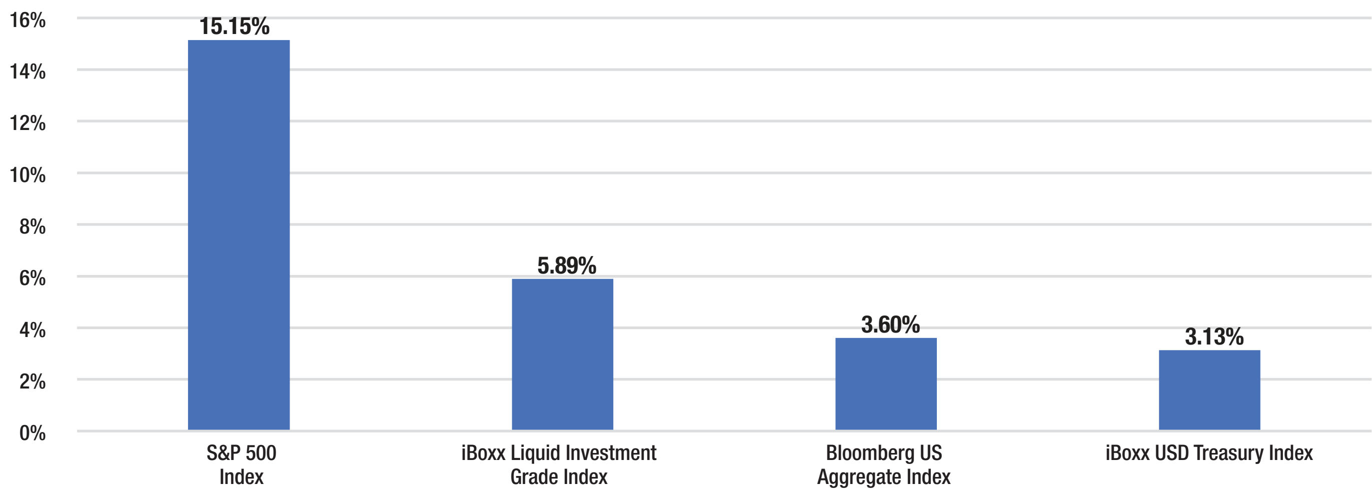
Equity is still attractive…
…if you focus on dividends

– Danke Wang, Portfolio Manager

The decade after the great financial crisis is referred to as the "TINA" era, which is short for "There Is No Alternative." The term describes an investment world where there was no alternative to owning equities because of low interest rates.

A persistently loose monetary policy encourages consumer and business spending and investment and in turn boosts asset prices. From 12/31/2009 to 12/31/2021, the S&P 500 Index returned 15.15% per year, dwarfing the 3.13% total return on treasuries and the 5.89% return on investment-grade corporate bonds. Even though higher risk is inherent within the equity market, investors still enjoyed the price rally over time, particularly from those high-growth oriented stocks. Income investors were forced to search for yield in equity markets, because yields across the bond market were extremely low.

Equity vs Bond (Annualized Average Total Return)
12/31/2009 - 12/31/2021



Source: Bloomberg.

But then inflation hit, and the market shifted in a way that many people have never experienced before.

In 2022, the Fed started the most aggressive interest rate hike cycle in history to maintain price stability. The Fed Funds Rate quickly rose from 0.25% to 5% in less than one year. Going forward, more interest rate hikes might be expected under the backdrop of a still-high inflation read and a strong job market. Suddenly investors are facing a totally different investment landscape.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX. DIVIDENDS ARE NOT GUARANTEED.

Fixed income assets are now back on investors' short lists. The 2 Year Treasury Yield reached as high as 5.07% in early March. Investment-grade corporate bonds are yielding more than 5%, while the yield for the Bloomberg US Aggregate Index is 4.4%. The riskier high-yield bond yield is in the 91st percentile since 2010.

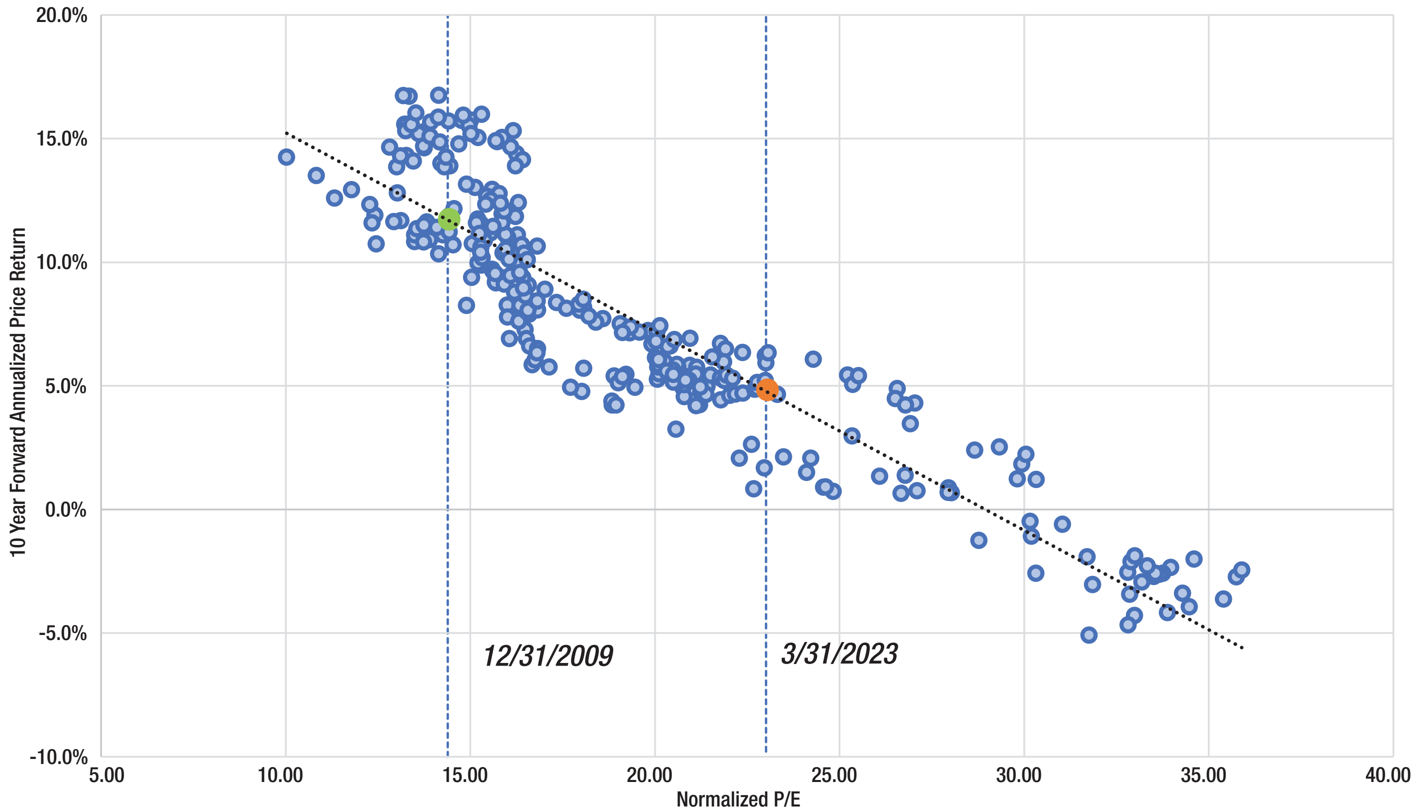
Data as of 3/31/23	Bloomberg US Corporate High Yield Index	Bloomberg US Corporate Investment Grade Index	Bloomberg US Aggregate Index
Yield	8.52%	5.17%	4.40%

Source: Bloomberg.

The current S&P 500 normalized price/earnings (P/E ratio based on the long-term earnings per share trend) is 23x, implying 4.84% yearly annualized price returns over the next ten years based on the historical relationship of valuations, and forward returns. (However, we can't predict future performance.)

10-year forward return vs valuation

12/31/1987-3/31/2023



Source: Bloomberg, Pacer Advisors

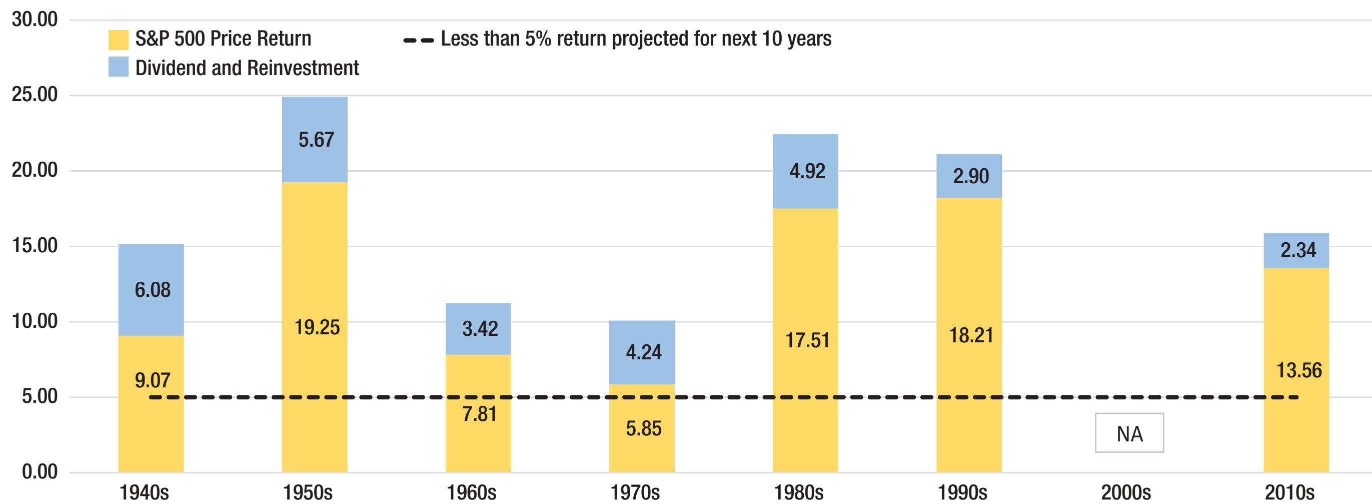
This number is significantly lower than the 13.56% annualized price return from the S&P 500 in the 2010s, and it is more similar to the S&P 500 price returns from the 1960s and 1970s. During these decades, high inflation was also a challenge.

Based on current P/E level and historical average returns when the market traded at such level, a 5%, highly speculative, expected price return from the stock market may not look appealing compared against bonds. Investors could take advantage of the near 5% yield on fixed income without incurring more volatility relative to equity investment.

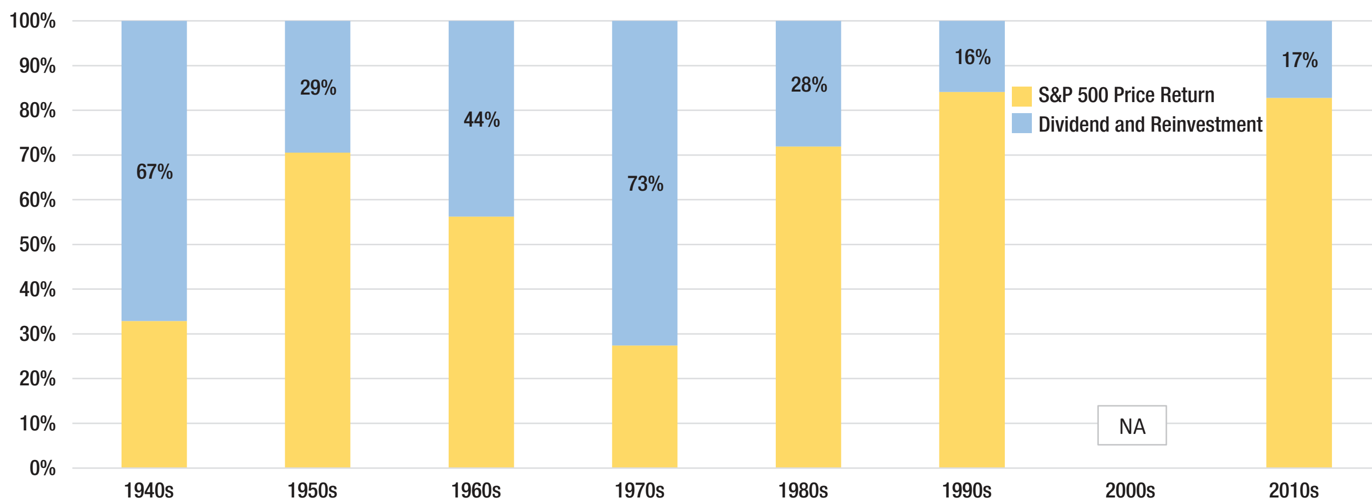
Today, there are some real alternatives for investors to include in their portfolio. This means that equities are facing tougher competition.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.
DIVIDENDS ARE NOT GUARANTEED.

S&P 500 Price Return vs Dividend Return by Decades



Dividend's Contribution to Total Return by Decade



Source: Morningstar

Nevertheless, equities are not out of favor.

Over the last 10 years (2012-2022), most of the returns of the S&P 500 have come from price return, while less than 15% of returns have come from dividends. But now we are moving into an environment where a much bigger portion of investors' total returns may come from dividends. This is similar to the 1960s and 1970s, when dividends contributed 44% and 73% of the S&P 500 total return, respectively.

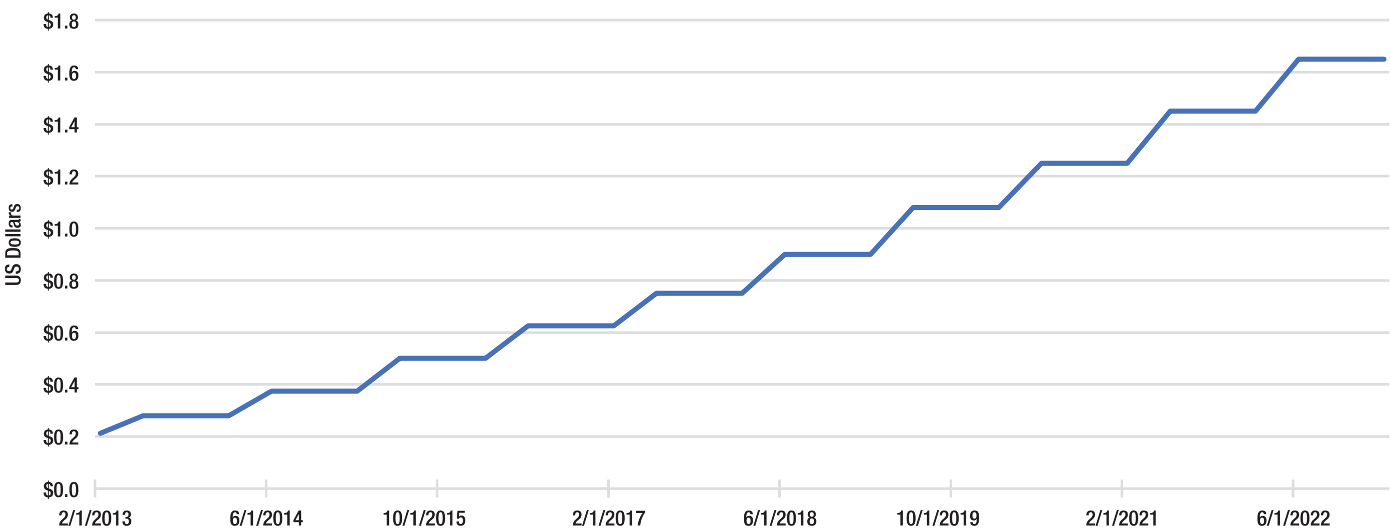
If we consider dividend compounding, the total return profile of stocks could be much better than bonds.

There are two ways that dividends compound: reinvesting dividends and holding dividend growth stocks.
By reinvesting dividends, investors buy more shares, which increases price returns and dividends earned over time. And the effect is even more phenomenal when the company-declared dividend increases on top of prior dividend increases, aka dividend growth.

A good example of dividend compounding is the hypothetical investment on 2 managed healthcare companies, United Healthcare (UNH) and Molina Healthcare (MOH).

From 2/1/2013 to 2/28/2023, both companies realized similar stock price performance (annualized return 24.44% vs 24.05%). But the only significant difference is that UNH was paying and growing dividends annually, while MOH paid 0 dividends.

UNH Dividend Per Share
2/28/2013 to 2/28/2023



Source: Bloomberg

Over 10 years, the investment outcome of $10,000 could vary significantly with dividend and reinvestment. The MOH investment was valued at $86,283.30, with an annualized total return at 24.05%, while the record for UNH came at $103,775.96. With the effect of dividend reinvestment and dividend growth, UNH's annualized total return was 26.36%.

Growth of $10,000	UNH	MOH	Difference
Excluding Dividend (Price Return)	$89,043.97	$86,283.30	$2,760.67
Including Dividend (Total Return)	$103,775.96	$86,283.30	$17,492.66

A one percentage point difference in dividend yield can make a huge difference on the final investment outcome. Therefore, a lower price return potential from stocks does not mean that investors cannot step up the total return game by taking advantage of long-term dividend compounding and income growth.

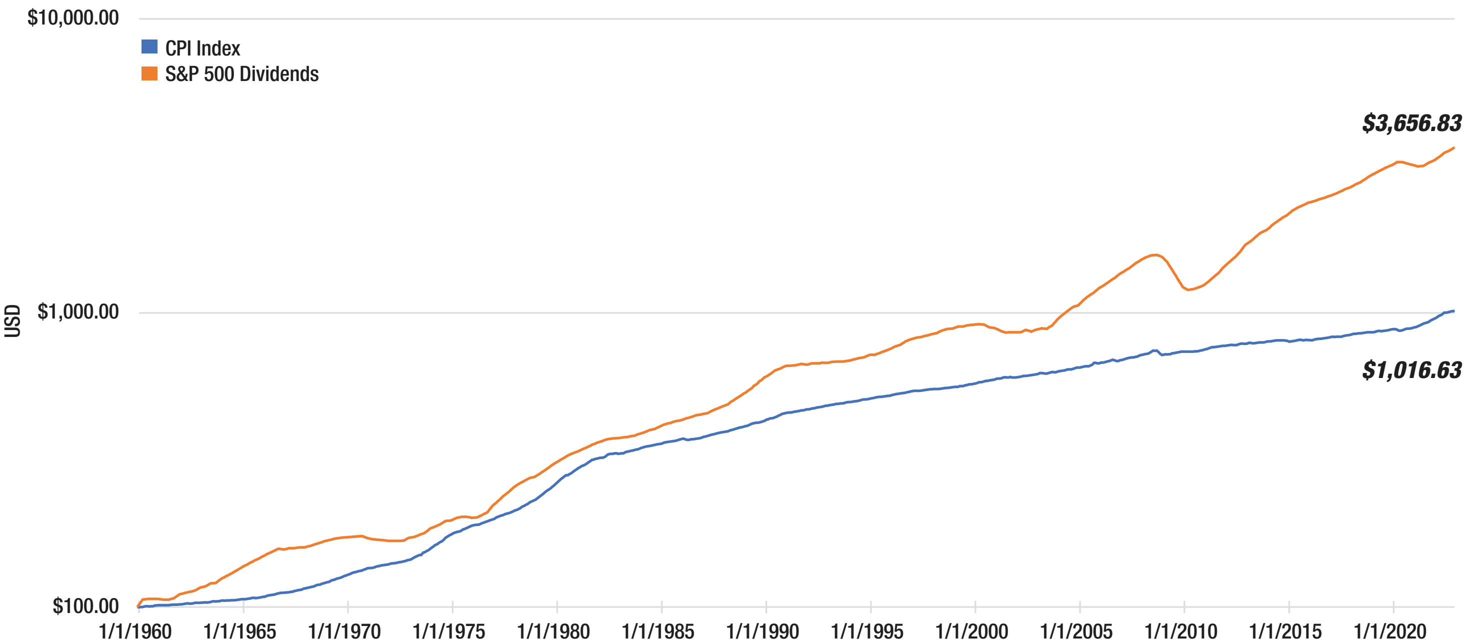
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.
DIVIDENDS ARE NOT GUARANTEED.

Furthermore, now that yields are back in fixed income, an income-seeking investor can earn more than 5% return in fixed-income assets ranging from corporate bonds to short-term treasuries. But it's not going to be smooth sailing with the return of inflation. One thing we need to remember is that fixed-income investment can struggle to keep up with inflation over time. The most recent 6% inflation number in February indicates that investors are still losing with a 5% yield on bonds.

Dividends may be a better income source against inflation. Equities are regarded as the best long-term hedge for inflation, because corporate cash flows tend to keep pace with inflation. You can also observe this pattern from the long-term dividend growth of the S&P 500, outpacing the inflation.

Hypothetical S&P 500 Dividend vs Inflation

1/1/1960 – 12/1/2022



Source: http://www.econ.yale.edu/~shiller/data.htm, https://fred.stlouisfed.org

The "TINA" trade is over, but with challenges posed by inflation, interest rates, and global growth, the market is still searching for a new favorite asset class.
Before the market makes up its mind, equity is still a good choice. Despite lower price return potential relative to history, over the long term, we still prefer stocks over long-duration bonds (10 Year Treasury Yield is below 3.5% as of 3/31/2022). This is especially true with dividends.

Visit **www.paceretfs.com** or call **1-877-337-0500** to learn more.

Before investing you should carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information is in the prospectus. A copy may be obtained by visiting www.paceretfs.com or calling 1-877-337-0500. Please read the prospectus carefully before investing.

An investment in the Funds is subject to investment risk, including the possible loss of principal. Pacer ETF shares may be bought and sold on an exchange through a brokerage account. Brokerage commissions and ETF expenses will reduce investment returns. There can be no assurance that an active trading market for ETF shares will be developed or maintained. The risks associated with these funds are detailed in the prospectus.

This document does not take into account any investor's particular investment objectives, strategies, tax status, or investment horizon. Please consult with your financial advisor and tax advisor before investing.

This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. This document represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. The user of this information assumes the entire risk of any use made of the information provided herein. There is no guarantee this strategy will be successful.

Dividend yield is calculated using annual dividends per share divided by share price. There is no guarantee dividends will be paid.

Dividends Risk: There can be no assurance that a dividend-paying company will continue to make regular dividend payments. The ability for a company to pay dividends is dependent on the economic climate and the companies' current earnings and capital resources. Changes in economic conditions or a company's earnings or financial resources could cause a company to reduce its dividend payments or suspend the payment of dividends altogether. The possibility that such companies could reduce or eliminate the payment of dividends in the future, especially if the companies are facing an economic downturn, could negatively affect the Fund's performance.

Distributor: Pacer Financial, Inc., member FINRA, SIPC, an affiliate of Pacer Advisors, Inc.

NOT FDIC INSURED I MAY LOSE VALUE I NOT BANK GUARANTEED

PCR_PPApr23

PACER ETFs

877-337-0500 ▪ **www.paceretfs.com**