

Zacks Multi-Asset Income Index (ZAXYH) Commentary

Q2 Commentary as of 6/30/2024

Summary

Zacks Multi-Asset Income Index (ZAXYH) is the first yield-oriented index to combine equities, preferred stocks, ADRs, REITs, master limited partnerships (MLPs), and closed-end funds, creating a diversified portfolio that minimizes risk. During the quarter ending June 30, 2024, ZAXYH declined -1.16%, while the benchmark Dow Jones US Select Dividend Index (DJDVY Index), declined -1.01%. However, ZAXYH has significantly outperformed the benchmark over the trailing twelve months, advancing 23.07% compared to 11.44% for the benchmark.

Zacks Multi-Asset Income Index Performance² as of 6/30/2024

	Average Weight (%)	Total Rtn YTD(%)	Dividend Yield	Benchmark	Benchmark Rtn YTD(%)	Benchmark Div Yield
Total	100.00	-1.16%	5.62			
ADR	9.50	-1.38%	7.40	SPADRTR Index	1.94%	2.94
CEF	10.16	2.21%	12.79	CEFX Index	2.33%	8.70
COM	49.49	-2.65%	3.10	DJDVY Index	-1.01%	4.42
MLP	10.28	6.77%	8.16	AMZ Index	3.28%	6.90
PFD	10.07	-2.12%	5.93	SPPREFXT Index	-2.15%	6.41
REIT	10.49	-0.01%	6.17	FNERTR Index	-0.90%	4.13

Source: Bloomberg, S&P, VettaFi, and FTSE

The U.S. Stock Market

The markets had a mixed performance during the second quarter ending on June 30th. The large-cap tech stock continued to perform strongly, leading the S&P to advance 4.28%. However, small and mid-cap stocks and value stocks performed poorly. Russell 2000 declined -3.28%. Currently, the market has priced in two quarter basis point rate cuts by the end of the year. The market outlook remains favorable, with wage growth and inflation cooling gradually and economic activity remaining solid. The consensus is still for a "soft landing". However, there is continuing investor concern regarding rising geopolitical conflict, uncertainty on inflation, and the Fed policy path.

Global Stock Market

MSCI EAFE Index (MXEA) tracking the developed markets declined -0.20%, while the MSCI emerging market (MXEF) index advanced 5.03%. Global inflation remains at an elevated level. Signs of inflation easing could signal expectations for rate cuts given the signs of economic weakness. The Global economy seems to be in late cycle, with a recession possibly on the horizon. There is also continuing elevated geopolitical tension. ADR sleeve of ZAXYH declined -1.38%, underperforming the benchmark S&P ADR Index (SPADRTR Index), which advanced 2.33% for the end quarter.

Crude Oil and MLP

U.S. Energy Information Administration predicts Brent crude oil prices to average \$89 per barrel in the second half of 2024, up from \$84 in the first half. The increase in price partly stems from the decrease in oil inventories due to OPEC+ production cuts. However, spot prices declined slightly following the June 2 meeting of OPEC+ where they announced the gradual unwinding of 2.2mb/d cuts. USEIA forecast anticipates OPEC+ producing less than their announced targets through the forecast period. Retail oil prices are expected to drop in 2024 as crack spreads fall. The USEIA predicts the retail price of regular gasoline to average \$3.50 in 2025. Global oil consumption is forecast to grow by 1.1mb/d in 2024, slightly below previous forecasts. The reduction in demand growth is due to poor industrial activity and lower demand in Europe due to the increasing use of electrical vehicles. Oil supply growth is expected to be 0.6mb/d. Despite OPEC+ decreasing production by 1.3mb/d outside production has more than compensated for it. Rising geopolitical tensions have the potential for oil supply disruptions. The Houthi attacks on shipping vessels have not had a significant impact on oil supply but there is potential for further escalation. Due to the fee-based business model of the midstreams, most MLPs should hold up better than the broad energy sector during economic headwinds.

However, there is continuing long-term concern regarding technology changes, increasing use of renewables, increasing use of electric vehicles, and policy changes that affect oil demand and midstream. The MLP sleeve of the ZAXYH index advanced 6.77%, outperforming the 3.28% advance of the benchmark Alerian MLP Index (AMZ).

REITs Market Outlook

REITs have underperformed over the past two years but are well situated for a tightening cycle. Since they have a higher duration and sensitivity to the yield curve at the long end, there was a sell-off as the yields rose and a rally as the consensus for the Fed rate cut rose. Historically, real estate rent and value have tended to increase with the broader price levels, and REITs have been resilient to moderate inflation. Despite economic headwinds, REITs have remained operationally resilient due to low leverage and may be well positioned for a declining yield cycle. Data centers and residential sectors performed well, and the office sector declined significantly due to the increasing popularity of working from home. The REIT sleeve of the ZAXYH Index declined -0.01% for the quarter, outperforming the FTSE NAREIT Equity REITs Index (FNERTR Index), which declined -0.9%.

Zacks Multi-Asset Income Index Sector Attribution

from 3/31/2024 to 6/30/2024

	% AVERAGE WEIGHT			TOTAL RETURN (%)			ATTRIBUTION (%)		
	ZAXYH	DJDVY	+/-	ZAXYH	DJDVY	+/-	Allocation	Selection	Total
	(CVY)	(CVY)		(CVY)	(CVY)				
Total	100	100	0	-0.97	-1.01	0.04	-1.29	1.37	0.08
Communication Services	2.56	5.71	-3.14	-3.57	0.2	-3.77	-0.08	-0.06	-0.13
Consumer Discretionary	4.13	7.41	-3.28	-9.36	-4.83	-4.53	-0.16	0.1	-0.06
Consumer Staples	2.13	10.46	-8.33	-5.8	-1.65	-4.15	0.01	-0.04	-0.03
Energy	27.81	4.97	22.84	-1.06	-0.59	-0.47	-0.19	0.18	-0.02
Financials	31.08	26.26	4.82	0.85	-4.41	5.26	0.25	1.24	1.49
Health Care	2.16	3.48	-1.32	-10.58	-1.68	-8.9	-0.14	-0.05	-0.2
Industrials	3.39	2.18	1.21	-1.1	-0.07	-1.02	0	-0.02	-0.02
Information Technology	0.83	3	-2.17	6.97	6.89	0.08	-0.17	0	-0.17
Materials	5.96	8.43	-2.47	-3.04	0	-3.05	-0.28	0.1	-0.18
Real Estate	10.26	0	10.26	-0.24	0	-0.24	0.09	0	0.09
Utilities	1.54	28.1	-26.56	-4.46	2.26	-6.72	-0.86	-0.07	-0.94
Not Classified	8.14	0	8.14	2.21	0	2.21	0.24	0	0.24

Highlights of ZAXYH for Q2 2024

- Higher yield of 5.62% compared with 4.42% for benchmark DJDVY Index.
- Lower valuation ratios measured by P/E, P/CF, and P/B. The index continues to tilt towards value securities.
- The earnings quality factors are higher than the benchmark.
- The index has lower leverage and higher current ratio.
- Downside risk indicated by annual VaR 95% (-1.22vs. -1.22) and annual downside standard deviation (8.78 vs 8.80) are similar to the benchmark DJDVY.
- Volatility measured by the annualized standard deviation (11.89 vs 12.08) is similar to the benchmark DJDVY Index.

Zacks Multi-Asset Income Index Characteristics³ as of 6/30/2024

Characteristic	ZAXYH						Total	DJDVY Index
	ADR	CEF	COM	MLP	PFD	REIT		
Dividend Yield ⁴	7.4	12.79	3.1	8.16	5.93	6.17	5.62	4.42
Price to Earnings Ratio (P/E)	7.31	12.85	7.45	9.86		54.19	8.94	13.76
Price to Cash Flow Ratio (P/CF)	3.46	6.5	4.95	5.36		10.23	5.2	7.36
Price to Book Ratio (P/B)	1.35	0.7	1.39	2.36		1.84	1.41	1.84
Total Debt to Common Equity	99.9	39.04	103.58	143.69		241.7	113.13	134.64
Current Ratio	1.34	0.24	1.41	1.27		1.09	1.29	1
Beta	0.82	1.1	0.93	0.7		1.16	0.95	0.86
ROA	3.76	3.86	2.17	7.33		0.9	2.47	1.51
ROC	11.64	12.21	8.43	13.61		1.24	7.71	6.3
ROE	18.55	5.81	16.11	24.27		2.98	14.16	8.82

Source: Bloomberg

Performance Attribution

The index performed mostly inline with the Dow Jones Select Dividend Index (DJDVY). The common sleeve underperformed DJDVY partly due to being underweight in Utilities that outperformed this quarter. However, the security selection in Financials contributed to the excess return. The preferred sleeve performed inline with the benchmark S&P U.S. fixed-rate preferred index. The decline in preferreds was due to the increase in interest rates as the market priced in expected Fed rate cuts. The close-ended fund sleeve also performed inline with the benchmark S-Network composite closed-end fund index. The MLP sleeve outperformed the benchmark Alerian MLP index and the REIT sleeve outperformed the benchmark FRSE NAREIT all equity REITS Index. The excess returns were partly due to the active exposure to momentum. The ADR sleeve underperformed the benchmark S&P International 700 ADR Index. Kinross Gold Corporation and Banco Marco SA were the biggest individual contributors to excess return, while PBF Energy, Worthington Enterprises, and Marathon Petroleum Corporation were the biggest detractors.



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¹ Indicated annual dividend yield as of 6/30/2024

² The performance for the index given in the table is calculated using Bloomberg. There is a slight discrepancy between the actual index performance and the performance reported in the table due to differences in the calculation methodology.

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⁴ Indicated annual dividend yield as of 6/30/2024

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Dow Jones U.S. Select Dividend Index: The selection of stocks to the Dow Jones U.S. Select Dividend Index is based almost entirely on dividend yield and dividend history. Stocks are also required to have an annual average daily dollar trading volume of more than \$1.5 million. These criteria help to ensure that the index represents the most widely traded of the market's highest-yielding stocks. This is a total return index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

Dow Industrial Average Index: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

MSCI EAFE Total Return Index: Morgan Stanley Capital International Equity Indices in US Dollars. Indices with net dividends reinvested use the same dividend minus-tax-credit calculations, but subtract withholding taxes retained at the source for foreigners who do not benefit from a double taxation treaty.

MSCI Emerging Net Total Return Index: MSCI Net Total Return Index Series.

FTSE 100 Index: The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investability weighting in the index calculation. The index was developed with a base level of 1000 as of December 30, 1983.

The Zacks logo features the word "Zacks" in a white, serif font, set against a dark green rectangular background.

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DISCLOSURE (continued)

FTSE NAREIT Equity REITs Total Return Index: FTSE NAREIT Equity REITs Total Return Index USD. This investment sector includes all Equity REITs not designated as Timber REITs or Infrastructure REITs.

S&P ADR Index: The index is comprised of 6 regional and country headline indices, representing non-U.S. market coverage across 30 markets. The S&P ADR Index is ideal for U.S. institutional investors who are restricted from purchasing foreign stocks. The index is market cap-weighted with all pricing and valuation taken from the U.S. exchange with the primary listing.

CEFX Index: S-Network Composite Closed-End Fund Index is a net assets-weighted fund index designed to serve as a benchmark for closed-end funds listed in the US that principally engage in asset management processes designed to produce taxable annual yield.

AMZ Index: Alerian MLP Index is the leading gauge of energy MLPs. The market cap weighted index constituents represent approximately 85% of total market cap.