

Nasdaq Commodity Index Annual Rebalance

2015 was not a great year for equities, with broad U.S. and global benchmarks down -1.5% and 4%, respectively. Unfortunately, commodities had a much rougher year than equities. The Nasdaq Commodity Index (NQCI) was down -29.4% for the year. Looking at sector performance, the best performing, though still down double digits, was precious metals with a -12.9% return, while the worst performing was energy with a -40.3% return.

In the first five index trading days in 2016, as occurs each year, the Nasdaq Commodity Index (NQCI) had its annual rebalance. Data used in determining the target index weights for the rebalance is always from November 1 of two years prior (this rebalance: November 2014) through October 31 of the prior year (October 2015) to effectiveness on the first trading days of the current year (January 2016).

The annual rebalance of 2016 had some noteworthy changes. There was a single component deletion, Tin, which had been an eligible commodity in the Nasdaq Commodity Index family at launch in April 2012 but as of the 2016 annual review, the contract dipped below the minimum thresholds for eligibility and so had been removed.

In addition to this change to the benchmark index, the tradable index had changes to its composition. The difference between the benchmark and tradable indexes is the minimum thresholds for inclusion to the tradable index are much higher than that of the benchmark index. From the 2016 rebalance, the number of commodities in each is 32 and the lesser 18, respectively. As part of this year's review, Coffee and Lean Hogs were no longer eligible for the tradable index; no new commodities became eligible. This resulted in the number of commodities in the tradable index dropping from 20 from the year prior to 18 for 2016.

As a result of the annual rebalance, the largest weight increases were across the board in different sectors with Gold, Corn and Aluminum having increases of 1.87%, 0.62% and 0.59%, respectively. The largest weight decreases came from the Energy sector and were in Crude Oil, Brent Crude and Natural Gas at -3.0%, -2.4%, and -0.8%, respectively. Highlighted in Figure 1 are sector changes over the last year's target weights, in addition to the number of commodities eligible per sector. Note that there was a drop in the Industrial Metals from 7 commodities to 6 because Tin is not an eligible commodity for 2016.

Figure 1

SECTOR	NO. COMMODITIES	CHANGE
ENERGY	6	-6.4%
INDUSTRIAL METALS	6	1.7%
PRECIOUS METALS	4	2.1%
AGRICULTURE	13	2.5%
LIVESTOCK	3	0.1%

In looking at two of the competing commodity indexes and their offerings, it is quite apparent how much larger the Nasdaq basket is in terms of showing a better picture of the full commodity markets and further into its added built-in diversification capability across each sector. The Nasdaq Commodity Index has 32 commodities while the S&P GSCI has 24 and Bloomberg (formerly DJ-UBS) has 22. Bloomberg has sector weights that are closer to being equal weight than NQCI or S&P GSCI, as shown in Figure 2; the number of commodities in the Bloomberg overall index in addition to its different weighting scheme has caused this disparity.

Some of the largest differences between NQCI, S&P GSCI, and Bloomberg are in Brent Crude with NQCI and S&P GSCI each having 10% and 17% higher weights and in Crude Oil at 9% and 17%, respectively. For a complete weight breakdown of each commodity in NQCI, S&P GSCI, and Bloomberg see Figure 3.

Figure 2

SECTOR	NQCI	S&P GSCI	BBG
ENERGY	53.4%	71.3%	31.0%
INDUSTRIAL METALS	13.0%	6.7%	17.1%
PRECIOUS METALS	11.2%	2.8%	15.6%
AGRICULTURE	18.8%	13.3%	30.6%
LIVESTOCK	3.6%	6.0%	5.6%

Figure 3

SECTOR	COMMODITY	NQCI	S&P GSCI	BBG
ENERGY	Brent Crude	17.8%	24.7%	7.5%
	Natural Gas	4.6%	3.1%	8.4%
	Heating Oil	4.8%	5.8%	3.8%
	Crude Oil	16.0%	24.5%	7.5%
	Gasoline	4.5%	5.7%	3.7%
	Gas Oil	5.7%	7.4%	--
INDUSTRIAL METALS	HG Copper	1.8%	--	--
	Aluminum	3.9%	2.0%	4.6%
	Copper	3.9%	3.1%	7.6%
	Lead	0.5%	0.5%	--
	Nickel	1.5%	0.6%	2.4%
	Zinc	1.4%	0.6%	2.5%
PRECIOUS METALS	Platinum	0.5%	--	--
	Palladium	0.3%	--	--
	Silver	2.1%	0.3%	4.2%
	Gold	8.2%	2.4%	11.4%

SECTOR	COMMODITY	NQCI	S&P GSCI	BBG
AGRICULTURE	Corn	3.7%	3.4%	7.4%
	Soybean	5.1%	2.7%	5.7%
	Soybean Meal	1.7%	--	2.8%
	Soybean Oil	1.1%	--	2.8%
	Wheat	1.6%	3.0%	3.3%
	Kansas Wheat	0.6%	0.8%	1.2%
	Robusta Coffee	0.3%	--	--
	White Sugar	0.2%	--	--
	Spring Wheat	0.2%	--	--
	Cocoa	0.8%	0.3%	--
	Coffee	1.3%	0.7%	2.3%
	Cotton	0.7%	1.1%	1.5%
LIVESTOCK	Sugar	1.6%	1.4%	3.6%
	Feeder Cattle	0.6%	0.7%	--
	Lean Hogs	0.8%	2.1%	2.1%
	Live Cattle	2.2%	3.1%	3.6%

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