Relative Weight Spotlight

EM INVESTORS GOING ON VACATION

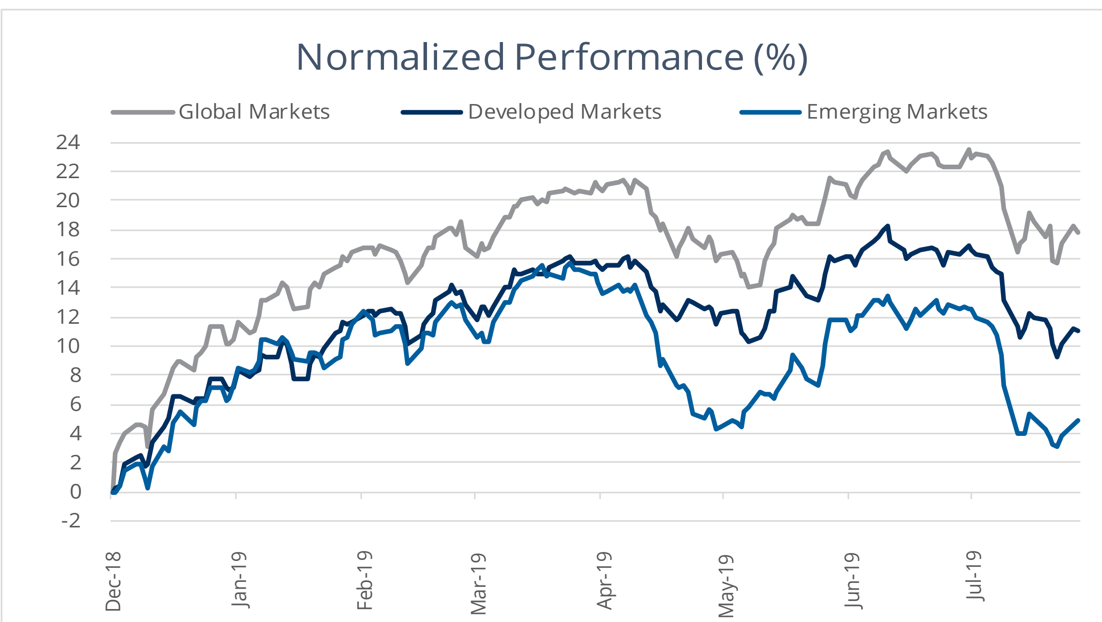
Since the global equity markets hit their 2019 peak on July 24, emerging markets (EM) are down 6.88%, underperforming developed markets by 1.96% making it seem like investors in emerging markets are showing their usual tourist-like behavior when the going gets tough. Interestingly, since they bottomed on December 24, 2018, EM remains down 5.20% on a relative basis, making this potentially more than a summer vacation.

While our model remains mixed on developed relative to emerging markets positioning, it is difficult to ignore the fundamental challenges emerging markets face in the short-term. This actually helps make the case for EM even if it may be painful as investors continue to weigh what increasingly feels like a prolonged global economic slowdown as opposed to a mid-cycle hiccup.

WHAT WE'VE SEEN

- After two months of muted relative performance, August has brought weakness for emerging markets as they have underperformed by 1.81%. On the positive side, this is actually less than previous months of weakness, such as February and May, which were other periods of trade war escalation.
- Another headwind for the emerging markets relative to developed markets has been the continued resiliency of the US dollar even in the face of further expected rate cuts by the FOMC.

EMERGING MARKETS CONTINUE TO STRUGGLE RELATIVE TO DEVELOPED MARKETS



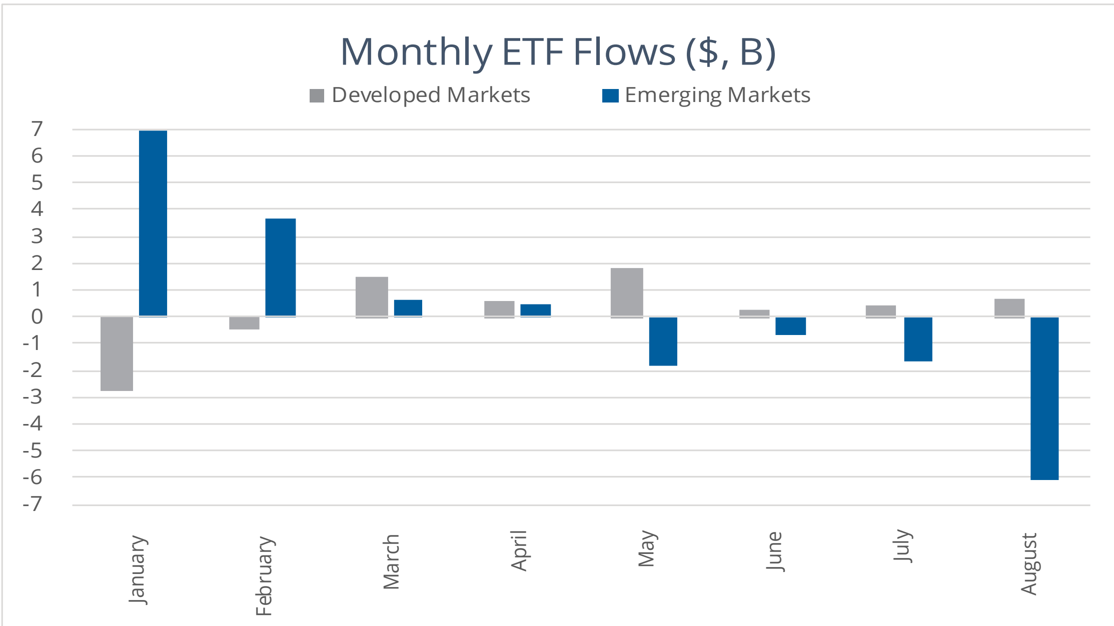
Source: Bloomberg Finance, L.P., as of August 20, 2019. Data displays the total returns of global markets defined by the MSCI ACWI IMI, developed markets defined by the MSCI EAFE IMI and emerging markets defined by the MSCI Emerging Markets IMI. Past performance is not indicative of future results. One cannot invest directly in an index.

MONEY IN MOTION

Broad-based emerging market ETFs have seen over $6 billion of outflows month-to-date reflecting investor angst over the seemingly never-ending China and U.S. trade talks and the ongoing global manufacturing weakness.

- Even though EM ETFs have seen sizable outflows, they remain positive for the year with $1.47 billion of inflows compared to $1.87 billion for developed markets primarily driven by the nearly $7 billion of inflows for EM in January.
- Perhaps more telling than the overall category flows is how EM ETFs used primarily by asset allocators have suffered outflows for two straight months after allocators had been steadily building positions for most of 2019. Of course, EM ETFs used by traders are also seeing redemptions highlighting the breadth of negative sentiment.

ETF INVESTORS PUSH PAUSE ON GROWTH AND VALUE ETFS



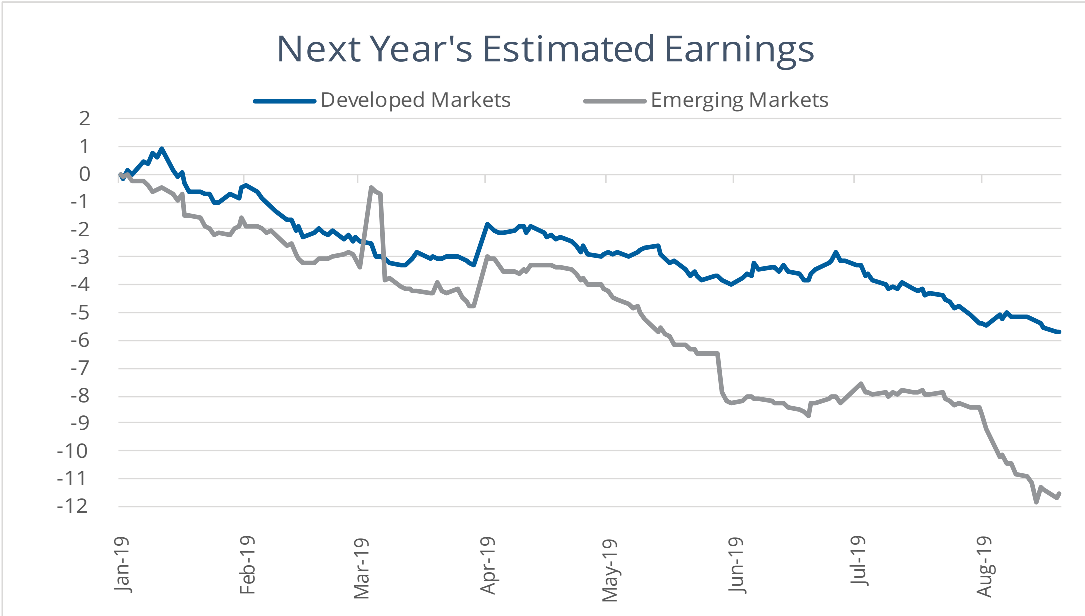
Source: Bloomberg Finance, L.P., as of August 20, 2019. Data represents the monthly flows of the U.S.-listed Developed Markets ETFs and Emerging Markets ETFs specifically targeting exposure to broad developed market and emerging market equities respectively.

WHAT'S NEXT?

With macro issues on the forefront of investors' minds, it seems that earnings estimates may not be as relevant of a market driver today. However, to ignore that next year's estimated earnings for emerging markets have deteriorated sharply would be foolhardy.

- In the near-term, macro headwinds will remain the dominant driver of emerging markets performance, as the group has shown to have the tightest relationship of any market segment with global trade growth that is expected to decline.
- In short, the bullish case for emerging markets relative to developed markets rests primarily on two interconnected pillars - that China and the U.S. will reach a trade agreement allowing for a return to trade growth, and that central banks will proactively be able to engineer a soft landing as illustrated by the recent unexpected rate cuts from countries, such as India and Thailand.

EXPECTED EARNINGS GROWTH FOR EM HAS COLLAPSED



Source: Bloomberg Finance, L.P., as of August 20, 2019. Data displays the total returns of developed markets defined as the MSCI EAFE IMI and emerging markets defined as the MSCI Emerging Markets IMI over the last year. Past performance is not indicative of future results. One cannot invest directly in an index.

IMPLEMENTATION IDEAS

- The Direxion MSCI Emerging Over Developed Markets ETF [**RWED**] delivers greater exposure to emerging markets and an underweight to developed markets driven by a capital efficient 150/50 structure making it a compelling opportunity for investors interested in overweighting emerging market equities.
- On the other hand, investors who wish to underweight emerging markets and overweight developed markets, can look to the Direxion MSCI Developed Over Emerging Markets ETF [**RWDE**], which is structured to have 150% weight to the MSCI EAFE Investable Market Index and a negative 50% weight to the MSCI Emerging Markets Investable Market Index.

DEFINITIONS

- **MSCI Emerging Markets IMI:** The MSCI Emerging Markets Investable Market Index (IMI) captures large, mid and small cap representation across 24 Emerging Markets countries.
- **MSCI EAFE IMI:** The MSCI EAFE Investable Market Index (IMI), is an equity index which captures large, mid and small cap representation across Developed Markets countries around the world, excluding the US and Canada.