Direxion
ETFs | Funds

Relative Weight Spotlight

INTERNATIONAL MARKETS STILL LOOKING FOR A CATALYST

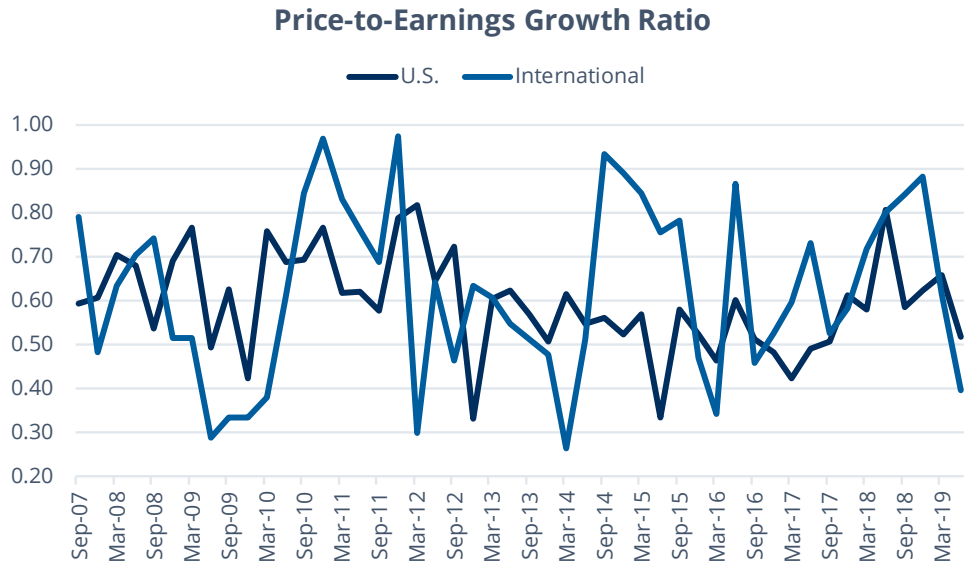
U.S. stocks are outperforming their International peers again in June and have outperformed in 9 of the last 12 months through the end of May.

While the U.S. is now approaching its highest relative valuation in our data history, we believe that the U.S. still offers greater upside potential than International markets considering an ongoing global economic slowdown which could see Europe and Japan suffering to a greater extent than the U.S.

WHAT WE'VE SEEN

- With the U.S. outperforming so sharply, its relative valuation continues to look stretched. However, comparing PEG Ratios between the U.S. and International companies reveal an interesting picture that shows more similarity between the two regions. Specifically, this implies that investors are paying a more consistent, and comparable, multiple per unit of earnings growth. It just so happens that the U.S. has been generating much greater earnings growth.
- Viewing the two equity exposures under this lens offers another way to better understand the relative value between U.S. and International stocks, which in many other ways may appear overstretched towards the U.S. The Price-to-Earnings Growth Ratio, in a way, explains away much of the "premium" that a simple price-to-earnings comparison seems to portray. By using underlying growth rates as the divisor, the higher multiple assigned to U.S. stocks seems more justified, and the relative valuation is closer to historical averages than investors may believe.

LARGE CAPS OUTPERFORMED AS SPREADS WIDENED



Source: FTSE Russell, as of June 12, 2019. U.S. represented by the Russell 1000 Index and International represented by the FTSE All-World ex US. One cannot invest directly in an index.

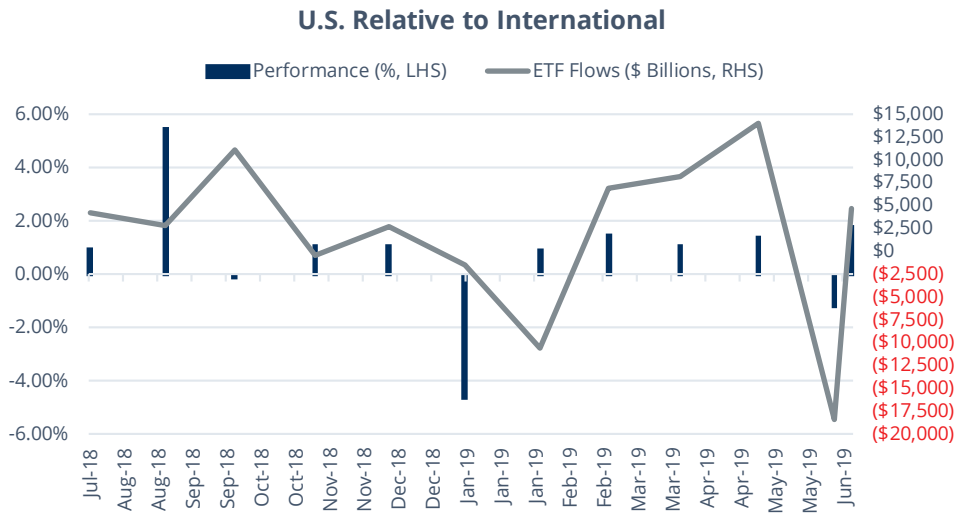
MONEY IN MOTION

Flows continue to follow performance when it comes to domestic and international exposures. Investors may be keen to keep an eye on the relative strength in flows between U.S. and International ETFs.

- Relative flows between U.S. and International ETFs have moved in the same direction as relative performance in 8 of the last 12 months, with February, March, April and May 2019 all seeing ETF flows align with monthly performance. May saw the largest relative strength in flows in favor of International stocks since March of 2018, with U.S. ETFs seeing almost $16.0B in net redemption activity while International ETFs saw over $2.2B in net creations.

- June has seen this trend continue with U.S. stocks outperforming International shares, and ETF investors are sharply moving back to the U.S. after redeeming throughout the month of May. Over the first 7 trading days of June, ETFs specifically targeting exposure to the U.S. have taken in $4.64B more relative to International ETFs, indicating that relative strength in flows has quickly returned in favor of domestic exposure.

U.S. RELATIVE TO INTERNATIONAL, FLOWS AND PERFORMANCE



Source: Bloomberg Finance, L.P., as of June 12, 2019. Data represents the relative net flows of U.S.-listed U.S. Equity ETFs and International Equity ETFs specifically targeting exposure to U.S. and international markets, respectively. For example, when the orange line is positive, U.S. equities gathered greater flows than International equities. On the other hand, when the orange line is negative, U.S. equities gathered less flows than International equities.

WHAT'S NEXT?

While there is relevant global economic data being released this week and the FOMC meets next week, the G20 meeting in Japan on June 28 and 29 will be the next major catalyst for investors.

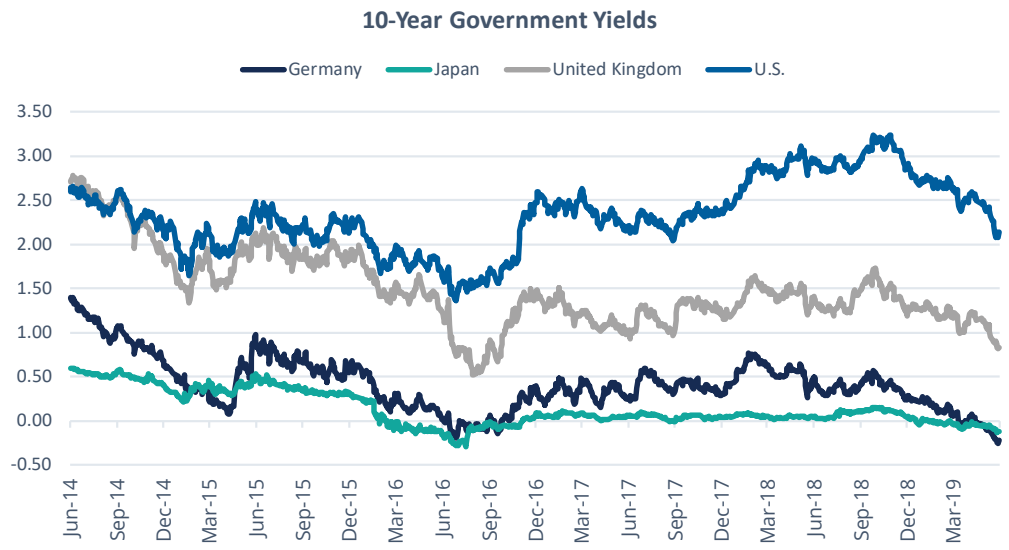
- Italy's challenges with the ECB and the seemingly never-ending Brexit saga do not make the case to dive into the Developed Markets water easy. A potential trade war with Europe and now Japan will also weigh on near-term sentiment. The upcoming G20 summit also carries implications for U.S. – China trade relations, as President Trump has threatened to introduce tariffs on another $300 billion of Chinese exports if Xi Jinping does not meet with him in Japan. POTUS Trump has indicated that he expects the meeting to occur, however, and markets seem to be optimistic that progress can be made.

- The premium in U.S. 10-Year Yields continues to hold relative to other major developed nations, which has also been a driver for the strength in the U.S. dollar that we have witnessed throughout all of 2019. With both the German and Japan 10-Year Yield firmly in negative territory, demand for U.S. assets in the fixed income market is also telling of investors' appetite for U.S. exposure

- We continue to view the U.S. dollar as a major proxy for international exposures. With the U.S. Dollar approaching a two-year high (as measured by the U.S. Dollar Index), any technical breakdown in the recent YTD and two-year trend could be a major catalyst for international stocks, especially relative to U.S. stocks.

- The overhang of multiple geopolitical risks have resulted in global equities carrying increasingly higher risk premiums, and this is especially true for international stocks. With the likelihood that most of these events carry prolonged timelines with less binary outcomes, we find it difficult to see a dramatic reversion in the U.S. and International equity relationship, especially in the near term.

THE U.S.'S YIELD ADVANTAGE CONTINUES



Source: Bloomberg Finance, L.P., as of June 12, 2019

IMPLEMENTATION IDEAS

- The **Direxion FTSE Russell US Over International ETF** [**RWUI**] is purposely built for investors who wish to gain amplified exposure U.S. equities relative to International companies.
- Alternatively, the **Direxion FTSE Russell International Over US ETF** [**RWIU**] allows investors to gain increased weight to International markets compared to U.S. stocks.

DEFINITIONS

- **Russell 1000® Index:** The Russell 1000 Index consists of the largest 1,000 companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. companies.
- **FTSE All-World ex US Index**: The FTSE All-World Excluding United States Index is a free float market capitalization weighted index. FTSE All-World Indices include constituents of the Large and Mid-capitalization universe for Developed and Emerging Market segments.

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. To obtain a Fund's prospectus and summary prospectus call 866-476-7523 or visit our website at direxioninvestments.com. A Fund's prospectus and summary prospectus should be read carefully before investing.

Shares of the Direxion Shares are bought and sold at market price (not NAV) and are not individually redeemed from a 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. Some performance results reflect expense reimbursements or recoupments and fee waivers in effect during certain periods shown. Absent these reimbursements or recoupments and fee waivers, results would have been less favorable.

Direxion Relative Weight ETFs Risks - Investing involves risk including possible loss of principal. The Funds' investments in derivatives may pose risks in addition to, and greater than, those associated with directly investing in or shorting securities or other investments. Investing in, and/or having exposure to, foreign instruments may involve greater risk than investing domestic instruments. The Funds' returns and net assets may be affected largely by fluctuations in currency exchange rates, political, diplomatic or economic conditions and the regulatory requirements of foreign countries which typically are not as strict as in the U.S. There is no guarantee that the returns on the Funds' long or short positions will produce high, or even positive returns and a Fund could lose money if either or both of the Fund's long and short positions produce negative returns. Please see the summary and full prospectuses for a more complete description of these and other risks of the Funds.

Distributor for Direxion Shares: Foreside Fund Services, LLC.