

## Spotlight: Interest Rates A-Rising – Impact on Growth vs Value ETFs

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### RISING RATES: IMPACT ON GROWTH ETFs VS VALUE ETFs

To say the last year was unfriendly to thematic, disruptive growth ETFs, like the Direxion Moonshots ETF (MOON), Work From Home ETF (WFH) or Hydrogen ETF (HJEN) would be an understatement. Disruptive and thematic ETFs have been punished to an even greater extent, considering many of them offer exposure to stocks with high expected revenue growth. The words of John Fogerty, of Creedence Clearwater Revival, sum up the situation well.

*I see the bad moon a-rising  
I see trouble on the way  
I see earthquakes and lightning'  
I see bad times today*

The primary culprit for “bad moon” is higher interest rates, especially real rates driven by hawkish turns from the global central banks, which are trying to thread the needle between dampening inflationary pressures and crimping economic growth. January’s read of core inflation in the US was the highest since 1984, which is only helping accelerate the case for the Federal Reserve to increase the Fed Funds Rate.

### SHORT-TERM INTEREST RATES HAVE INCREASED SHARPLY

#### U.S. Treasury Yields & Yield Curve (%)



Source: Bloomberg Finance, L.P., as of February 11, 2022.

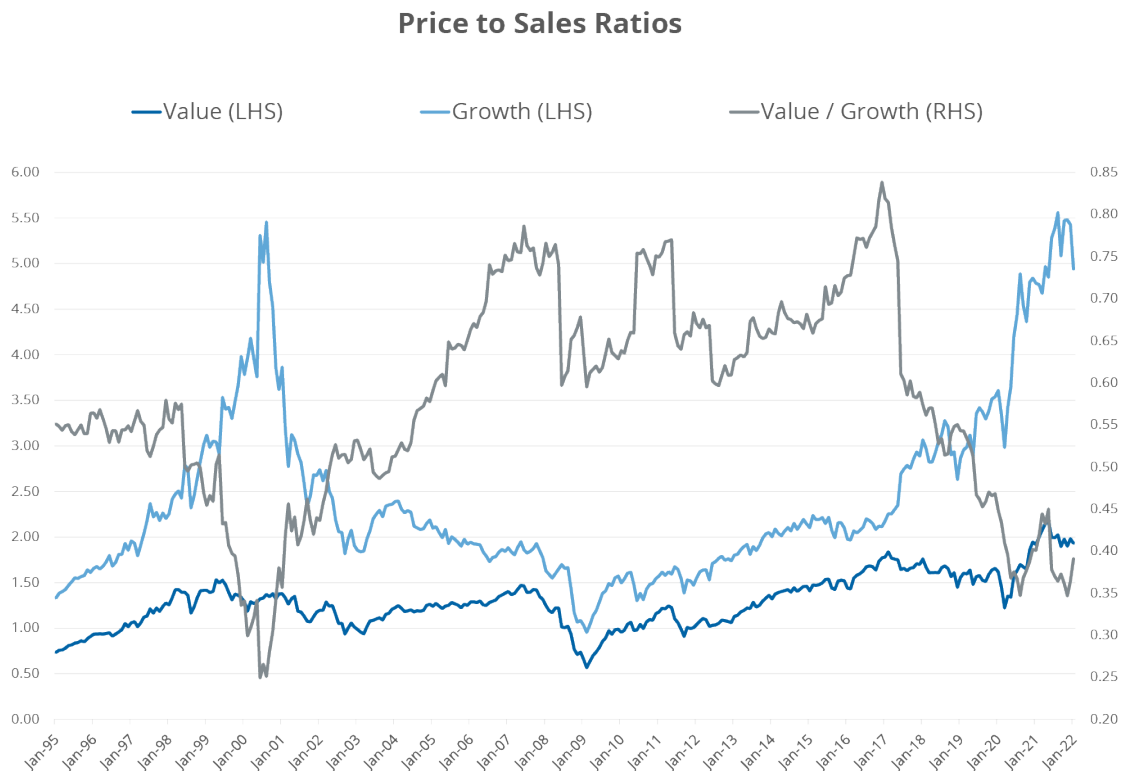
*Past performance does not guarantee future results. The referenced indices are shown for informational purposes only and are not meant to represent the Fund. Investors cannot directly invest in an index.*

What's the big deal with rising rates anyway?

Higher real rates hurt stocks with the highest valuation multiples the most. While there are numerous technical factors behind how high interest rates impact stock market valuations, one of the simplest to understand relates to the discounting of future cash flows. Generally, higher interest rates lead to lower stock prices as cash flows are discounted at higher rates. Growth stocks tend to be more vulnerable to higher rates as revenue and earnings several years in the future become less valuable in today's dollars.

While not as extreme as the tech bubble of late 1990s, the relative valuation of growth stocks compared to value stocks is elevated. Even with the recent selloff, growth names continue to sport high price multiples, which makes them vulnerable to further moves higher in rates.

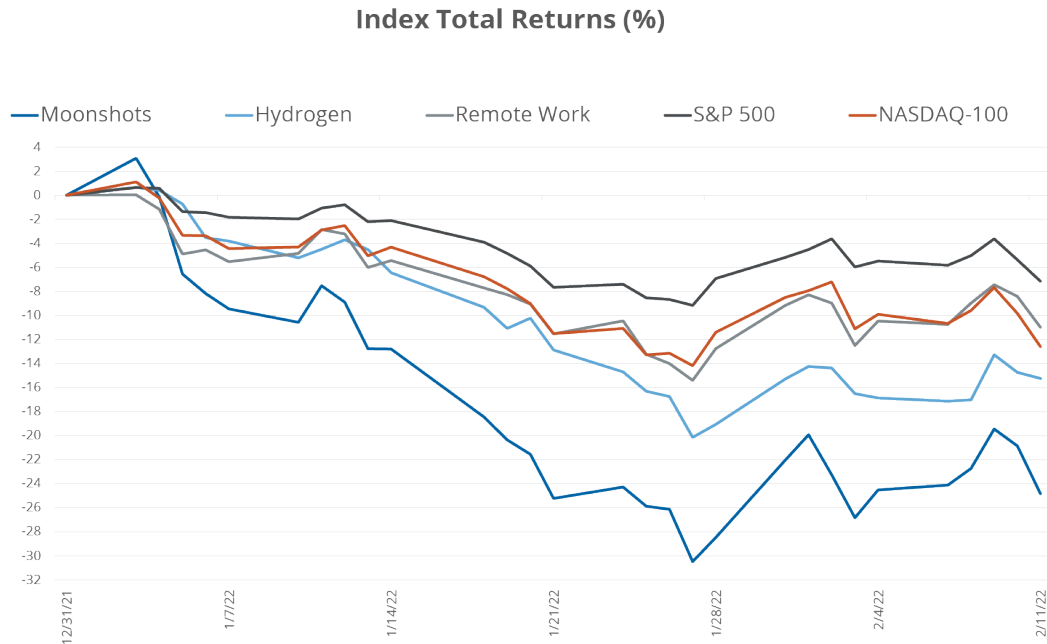
## VALUATIONS REMAIN ELEVATED FOR GROWTH STOCKS



Source: Bloomberg Finance, L.P., as of January 31, 2022. Growth represented by the Russell 1000 Growth Index and Value represented by the Russell 1000 Value Index.

Considering many mutual funds and growth ETFs focused on disruption tend to have higher expected growth rates, and trade at high valuation multiples, they have struggled as markets anticipate higher rates. Those primarily exposed to smaller, unprofitable companies have performed the worst, as evidenced by the S&P Kensho Moonshots Index underperforming the S&P 500 Index by close to 18% in 2022.

## THEMATIC EXPOSURES ARE STRUGGLING YEAR-TO-DATE



Source: Bloomberg Finance, L.P., as of February 11, 2022. Moonshots represented by the S&P Kensho Moonshots Index, Hydrogen represented by the Indxx Hydrogen Economy Index, and Remote Work represented by the Solactive Remote Work Index.

## RECENT DISRUPTION MAY BE GOOD FOR DISRUPTION

The near-term outlook for disruptive technology stocks remains uncertain thanks to a precarious geopolitical environment, continued questions on the path and pace of interest rate hikes, and generally mixed investor sentiment. However, the longer-term picture for disruptive stocks has improved thanks to valuations no longer being as rich, and nothing fundamentally changing regarding the potential for new technologies to change how the world works. In short, the proof will be in the pudding. If these companies can continue to grow at rapid rates, the market will reward them.

To learn more about the disruptive, thematic growth-oriented ETFs discussed in this article, visit:

- [Direxion website](#)
- [MOON ETF page](#)
- [HJEN ETF page](#)
- [WFH ETF page](#)
- [Full list of Strategic & Thematic ETFs](#)

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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.

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