This Ain't No Walk in Central Park

"This ain't no daycare, this ain't no walk in Central Park." Alex Toussaint, Peloton instructor

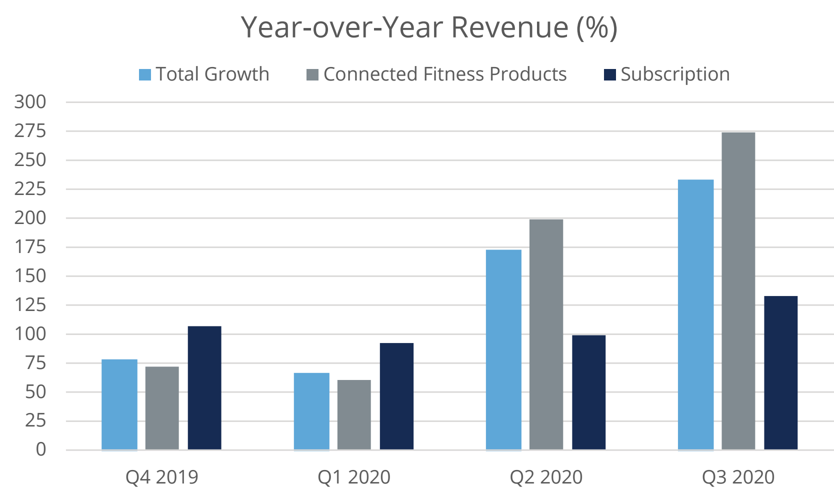
Due to the need for social distancing, the number of Americans working from home spiked to over 35% in May (the first Positive news of an effective vaccine for the novel coronavirus drove a rotation away from growth stocks to value stocks in the early part of last week. Anyone with an overweight to momentum likely feels the opposite of how they would after a leisurely stroll in Central Park, and more like they just finished one of Alex's signature 45-minute Club Bangers rides.

Due to collective exposure to many of the market's momentum stocks, the Direxion Connected Consumer ETF (NYSE: CCON), and its sibling the Direxion Work From Home ETF (NYSE: WFH), suffered their largest underperformance relative to the S&P 500 Index on November 9, 2020 since their respective launches on August 25, 2020 and June 25, 2020. While returns bounced back later in the week, performance may remain volatile in the short-term. Investors need to digest whether the positive vaccine news trumps the path to normality, being it is a long ways away and fraught with challenges considering how the virus is currently spreading.

With this backdrop, investors may benefit from taking a step back to consider why the recent selloff may make exposures to long-term themes at the forefront of societal disruption more or less attractive. To do so, we can use Peloton Interactive, Inc. (NASDAQ: PTON) as a case study in the secular forces driving the underlying momentum in this stock today. PTON comprises 2.78% of CCON, making it a top ten position.[1]

In the most recent quarter, PTON increased their total revenue by 232% year-over-year to $728 million, thanks to strong sales and minimal customer churn. This comes on the back of 172% growth in the second quarter. At the same time, PTON increased their next quarter revenue guidance to $1 billion, which was comfortably above street consensus. They also lifted full year guidance to $3.9 billion from $3.5-$3.65 billion.

TOTAL REVENUE INCREASED 232% YEAR-OVER-YEAR

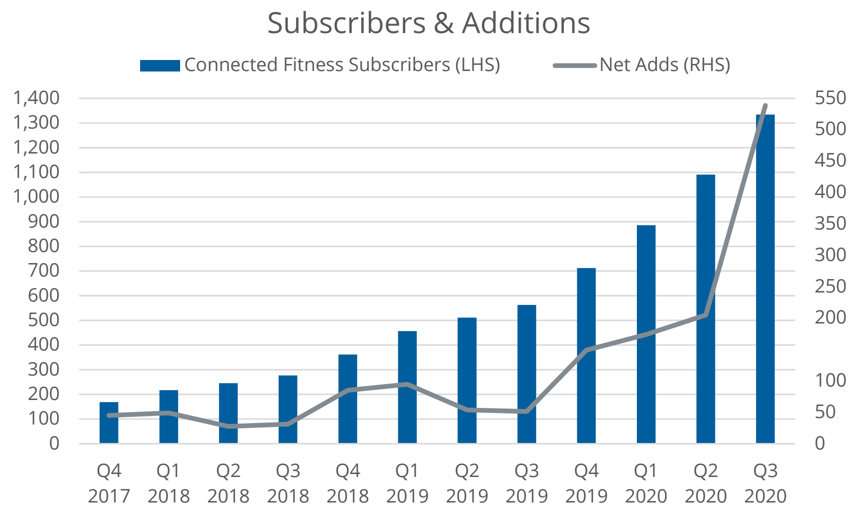


Source: U.S. Bureau of Labor Statistics, as of September 2020.

[1] Source: Bloomberg Finance, L.P., as of November 13, 2020.

While being a leader in a fitness revolution, PTON's core business model is a simple one – acquiring more subscribers to their platform along with selling them hardware. Driven by 538.9k additions, connected fitness subscribers increased 137% year-over-year to 1,334k, on the back of 113% growth in the previous quarter. These impressive results indicate their products remain in-demand as they face delivery challenges in meeting the increase in sales for their new Bike+ model, coupled with new offerings like a lower-priced treadmill.

SUBSCRIBERS JUMPED BY 538.9K IN THE THIRD

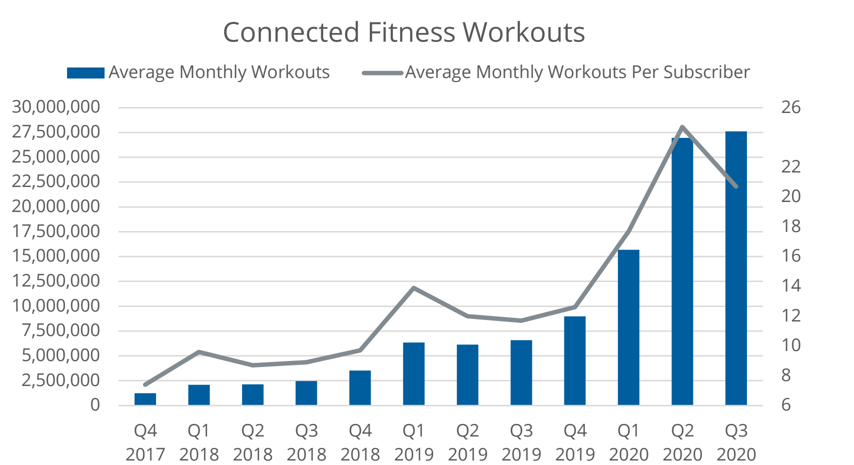


Source: Peloton Interactive, Inc., as September 30, 2020.

Okay, Dave, that is great, but is this not all pandemic-related? Once the economy fully reopens, these bikes and treadmills will turn into expensive clothing racks?

Maybe, but I would gladly take the other side of that bet. One reason is the ecosystem PTON has built for digital fitness. Average workouts by subscribers grew by 77% year-over-year to 21 per month. While best known for their bike, new class offerings including Barre, dance cardio, and bike bootcamps are driving increased engagement for new and existing users. In other words, subscribers are not just buying a piece of exercise equipment they are being hooked.

THE NUMBER OF AVERAGE WORKOUTS HAS EXPLODED



Source: Peloton Interactive, Inc., as September 30, 2020.

There remains a reasonable argument for investors to add exposure to beaten down, out of favor areas of the market, but abandoning the secular growers found in WFH and CCON seems shortsighted, especially as they have seen multiples decrease in the last week thanks to indiscriminate selling of momentum stocks. To be fair, comps will be tougher in 2021 for most new economy names, but their disruption should not be underestimated, even if valuations remain rich. In short, investors may want to positon to the next normal, not the old one.

CCON AS OF 09/30/2020

Top Ten Holdings %

Smile Direct Club Inc	3.10
Ehealth	3.04
BioTelemetry Inc	3.02
Zoom Video Communications	2.89
SNAP Inc	2.89
Peloton Interactive Inc	2.84
Fitbit Inc	2.83
GSX Techedu Inc	2.82
Huami Corp	2.69
Comcast	2.67

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