Direxion
ETFs | Funds

Relative Weight Spotlight

SMALL CAPS SHOW SIGNS OF LIFE

Headlines primarily focused on the rotation away from growth and momentum stocks towards value names last week, but out of favor small caps also experienced a massive bounce, beating large caps by 3.94% and cutting the year-to-date lead for large caps to over 3.50% from 6.63% at the end of August.

While a compelling valuation case continues to exist for small caps relative to large and extremely long-term investors may want to look at the space, the macroeconomic environment continues to see our model modestly favoring large caps over the coming months.

BEST SMALL-CAP PERFORMANCE IN 15 YEARS

- Last week's small cap outperformance was the third best over the last 15 years, making it well over a 3 standard deviation[1] event and highlighting just how strong the risk-on move was, as U.S. 10-Year Treasury Yields backed up 33 bps[2] amid improving China-U.S. trade headlines and better than expected economic data.
- Over the full history of the Russell 2000 Index, performance was remarkable enough to put it in the 99th percentile of weekly returns and comes in as the 15th best weekly return ever. While there is a smattering of years ahead of last week's numbers, it is notable that 4 come in the early part of 2000.

SMALL CAPS HAD THEIR THIRD BEST RELATIVE PERFORMANCE IN 15 YEARS

Date	Small Cap - Large Cap (%)
11/11/2016	6.37
9/19/2008	4.25
9/13/2019	**3.94**
11/28/2008	3.87
5/14/2010	3.86

Source: FTSE Russell, as of September 13, 2019. Data displays the weekly relative returns of Small Cap defined as the Russell 2000 Index and Large Cap defined as the Russell 1000 Index. Past performance is not indicative of future results. One cannot invest directly in an index.

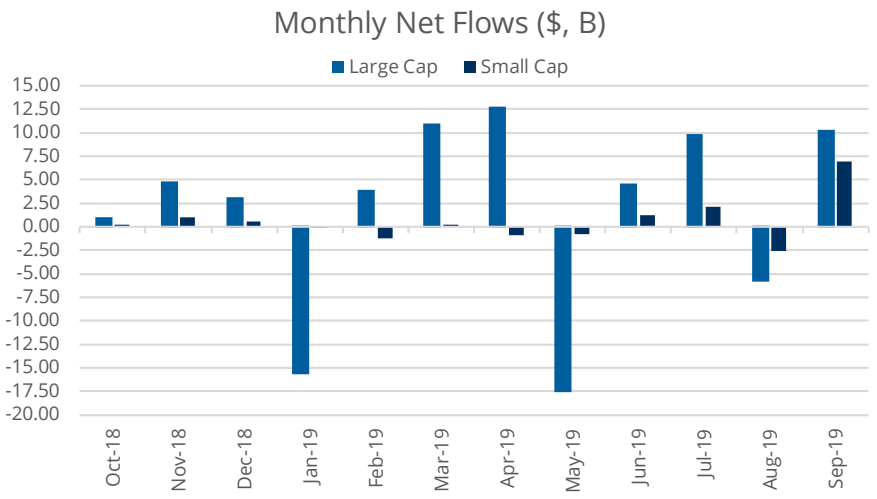
FOLLOW THE MONEY?

- With such a sharp rotation, ETF investors did not react as one may expect by redeeming shares of large cap ETFs and creating shares of small caps. In fact, they added to both groups last week and into this week. As the value and small cap moves were not felt across the broader market and any impact on asset allocation seems to be muted at this stage.
- Over the last 12 months large cap ETFs have built a sizable flow lead relative to small caps, with large caps seeing greater net flows in nine of the last twelve months including thus far into September. The only months that small caps saw greater flows than large caps were for the three months that large caps experienced outflows.

[1] ***Standard Deviation*** *measures the dispersion of a dataset relative to its mean. In a standard distribution about 68% of all data falls within 1 standard deviation, with 95% and 99.7% falling within 2 and 3 standard deviations respectively. Meaning that a data point with a standard deviation of 3 would be very rare about (0.03% of the time).*

[2] ***BPS*** *(basis points): A basis point represents one hundredth of one percent.*

FLOWS CONTINUE TO FAVOR LARGE CAPS



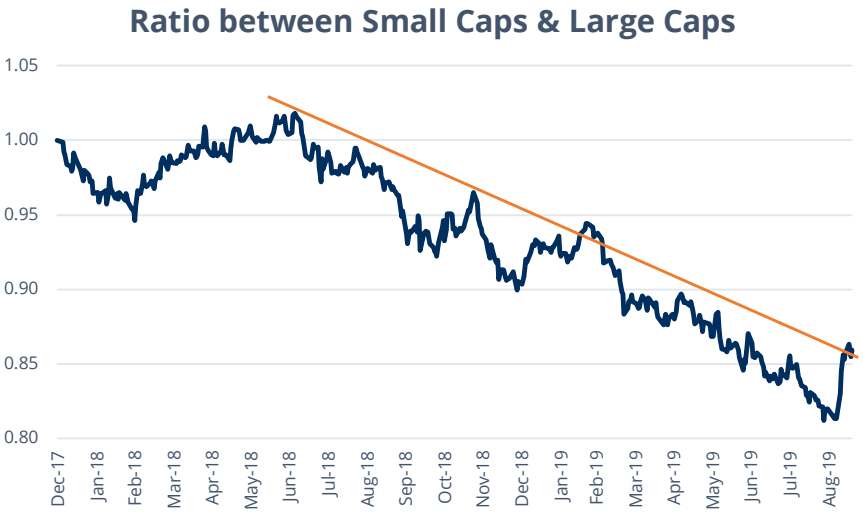
Source: Bloomberg Finance, L.P., as of October 1, 2018 to September 17, 2019. Data represents the monthly net flows of U.S.-listed U.S. Large Cap ETFs and U.S. Small Cap ETFs, specifically targeting exposure to U.S. Large Cap and U.S. Small Cap stocks, respectively.

WHAT'S NEXT?

Technically speaking, the recent move in small caps relative to large caps brought the ratio between the two benchmarks to a pivotal point in the trailing 15-month trend.

- The ratio between small caps (as measured by the Russell 2000) and large caps (as measured by the Russell 1000) has, once again, started to test the upper bounds of the recent trend line. The top line of the channel has been a notable point of resistance for small cap stocks relative to large cap stocks all year, and is an important one to watch.
- The recent strength in flows on large cap weakness supports our thesis of continued support for large caps relative to small caps. While the velocity of the recent outperformance favoring small caps was one of the largest on record over the past 15 years, the macroeconomic environment is supportive for the overall trend for large caps to continue.

PIVOTAL LEVEL FOR SMALL CAPS RELATIVE TO LARGE CAPS



Source: Bloomberg Finance, L.P. as of September 17, 2019. Data represents the ratio between the Russell 2000 Total Return and Russell 1000 Total Return Indexes. One cannot invest directly in an index.

IMPLEMENTATION IDEAS

- With a 150% weight to large cap stocks and a negative 50% weight to small caps, the Direxion Russell Large Over Small ETF [RWLS] offers investors the ability to overweight large cap stocks relative small caps.
- Purposely built to increase exposure to U.S. small caps and decrease exposure to large caps, the Direxion Russell Small Over Large Cap ETF [RWSL] is geared toward investors looking to overweight Small Caps.

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.
- Russell 2000® Index: The Russell 2000 Index is comprised of the smallest 2,000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

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 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, small and/or mid-capitalization securities involves greater risks and the possibility of greater price volatility than investing in larger, more-established companies. 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.