TAKE ACTION WHEN RATES RISE

A Playbook for Rising Rates

Key Observations

After a decade of historically low interest rates, investors are now operating in a very different environment. Yields are meaningfully higher than they were for much of the post-financial-crisis period, and strategies that worked well during a sustained bond bull market may not be as effective. For many investors, the challenge is not simply predicting whether rates will rise or fall next, but understanding how to build portfolios that can better withstand a range of interest rate outcomes. This guide focuses on practical implementations that may help you:

- **Go on defense against rising rates in your fixed income portfolio:** Traditional bond strategies for rising rate environments—short duration, floating rates, bank loans and Treasury Inflation-Protected Securities, known as TIPS—may not be the most effective choices, while investment tools, such as interest rate-hedged bond strategies, may represent an attractive alternative.
- **Go on offense with rising rates in your equity portfolio:** While equities in general tend to fare better than bonds when interest rates rise, there is also room to tailor an equity strategy for a rising rate environment. We will discuss how an equity strategy that selects sectors and stocks most correlated to rising interest rates may provide enhanced performance when interest rates are rising.

Of course, there is no single strategy that is right for every investor; the best approach is to analyze a broad spectrum of ideas and choose the right ones, or right combination, that best suit your needs. However, given ProShares' large lineup of rising rate solutions, this playbook provides an easy, simple and convenient place to start.

Strategies for Rising Rate Environments

	Pros	Cons
FIXED INCOME		
Interest rate hedged strategies	Mitigates interest rate risk; preserves credit risk	Likely underperforms if interest rates fall
Short duration bonds	Reduces interest rate risk	Some interest rate risks remains, lower yields, reduces credit exposure
Floating rate bonds	Mitigates most interest rate risk	Lower yields, reduces credit exposure
Bank loans	Mitigates interest rate risk; preserves credit risk	Potentially lower liquidity, additional risks tied to prepayments and CLO market technicals
EQUITIES		
Equities for rising rates	Specifically designed and targeted for a rising rate environment	May underperform if interest rates do not rise

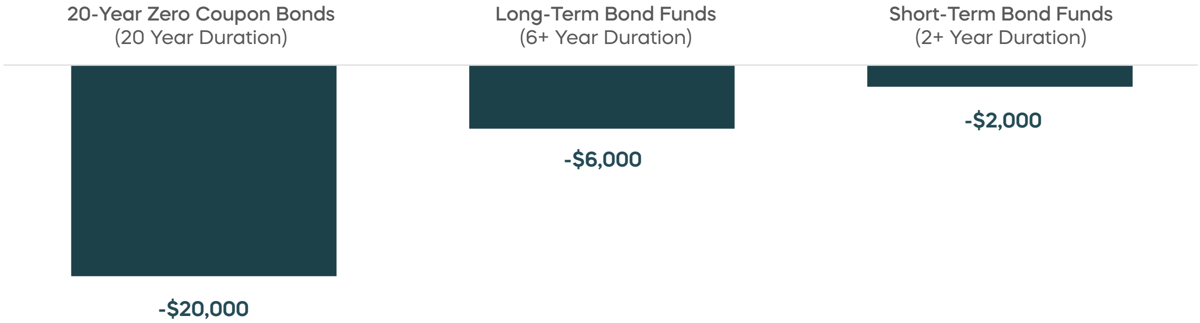
Go on Defense: Fixed Income Strategies

Bond Basics

When interest rates rise, bonds lose market value. Most bonds pay fixed coupons. If interest rates rise, the only way that a fixed coupon can equate to a higher interest rate is if the buyer pays less for the bond. How much less? A bond's duration is the measure of its price sensitivity to interest rate changes.

Simply multiply a change in interest rates by a bond's duration and you have a solid estimate of its change in price. Interest rates go up 50bps. A bond with a duration of 10 will lose approximately 5% of its value. Duration is a function of maturity. The longer the maturity of a bond, the longer its duration. The price of a longer-maturity bond is more sensitive to a change in interest rates than that of a shorter maturity bond (all else being equal). The following illustrates how much a $100,000 bond portfolio could decline from a 1% rise in U.S. interest rates.

When Interest Rates Rise, Bond Portfolios Decline



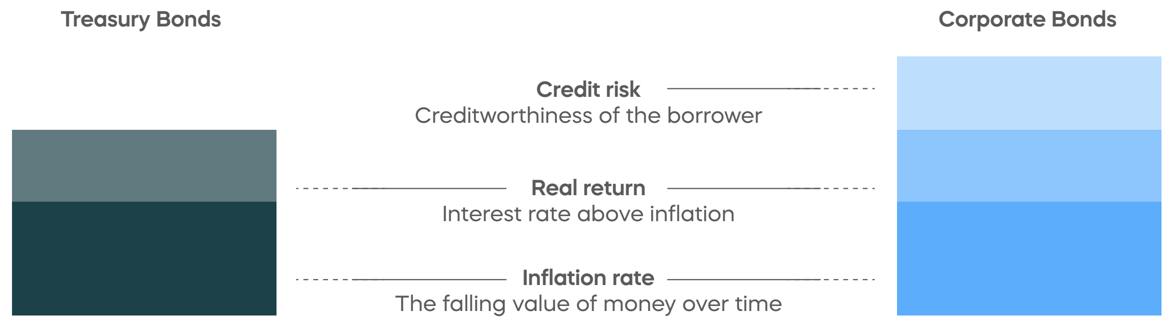
Credit Risk Versus Interest Rate Risk

Some consider a U.S. Treasury bond to have virtually no default risk. Its interest rate—known as a "risk-free rate"—is solely a compensation for giving up money for a period of time. Even without default risk, investors demand a return for lending their money. That return is composed of an inflation component and a "real return" typically over and above inflation. A 10-Year U.S. Treasury bond yielding 4% when inflation is 2% has a 2% "real return."

While a U.S. Treasury bond has virtually no default risk, it is far from riskless. Higher inflation could push yields higher and prices lower. Lower inflation could push yields lower and prices higher. And real returns can shift as well—interest rates can rise without additional inflation. For example, quantitative easing can force real returns lower, and quantitative tightening can force real yields higher.

Corporate bonds have default risk. Companies can go bankrupt. Investors demand an interest rate that's higher than that on a Treasury bond. That "extra" yield is called a credit spread and is a function of the creditworthiness of the borrower: wider spreads for companies with a greater risk of default and narrower spreads for companies with a lower risk of default. A corporate bond, therefore, has an additional source of risk (and return). The Treasury rate component can go up or down, but spreads can widen or narrow based on either changes in a company's creditworthiness or the market's pricing of risk.

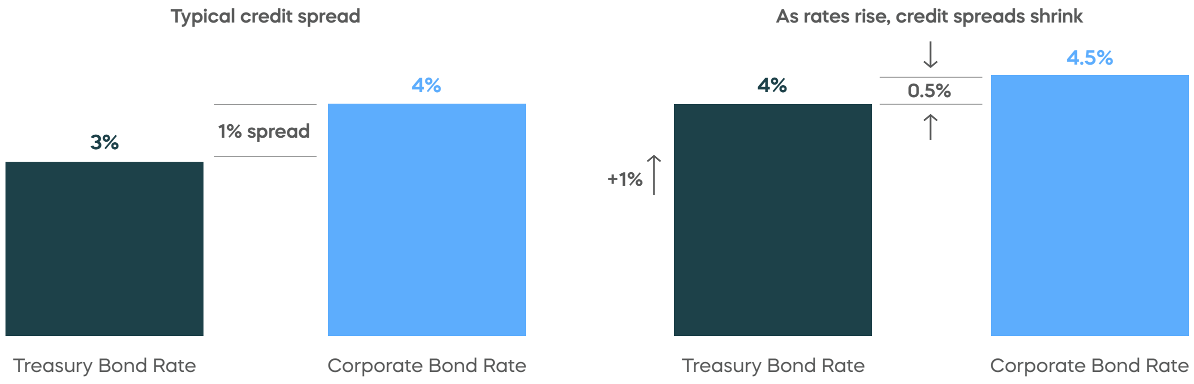
Bonds' Sources of Return and Risk



The Relationship Between Treasury Rates and Credit Spreads

Inflation typically rises when the economy improves. Therefore, when the economy improves, U.S. Treasury rates often rise, and prices fall. But an improving economy can have two contradictory effects on corporate bond returns. Rising Treasury rates reduce bond prices. But there's another, positive effect. Because companies often thrive in a booming economy, investors don't demand as much of a premium for investing in corporate bonds when growth accelerates. Credit spreads—that is, the difference in the interest rates between corporate bonds and Treasurys—can shrink. In fact, credit spreads for both investment-grade and high-yield bonds have been negatively correlated with interest rates. Corporate bonds have often outperformed Treasury bonds in rising rate periods because the tightening of credit spreads offsets some of the rise in Treasury rates.

Rising Rates Can Have Contradictory Effects on Corporate Bond Returns



Historically, that's meant that corporate bonds—investment grade and high yield—have outperformed Treasury bonds in rising rate periods because the tightening of credit spreads can offset some of the rise in Treasury rates.

Fixed Income Strategies for Your Portfolio

Basic bond math is at the core of most bond strategies for rising rates. Shortening duration limits the potential damage if rates rise. A bond with a duration of five has roughly half the exposure to rising rates as a bond with a duration of 10. This is a straightforward approach for U.S. Treasurys. And for the very low-risk portion of an investment portfolio where low yields and returns are par for the course—think cash or near cash—short-duration Treasuries may be a prudent choice. There's more to the story for corporate bonds.

Fixed Income Strategies for Rising Rate Environments

	Pros	Cons
Interest rate hedged strategies	Mitigates interest rate risk; preserves credit risk	Likely underperforms if interest rates fall
Short duration bonds	Reduces interest rate risk	Some interest rate risks remains, lower yields, reduces credit exposure
Floating rate bonds	Mitigates most interest rate risk	Lower yields, reduces credit exposure
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Interest Rate Hedged Bonds: Mitigates Interest Rate Risk, While Preserving Credit Risk

As we mentioned above, credit spreads often compress or tighten in a rising rate environment. Back to simple bond math: Tightening credit spreads push corporate bond prices up. As a result, investors concerned about rising interest rates might consider a strategy that seeks to mitigate interest rate risk during periods of rising rates while still potentially benefiting from improving credit spreads. That runs counter to the common assumption that short-duration or floating-rate strategies provide the best protection in a rising rate environment. These strategies do reduce interest rate risk, but they also limit credit exposure. They may help dampen the negative effects of rising rates but at the cost of limiting the opportunity to profit from credit spreads. Interest rate hedged bond strategies are structured to mitigate interest rate risk while retaining full exposure to credit risk. It's a combination that may be well-suited to a rising interest rate environment.

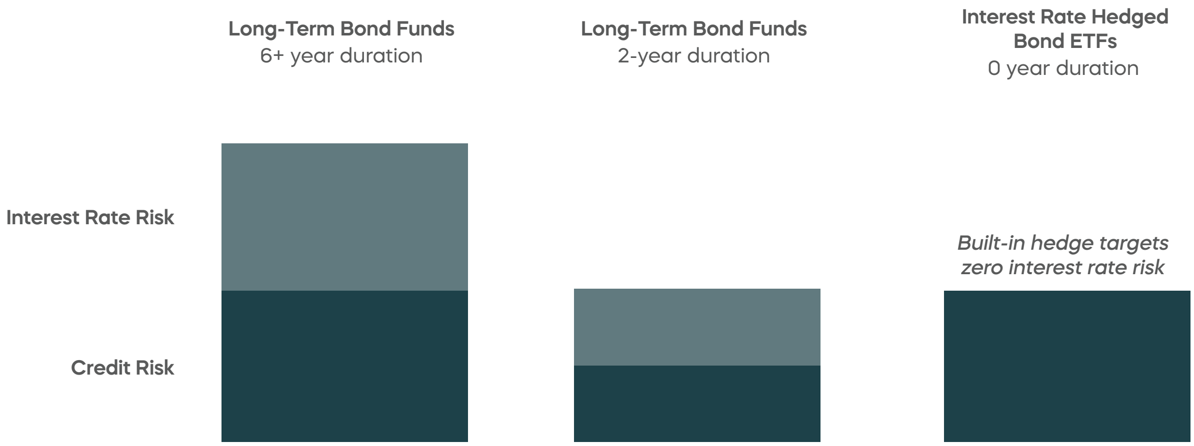
ProShares

How Interest Rate Hedged Bond Strategies Work

Interest rate hedged bond strategies typically invest in portfolios of investment-grade or high-yield bonds and include built-in hedges to alleviate the impact of rising Treasury rates. Since the hedges are specifically targeted at rising Treasury rates, the strategies retain the full exposure to credit risk as a primary source of return.

In the illustration below, you can see how a short duration bond strategy can reduce interest rate risk, but does not eliminate it. Meanwhile, interest rate hedged bond ETFs can mitigate interest rate risk.

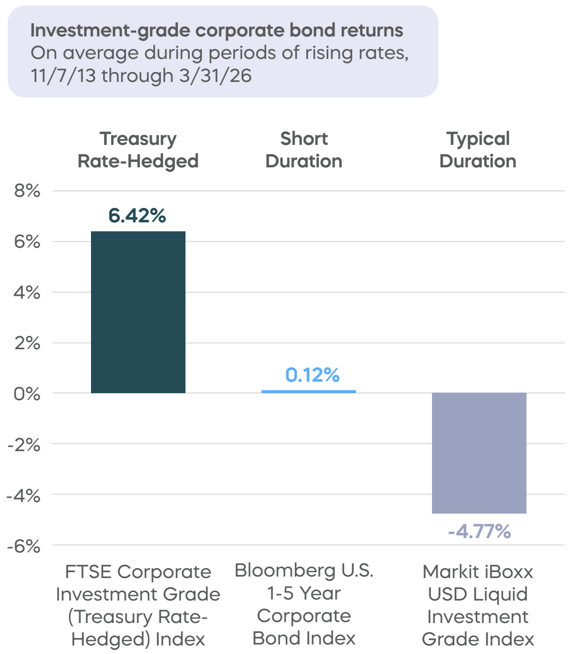
The Fixed income You Want While Mitigating Interest Rate Risk

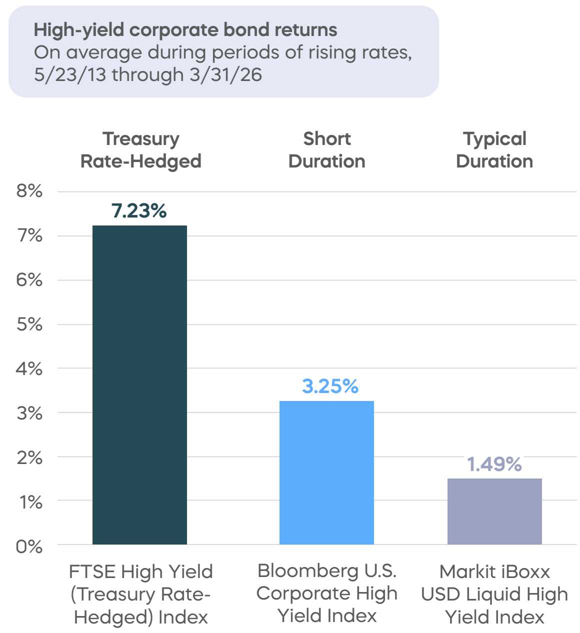


Short Duration Bonds: Some Interest Rate Exposure, Limited Credit Exposure

Short-duration bond strategies reduce interest rate risk but do not eliminate it. And they limit exposure to credit risk. By mitigating interest rate risk and preserving credit risk, interest rate hedged bond strategies—both investment grade and high yield—have outperformed in rising rate environments.

Interest Rate Hedging versus Short Duration Bond Strategies





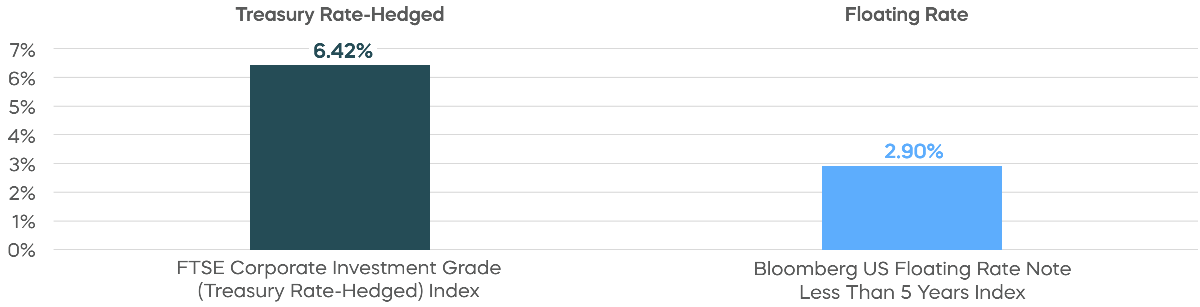
Source: Bloomberg. Starting dates reflect available data since ProShares launched ETFs tracking the respective interest rate hedged indexes. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Standardized performance as of 3/31/26. ProShares Investment Grade—Interest Rate Hedged ETF (IGHG): 1-year 6.34% (NAV) | 6.35% (Market Price), 5-year 4.82% (NAV) | 4.65% (Market Price), 10-year 4.66% (NAV) | 4.70% (Market Price), since inception 11/5/13 3.63% (NAV) | 3.64% (Market Price). ProShares High Yield—Interest Rate Hedged ETF (HYHG): 1-year 6.90% (NAV) | 6.59% (Market Price), 5-year 6.56% (NAV) | 6.41% (Market Price), 10-year 6.26% (NAV) | 6.23% (Market Price), since inception 5/21/13 4.06% (NAV) | 4.05% (Market Price). 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). Your brokerage commissions will reduce returns. Current performance may be lower or higher than the performance quoted. For standardized returns and performance data current to the most recent month end, visit ProShares.com.

Floating Rate Investment Grade Bonds: Less Interest Rate Exposure, Little Credit Exposure

Floating rate investment grade corporate bonds have interest payments that increase when Treasury rates rise. As a result, investors in these securities have minimal exposure to changes in Treasury rates. In addition, because floating-rate securities generally have short maturities, changes in credit spreads have limited (but not zero) impact on their value. Just like short-duration corporate bonds, these securities reduce exposure to interest rates and credit spreads simultaneously. The combination of minimal interest rate exposure and reduced credit exposure can limit an investor's potential returns from floating-rate bonds.

Interest Rate Hedging versus Floating Rate



Source: Bloomberg. Returns, on average during periods of rising rates, 11/7/13 through 3/31/26. Starting dates reflect available data since ProShares launched ETFs tracking the respective interest rate hedged indexes. 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.

Bank Loans: Reduced Interest Rate Risk, Liquidity and Other Challenges

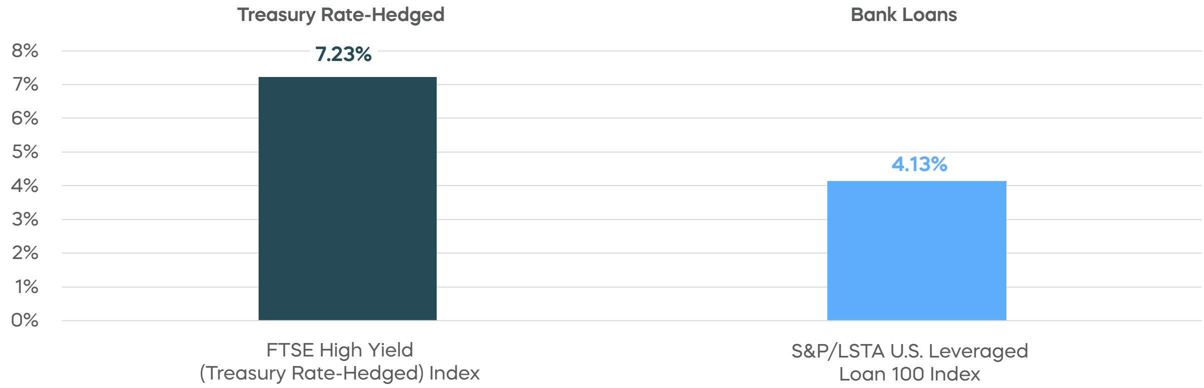
Bank loans are leveraged credit with floating coupon payments tied to short-term interest rates. Because they often have longer maturities (and lower credit quality) than floating-rate securities, they are exposed to significantly more risk from changing credit spreads than floating-rate investments. Bank loans do offer some opportunity to reduce interest rate exposure while maintaining credit risk exposure. However, there are several important considerations investors should keep in mind when evaluating bank loans and bank loan strategies.

First, the market structure is different between bank loans and high yield bonds. Bonds can be bought or sold more quickly than loans, with most trades settling within two days. On the other hand, even the more liquid broadly syndicated loans may take seven days or more to settle. In addition, CLO (collateralized loan obligations) plays an outsized role in the loan market, where approximately two-thirds of investor demand for loans takes the form of CLOs. Dynamics of the CLO market, such as CLO formation, reprice, or reset, can all have a significant indirect impact on bank loan performance independent of the underlying credit fundamentals.

Call provisions are another consideration. Bank loans can be "called at par," which means the issuer may be able to pay back the loan at face value. That limits the potential for price appreciation for investors. Any time a loan trades above par, it is likely to be called, leaving investors with cash to reinvest. Although high yield bonds can also be callable, they often include more formal call protections.

Finally, bank loans and high yield bonds also differ in their underlying credit exposure. Loans are often used more in sponsor-backed transactions, whereas bonds may be issued by a different mix of borrower profiles. For instance, the loan market has had relatively greater exposure to software borrowers, while the high yield market have larger weights in communications and energy.

Interest Rate Hedging versus Bank Loans



Source: Bloomberg. Returns, on average during periods of rising rates, 5/23/13 through 3/31/26. Starting dates reflect available data since ProShares launched ETFs tracking the respective interest rate hedged indexes. 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.

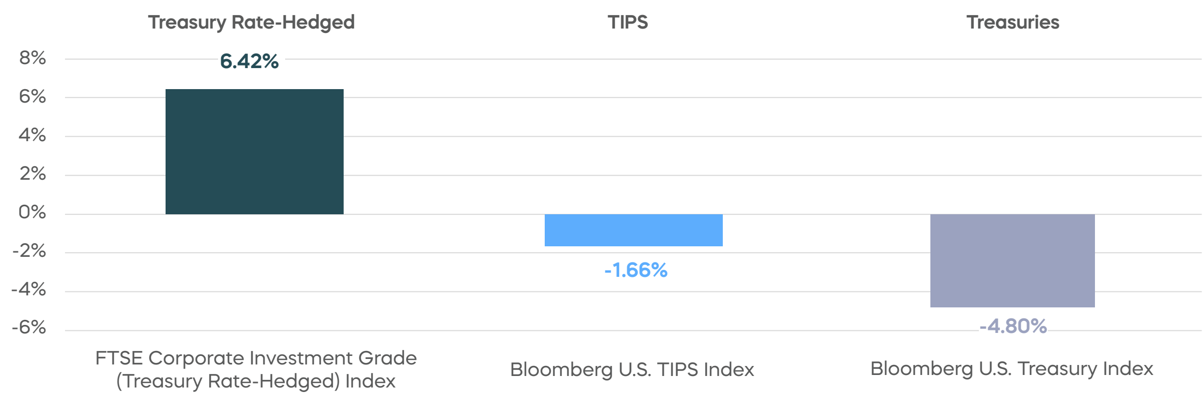
TIPS: Protection Against Rising Inflation Expectations, Not Rising Rates

As of the end of May 2026, the Bloomberg index for Treasury Inflation Protected Securities (known as TIPS) has a duration of 6.6 years. That means if U.S. Treasury rates rise 1%, the price of TIPS could fall 6.6%. You may be thinking to yourself, “Wait. I thought TIPS protected investors from rising interest rates. Don’t they?” The short answer is “Not quite.”

TIPS can help protect investors from rising inflation expectations, not just inflation itself, and not specifically from rising interest rates. Inflation expectations can certainly rise when interest rates rise, and that’s why, as the following chart shows, TIPS have historically outperformed regular Treasuries when rates have risen. However, the Treasury Rate-Hedged Index (based on the FTSE Corporate Investment Grade Index) has performed even better, because interest rates can rise even if inflation expectations don’t.

Therefore, TIPS can be viewed as a way for investors to own real interest rate exposure while reducing the risk of rising inflation expectations. While this structure may help protect purchasing power over time, TIPS can still underperform when real interest rates rise, particularly for longer-duration TIPS.

Interest Rate Hedging versus TIPS



Source: Bloomberg. Returns, on average during periods of rising rates, 11/7/13 through 3/31/26. Starting dates reflect available data since ProShares launched ETFs tracking the respective interest rate hedged indexes. 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.

Go on Offense: Equity Strategies for Rising Rates

When interest rates rise, fixed-coupon bonds can face direct price pressure, while stocks have more ways to adapt. Earnings, dividends and cash flow can all grow. And aligned with the historical tightening of credit spreads in a rising rate environment, economic growth and robust corporate performance have driven solid performance from stocks in rising rate environments.

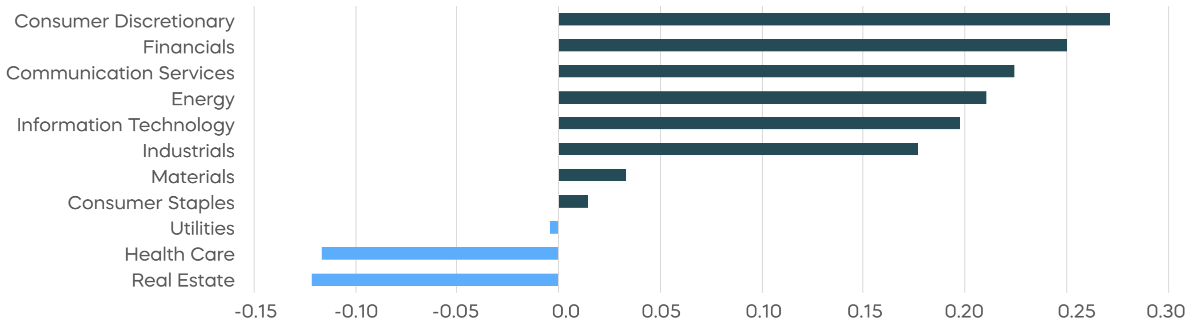
However, not all stocks react in the same way in a rising rate environment; sector exposure matters. Financials have historically benefited during rising rates, as economic expansion typically translates into a steeper yield curve and wider net interest margins. Energy has also done well, as higher energy prices can boost earnings while also contributing to inflation pressure and higher interest rates. Therefore, a rising-rate equity strategy should target areas of the market where fundamentals may be better aligned with the forces behind higher rates.

A Focused Equity Strategy for Rising Rates

The robust relationship between sector performance and rising interest rates lends itself well to a rules-based strategy. The Nasdaq Equities for Rising Rates Index targets sectors that have had the highest correlation to 10-Year U.S. Treasury yields, and within those sectors targets the stocks that have had a tendency to outperform as rates rise. By selecting both sectors and stocks that have shown the strongest positive correlation to 10-Year U.S. Treasury yields, the strategy seeks to increase equity exposure to companies more sensitive to rising rates. Since inception, the strategy has tended to outperform the S&P 500 during periods of rising 10-year yields, with its strongest relative results occurring during longer, more persistent rising-rate periods. Its exposure is also diversified across rate-sensitive sectors, including areas such as financials and energy, which may benefit from different drivers of higher rates, including stronger growth and inflation pressures. The combination has been powerful—delivering nearly double the return of the S&P 500 year-to-date through May 29th, 2026.

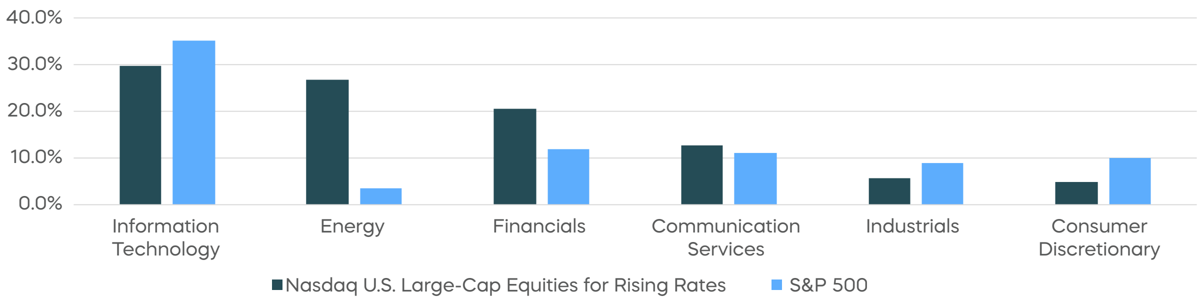
Some Stock Sectors Perform Better When Interest Rates Rise...

Three-year correlation of S&P 500 sectors to rising 10-year Treasury rates.



Source: Bloomberg, as of 3/31/26. Sectors based on GICS classification.

. . . And the Nasdaq Equities for Rising Rates Index Tilts Substantially Toward These Sectors



Source: Bloomberg, as of 4/30/26. Sectors based on GICS classification.

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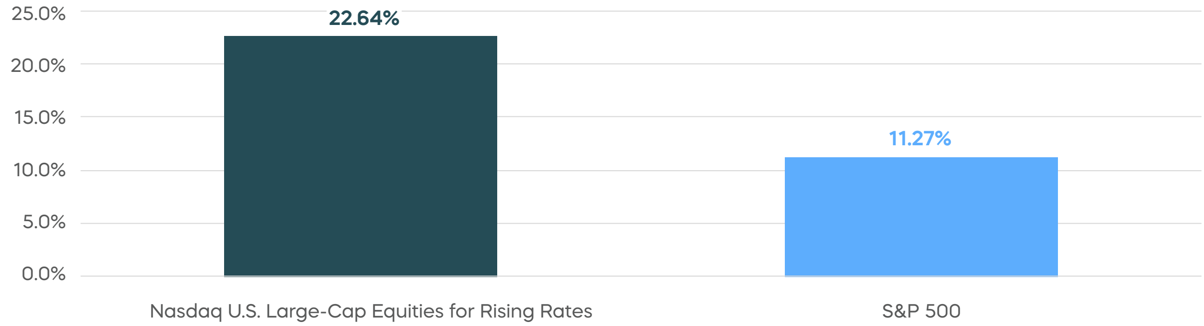
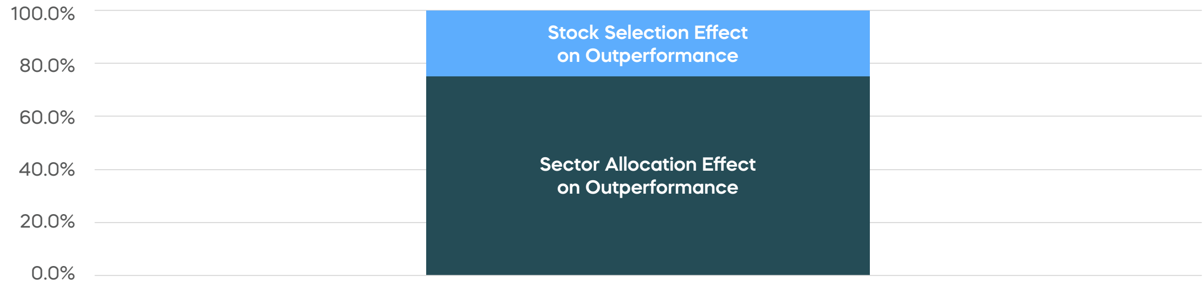
The Nasdaq Equities for Rising Rates Index Has Outperformed the S&P 500...



Source: Bloomberg. Performance during period of rising 10-year Treasury rates, year-to-date through 5/29/26.

...By Focusing On the Right Sectors—and the Right Stocks—for a Rising Rate Environment



Source: FactSet. Sector allocation and stock selection components were both key contributors to the index's performance vs. the S&P 500.

Standardized performance as of 3/31/26. ProShares Equities for Rising Rates ETF (EQRR): 1-year 19.36% (NAV) | 19.49% (Market Price), 5-year 11.19% (NAV) | 11.18% (Market Price), since inception 7/24/17 8.93% (NAV) | 8.95% (Market Price). 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). Your brokerage commissions will reduce returns. Current performance may be lower or higher than the performance quoted. For standardized returns and performance data current to the most recent month end, visit ProShares.com.

Get the Convenience of ETFs

Bond and stock strategies specifically designed for rising interest rate environments can be important solutions for investors looking to prepare their portfolio—or even profit—in this environment. It's a challenge orchestrate these opportunities on their own. However, an ETF provides a convenient solution. Indeed, ProShares offers a large lineup of investment tools for the rising rate environment, including:

- **Interest Rate Hedged Bond ETFs**, which have historically outperformed traditional bond strategies such as short duration, floating rate, bank loans and TIPS when interest rates have risen.
- **An Equities for Rising Rates ETF** focused on sectors and stocks most correlated with rising rates that has delivered nearly double the return of the S&P 500 since interest rates bottomed in the summer of 2020.

Interested in learning more?

Financial professionals can contact ProShares at **866-776-5125** or email **info@proshares.com** for additional information about ProShares' investment products.

Important information

Holdings are subject to change.

This is not intended to be investment advice. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Any forward-looking statements herein are based on expectations of ProShare Advisors LLC at this time. Whether or not actual results and developments will conform to ProShare Advisors LLC's expectations and predictions, however, is subject to a number of risks and uncertainties, including general economic, market and business conditions; changes in laws or regulations or other actions made by governmental authorities or regulatory bodies; and other world economic and political developments. ProShare Advisors LLC undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Investing involves risk, including the possible loss of principal. These ProShares ETFs entail certain risks, including risks associated with the use of derivatives (swap agreements, futures contracts and similar instruments), imperfect benchmark correlation, leverage and market price variance, all of which can increase volatility and decrease performance. Please see their summary and full prospectuses for a more complete description of risks. **There is no guarantee any ProShares ETF will achieve its investment objective.**

HYHG and IGHG do not attempt to mitigate factors other than rising Treasury interest rates that impact the price and yield of corporate bonds, such as changes to the market's perceived underlying credit risk of the corporate entity. HYHG and IGHG seek to hedge high yield bonds and investment grade bonds, respectively, against the negative impact of rising rates by taking short positions in Treasury futures. These positions lose value as Treasury prices increase. Investors may be better off in a long-only high yield or investment grade investment than investing in HYHG and IGHG when interest rates remain unchanged or fall, as hedging may limit potential gains or increase losses. No hedge is perfect. Because the duration hedge is reset on a monthly basis, interest rate risk can develop intra-month, and there is no guarantee the short positions will completely eliminate interest rate risk. Furthermore, while HYHG and IGHG seek to achieve an effective duration of zero, the hedges cannot fully account for changes in the shape of the Treasury interest rate (yield) curve. HYHG and IGHG may be more volatile than a long only investment in high yield or investment grade bonds. Performance of HYHG and IGHG could be particularly poor if high yield or investment grade credit deteriorates at the same time that Treasury interest rates fall. There is no guarantee the fund will have positive returns.

Bonds will decrease in value as interest rates rise.

High yield bonds may involve greater levels of credit, liquidity and valuation risk than higher-rated instruments. High yield bonds are more volatile than investment grade securities, and they involve a greater risk of loss (including loss of principal) from missed payments, defaults or downgrades because of their speculative nature.

Short positions in a security lose value as that security's price increases.

EQRR is designed to provide relative outperformance, as compared to traditional U.S. large-cap indexes, such as the S&P 500, during periods of rising U.S. Treasury interest rates. As a result, the fund may be more susceptible to underperformance in a falling rate environment. There can be no guarantee that the fund will provide positive returns or outperform other indexes.

EQRR concentrates its investments in certain sectors. Narrowly focused investments typically exhibit higher volatility.

Carefully consider the investment objectives, risks, charges and expenses of ProShares before investing. This and other information can be found in their summary and full prospectuses. Obtain them from your financial professional or visit ProShares.com. Read them carefully before investing.

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