
2024 Mid-Year Outlook: Don't Forget About Asset Allocation

Agenda

1. Why Asset Allocation Matters Again
2. Equity Income Now and Later
3. Navigating Two-Sided Risk in Fixed Income

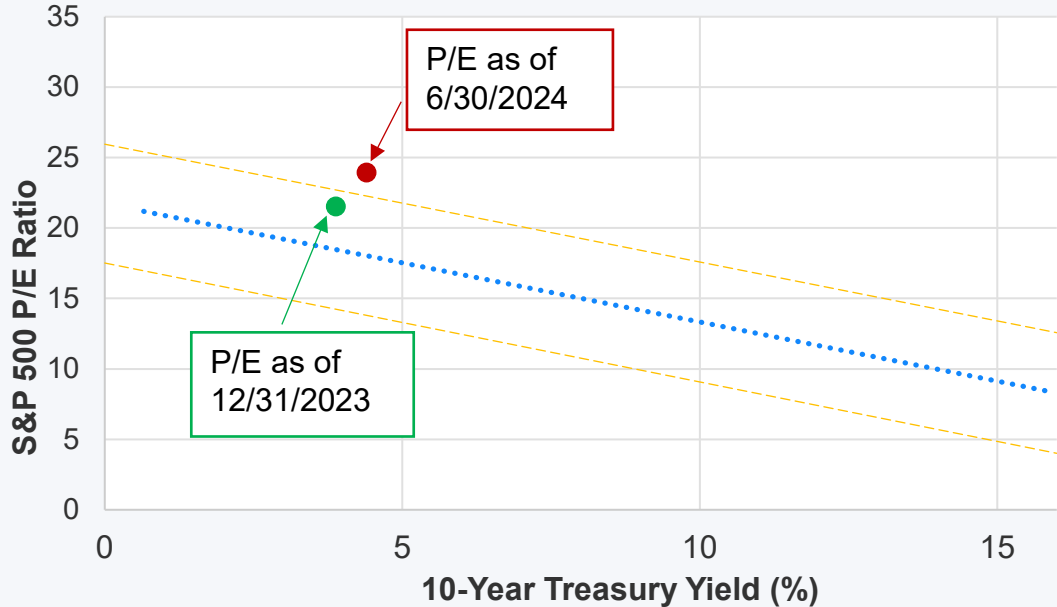
Why Asset Allocation Matters Again

A Good-Looking Landing...

Key Indicators	
S&P 500 1H 2024 Return	15.3%
S&P 500 1Q 2024 Earnings Growth yoy	8.0%
Inflation (Core PCE yoy)	2.6%
Unemployment (U3 yoy)	4.0%
10-Year Treasury Yield	4.4%

Source: Bloomberg. Inflation is latest YoY PCE.

Valuations Are Full...

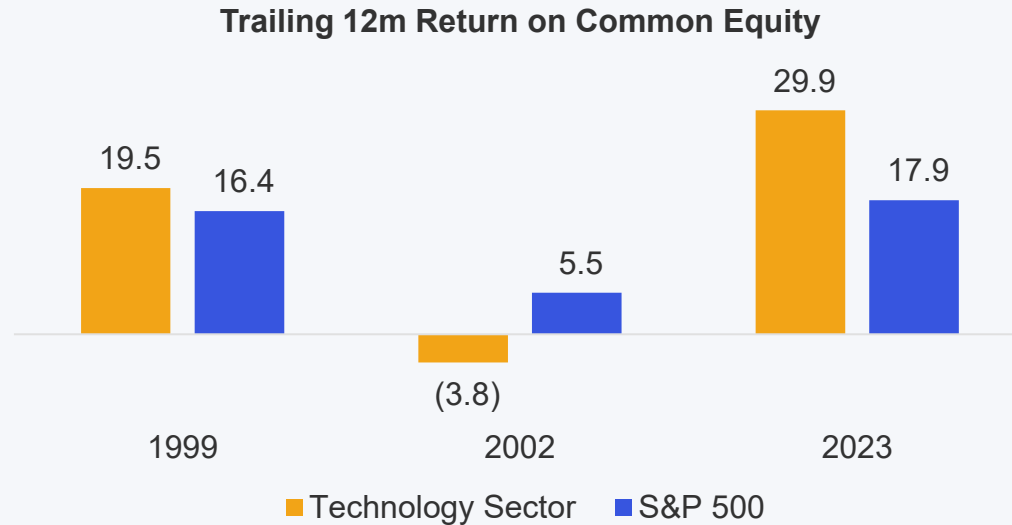


Source: Bloomberg. 12/31/1962–6/30/2024 Quarterly data. Blue line: Linear trendline of the 10-Year Treasury Yield to the S&P 500 P/E ratio. Yellow line: 68% Confidence Prediction Interval. Price-to-earnings (P/E) shows how much investors are paying for a dollar of a company's earnings. P/E helps to assess the relative value of a company's stock by measuring its share price relative to its earnings. A high P/E could mean that a stock is overvalued.

In Case You Missed It...

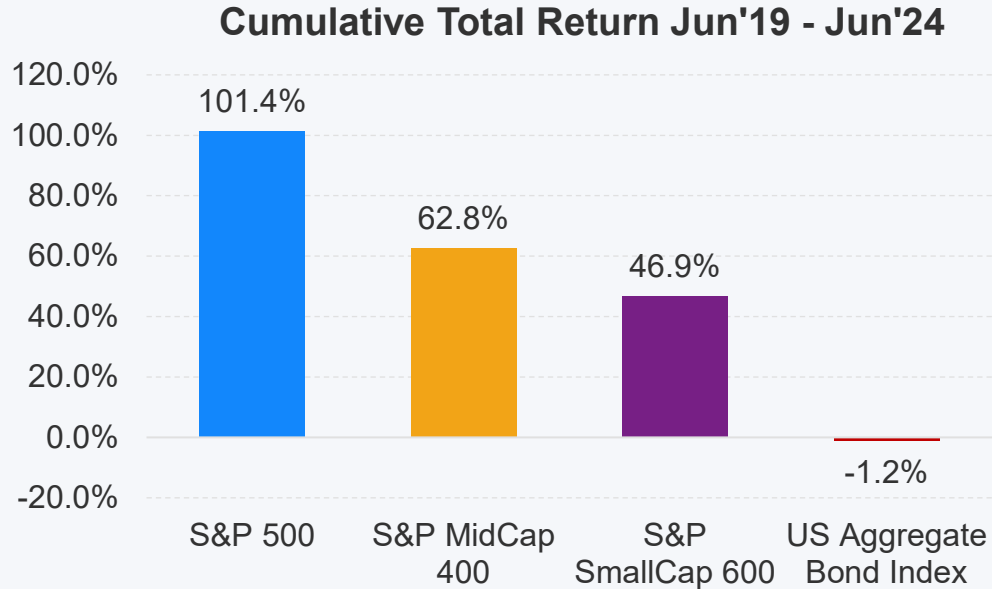
- Microsoft, Apple, and NVIDIA account for over 20% of the value of the S&P 500
- The S&P 500 Information Technology Sector has a current P/E of over 37X
- The NASDAQ 100 has a current P/E of over 32X
- The S&P 500 Information Technology Sector accounts for 33% of the value of the S&P 500

Tech Stocks Made Money in 1999 Too...



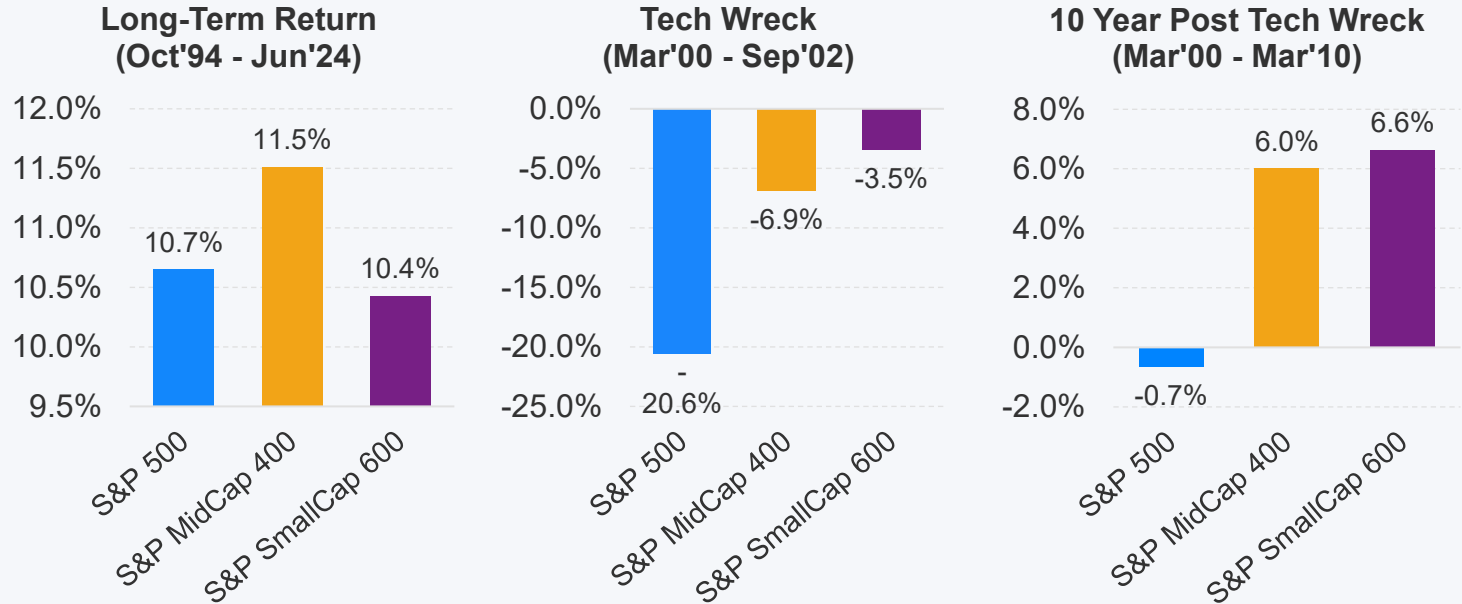
Source: Bloomberg, data as of 2/29/24. Technology sector returns are represented by the S&P 500 Information Technology Sector Index. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Is Asset Allocation Broken?



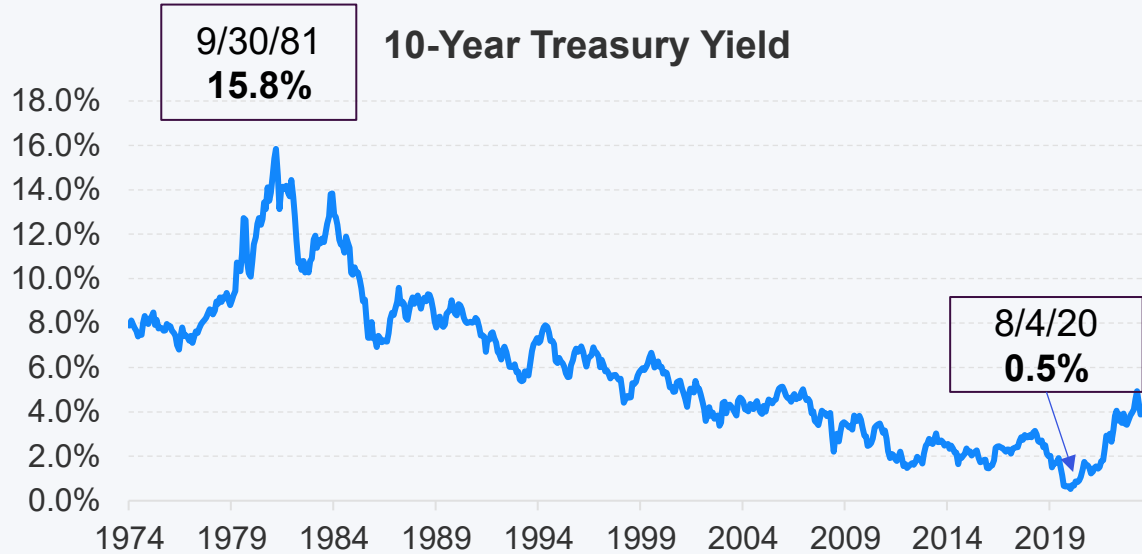
Source: Bloomberg, 6/28/19 - 6/28/24

Asset Allocation – A Wider Lens ...



Source: Bloomberg, data as of 6/28/24. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Yields Down, Price Up – Yields Up, Price Down...



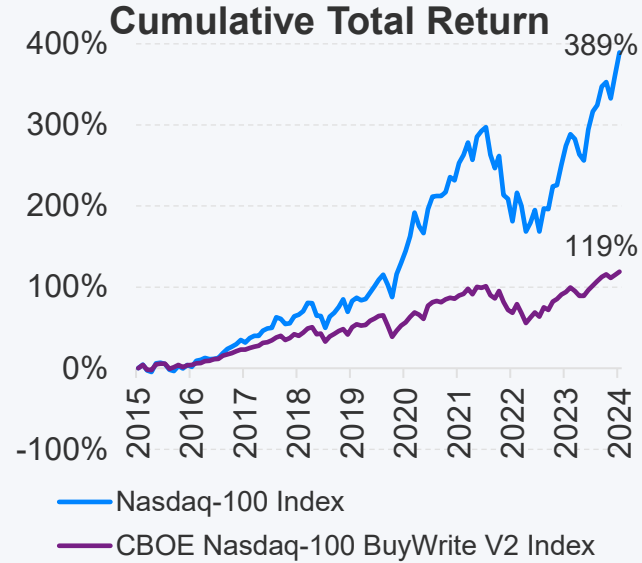
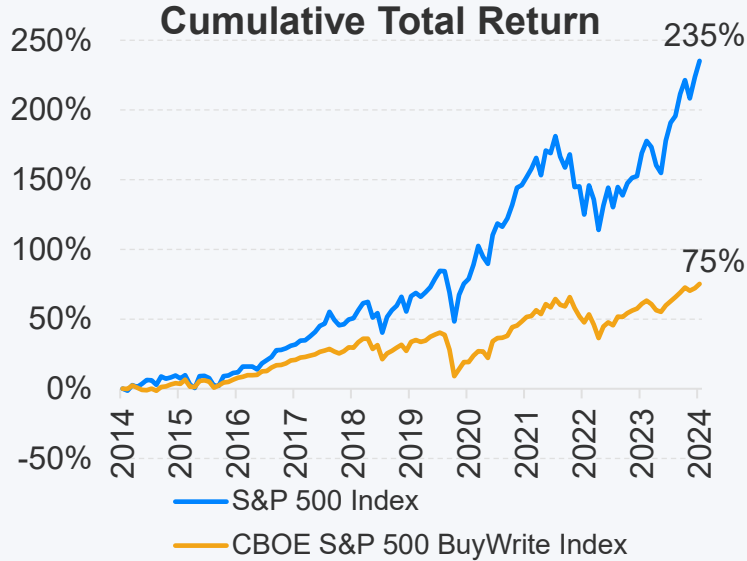
Source: Bloomberg, Jun 1974 – Jun 2024.

Bonds Have Done Their Job...

Drawdown	Begin	End	Months to Drawdown	Equity Max Drawdown	US Agg Bond Performance
COVID-19	Jan-20	Mar-20	2	-20%	1%
Global Financial Crisis	Oct-07	Feb-09	16	-51%	6%
Tech Bubble	Mar-00	Sep-02	30	-44%	29%
'87 Stock Market Crash	Aug-87	Nov-87	3	-30%	2%

Source: Bloomberg, data as of 6/28/24. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Beware Equity that Is Not Equity...



Source: Bloomberg. Left chart: Monthly returns from 12/31/13 to 12/31/23. Right Chart: Monthly returns from 6/30/15 to 12/31/23. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

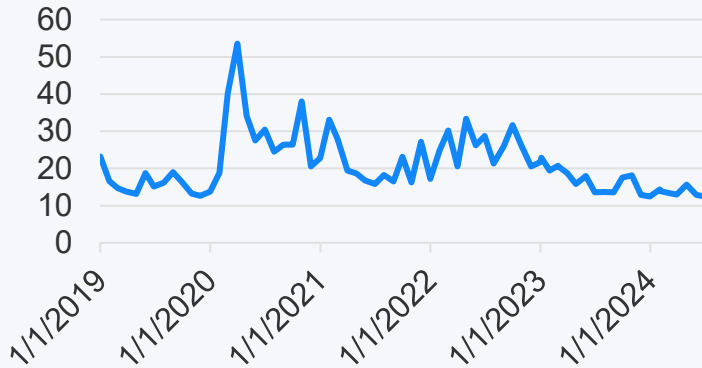
Key Takeaways

- While a soft or “no” landing for the economy looks increasingly likely, full valuations and a concentrated stock market complicates matters
- Asset allocation – investing in stocks other than large cap stocks and/or investing in bonds has been punished for awhile now
- A long-term asset allocation perspective and current valuation signals suggest that investors should not forget about mid and small cap stocks in their portfolios.
- High short term interest rates have brought some investors back to short-term bonds, but history, however, shows that those regular bonds – think the Bloomberg US Aggregate bond index - have done their job - with yields falling and prices rising when stocks have faltered.
- Now that bonds are not broken it is an investment imperative to have the stocks in one’s portfolio behave like stocks.

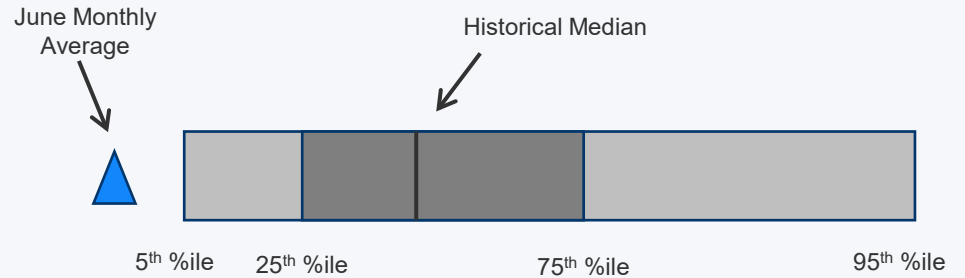
Equity Outlook: Equity Income Now and Later

What's Behind the Market's Tranquility

Low Levels of Implied Volatility



S&P 500 Pairwise Correlations Extremely Low

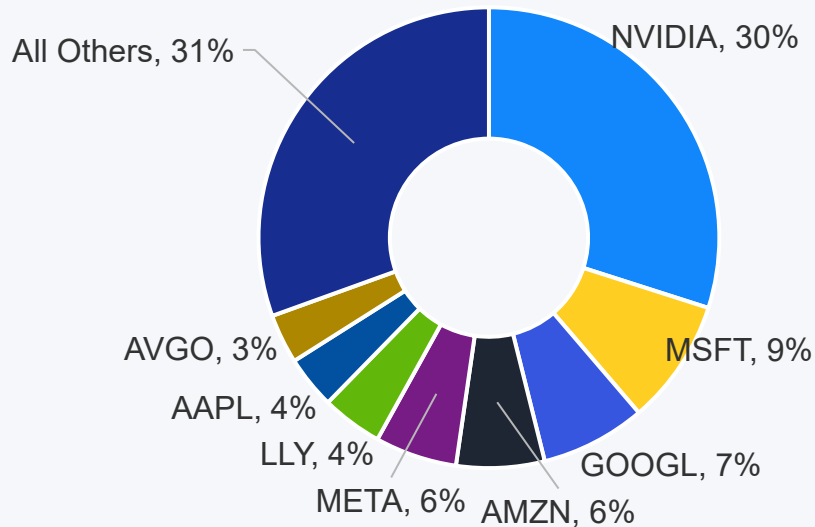


Source: CBOE, data as of June 30, 2024

Source: Standard & Poor's, data as of June 30, 2024

Who Needs the Free Lunch?

Growth and Everything Else Contribution % to S&P 500 1st Half 2024



Source: FactSet, data as of June 30, 2024

A Steep Price to Pay

S&P 500 Technology Index Price-to-Sales Ratio Has Never Been Higher

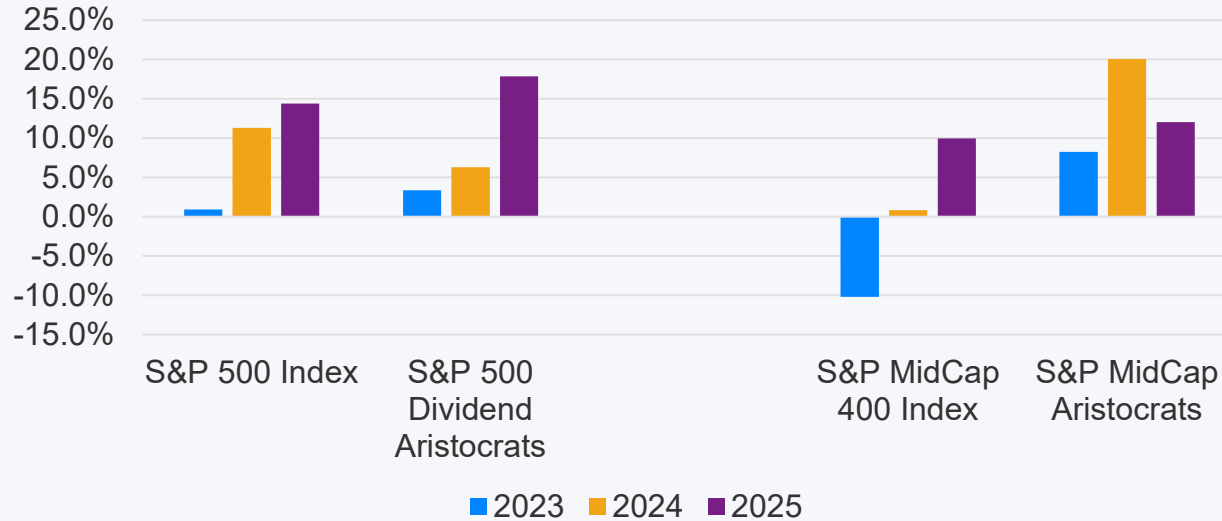


The growth engine of the market has never been more expensive

Source: Bloomberg. Data through 6/30/24. Price-to-sales (P/S) is calculated by dividing a company's market capitalization (the number of outstanding shares multiplied by the share price) by its revenue over the past 12 months. Generally, the lower the P/S, the more attractive the investment.

What Level of Earnings Growth Will Be Enough?

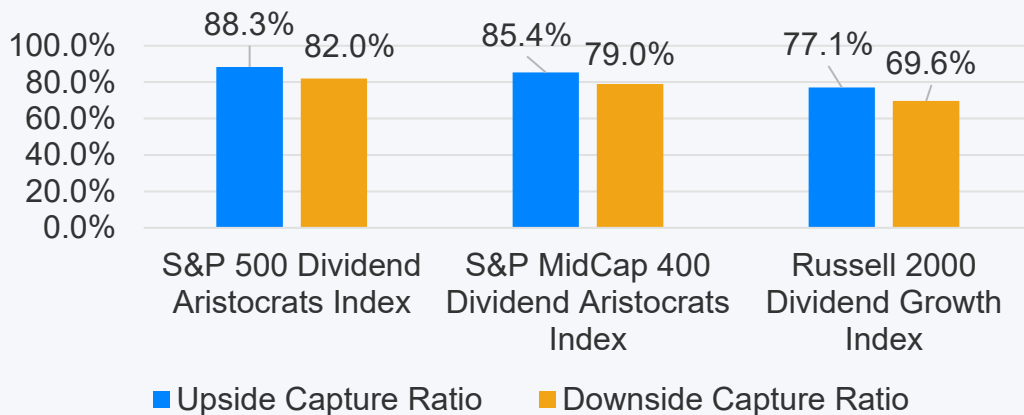
Consistent Dividend Growers a Better Source for More Reliable Earnings Growth



Dividend Growers Capable of All-Weather Performance

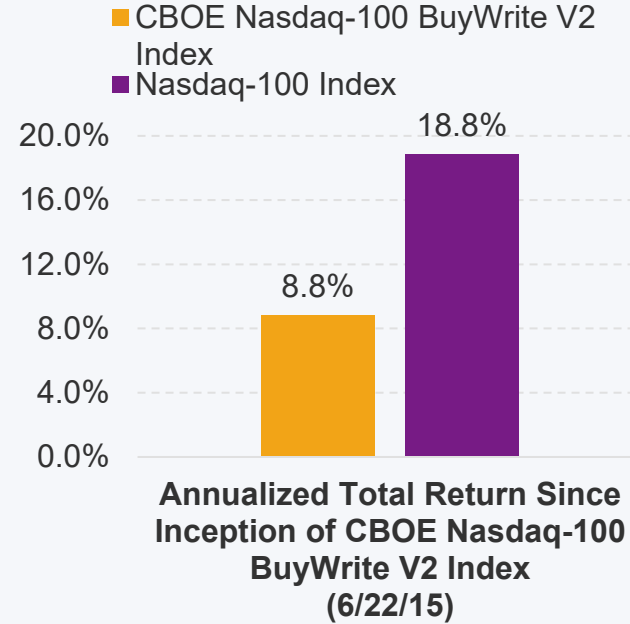
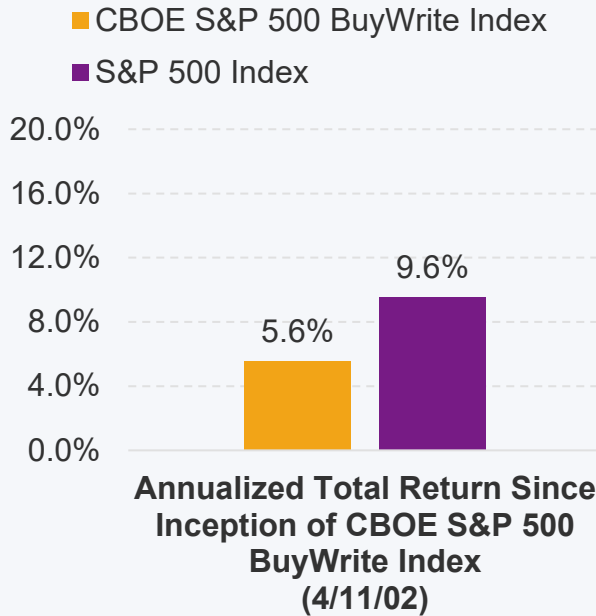
All Weather Potential Across the Market Cap Spectrum

Index Inception – June 30, 2023



Source: Morningstar. S&P 500 Dividend Aristocrats – Index Inception: 5/2/05, through 6/30/24 S&P MidCap 400 Dividend Aristocrat – Index Inception: 1/5/15, through 6/30/24. Russell 2000 Dividend Growth – Index Inception: 11/11/14, through 6/30/24. Index returns are for illustration purposes only and do not represent fund performance. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results.

Traditional Covered Call Strategies – A Clear Tradeoff



Source: Bloomberg, data as of 6/30/24. Index information does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index.

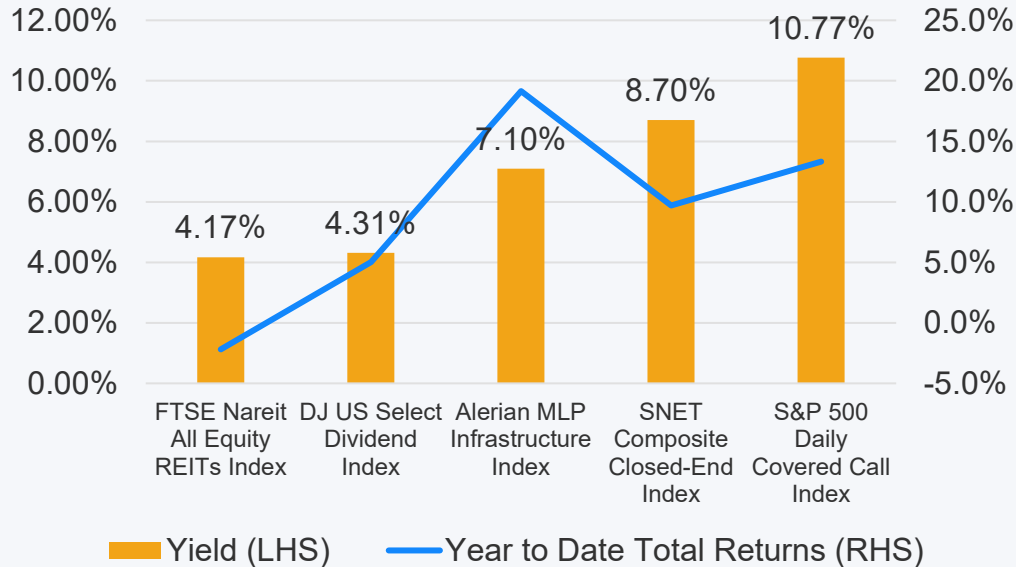
Traditional Covered Call Strategies – Disappointing Downside Protection

Month	Nasdaq-100 Index	CBOE Nasdaq-100 Buywrite Index	Ryan Labs 10-Year Treasury Index
February 2001	-26.4%	-21.8%	1.8%
November 2000	-23.6%	-18.0%	2.8%
September 2001	-20.5%	-18.3%	2.3%
March 2001	-17.6%	-14.4%	0.3%
August 1998	-17.2%	-13.9%	3.9%
October 2008	-16.3%	-14.0%	-0.5%
September 2008	-14.8%	-12.4%	0.3%
April 2000	-14.2%	-11.8%	-0.9%
April 2022	-13.3%	-6.9%	-4.8%
June 2002	-13.0%	-11.7%	2.1%
Average Drawdown	-17.7%	-14.3%	0.7%

Source: Bloomberg, data from 12/30/1994 to 12/31/23. Index information does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index.

Maximize Income and Total Return Potential

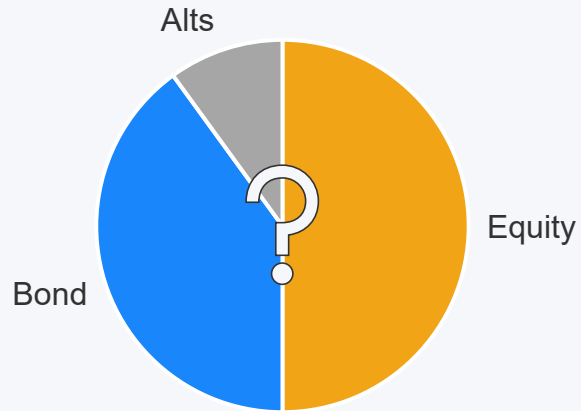
A Daily Covered Call Strategy is Producing Attractive Income & Total Returns



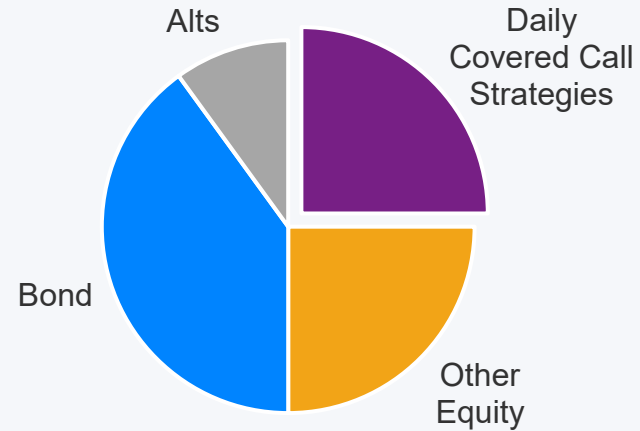
Source: Morningstar, and Standard & Poor's for returns, data from 1/1/24–6/30/24. Yield information obtained from index fact sheets dated as of 6/30/24. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Covered Call Strategies in a Portfolio

Traditional Covered Call Strategies



Daily Covered Call Strategies

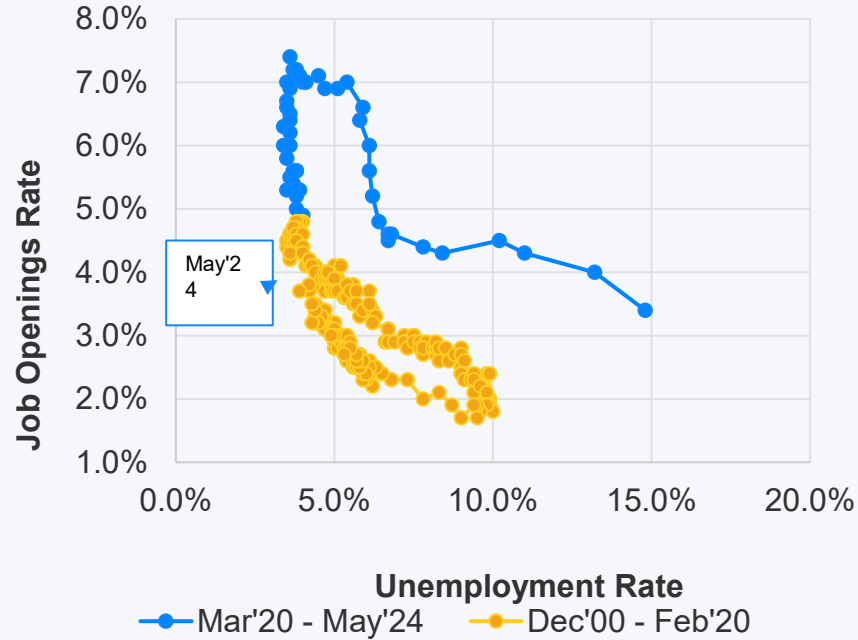


Key Takeaways & Questions

- 1st half 2024 equity markets have delivered strong but very narrow gains and have been accompanied by low levels of volatility and stock correlations that could unwind rapidly.
- Earnings are expected to continue their upward trajectory through 2024 & 2025, but will they be enough to support frothy valuations?
- Selective opportunities exist to maximize income and total return opportunities
 - Income focused investors don't need to sacrifice returns for yield
 - High quality dividend growth strategies offer attractive growth across the market cap spectrum at more reasonable valuations

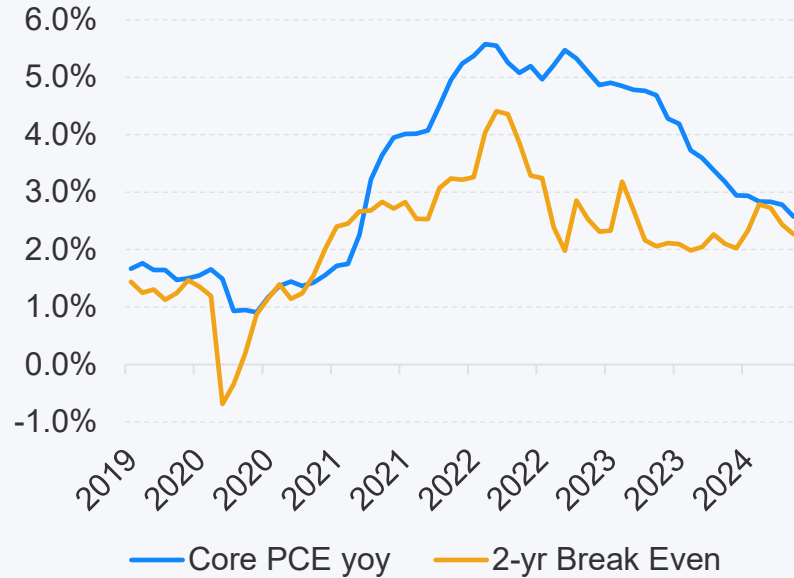
Fixed Income Outlook: Navigating Two-Sided Risk

The Fed Sees Two-Sided Risks Ahead



Source: Bloomberg, monthly data from 12/2020–5/2024.

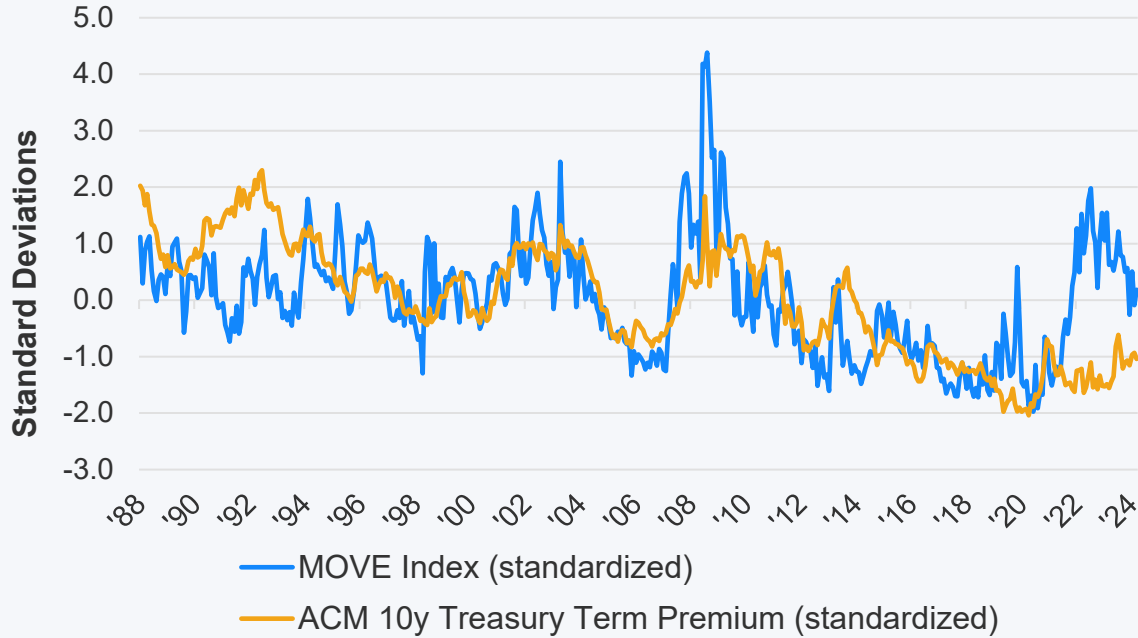
Bonds May Be More Diversifying



Stock-Bond Correlation	High Growth	Low Growth
High Inflation	0.35	0.27
Low Inflation	(0.26)	(0.55)

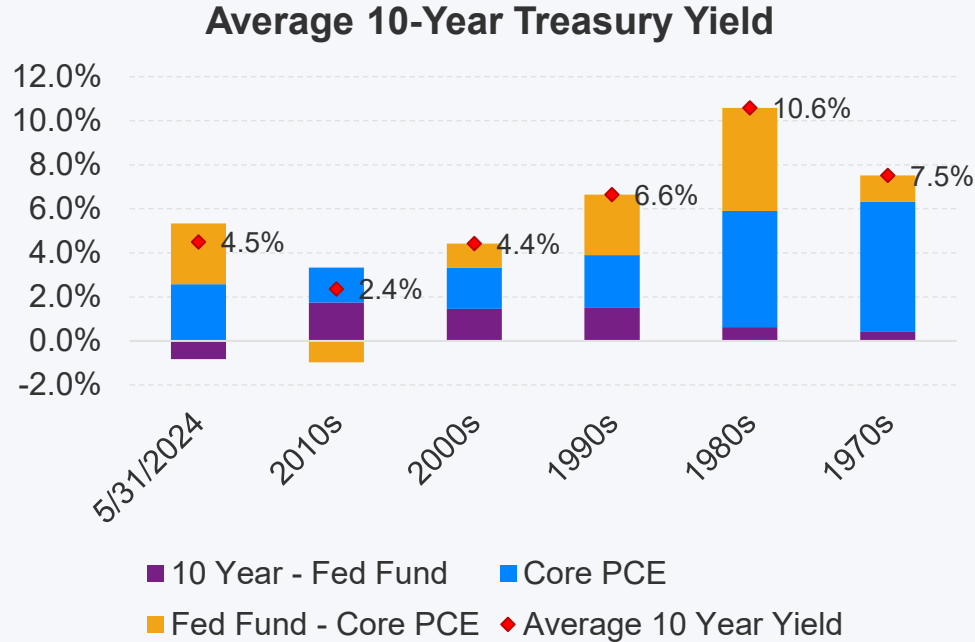
Source: Bloomberg, quarterly data from 6/1973–3/2024. Stocks represented by S&P 500, bonds represented by Bloomberg U.S. Treasury Index. High growth periods classified as GDP growth above median growth of 2.9%, high inflation periods classified as core PCE inflation above median inflation rate of 2.3%. Inflation data as of May'24.

Higher for Longer Still the New Normal...



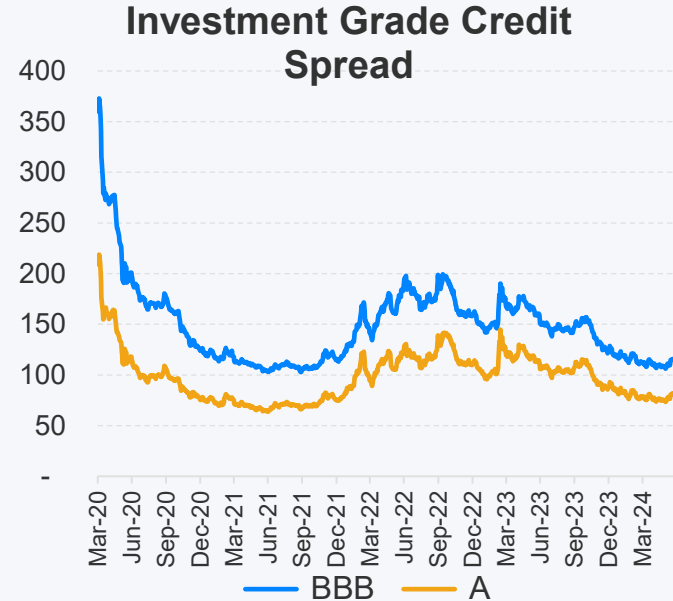
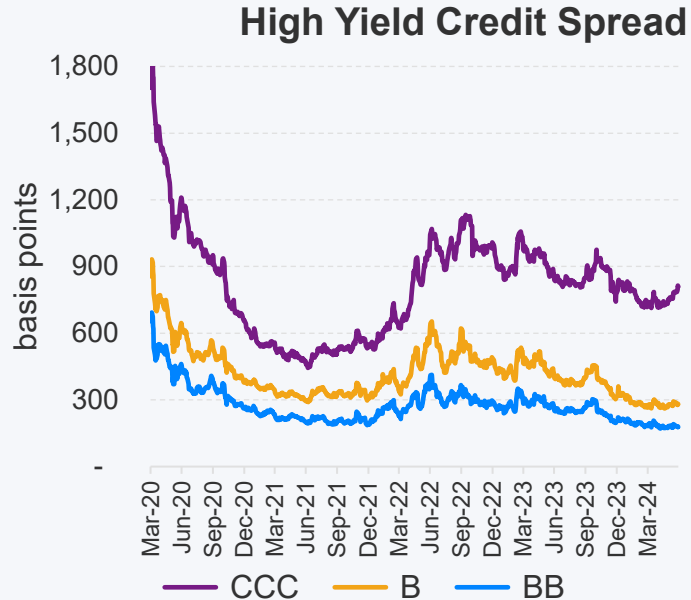
Source: Bloomberg, data as of 6/30/24. Data series transformed to have a mean of zero and a standard deviation of one

...and Yield Curve May Steepen Further



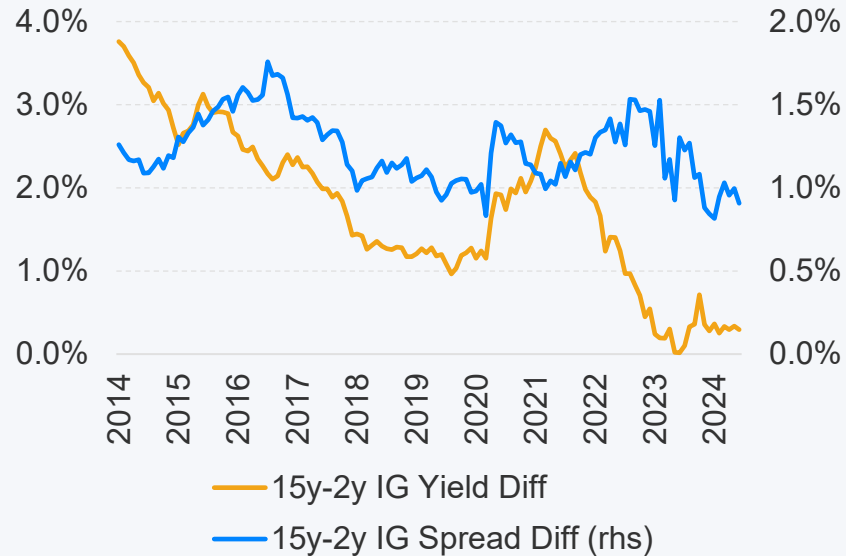
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Challenging to Find Yield from Credit Spread



Source: Bloomberg, BVAL US corporate investment grade yield curve and option-adjusted spread curve. Jan'14 - Jun'24.

Shorter Maturity Generates Similar Income with Less Risk



Source: Bloomberg, BVAL US corporate investment grade yield curve and option-adjusted spread curve. Jan'14 - Jun'24.

Key Takeaways

- The Fed is focused on two-sided risks and wants to cut interest rates before the end of the year
- Expect inflation to continue trending lower, and break evens have been well-anchored
- At the same time, long-term interest rates may remain higher for longer, yield curve may steepen
- Use a barbell approach in bonds for both income and diversification
- Be more selective with credit spread near all-time tights

Questions

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Thank You
