will be essential to the electric grid. Copper had a strong quarter as optimism around the China economic rebound and India's rapid industrialization helped propel the metal higher.

The Energy sector was difficult to navigate, as the petroleum side of the energy complex was flat to down. The Crude Oil market was choppy as the bulls and bears were in a tug of war. OPEC+ extending the length of their production cuts, seasonal demand expected to ramp up with summer travel, and ongoing geopolitical risk provided bulls some optimism. However, the reality of interest rates staying higher for longer, and thus adversely impacting the global economy provided bears with some ammunition. As we enter the third quarter, the COM ETF is currently long two energy components (Crude Oil and Gasoline).

It has been a challenging year thus far for Agriculture and Softs. The sector has a negative attribution YTD given most of the individual commodities making up these sub-sectors are currently in a downtrend. As a result, we are currently long only one (Wheat) out of the possible five commodities within the sector. After an initial rally the COM ETF went long Wheat in May, however the Wheat market has pulled back partly because of the improved outlook for the Russia wheat crop. In addition, the Russia/Ukraine conflict has largely not disrupted harvest or export capabilities.

The potential for a strong crop season for Soybeans and Corn sent those markets lower in the first half of year. Soybeans and Corn are both trading at their lowest levels in years and although there is still time for the narrative to change, Corn is shaping up to have its second-best harvest on record. The potential for an abundancy in supply coinciding with demand waning is keeping prices at bay.

As of 6/30/2024, the COM ETF was long six out (Crude Oil, Gasoline, Gold, Silver, Copper, and Wheat) of the possible 12 commodities.

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

We continue to see interest from investors looking to diversify beyond stocks and bonds. With the U.S. major equity markets currently at all-time highs, many investors are concerned about lofty valuations and looking for alternatives. In addition, U.S. interest rates continue to remain elevated, and the diversification or "flight to safety" aspect did not materialize with U.S. bonds in 2022.

As an asset class, commodities can potentially provide an additional source of returns and a low correlation to stocks and bonds within an overall portfolio. Historically, in normal times of inflation, bonds are more correlated to equities, further making the case for asset class diversification-something we see institutional investors doing.

Since its inception over 7 years ago, the COM ETF has shown the ability to provide most of the commodity upside while seeking to mitigate downside risk. This is evident by its overall Morningstar rating being consistently 4 or 5 stars within the broad commodity category while ranking amongst the least risky.

There continue to be several catalysts that can spur commodity prices higher, including the upcoming U.S. presidential election, ongoing geopolitical risks, and global tensions. The COM ETF, through its rules based tactical approach to broad commodity markets, can help investors navigate whatever lies ahead.

*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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