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COM ETF: 3rd Quarter 2022 Commodity Recap

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Overall Morningstar Rating™ out of 101 US Fund Commodities Broad Basket funds based on risk adjusted returns as of 09/30/2022†.

★★★★★

The third quarter was a challenging one for the broader commodity markets as the growing fears of a global slowdown led to the majority of individual commodities declining for the quarter. This was reflected in the performance of some notable broad commodity benchmarks that were down ranging anywhere from 3% to 11%. The Auspice Broad Commodity Index (ABCERI), which is the Index that our Direxion Auspice Broad Commodity Strategy ETF (COM) seeks to track was only down -3.82% for the quarter. The biggest laggards were indices more heavily tilted toward Energies (particularly Crude Oil), which had the largest drop of any individual commodity tracked by the Auspice Broad Commodity Index (ABCERI).

THE AUSPICE BROAD COMMODITY INDEX (ABCERI) VS. LONG-ONLY COMMODITY INDEXES

	ABCERI	S&P GSCI[5]	BCOM[6]	DBC CI[7]
Annualized Return[1]	2.04%	-2.68%	-1.90%	0.55%
Annualized Std Dev[2]	9.05%	21.71%	14.71%	17.62%
Correlation[3]	100.00%	61.95%	71.96%	70.11%
Max Drawdown[4]	-43.08%	-79.62%	-66.09%	-64.99%

Source: Bloomberg, as of 09/30/2022

The Auspice Broad Commodity Index was able to mitigate its downside risk relative to peers by getting more defensive as the quarter progressed. The Index started the quarter long eight of the possible 12 commodities, but by quarter end, saw that number drop to one. During the quarter, most commodities saw downward price activity due to a combination of slowing demand concerns as the likelihood of a global recession mounted and the continued strengthening of the U.S. Dollar.

Our COM ETF was able to navigate through this challenging environment by getting defensive (in Cash) with 11 out of the possible 12 commodities. With interest rates on the rise as the Fed continues to remain hawkish in their efforts to tame inflation, the COM ETF is now able to generate a yield on Cash as the strategy waits to add commodity exposure as new trends and opportunities develop.

As you might recall, the last time COM was defensive, in 2020, it went from having no commodity exposure in March 2020 to having exposure to most of the commodities in the Index by that September. The ability of COM to mitigate its drawdown in 2020 resulted in the strategy producing a positive calendar year, while other notable broad commodity indices were down in varying degrees. The COM ETF is a rules-based tactical approach to managing your commodity exposure. This is a way to have a commodity allocation without the need to time it yourself, which can be difficult to employ successfully.

The Energy complex performance was mixed in the third quarter of 2022 as Crude Oil prices saw a significant decline as waning demand concerns outweighed the geopolitical risk that continues to pervade as the Russia/Ukraine conflict continues. The stalwart of the complex was Natural Gas as the Nordstream pipeline disruptions kept prices elevated throughout the quarter. The announcement by OPEC+ after their latest meeting to institute the largest production cut since the start of the pandemic caught many off guard and sent Crude Oil prices sharply higher. This move by OPEC+ could help stabilize Crude Oil prices and Energy markets over the short term especially since heading into a seasonality trade.

Although the Energy complex as a whole tends to move somewhat in lockstep, that is not always the case. The ability of COM to be Long or in Cash based on an individual commodity's price trend is one of the distinguishing characteristics relative to other passive, long-only broad commodity benchmarks. The COM ETF started the quarter long all four Energy components and by quarter's end was only long Natural Gas.

The strategy continues to remain in Cash with the Metals (Gold, Silver and Copper) as all three were down in varying degrees for the quarter. The strength of the U.S. Dollar partly facilitated by rising interest rates has impacted commodities in general. The Precious Metals (Gold and Silver) tend to be most sensitive to a strong U.S. Dollar and their performance has languished throughout the year. This is despite Gold being considered historically an inflation hedge and a flight to safety trade, and further illustrates the benefits of a more diverse and tactical commodity approach. In the case of Copper, the economic slowdown, specifically in China, continues to have an adverse impact on this Industrial Metal. The uncertainty of further lockdowns and growing concerns of a China real estate bubble could potentially impact the supply and demand of Copper.

The COM ETF suffered its largest losses for the quarter in the Grains/Softs sector with Cotton experiencing the biggest pullback. Those losses ocurred early in the quarter as the strategy exited those long positions by the end of July. Overall, the Grain markets recovered over the course of the quarter as concerns over Russia extending their current agreement to allow Wheat and Corn shipments out of Ukraine helped keep Grain prices elevated. However as we ended the quarter, Soybeans were hovering around two-month lows largely due to dwindling water levels in the Mississippi River, impeding the ability of ships to transport U.S. grains to export terminals. The Mississippi River is the largest export channel in the U.S. for the nations Corn and Soybeans crop.

In addition, the Wheat markets will be keeping a close eye on weather conditions in Argentina, as they are a major supplier of Wheat. In the Softs, both Sugar and Cotton ended the quarter lower. The Grain markets will continue to monitor the ongoing geopolitical risk between Ukraine and Russia and that could have a significant impact on those markets.

As we enter the last quarter of 2022, the COM ETF is positioned defensively and earning a cash yield. However, this could change when an individual commodity resumes an upward price trend. Thus far in 2022, most asset classes have negative performance year to date. Even those historically “safe haven” assets have not provided the diversification that one would have expected with the equity markets down significantly.

Commodities have shown their ability to provide non-correlated returns this year, as they have been one of the few bright spots within an overall portfolio. We feel the commodity markets are still in a longer-term super cycle, but can have periods of underperformance even during bullish cycles. That is why having an allocation to a tactical commodity approach such as the Direxion Auspice Broad Commodity Strategy ETF (COM) is an option to smooth out the ride and be a core holding within your overall commodity allocation.

[1]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]**Correlation** is a statistical measure of how two securities move in relation to each other. [4]**Maximum Drawdown** is the greatest percent decline from a previous high. [5]**S&P GSCI Excess Return Index (S&P GSCI)**, 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; [6]**Bloomberg Commodity Excess Return Index (BCOM)**, a broadly diversified index that allows investors to track 19 commodity futures through a single, simple measure, and [7]**Deutsche Banc Liquid Commodity Optimum Yield Index (DBC CI)**, an index composed of futures contracts on 14 of the most heavily-traded and important physical commodities in the world.

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 direxion.com. The 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 an index. Please visit 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 the 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.

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 - 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 investments in commodity-linked derivatives and commodities, Futures Strategy Risk, Index Correlation Risk, Index Strategy Risk, Leverage Risk, Market 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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