

February Outlook 2020

ONE OF THESE THINGS IS NOT LIKE THE OTHER

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OVERVIEW

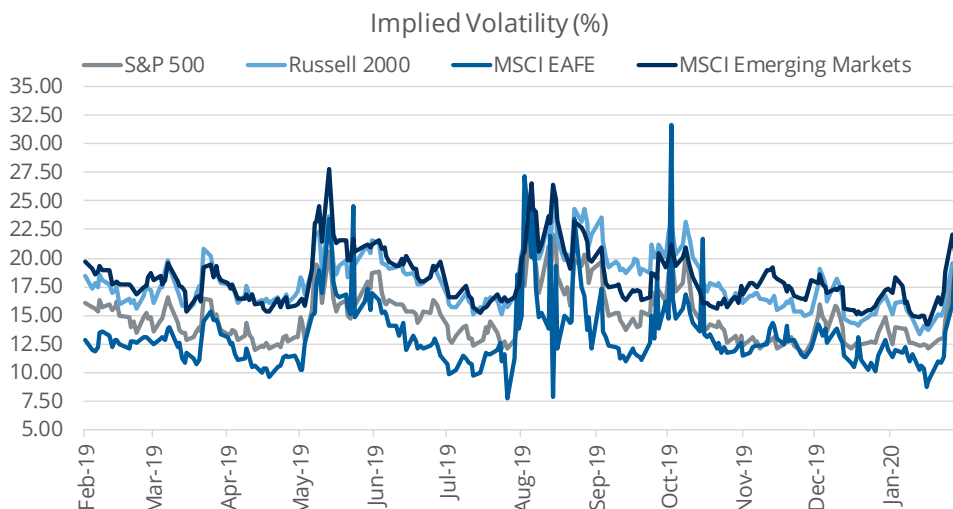
- A series of unexpected events caused market volatility to jump in January after being subdued for the better part of 2019.
- In general, ETF investors continued to follow performance trends putting money to work in leading areas and avoiding lagging ones.
- Looking ahead, we believe that volatility will remain elevated this year and believe that it is prudent to introduce strategies with defensive characteristics, even if equity momentum and relative valuations remain positive.

JANUARY IN REVIEW

Retaliatory bombings between Iran and the US in the Middle East. A new deadly virus in China. All time market highs. One of these things is not like the other. The start of the New Year (and decade) caught many investors by surprise as oil prices spiked and stocks pulled back in response to the U.S. killing Iranian General Soleimani, which then saw Iran retaliating with an airstrike on U.S. military bases. As tensions quickly quieted down thanks to diplomacy, markets regained their footing pushing to a series of all-time highs. They sold off again into month-end as concerns about the potential for the spread of a coronavirus that began in Wuhan, China could negatively affect global economic growth.

While time will tell what the economic impact will be, economic data came in better than expected in January as the Citi Economic Surprise Index for the globe pushed into positive territory for the first time since September. In addition, while far from robust, revenue and earnings reported better than expected results in January, which helped buffer some of the negative sentiment.

FIGURE 1: VOLATILITY INCREASED IN JANUARY FROM DECEMBER'S LULL

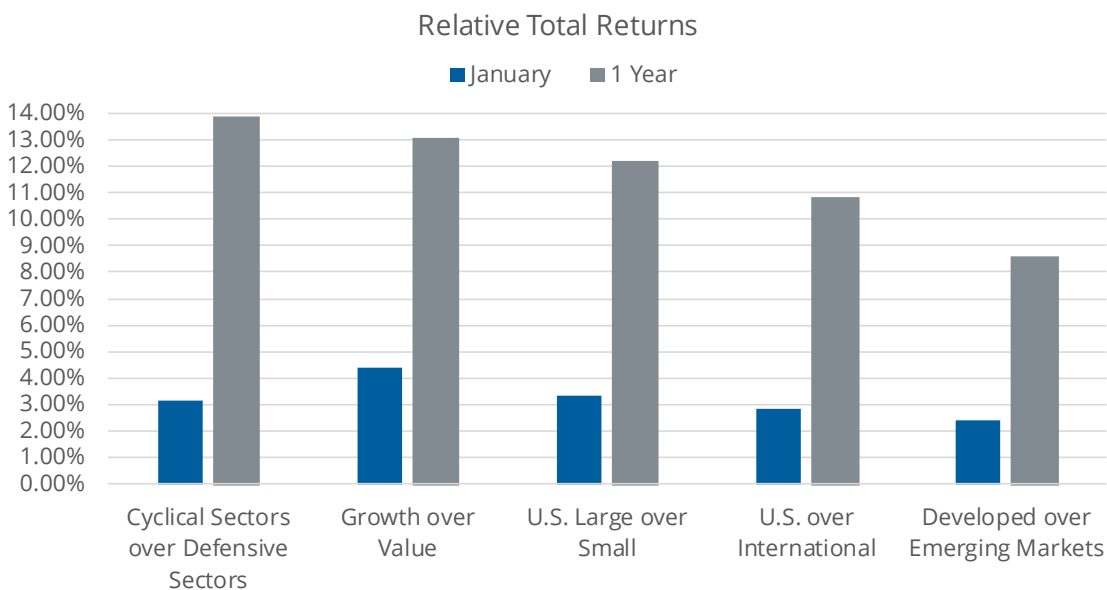


Source: Bloomberg Finance, L.P., as of January 31, 2020. Index descriptions presented under Definitions below. Past performance is not indicative of future results. One cannot invest directly in an index.

2019'S WINNERS CONTINUE TO OUTPERFORM

With a total return of 2.24% in January, growth outperformed value for the fourth straight month. The 4.39% monthly return difference ranks as the eighteenth best month since inception of the Russell U.S. Style indexes in 1979. Even with flat total returns, large caps had a strong month relative to small caps, outperforming to the tune of 3.32%. Within the large cap spectrum, cyclical sectors bounced back in January relative to defensive sectors, providing 3.16% worth of outperformance. Over-weights to the technology sector continued to power the outperformance of growth, large caps, cyclicals, and U.S. markets. Developed markets beat emerging markets by 2.38% last month as China's -4.69% return dragged on emerging countries.

FIGURE 2: MOMENTUM REMAINS WITH 2019'S WINNERS



Source: Bloomberg Finance, L.P., as of January 31, 2020. The data is representative of the 1-month and 1-year returns of the indexes found in the Definitions list below. Past performance is not indicative of future returns. One cannot invest directly in an index.

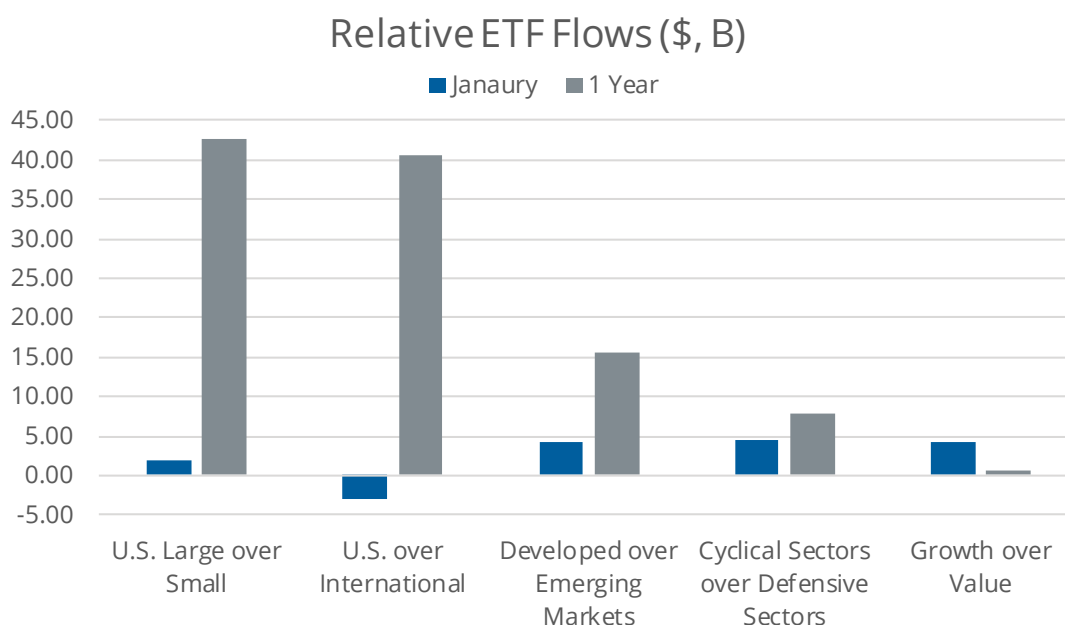
INVESTORS BOUGHT NON-US EXPOSURES

From a flows perspective, the trend in relative activity between U.S. large cap and small cap ETFs continued in January with investors continuing to favor larger companies. Under the hood, however, U.S. large cap ETFs saw just a fraction of December's inflows in January. In fact, much of the relative strength in flows came from the \$1.79 billion redeemed from small cap ETFs, where investors seem to be much more sensitive about changes in sentiment in the markets. This was a stark flip from the \$2.00 billion that was added in December. Large caps continue to see greater interest from investors and now have amassed \$42.62 billion more in net flows over the last year relative to small caps.

Not too far behind is the \$40.53 billion in net flows for U.S. ETFs compared to international ETFs. International ETFs were able to cut into this lead in January thanks to \$5.47 billion of inflows. Within the international equity space, developed market ETFs have taken in \$15.52 billion more inflows than their emerging counterparts have over the last year.

Flows followed performance across other categories as well with growth ETFs taking in \$2.21 billion and value ETFs seeing \$2.09 billion of outflows last month. This activity now puts the difference between growth and value ETFs over the last twelve months to a paltry \$574.29 million in favor of growth.

FIGURE 3: U.S. EQUITIES DOMINATED ETF FLOWS



Source: Bloomberg Finance, L.P., as of January 31, 2020. Data displays the difference in net flows of ETFs tracking the five pairs of equity segments relative to one another. Each equity segment is comprised of a group of ETFs that track indexes, which are representative of those broad exposures, covering both the broad domestic and broad international equity market segments found in the Definitions list below.

STICKING WITH WHAT HAS WORKED...FOR THE TIME BEING

While investors can look to previous pandemics to help gauge what the eventual impact of the coronavirus will be on economic growth around the globe, the truth is that we simply do not know at this stage. We believe that the recent uptick in volatility, albeit modest by historical standards, will remain in place for the better part of 2020 due to both the difficult-to-predict outcomes from the coronavirus and the U.S. election. While there is an argument for forgotten, recently out-of-favor stocks to catch up in 2020, we continue to think that investors should stick with what has worked over recent years, including being overweight cyclical sectors and growth stocks in the U.S. Driven mostly by the macro environment and momentum, our models also tilt to the U.S. relative to international stocks; although, the valuation dispersion with international developed markets remains extremely attractive.

From a risk perspective, we believe that the pain trade remains for higher equity markets as they remain attractive relative to bonds and that the potential for a valuation overshoot could come to fruition. At the same time, investors may want to consider introducing uncorrelated strategies and exposures to their portfolios to help buffer some of the volatility, which is likely to remain more of the norm in 2020 compared to 2019.

CURRENT POSITIONING

Figure 4 highlights the current positioning of our quantitatively based Relative Weight Model. These views are recalibrated monthly based on composite measures of momentum and valuation. Compared to last month, our model has shifted from favoring emerging markets to preferring developed markets as the momentum for developed markets improved, while valuations between the two groups remained neutral.

FIGURE 4: RELATIVE WEIGHT POSITIONING

	Momentum Composite	Valuation Composite	Overall
U.S. Large Cap / Small Cap	Large Cap	Small Cap	Large Cap
U.S. Growth / Value	Growth	Value	Growth
Cyclical Sectors / Defensive Sectors	Cyclical Sectors	Neutral	Cyclical Sectors
U.S. / International	U.S.	International	U.S.
Emerging Markets / Developed Markets	Developed Markets	Neutral	Developed Markets

Source: Direxion, as of January 31, 2020.

DEFINITIONS

- **Russell 1000: 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.
- **Russell 2000: The Russell 2000® Index** is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.
- **Russell 1000 Growth: The Russell 1000® Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- **Russell 1000 Value: The Russell 1000® Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- **MSCI USA Cyclical Sectors: The MSCI USA Cyclical Sectors Index** is based on MSCI USA Index, its parent index and captures large and mid-cap segments of the US market. The index is designed to reflect the performance of the opportunity set of global cyclical companies across various GICS® sectors. All constituent securities from Consumer Discretionary, Financials, Industrials, Information Technology and Materials are included in the Index.
- **MSCI USA Defensive Sectors: The MSCI USA Defensive Sectors Index** is based on MSCI USA Index, its parent index and captures large and mid-cap segments of the US market. The index is designed to reflect the performance of the opportunity set of global defensive companies across various GICS® sectors. All constituent securities from Consumer Staples, Energy, Healthcare, Telecommunication Services and Utilities are included in the Index.
- **FTSE All-World ex US: 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.
- **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.
- **MSCI Emerging Markets IMI: The MSCI Emerging Markets Investable Market Index (IMI)** captures large, mid and small cap representation across 24 Emerging Markets (EM) countries.

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 direxion.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 ETFs' investments in derivatives may pose risks in addition to, and greater than, those associated with directly investing in or shorting securities or other investments. There is no guarantee that the returns on an ETF's long or short positions will produce high, or even positive returns and the ETF could lose money if either or both of the ETF'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 ETFs.

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