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

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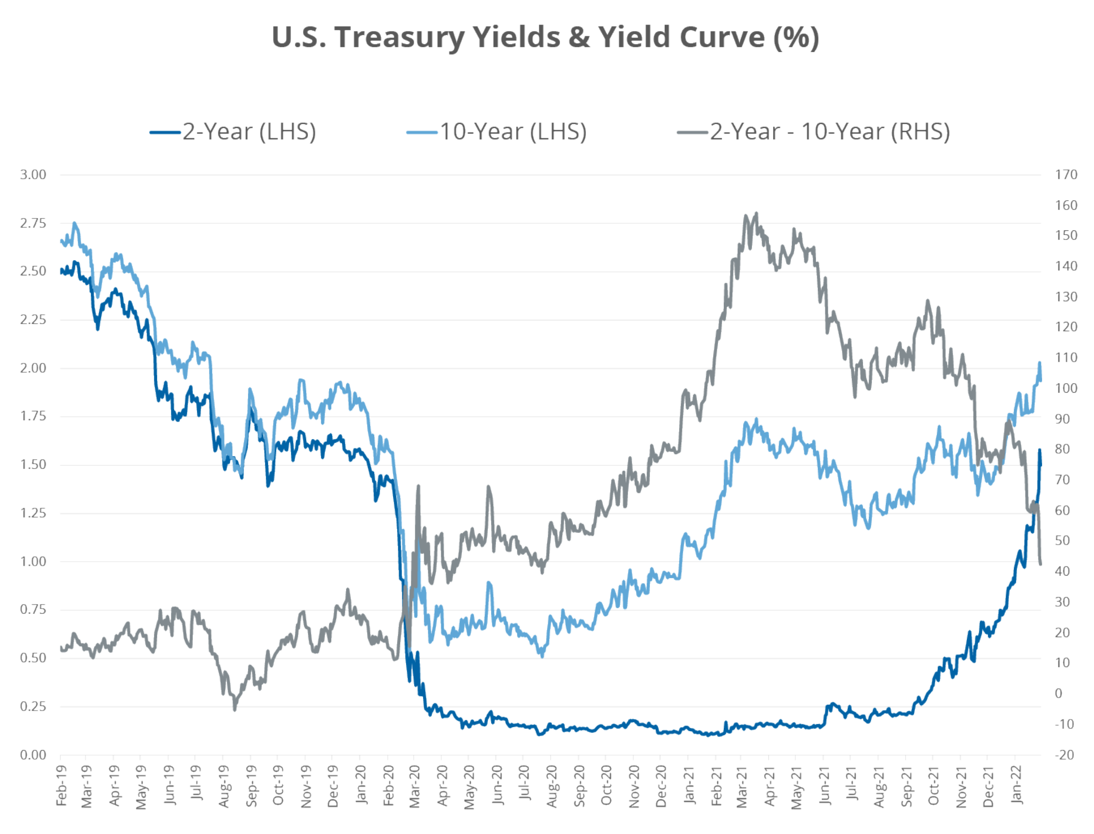
RISING RATES: IMPACT ON GROWTH ETFS VS VALUE ETFs

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 lightnin'
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



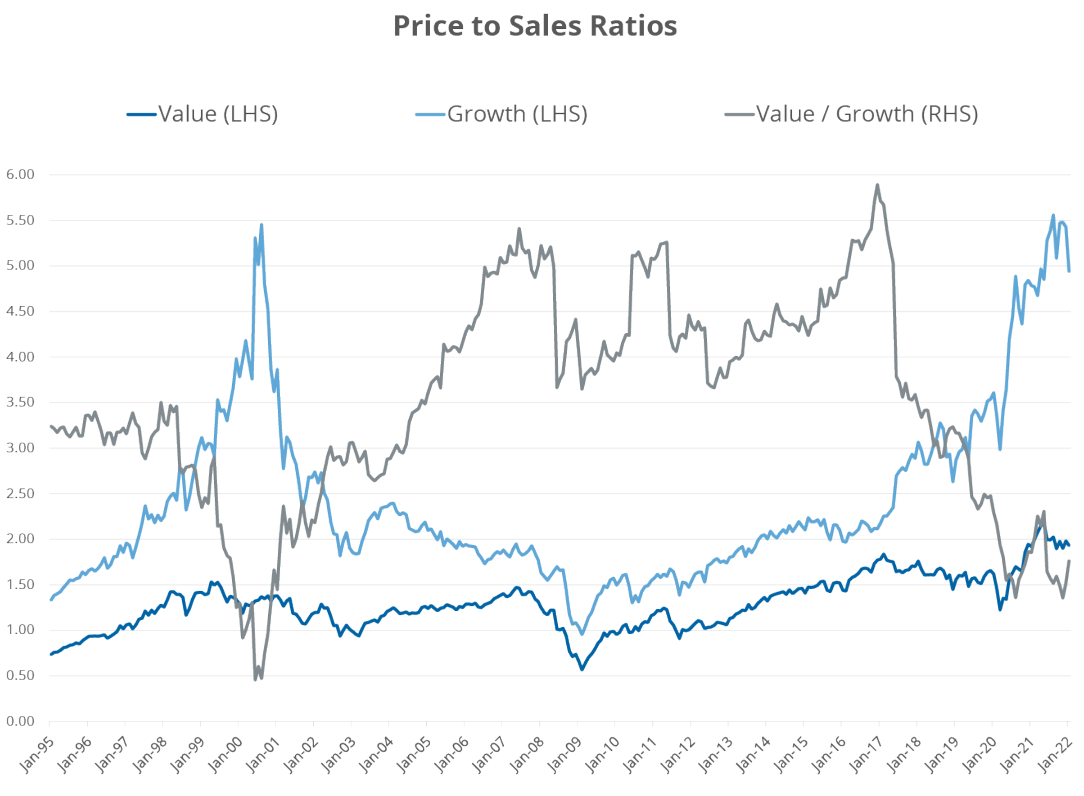
Source: Bloomberg Finance, L.P., as of February 11, 2022.
Past performance does not guarantee future results. The referenced indices are shown for informational purposes only and are not meant to represent the Fund. Investors cannot directly invest in an index.

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.

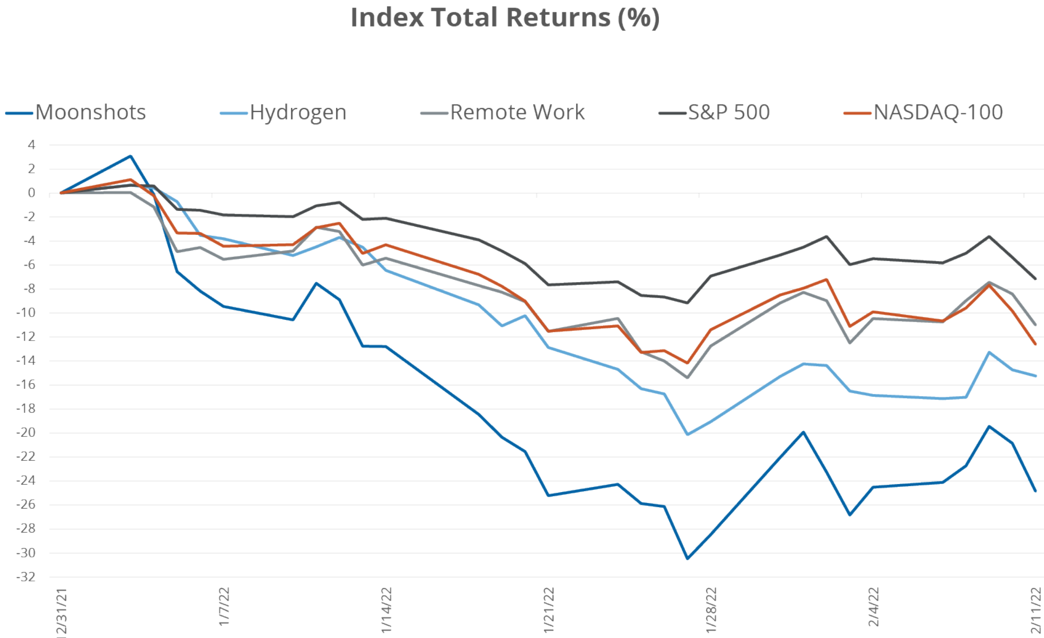
VALUATIONS REMAIN ELEVATED FOR GROWTH STOCKS



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, we expect 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

Definitions:

Price to Sales Ratio: An indicator of the value that financial markets have placed on each dollar of a company's sales or revenues. The P/S ratio is calculated by dividing the stock price by the underlying company's sales per share.

Russell 1000 Growth Index: A market capitalization-weighted index based on the Russell 3000 Index. The Index's broad exposure to different sectors means it generally doesn't see large fluctuations often associated with growth stocks.

Russell 1000 Value Index: A market-capitalization weighted equity index based on the Russell 3000 Index. Value stocks trade at generally lower prices relative to fundamentals, and tend to pay higher dividends, making them attractive to value investors.

S&P 500® Index: Standard & Poor's ® selects the stocks comprising the S&P 500 ® Index on the basis of market capitalization, financial viability of the company and the public float, liquidity and price of a company's shares outstanding. The Index is a float-adjusted, market capitalization-weighted index. One cannot directly invest in an index.

Nasdaq-100® Index: The Index includes 100 of the largest domestic and international non-financial companies listed on the NASDAQ Stock Market ® based on market capitalization. All companies listed on the index have an average daily trading volume of at least 200,000 shares. One cannot directly invest in an index.

Indxx Hydrogen Economy Index: Tracks the performance of companies that provide goods and/or services related to the Hydrogen Industry, including hydrogen generation and storage, fuel cells, hydrogen stations, and hydrogen-based vehicles. The Index includes domestic securities as well as securities listed on various foreign markets, including among others, Japan and South Korea. The Index is reconstituted annually and rebalanced quarterly. One cannot directly invest in an index.

Solactive Remote Work Index: Comprised of U.S. listed securities and American Depository Receipts ("ADRs") of companies that provide products and services in at least one of the following business segments that facilitate the ability of people to work from home: remote communications, cyber security, online project and document management, and cloud computing technologies ("WFH Industries"). The Index consists of 40 companies, namely, the top 10 ranked companies in each of the four WFH Industries. The Index is equal weighted at each semi-annual reconstitution and rebalance date. One cannot directly invest in an index.

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The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

Direxion Shares MOON ETF Risks – Investing involves risk including possible loss of principal. There is no guarantee the investment strategy will be successful. The value of stocks of information technology companies and companies that rely heavily on innovation and technology are particularly vulnerable to rapid changes in technology product cycles, rapid product obsolescence, government regulation and competition, both domestically and internationally, including competition from competitors with lower production costs. Innovative technology companies may struggle to capitalize on new technology or may face competition and obsolescence. Additional risks of the Fund include, but are not limited to, Index Correlation/Tracking Risk, Index Strategy Risk, Market Disruption Risk, and risks associated with the market capitalizations of the securities in which the Fund may invest. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund.

Direxion Shares HJEN ETF Risks – Investing involves risk including possible loss of principal. There is no guarantee the investment strategy will be successful. Hydrogen companies may be significantly impacted by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants and general economic conditions. In addition, intense competition and legislation resulting in more strict government regulations and enforcement policies and specific expenditures for cleanup efforts can affect the industry. Because this is an emerging industry, companies are generally smaller and the share price of hydrogen companies may be more volatile than companies operating in other, more established industries. Additional risks of the Fund include, but are not limited to, Index Correlation/Tracking Risk, Index Strategy Risk, Natural Disaster/Epidemic and Market Disruption Risk, and risks associated with the market capitalizations and sectors of the securities in which the Fund may invest. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund.

Direxion Shares WFH ETF Risks – Investing involves risk including possible loss of principal. There is no guarantee the investment strategy will be successful. The value of stocks of information technology companies and companies that rely heavily on technology is particularly vulnerable to rapid changes in technology product cycles, rapid product obsolescence, government regulation and competition, both domestically and internationally, including competition from competitors with lower production costs. ADRs are issued by non-U.S. companies and are subject to various foreign investment risks including but not limited to the risk that the currency in the issuing company's country will drop relative to the U.S. dollar, that politics or regime changes in the issuing company's country will undermine exchange rates or destabilize the company and its earnings. Additional risks of the Fund include, but are not limited to, Index Correlation/Tracking Risk, Index Strategy Risk, Market Disruption Risk, American Depositary Receipts Risk and risks associated with the market capitalizations of the securities in which the Fund may invest. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund.

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