Go on the Offensive with EQRR as Fed Prepares to Raise Rates

Interest rates are rising. And, with the Federal Reserve having now embarked on its rate hike path, and on the cusp of quantitative tightening, they've likely got considerably further to go. It's an environment for which ProShares Equities for Rising Rates ETF (EQRR) can provide investors with an opportunity to outperform traditional U.S. large-cap indexes.

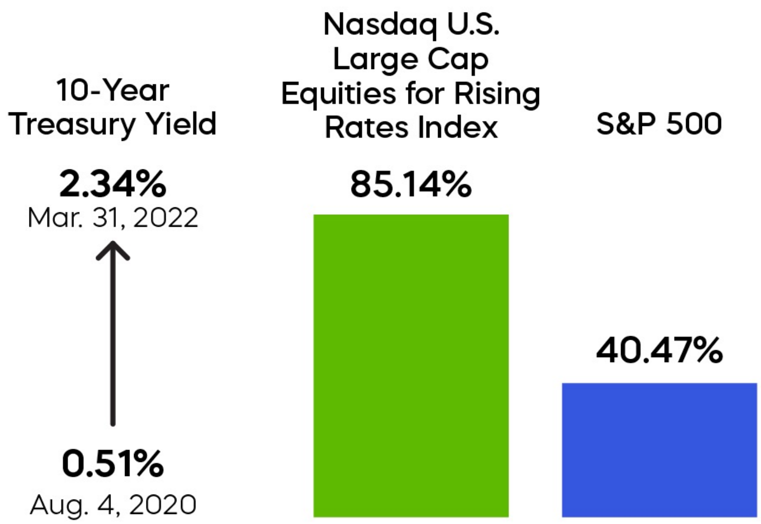
The fund, which tracks the performance of the Nasdaq U.S. Large Cap Equities for Rising Rates Index™ (NQERR™), employs a rules-based strategy, targeting five sectors and 10 stocks within each of those sectors that have the highest correlations to 10-year U.S. Treasury yields. Those sectors – including Financials, Energy, Basic Materials, and Industrials – have quite intuitive ties to rising rates. For example, Financials often have higher margins amid rising rates. Energy and Materials stocks also stand to benefit from the inflation that usually accompanies rising rates. The fifth and smallest sector allocation is currently Technology, but has a history of rotating across Telecommunications, Consumer Discretionary, and Health Care as well. The index is reconstituted using this rules-based approach on a quarterly basis, allowing both sectors and stocks to help keep pace with evolving market conditions.

"It's an ETF that can turn rising interest rates into investing opportunity for equities," Simeon Hyman, Global Investment Strategist at ProShares, said during a recent TradeTalks interview. "It can be a very effective satellite to a core large-cap allocation to try to take a bit of an offensive stance when those interest rates are rising."

The Fed's dot plot and Fed Chair Powell's comments makes it clear that March's 25bps rate hike is likely to be the first of many. Powell also said that the Fed is just about ready to reduce its balance sheet. The upcoming quantitative tightening marks a notable departure from the Fed's practices following the financial crisis of 2007-2009, as the central bank waited two years to end its quantitative-easing program after increasing rates in 2015.

Without quantitative easing to suppress longer-term interest rates, the 10-year Treasury Yield has soared past 2%, a significant increase from the all-time low of 0.51% in August 2020. Since then, EQRR's underlying index, the Nasdaq U.S. Large Cap Equities for Rising Rates Index™, has more than doubled the return of the S&P 500.

Performance during period of rising 10-year Treasury rates



Source: Bloomberg, 8/4/20-3/31/22. Index returns are illustrative and do not represent actual fund performance. Index returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged, and one cannot directly invest in an index. Past performance does not guarantee future results.

“When most people hear about rising interest rates, they immediately think they have to run over to their bond portfolio and play some sort of defense, which certainly may be true, but there’s actually an opportunity to reposition your equity portfolio offensively and take advantage of some of the sectors and stocks that may do better in a rising rate environment,” Hyman said.