

Holding Inflation Panic at NIFE Point

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We, as investors, constantly offer narratives around market moves. They provide us, and help us interpret cause and effect, whichever direction stocks are moving.

The latest story surrounding the underperformance of growth stocks centers around the well-telegraphed pickup in inflation. Thanks to low base effects, and the economic reopening's unique impact on supply and demand, April's Consumer Price Index (CPI) year-over-year print of 4.2% confirmed that prices are most assuredly on the rise. While CPI did rise more than forecast (expectations were for a 3.6% increase year-over-year), April's jobs report was much weaker than expected, so the net picture remains unclear.

The key question to ask is whether these price increases will prove to be sticky, or transitory. The immediate market move seems to imply they may have staying power and the Fed will need to react sooner than they plan to do.

LESS NOW, MAY BE MORE LATER

Over the near term, the economic releases may simply be an excuse to sell, particularly names with high multiples trading on expectations for future cash flows, as opposed to current earnings. Interestingly, the long-term opportunity for many of these companies may have increased since they are trading less expensively, and there may be no significant change to many of their long-term potential for transformation.

It is also reasonable to think about opportunities outside of secular growth. The challenge is whether to overweight stocks with low price multiples, or look for other approaches that may be better suited for navigating today's market environment. For example, value today is represented largely by the Financials and Energy sectors, but there tends to be no regard for actual financial health across many of those companies.

[The Direxion Fallen Knives ETF](#) [NYSE: NIFE] offers a more nuanced approach to identifying stocks that have been out of favor. In likeness to the name, the index first screens for negative momentum, seeking to capture companies exhibiting negative momentum over the past 12 months of at least -15%^[1]. In other words, only securities that have fallen by at least 15% over the trailing 12 months are eligible for inclusion. Then, the index employs a financial health screen to identify companies with healthy balance sheets and business fundamentals in order to sustain and succeed through a period of drawdown^[2]. The index includes the 50 securities with highest composite score.

FALLEN KNIVES LEANS TOWARD SMALLER, LOWER MULTIPLES COMPANIES

Characteristics	Indxx US Fallen Knives Index	Russell 3000 Index	Difference
Weighted Average Market Capitalization (\$, B)	9,987	425,877	-415,890
Price to Earnings Ratio (x)	21.72	26.22	-4.50
Estimated EPS Growth (%)	24.48	16.57	7.91
Total Debt to Common Equity (%)	31.03	127.15	-96.12

Source: Bloomberg Finance, L.P., June 30, 2020 to April 30, 2021.

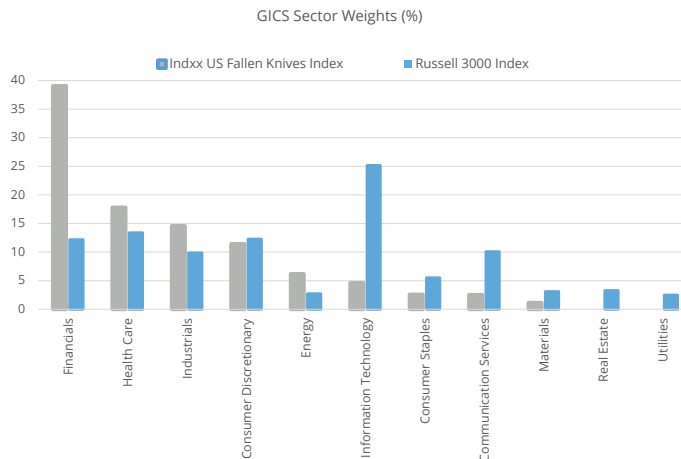
^[1] 12-month momentum measured as 12 months excluding the most recent month, or 12-1

^[2] Financial health measured by a composite of the current ratio, cash flow coverage ratio, and debt to equity momentum.

RISK, VALUE AND OPPORTUNITY

Relative to the broad market^[3], Fallen Knives trades at a lower price to earnings ratio, but may offer superior growth potential. In addition, the stocks have considerably lower debt to equity. This highlights an important difference Fallen Knives offers, when compared to a traditional value approach, which generally does not consider any financial health metrics. While both approaches are often anti-momentum, NIFE can offer a way to lean away from “risky” value stocks, and systematically find some of more compelling opportunities among stocks that have recently suffered.

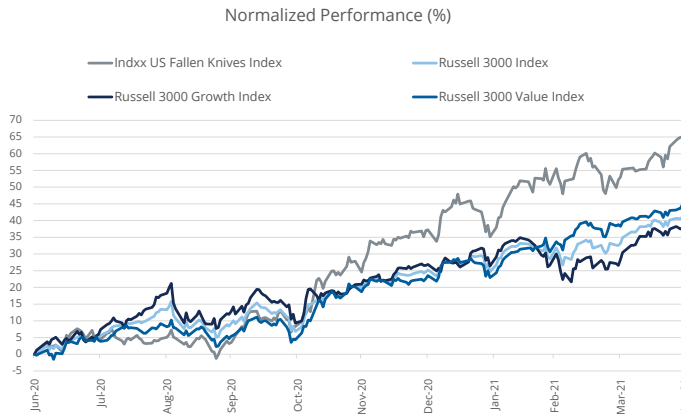
THE FINANCIAL SECTOR COMPRISES NEARLY 40% OF THE FALLEN KNIVES INDEX



Source: Bloomberg Finance, L.P., as of May 7, 2021.

Today, Financials dominates the Fallen Knives benchmark from a sector exposure perspective, comprising close to 40% of the fund, which is 27% more than the Russell 3000 Index. The second greatest difference relative to the broader market is an underweight to the Information Technology sector of over 20%. The Fallen Knives approach has also equated to notable overweight exposures in the Health Care and Industrials sectors.

THE PERFORMANCE IS IN THE PUDDING



Source: Bloomberg Finance, L.P., June 30, 2020 to April 30, 2021. This data represents past performance and is not indicative of future results. Short-term performance may often reflect conditions that are likely not sustainable and may not be repeated in the future. You cannot invest directly in an index.

Since June 30th, the NIFE ETF is up 62.31% based on market closing prices (62.27% NAV)^[4] through April 30th. The selection process utilized for Fallen Knives offers a unique blend of exposures and a significantly different market cap profile relative to traditional value approaches, or the broader market. Since the fund first traded, this approach has outperformed both value and growth indices, even though it has a greater overlap with value as noted. While it is often quite difficult to gauge the timing and selection of poorly performing stocks, we believe a systematic approach that focuses on financial health and balance sheet strength can offer unique exposures, and be additive to portfolios.

^[3] As measured by the Russell 3000 Index. The Russell 3000 Index is a capitalization-weighted stock market index, maintained by FTSE Russell, which seeks to be a benchmark of the entire U.S. stock market. It measures the performance of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization, and represents approximately 98% of the American public equity market.

^[4] The Indxx US Fallen Knives Index is up 63.13% from June 30, 2020 to April 30, 2021.

NIFE TOP 10 HOLDINGS

Name	Ticker	GICS Sector	Market Cap (\$)	Weight (%)
Cincinnati Financial Corp	CINF	Financials	19,387,979,776	5.71
Fifth Third Bancorp	FITB	Financials	29,812,963,328	5.69
Western Alliance Bancorp	WAL	Financials	11,040,759,808	5.68
Jazz Pharmaceuticals PLC	JAZZ	Health Care	9,933,462,528	4.96
Huntington Bancshares Inc/OH	HBAN	Financials	16,085,235,712	4.77
Reinsurance Group of America Inc	RGA	Financials	8,583,816,704	4.75
Novocure Ltd	NVCR	Health Care	19,901,902,848	4.64
Gildan Activewear Inc	GIL	Consumer Discretionary	7,276,421,632	3.89
EMCOR Group Inc	EME	Industrials	6,836,463,104	3.72
Acuity Brands Inc	AYI	Industrials	6,842,586,624	3.72

Source: Bloomberg Finance, L.P., as of May 7, 2021. Holdings are subject to change and should not be considered investment advice.

Monthly	1M %	3M %	YTD %	1Y %	3Y %	5Y %	10Y %	Since Inception	Inception Date	Expense Ratio* (Gross / Net %)
NAV	6.52	20.52	18.64	—	—	—	—	64.60	06/11/2020	0.50 / 0.50*
Market Close	6.34	20.14	18.54	—	—	—	—	64.63		
As of April 30, 2021										
Quarterly	1M %	3M %	YTD %	1Y %	3Y %	5Y %	10Y %	Since Inception	Inception Date	Expense Ratio* (Gross / Net %)
NAV	1.44	11.38	11.38	—	—	—	—	54.52	06/11/2020	0.50 / 0.50*
Market Close	1.42	11.47	11.47	—	—	—	—	54.81		
IUSNIFE	1.48	11.53	11.53	—	—	—	—	55.30	—	-
As of March 31, 2021										

* The Fund's adviser, Rafferty Asset Management, LLC ("Rafferty") has entered into an Operating Services Agreement with the Fund. Under this Operating Services Agreement, Rafferty has contractually agreed to pay all expenses of the Fund as long as it is the advisor of the Fund other than the following: management fees, Rule 12b-1 distribution and/or service fees, taxes, swap financing and related costs, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with any merger or reorganization, acquired fund fees and expenses, and extraordinary expenses. If these expenses were included, the expense ratio would be higher.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Returns for performance under one year are cumulative, not annualized. For performance information current to the most recent month-end please visit <https://www.direxion.com/product/fallen-knives-etf>.

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.
value as noted. While it is often quite difficult to gauge the timing and selection of poorly performing stocks, we believe a systematic approach that focuses on financial health and balance sheet strength can offer unique exposures, and be additive to portfolios.

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 Shares ETF Risks – Investing involves risk including possible loss of principal. There is no guarantee that the investment strategy will be successful or that U.S equity securities that have experienced considerable share price declines may continue to decline and there is no guarantee they will provide positive returns. Risks of the Fund include, but are not limited to, Index Correlation/Tracking Risk, Index Strategy Risk, Market Disruption Risk, risks associated with the market capitalizations of the securities in which the Fund may invest, and risks related to investment in a specific industry or sector. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund.

Distributor: Foreside Fund Services, LLC.