BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com
Member SIPC

Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer

June 2025

Behind the Scenes

Most of financial market participants' attention has been on the S&P 500. After reaching a record high in February, the index suffered a quick bear market, exacerbated by the uncertainty surrounding tariffs and trade policy as outlined on Liberation Day (April 2). Since bottoming on April 8, the S&P 500 has posted a sharp 20% (as of this writing) gain as the markets have become more educated and comfortable with the idea of tariffs.

Beyond the headlines of the S&P 500, there are several major themes/developments that we continue to track and believe investors should be aware of. These themes represent both potential risks and opportunities for investors going forward. In no particular order, the following are a few things that we are currently tracking.

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com

Equity Market Divergence

International stocks have underperformed and been "out of favor" for an extended period of time, to the point where many investors have questioned their inclusion in portfolios. Over the past 10 years, the annual return of the S&P 500 has been almost double that of the MSCI EAFE Index (12.86% versus 6.49%, respectively). One of the results of this sharp outperformance has been a shift in the market-cap weightings of global equity indices, which many investors track, either by choice or through the use of passive investment products. The MSCI All Country World Index (MSCI ACWI), with representation across 23 developed markets and 24 emerging markets, currently has a 64.2% weighting to the United States. That weighting was less than 50% at the end of the Global Financial Crisis.

Fast forward to 2025, and international equities have been a standout performer. The MSCI ACWI ex-U.S. Index was up 14.4% through the end of May, and the MSCI Emerging Market Index gained 8.89% versus the S&P 500's 1.06% return. Will this strong performance continue, or is it a "head fake" as has happened previously? The short answer is there is no way to know, but we believe there are multiple reasons to allocate a portion of one's equity holdings to international stocks. We don't believe it is a question of "if" but instead, "how much?"

In addition to lower valuations and higher dividend yields, international equities provide U.S. investors currency exposure as well as a broader and different opportunity set. The MSCI ACWI-ex U.S. Index has a higher allocation to sectors such as financials and industrials and lower to information technology and communication services. As the number of domestic public companies shrinks, this expanded opportunity set can provide diversification and potential return benefits.

The past decade-plus has been extraordinary for U.S. equity investors, and an allocation to international has been a drag on returns. However, that hasn't always been the case and, in fact, there have been long periods when they have outperformed (see table). For all the above-mentioned reasons, we recommend an allocation to both international developed and emerging-market stocks. Having said that, we acknowledge that U.S. investors who transact business in dollars may want to maintain a home-country bias. For that reason, we have constructed our asset allocation process to generally have a minimum 2% overweight (relative to the global benchmark) in domestic equities. That has resulted in our current allocation range (dependent on investment objective) of 22% international in our more income-oriented models to 32% in our more growth-oriented models.

U.S. Versus International Equities: A Look Back at Returns

	S&P 500 Annualized Return (%)	MSCI EAFE Annualized Return (%)	U.S. Outperformance/ Underperformance (%)
1970-1988	10.6	16.6	-6.0
1989-1999	19.4	7.7	+11.7
2000-2007	1.7	5.6	-3.9
2008-2024	10.7	3.3	+7.4

Source: Seeking Alpha

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

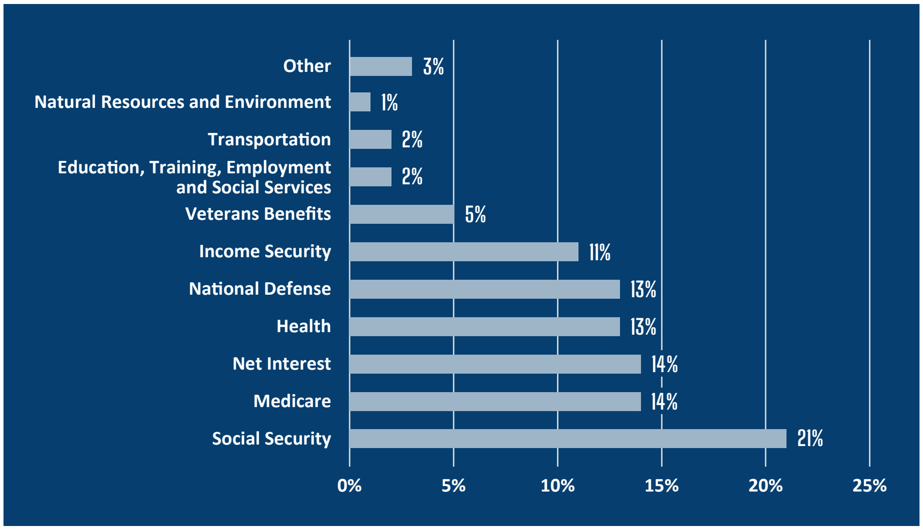
One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com

Bond Yields

We have written previously about the normalization of monetary policy and the return of the bond vigilantes and the potential impact on bond yields. After an extended period of financial repression and historically low yields, monetary policy is now more restrictive (federal funds above inflation), and real yields are positive. Even though the U.S. Federal Reserve (Fed) has cut rates 100 basis points (bps) since late 2024, the 10-year Treasury yield had increased more than 100 bps at its 2025 high and is again approaching 4.5%. This happens as the Fed has indicated they are more likely to cut rates again this cycle, inflation has moderated, and uncertainty around growth/recession persists.

While higher yields are a boon for savers and investors, they have the opposite effect on borrowers. This is readily apparent for the United States, where fiscal year-to-date, interest on the government debt is tied with Medicare as the second largest line item in the budget, just ahead of national defense (see chart). The U.S. national debt currently stands at $35.2 trillion, and the Congressional Budget Office projects it will increase to $59 trillion over the next decade.

U.S. Government Spending, Fiscal YTD 2025
Top 10 Spending by Category



Source: U.S. Treasury

While fixing the explosion in the national debt is a macroeconomic and political issue, investing in that environment is a microeconomic and financial issue. To date, there has been ample liquidity and interest to maintain an orderly market. Credit spreads remain relatively tight, and equities are near record-high levels. However, the potential for ever-increasing levels of public Treasury debt at some point could push yields higher and “crowd out” other borrowers and potentially impact equity valuations. While to date, this isn’t the case, it is something we are monitoring closely. We continue to advocate for the inclusion of fixed income in portfolios (where appropriate), while acknowledging that the potential for a much more challenging environment exists.

Recession Fears

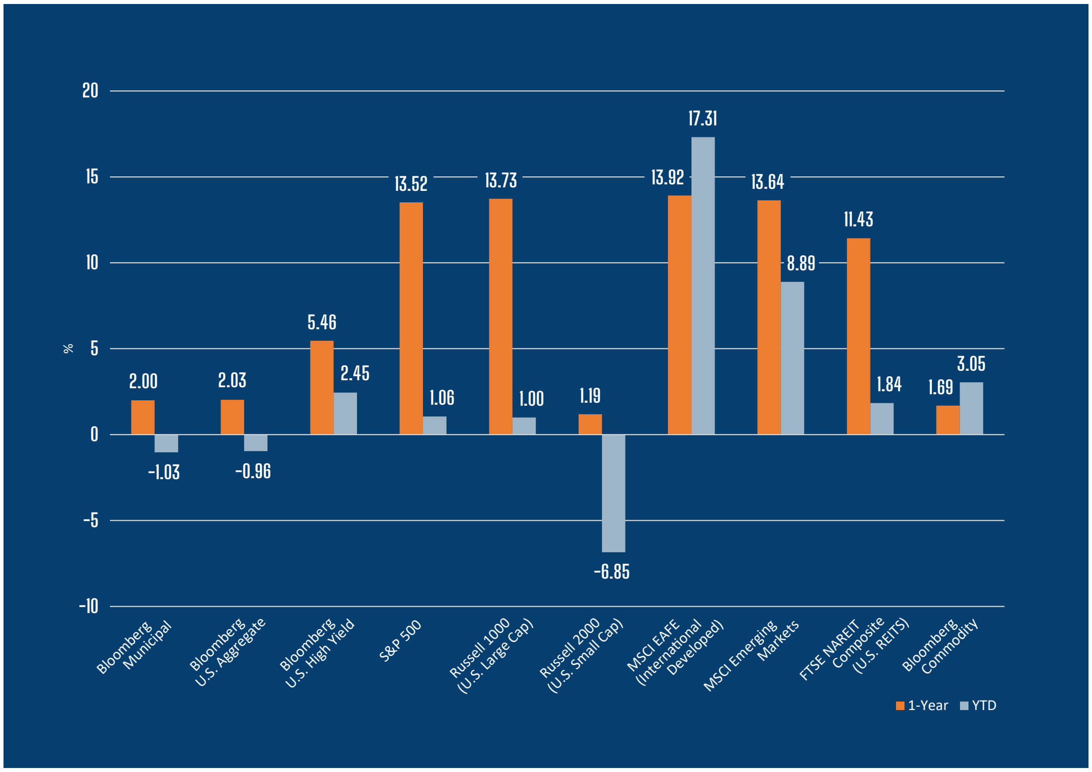
The odds of recession have declined more recently from elevated levels and currently stand at 40%, as measured by the Bloomberg consensus of economic forecasts. While trade policies remain a wild card, the economic news continues to point towards some cooling in the economy, but not a recession. Recent inflation data (Consumer Price Index and Producer Price Index) was lower than expected, the consumer continues to spend, and consumer sentiment rebounded in the latest release from the University of Michigan. Those developments are balanced against some signs of cooling in the labor markets, uncertainty surrounding trade, higher energy prices and an extended period of weakness in the index of leading economic indicators. We think 40% is an accurate assessment in the sense it acknowledges that risks remain elevated and parts of the economy are cooling off; but broadly speaking, the U.S. economy remains resilient.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com

Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of May 31, 2025
Source: Conway Investment Research

Fixed Income

- Interest rates remained volatile in May, ultimately marching higher to end the month. This led to modest losses in core fixed income and flat performance from municipal bonds.
- Credit once again benefited from spread tightening and higher starting yields.
- Bonds outside the United States were hurt primarily by the backup in rates globally during May.

Equities

- U.S. equities posted a strong rebound in May, led by gains in large-cap tech/growth stocks.
- Large caps beat small caps last month and growth stocks trounced value stocks.
- Despite all the noise and volatility over the past few months, it is important to note that the S&P 500 is up 1% year-to-date. Small caps remain weak.
- Developed markets outside the United States gained 4.7% in May, driven by European equities.
- Unlike what occurred in the United States, small caps outperformed large caps, but growth similarly beat value stocks. Europe also bested Japan.
- Emerging markets (EM) rose 4.3%, led by strength in Asia ex-China and Eastern Europe. EM small caps also performed well.
- U.S. dollar strength detracted 9 bps from Europe, Australasia and the Far East (EAFE) returns but added 114 bps to EM returns.

Alternatives

- Real-estate investment trusts (REITs) have outperformed the S&P 500 year-to-date despite higher yields. Investor interest in real estate has increased.
- The broad commodity basket has outperformed domestic equities this year after a weak 2024. Precious metals have been some of the best performers while energy has been generally weaker.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com

May 30, 2025	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Bloomberg U.S. Treasury Bill 1-3 Month	0.37%	0.73%	1.78%	4.83%	4.55%	2.75%	1.93%
Bloomberg Municipal	0.06%	-0.74%	-0.96%	2.03%	1.73%	0.55%	2.13%
Bloomberg US Govt/Credit Intermediate	-0.13%	0.63%	2.26%	5.85%	3.29%	1.50%	1.78%
Bloomberg U.S. Aggregate	-0.72%	-0.33%	2.45%	5.46%	1.49%	-0.90%	1.49%
Bloomberg U.S. High Yield	1.68%	1.66%	2.68%	9.32%	6.75%	5.79%	5.03%
Bloomberg Global Aggregate	-0.36%	2.57%	5.28%	7.03%	1.00%	-1.35%	0.94%
U.S. Equity Indices							
DJ Industrial Average	4.16%	0.95%	0.08%	11.16%	10.79%	12.94%	11.34%
S&P 500	6.29%	5.57%	1.06%	13.52%	14.41%	15.94%	12.86%
NASDAQ Composite (Price)	9.56%	10.49%	-1.02%	14.21%	16.52%	15.03%	14.19%
Russell 1000	6.38%	5.75%	1.00%	13.73%	14.25%	15.66%	12.58%
Russell 1000 Growth	8.85%	10.78%	-0.27%	17.62%	19.85%	17.69%	16.08%
Russell 1000 Value	3.51%	0.36%	2.50%	8.91%	8.16%	13.02%	8.60%
Russell Mid Cap	5.72%	4.63%	1.06%	10.32%	9.05%	12.69%	9.26%
Russell 2500	5.99%	3.80%	-3.99%	3.49%	6.04%	11.07%	7.82%
Russell 2000	5.34%	2.91%	-6.85%	1.19%	5.03%	9.64%	6.64%
Russell 2000 Growth	6.42%	5.74%	-6.01%	3.45%	7.94%	7.00%	6.67%
Russell 2000 Value	4.20%	0.02%	-7.73%	-1.14%	2.13%	12.03%	6.22%
Non-U.S. Equity Indices							
MSCI World	5.99%	6.98%	5.18%	14.21%	13.72%	14.72%	10.50%
MSCI ACWI	5.81%	6.85%	5.54%	14.16%	12.83%	13.89%	9.80%
MSCI ACWI Ex-U.S.	4.69%	8.55%	14.37%	14.37%	9.98%	10.92%	5.98%
MSCI EAFE	4.72%	9.63%	17.31%	13.92%	12.03%	11.98%	6.49%
MSCI EAFE Growth	5.26%	10.75%	13.20%	8.35%	9.61%	8.37%	6.52%
MSCI EAFE Value	4.22%	8.61%	21.39%	19.58%	14.47%	15.49%	6.21%
MSCI Europe	4.77%	9.53%	21.18%	14.11%	13.14%	13.53%	6.88%
MSCI Japan	4.06%	9.50%	10.05%	11.57%	11.71%	8.78%	6.08%
MSCI AC Asia	4.85%	7.28%	8.78%	13.96%	8.02%	7.73%	5.24%
MSCI EAFE Small Cap	5.72%	11.94%	16.21%	14.38%	7.98%	9.15%	6.36%
MSCI ACWI Ex-U.S. Small Cap	6.56%	11.62%	12.47%	12.18%	7.93%	10.91%	6.24%
MSCI Emerging Markets	4.31%	5.71%	8.89%	13.64%	5.64%	7.52%	4.34%
MSCI EM Asia	5.03%	5.84%	7.35%	14.10%	5.95%	7.32%	4.98%
MSCI China	2.76%	-1.60%	13.22%	26.88%	4.21%	0.16%	1.33%
MSCI EM Eastern Europe	4.13%	10.18%	41.34%	30.00%	26.58%	-12.40%	-3.87%
MSCI EM Latin America	1.66%	8.75%	22.70%	0.97%	3.42%	11.43%	3.60%
MSCI EM Small Cap	7.94%	10.90%	4.91%	6.29%	8.18%	15.10%	5.30%
MSCI Frontier Markets	6.71%	5.49%	13.95%	17.96%	7.34%	8.88%	4.26%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	1.94%	1.83%	1.82%	6.50%	5.98%	4.04%	2.86%
Real Assets Indices							
FTSE NAREIT Composite	1.07%	-1.04%	1.84%	11.43%	0.79%	7.23%	5.97%
Alerian MLP	1.71%	-7.28%	4.38%	15.24%	18.94%	25.25%	4.43%
Bloomberg Commodity	-0.58%	-5.36%	3.05%	1.69%	-4.37%	12.65%	1.92%
S&P Global Infrastructure	4.39%	8.27%	13.25%	21.62%	8.82%	12.40%	7.04%
Other							
CBOE Market Volitility (VIX)	-24.82%	-16.65%	7.03%	43.73%	-10.83%	-7.56%	2.98%

Source: Morningstar

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
(855) 382-1600
www.benjaminfedwards.com

The information provided is based on internal and external sources that are considered reliable; however, the accuracy of this information is not guaranteed. This piece is intended to provide accurate information regarding the subject matter discussed. Investing involves risk including the potential loss of principal. No investment strategy, including asset allocation and diversification, can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Indexes are unmanaged and investors are not able to invest directly into any index. This information does not constitute a solicitation or an offer to buy or sell any security mentioned.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

There are special risks associated with an investment in real estate, including credit risk, interest-rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

Benjamin F. Edwards® & Co. (BFE) is a dually-registered broker-dealer and investment adviser and member of FINRA and SIPC, and its affiliate Benjamin F. Edwards Wealth Management℠ LLC, d/b/a Edwards Wealth Management℠ (EWM) is an SEC-registered investment adviser. BFE and EWM are affiliates through their common ownership by Benjamin Edwards, Inc. Depending on the context, the name Benjamin F. Edwards® refers to either EWM, BFE or both.