

Zacks Midcap Core Index (ZAXMC) Commentary

Q4 Commentary as of 12/31/2024

Zacks Mid Cap Core Index (ZAXMC Index) declined -2.66% for the quarter ending December 31, 2024, underperforming the benchmark S&P Midcap 400 Index, which advanced 0.34%. It has underperformed the benchmark for the year to date, advancing 13.03% compared to 13.93%. Since its inception in 2007, the index has returned an average of 10.36% annually compared to 9.29% for the S&P Midcap 400 Index.

U.S. Stock Market Overview

During the quarter ending December 31st, U.S. stock rallied. The S&P 500 index advanced 2.39%. Russell 2000 advanced 0.32%, and S&P midcap 400 advanced 0.34%. The current outlook for U.S. midcap equity is promising and is supported by strong fundamentals. The Analysts' consensus is for small-cap earnings growth to outperform large-cap with an expected earnings growth of 43.7% for Russell 2000. The 43 out of 400 companies in the S&P

midcap index that have reported so far show an earnings growth of 26.16% and a revenue growth of 9.05%. The current valuation of midcap securities is also significantly lower than the elevated level of the large caps. The consensus is still for a "soft landing" but there may be signs that the economy is slowing down. Furthermore, there is still much investor uncertainty on inflation, the Fed rate cuts, and potential tariffs and fiscal policy by the new administration.

Zacks Midcap Core Index Strategy Review

The Zacks Midcap Core strategy uses a proprietary multi-factor selection model. The selection screen eliminates companies with inflated growth estimates, avoiding unsustainable, highly volatile stock. The valuation factors add a safety net to make sure the portfolio doesn't include extremely expensive stock and tilts the index towards value stocks. Finally, short-interest ratio is used as a market sentiment indicator.

Zacks Mid-Cap Core Characteristics¹ as of 6/30/2024

	ZAXMC Index	S&P Midcap 400 Index		Russell Midcap Index	
	CZA	IJH	+/-	IWR	+/-
Dividend Yield ²	2.22	2.09	0.13	2.11	0.11
Price to Earnings Ratio (P/E)	18.84	20.38	-1.55	23.05	-4.22
Price to Cash Flow Ratio (P/CF)	12.26	11.11	1.16	13.62	-1.35
Price to Book Ratio (P/B)	2.55	2.53	0.02	3.04	-0.49
Total Debt to Common Equity	93.01	98.74	-5.74	109.63	-16.62
Current Ratio	1.51	1.53	-0.02	1.29	0.22
Beta	0.92	1.09		1.06	0.00
Return on Assets	2.25	2.33	-0.08	2.50	-0.25
Return on Capital	8.22	7.67	0.55	8.03	0.19
Return on Common Equity	10.76	11.18	-0.43	10.75	0.01

Source: Bloomberg

Highlights of Zacks Midcap Core Index³

- ZAXMC has a higher dividend yield (2.01%) than the benchmark S&P Midcap 400 Index (1.5%).
- Similar valuation ratios measured by P/E, and P/B and higher P/CF.
- The index has slightly lower leverage than the benchmark.
- Earnings quality ratios are similar to the benchmark.
- Lower volatility measured by annualized standard deviation (12.59 vs 13.93) compared with the benchmark.
- Similar downside risk indicated by annual VaR 95% (-0.95 vs -0.94) and annualized downside standard deviation (8.66 vs. 9.92).

Performance Attribution

The index underperformed the benchmark in the fourth quarter. Being overweight in Materials detracted from the relative return, as did the security selection in Industrials. LyondellBasell Industries and Brown Forman Corporation were the biggest individual detractors. LPL Financial and Entergy Corporation were the most significant contributors to the relative return.

Zacks Mid-Cap Core Sector Attribution⁴ from 9/30/2024 to 12/31/2024

	% AVERAGE WEIGHT		CONTRIBUTION TO RETURN (%)		ATTRIBUTION (%)		
	ZAXMC Index	S&P 400 Midcap Index	ZAXMC Index	S&P 400 Midcap Index	Allocation	Selection	Total
Total	100.00	100.00	-2.67	0.34	-0.89	-1.91	-2.80
Communication Services	2.28	1.39	0.19	0.00	0.01	0.18	0.19
Consumer Discretionary	1.09	14.00	-0.11	-0.15	0.15	-0.08	0.07
Consumer Staples	3.03	4.44	-0.26	0.19	-0.05	-0.41	-0.46
Energy	1.49	4.96	0.15	0.68	-0.39	-0.02	-0.41
Financials	19.40	17.44	0.98	1.03	0.09	-0.05	0.04
Health Care	3.31	9.46	-0.60	-0.36	0.28	-0.47	-0.19
Industrials	32.46	22.43	-1.55	-0.31	-0.17	-1.22	-1.38
Information Technology	6.56	9.81	0.10	0.22	-0.07	-0.02	-0.09
Materials	14.89	6.48	-1.29	-0.40	-0.58	-0.30	-0.87
Real Estate	9.11	6.99	-0.42	-0.55	-0.15	0.29	0.14
Utilities	6.23	2.59	0.15	0.00	-0.01	0.18	0.17
Not Classified	0.14	0.02	0.00	0.00	0.00	0.00	0.00

Source: Bloomberg

¹ The ETFs CZA, IJH and IWR are used as a proxy for the ZAXMC Index, S&P Midcap 400 Index, and Russell Midcap Index respectively.

² Dividends that have gone ex in the past 12 months divided by price on 2024/12/31

³ The quoted values for volatility, standard deviation, VAR and downside risk are for CZA and IJH ETFs and proxy the values for the ZAXMC and S&P Midcap 400 indexes. The quoted dividend yield is the indicated dividend yield for the ZAXMC index.

⁴ The ETFs CZA and IJH are used as a proxy for the ZAXMC Index and S&P Midcap 400 Index.

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.

S&P 400 Midcap Index: Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

Russell Midcap Index: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. 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 index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

Russell 2000 Index: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The index was developed with a base value of 135.00 as of December 31, 1986.

Russell 1000 Index: The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index. This index represents the universe of large capitalization stocks from which most active money managers typically select. The index was developed with a base value of 130.00 as of December 31, 1986.

CZA: Invesco Zacks Mid-Cap Core ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond to the performance of the Zacks Mid-Cap Core Index.

(continued)



Zacks Index Services

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DISCLOSURE (continued)

iShares Core S&P Mid-Cap ETF(IJH): iShares Core S&P Mid-Cap ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the S&P MidCap 400 Index. The ETF holds mid-cap U.S. stocks. Its investments are chosen using a representative sampling strategy to track the Index. The ETF weights the holdings using a market capitalization methodology and rebalances quarterly. An exchange-traded fund typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison.

IWR: iShares Russell Mid-Cap ETF is an exchange traded fund incorporated in the U.S. The ETF tracks the performance of the Russell Midcap Index.