ProShares

Dividend Growers

Is Now the Time for Small- and Mid-Cap Aristocrats to Shine?

Key Observations:

- Small- and mid-cap stocks are attractively priced and many analysts expect them to deliver faster rates of earnings growth.[1]
- Historically, small caps and mid caps have performed well in periods of rising interest rates.
- Given an uncertain and volatile equity backdrop, investors may wish to consider increased exposure to small- and mid-cap stocks.

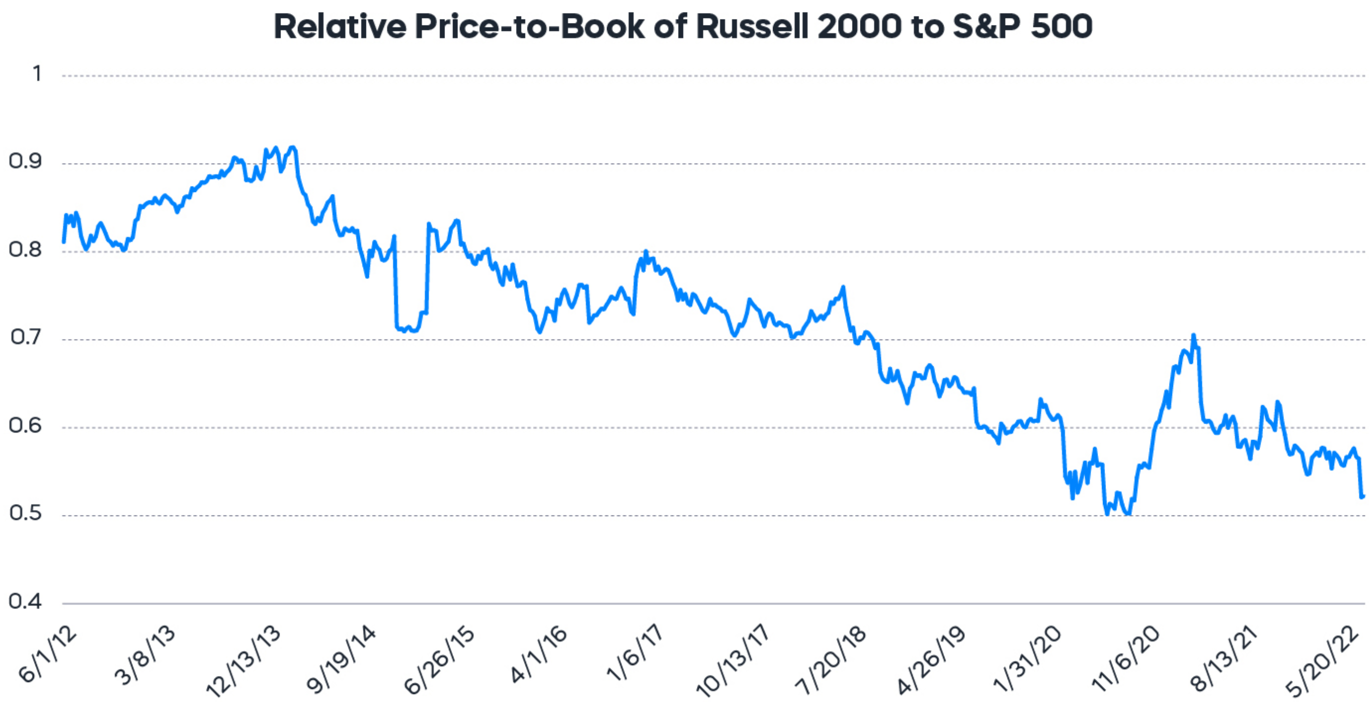
Despite outperforming their large-cap peers over longer time periods, small- and mid-cap stocks have underperformed recently. Given the large-cap dominance over the last several years, many investors are likely under-allocated to smaller capitalization stocks. Market drawdowns, such as we've seen this year, can be a signal for investors to reconsider and potentially reset or fine-tune their portfolio asset allocations. Below, we outline several key reasons why smaller capitalization stocks might be due for a rebound.

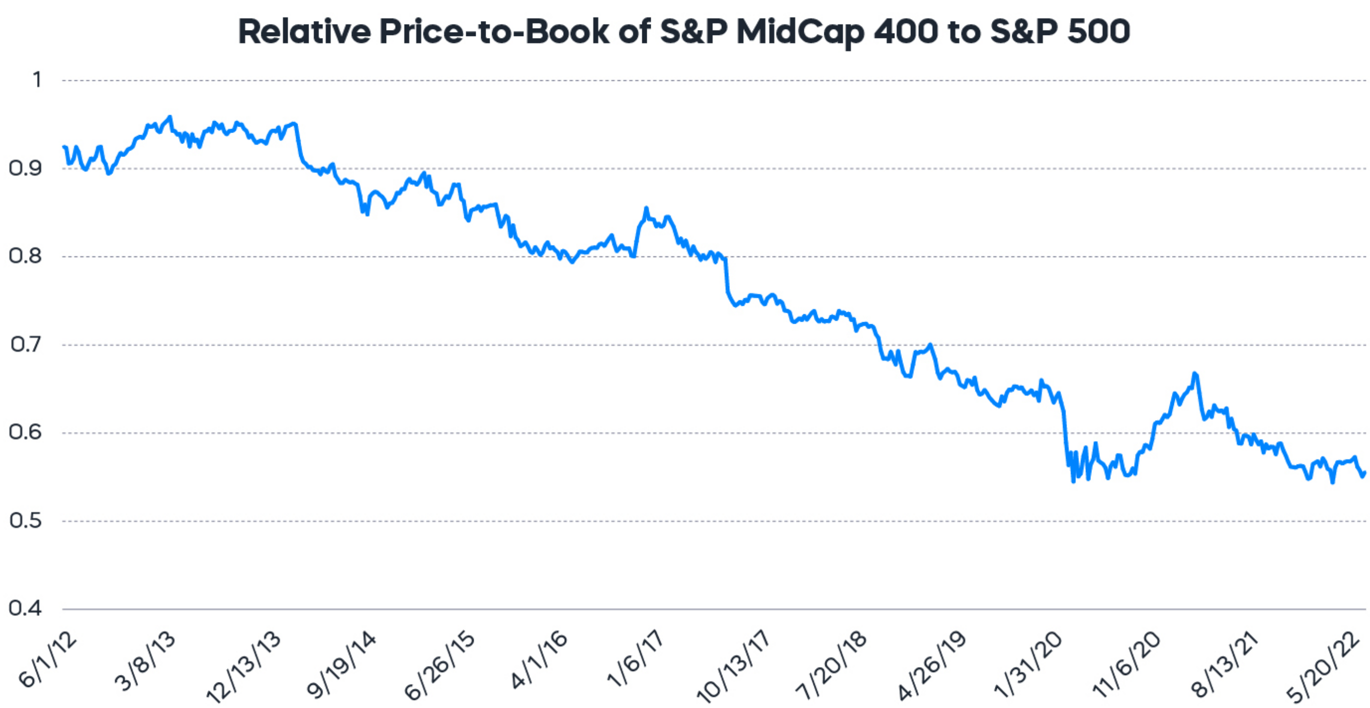
Smaller-Cap Stocks Offer Bargain Opportunities

Investors searching for silver linings amidst the wreckage of the current market downturn may have to dig deep. High levels of inflation, tightening monetary policy, and the ongoing war abroad are a potent combination that has left investor sentiment understandably less than stellar. Despite the sentiment, improving valuations are becoming hard to ignore.

[1] Source: FactSet

Recent price weakness has left large-cap valuation metrics below their recent three-year averages. But small- and mid-cap stocks offer an even more compelling value. Relative to large caps, price-to-book ratios for smaller stocks are trading at roughly half of large caps.

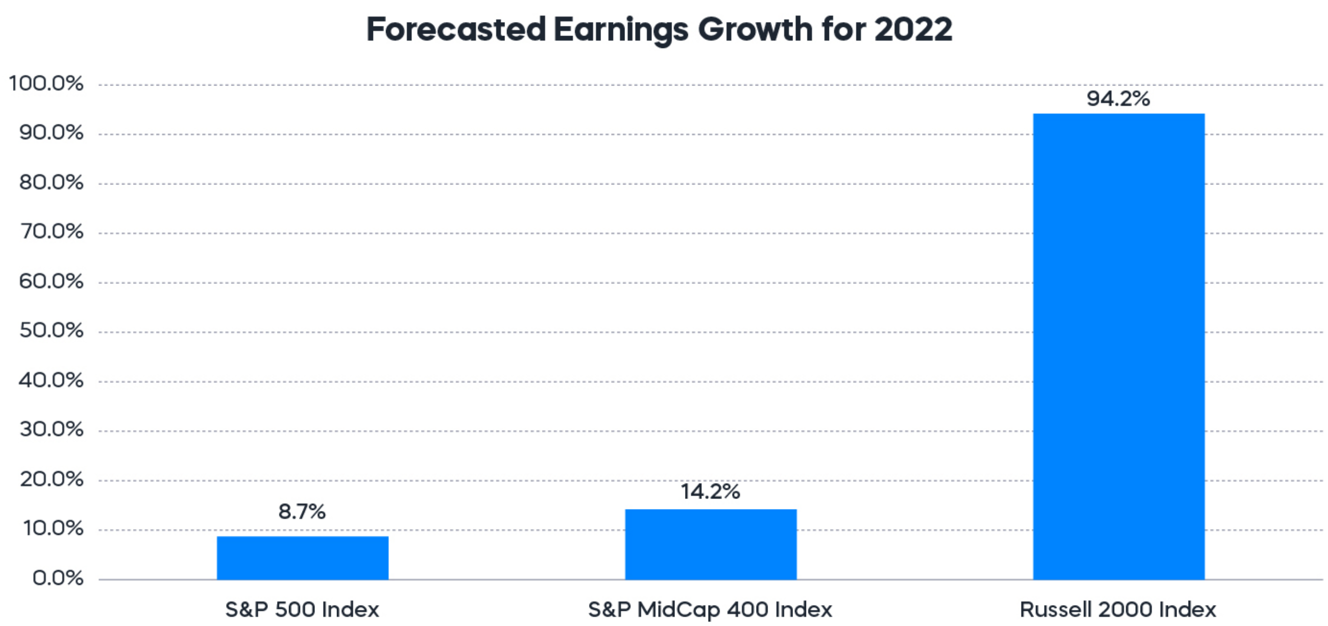




Source: Bloomberg. Data from 6/1/12 through 7/8/22. The price-to-book ratio measures the market value of a fund or index relative to the collective book values of its component stocks. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Deciphering exactly when the valuation gap may begin to close is difficult. One potential catalyst could be continued earnings strength. In the first quarter of 2022, both small and mid caps delivered solid earnings and sales growth that exceeded large caps;

Note that small-cap earnings estimates tend to be more volatile given the thinner analyst coverage, so don't be surprised if there is variance on either side.

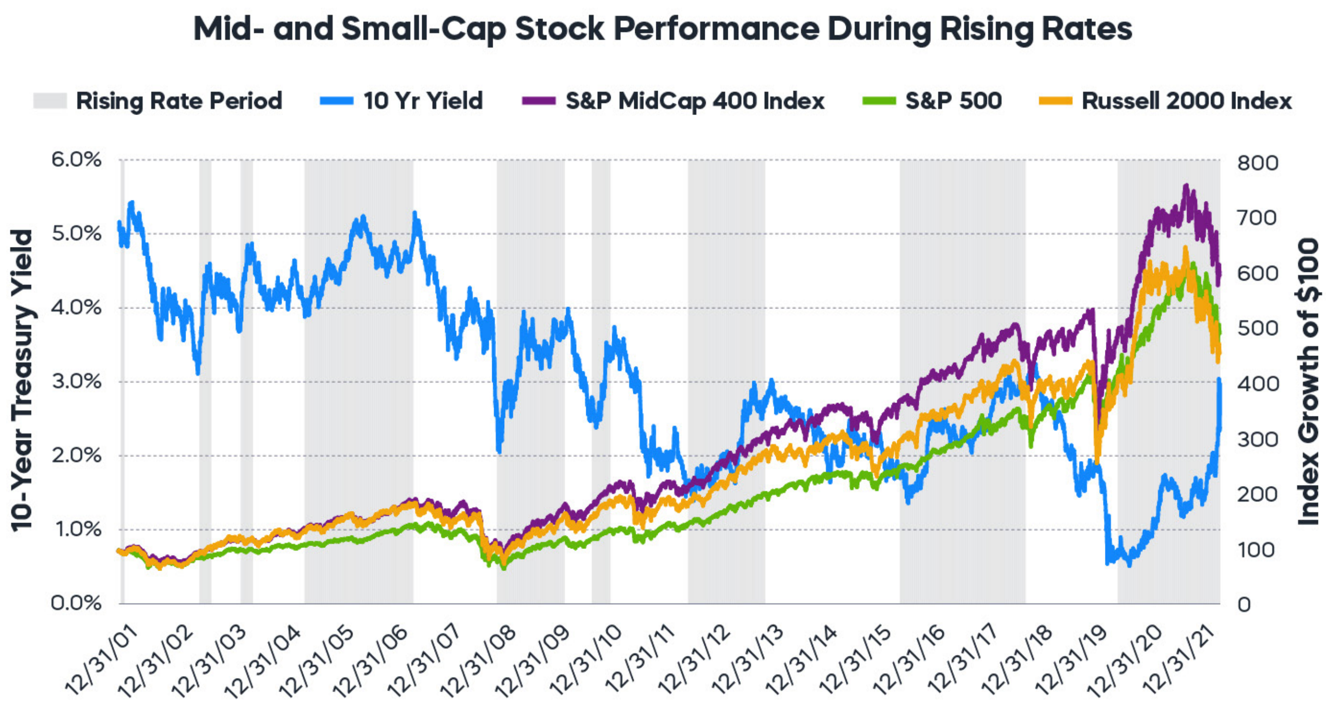


Source: FactSet. Data as of 8/1/22. Past performance does not guarantee future results.

Smaller-Cap Stocks Have Historically Performed Well during Rising Rates

A hawkish Fed and a 127 basis points[2] increase in 10-year Treasury yields since January have been blamed for recent equity market weakness. Indeed, the long-term relationship between stocks and rates is mixed. But stocks have performed well during prior rising rates periods, especially during more recent periods.

In the past, there's typically been a perception that companies with smaller market capitalizations are more leveraged than large caps and may face difficulties servicing their debt as rates rise. Performance hasn't always followed that narrative. Small- and mid-cap stocks have, in fact, outperformed large caps during the vast majority of recent periods when rates moved higher.



Source: Bloomberg. From 12/31/01 to 6/30/22. Periods of rising rates indicated by shaded bars. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results.

[2] As of 7/27/22.

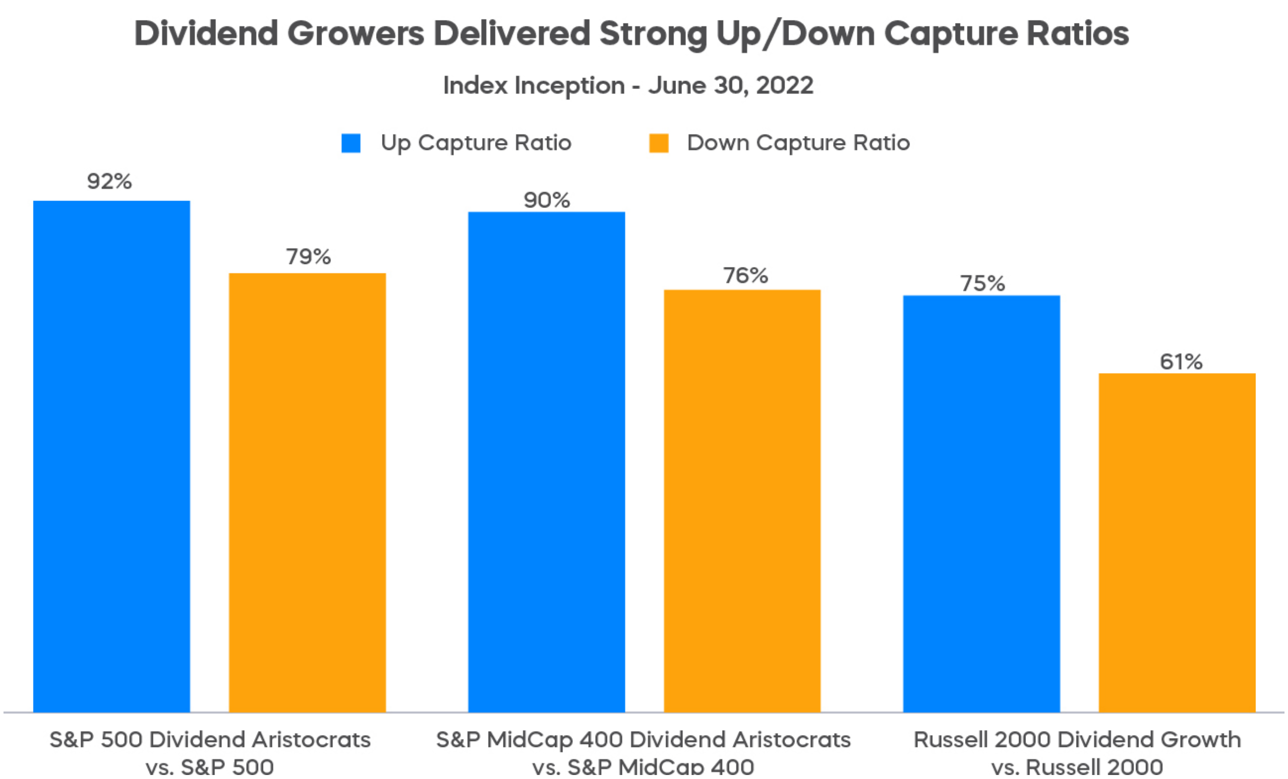
Performance Table

Performance	Start	End	S&P MidCap400 Index	Russell 2000 Total Return Index	S&P 500 Total Return Index	Change in 10 Yr Treasury Yield (bps)
RR Period 1	6/13/2003	9/2/2003	8.90%	13.13%	3.74%	148.72
RR Period 2	3/23/2004	6/14/2004	1.29%	-0.33%	3.26%	117.97
RR Period 3	6/1/2005	6/12/2007	15.91%	15.88%	13.35%	140.84
RR Period 4	12/30/2008	4/5/2010	43.45%	35.83%	28.50%	193.29
RR Period 5	10/7/2010	2/8/2011	19.41%	19.33%	15.08%	135.39
RR Period 6	7/24/2012	12/31/2013	32.58%	35.45%	27.99%	164.07
RR Period 7	7/8/2016	11/8/2018	11.78%	14.84%	14.79%	187.94
RR Period 8	8/4/2020	6/30/2022	11.50%	7.65%	9.01%	250.60

Source: Bloomberg, from 6/13/03 to 6/30/22. Dates represent end-of-day value. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest in an index. Past performance does not guarantee future results.

Dividend Growers Have Weathered Market Turbulence Better

When markets are volatile, strategies with a history of weathering market turbulence may be a source of refuge. One formula for outperformance has been participating in the upside when markets do well, and defending the downside when markets are weak. Companies that have continuously grown their dividends over time are typically seen as high-quality with stable earnings, solid fundamentals, and strong histories of profit and growth. Often only thought of as large cap household names, dividend growers are also found among small- and mid-cap stocks. The S&P MidCap 400 Dividend Aristocrats Index, a group of mid-cap stocks that have grown dividends for at least 15 consecutive years, and the Russell 2000 Dividend Growth Index, a group of small-cap stocks that have grown dividends for at least 10 consecutive years, have delivered impressive upside/downside capture ratios since inception.



Source: Morningstar. Data as of 6/30/2022. 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. S&P 500 Dividend Aristocrats: 5/2/05 - 6/30/22. S&P MidCap 400 Dividend Aristocrats: 1/5/15 -6/30/22. Russell 2000 Dividend Growth: 11/11/14 - 6/30/22.

The Takeaway

High-quality small- and mid-cap dividend growth strategies are potentially well positioned to weather today's market turbulence. Investors may want to consider these strategies based on a combination of attractive valuations, expected earnings growth, and a recent history of performing well during rising rate environments.

Fund performance and index history June 30, 2022		1-Year	3-Year	5-Year	Since Fund Inception	Operating Expenses	Fund Inception Date
S&P MidCap 400 Dividend Aristocrats ETF (REGL)	NAV Market Price	-3.03% -3.02%	7.66% 7.67%	8.04% 8.03%	9.56% 9.56%	0.40% 0.40%	2/3/15 2/3/15
S&P MidCap 400 Dividend Aristocrats Index		-2.63%	8.09%	8.46%	9.97%	-	-
S&P MidCap 400		-14.64%	6.86%	7.02%	7.69%	-	-
Russell 2000 Dividend Growers ETF (SMDV)	NAV Market Price	-5.47% -5.55%	1.98% 1.98%	3.73% 3.73%	7.46% 7.46%		2/3/15 2/3/15
Russell 2000 Dividend Growth Index		-5.08%	2.45%	4.20%	7.94%	-	-
Russell 2000 Index		-25.20%	4.21%	5.16%	6.33%	-	-

Periods greater than one year are annualized.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Shares are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Market price returns are based upon the midpoint of the bid/ask spread at 4:00 p.m. ET (when NAV is normally determined for most funds) and do not represent the returns you would receive if you traded shares at other times. Your brokerage commissions will reduce returns. Current performance may be lower or higher than the performance quoted. Standardized returns and data current to the most recent month end may be obtained by visiting ProShares.com.

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Index information does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index.

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