Direxion
ETFs | Funds

Relative Weight Spotlight

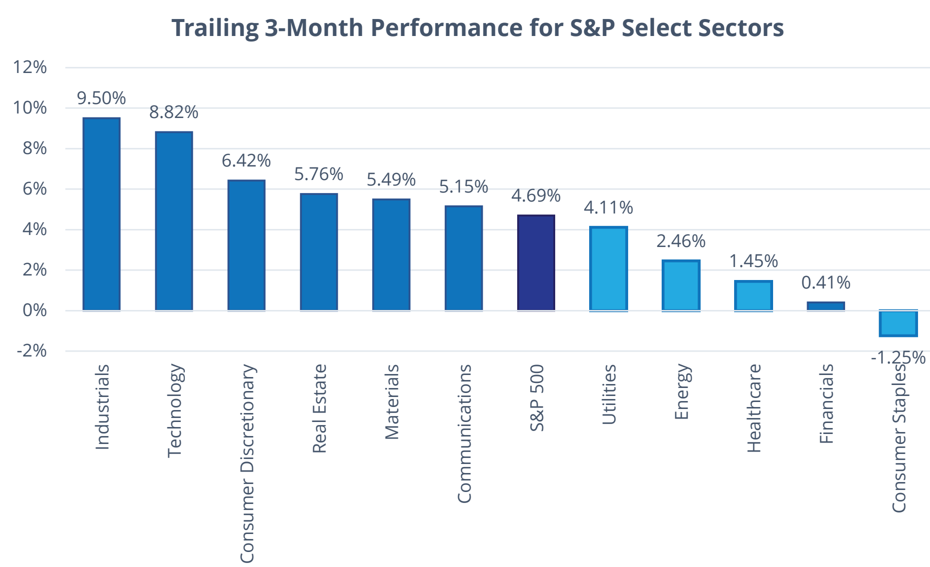
WHAT WE'VE SEEN

While defensive sectors continue to lead cyclicals by 3.23% over the last six months, cyclicals have bounced back over the last three, outperforming defensives by 5.43%, helping bring twelve-month performance firmly in the lead for cyclicals. The market leadership via cyclical sectors highlights the fact that market participants continue to favor firms with higher betas and greater economic sensitivity than the market thanks to reduced concerns about rising rates and optimism regarding China-U.S. trade relations.

- Cyclical sector leaders over the trailing 3-months include Industrials: 9.50%, Information Technology: 8.82%, and Consumer Discretionary: 6.42%.
- Financials have lagged within the cyclical sectors basket, as the yield curve remains compressed across multiple metrics.
- Defensive sectors, such as Consumer Staples, Healthcare, and Energy have all notably lagged the S&P 500 over the past 3 months.

Much of the reversal can be attributed to one sector that was taking losses – Information Technology – leading the way higher. IT is by far the largest Cyclicals sector at 30% of index. IT represents 45% of the Cyclicals over Defensives index, which amplifies exposure to individual holdings, such as AAPL, MSFT, V, INTC, CSCO, and MA, which all comprise greater than 1% of the cyclical index.

CYCLICAL SECTORS CONTINUE TO DOMINATE DEFENSIVES

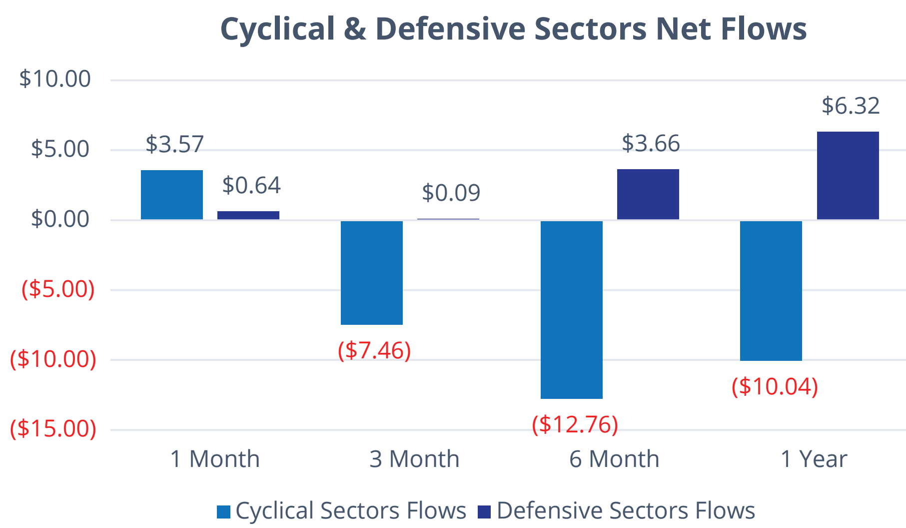


Source: Bloomberg Finance, L.P., as of February 26, 2019. Past performance is not indicative of future results. One cannot invest directly in an index. Cyclicals represented by the MSCI USA Cyclical Sectors Index, Defensives represented by the MSCI USA Defensive Sectors Index, and Cyclicals over Defensives represented by the MSCI USA Cyclical Sectors – USA Defensive Sectors 150/50 Return Spread Index.

MONEY IN MOTION

- Over the last month, cyclical sectors have captured nearly $2 billion more in net flows relative to defensive sectors, thanks to the $2.52 billion of inflows into real estate funds, even as financials continued to see outflows to the tune of $0.86 billion. These are sectors that were not too long ago combined as single group highlights how sensitive investors are to the direction of the interest rate environment.
- Despite the recent performance, outflows from financials, technology and consumer discretionary ETFs continue to drag down cyclical sector flows across the last three, six and twelve months, as concerns about global growth and the potential for slowing earnings growth weighs on these names.

ETF INVESTORS AREN'T FOLLOWING PERFORMANCE

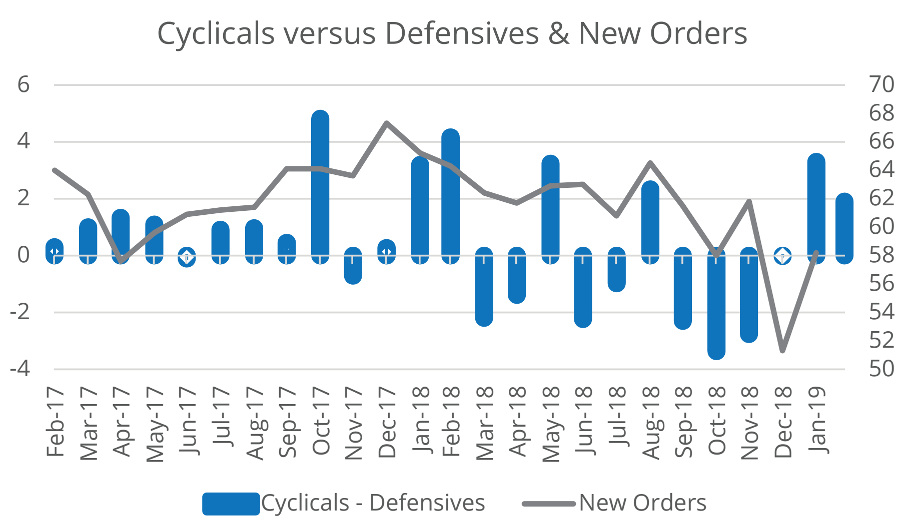


Source: Bloomberg Finance, L.P., as of February 26, 2019. Past performance is not indicative of future results. Date represents U.S.-listed U.S. Cyclical Sector ETFs and U.S. Defensive Sector ETFs specifically targeting exposure to sectors defined by MSCI as Cyclicals and Defensives, respectively.

SO, WHAT'S NEXT?

- The performance of cyclicals relative to defensives continues to track the direction of new orders in U.S. manufacturing. Specifically, the New Order Index jumped back to the high 50s after falling from 61.8 in November to 51.3 in December. With a positive rate of change, January's expansion was the 37th consecutive month of increase in demand.
- Complicating this picture is that the average economist estimate for the March reading of the ISM Manufacturing PMI is for a decline to 55.7 from last month's 56.6. However, the standard deviation of the current estimates are the greatest since July 2011, which was a period of significant economic and market uncertainty thanks to concerns about a spillover from several indebted European countries to larger countries around the globe implying the potential for a sizable beat or miss is elevated.

NEW ORDERS BOUNCED BACK IN JANUARY, BUT THE FUTURE IS LESS CLEAR



Source: Bloomberg Finance, L.P., as of February 26, 2019. Past performance is not indicative of future results. One cannot invest directly in an index. Cyclicals versus Defensives represents the difference in return of Cyclicals represented by the MSCI USA Cyclical Sectors Index and Defensives by the MSCI USA Defensive Sectors Index and New Orders represented by the ISM Manufacturing Report on Business New Orders.

IMPLEMENTATION IDEAS

- For investors expecting the current positive sentiment around trade and interest rates to continue, the Direxion MSCI Cyclicals Over Defensives ETF (RWCD) offers investors a means of increasing exposure to cyclical stocks relative to defensives.
- If one believes that investors have once gotten ahead of themselves and that recent rhetoric will fail to live up to expectations, the Direxion MSCI Defensives Over Cyclicals ETF (RWDC) provides them with a way to access defensive sectors relative to cyclical sectors.

DEFINITIONS

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.

Direxion Relative Weight ETF 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. Cyclical stocks tend to rise and fall with the business cycle and are typically companies that provide consumer discretionary good or services. Defensive stocks tend to remain stable during various phases of the business cycle due to constant demand for products. Defensive stocks generally include utility and consumer staples companies that produce goods bought out of necessity. 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.