



Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer

August 2025



Through the Lens: The Factors Driving the S&P 500

Despite the concerns over the economic impact of tariffs, the S&P 500 is near a record high as we write this. Through the end of July, the S&P 500 was up 8.59% year-to-date in what has been a tumultuous year with a relatively short and sharp decline of 19% and subsequent strong recovery. The positive performance of the index itself masks the concentration of a select number of stocks in the index. The 10 largest companies in the S&P 500 comprise approximately 39% of the market capitalization of the index and 30% of the earnings. That is at/near the highest concentration of the top 10 stocks on record.

There is a heavy sprinkling of technology- and communication-related names in the top 10 holdings of the S&P 500, and that fact, coupled with the outsized weighting of top 10 names in the index, deserves a little closer scrutiny. We thought we would look at it through

the lens of which factors have been the most successful in preceding periods.

Factor-based investing has been around for decades and became much more prevalent after the introduction of the Fama-French three-factor model used to describe stock returns. Factor-based investing seeks to identify stocks with certain quantifiable characteristics that have been shown to contribute meaningfully to returns over time. Factors must be persistent over time and economic cycles; pervasive across geography, sector and asset class; robust; investable after considering real-world frictions, such as taxes and transaction costs; and intuitive, with logical and credible explanations for the existence of factor premium. Some examples of factors include size (market capitalization), value, quality and momentum, each with its own definition and characteristics.



Stocks can exhibit a variety of factors in different degrees, and there are both single- and multi-factor strategies. Passive index-based investing is an example of a single-factor strategy that focuses on size. The original Fama-French model focused on a very long time horizon and used three variables: beta, size and value, adding profitability and investment factors in 2015. In recent years, S&P Global has developed and published a dashboard of different single and multi-factor indices to help track and explain performance, as well as overlap and correlation, among factors.

Looking through the S&P data, July was the fourth consecutive month that high-beta stocks had the best performance and were in the top five of S&P's factor universe for the trailing 12 months. Momentum remained at the top year-to-date and for the trailing 12 months, with returns of 22.4% and 35.7%, respectively. One would think that momentum and high beta would have very similar return patterns, but S&P points out that over the past 10 years, they outperformed simultaneously only 13% of the time, although one or the other outperformed 84% of the time, "suggesting a relatively consistent difference in index weightings and constituents."

Looking at the longer-term data, since the end of the Global Financial Crisis and the period of zero-percent interest rates, quality, momentum and growth factors have had the best performance (see table). Each of those three factors has several "flavors," but they have the common characteristic of having meaningful exposure to the Magnificent Seven constituents. These are high-growth companies with strong balance sheets that have been growing earnings at strong rates. As of this writing, the Mag Seven stocks were trading at high valuations relative to the broad market, reflecting their multi-year outperformance.

S&P Dow Jones Indices

Total Return	1M	3M	12M	3Y	5Y	10Y	15Y
S&P 500 Quality FCF Aristocrats	1.6%	12.9%	19.9%	23.7%	19.4%	16.5%	17.3%
S&P 500 Momentum	2.9%	22.5%	35.7%	29.2%	21.2%	17.8%	17.3%
S&P 500 Growth	3.4%	20.3%	25.6%	19.9%	16.5%	15.9%	16.6%
S&P 500 Pure Growth	2.4%	19.7%	28.3%	13.4%	12.2%	11.9%	14.7%
S&P 500 Quality	0.1%	8.1%	11.9%	18.1%	16.0%	13.1%	14.7%
S&P 500 Buyback	0.9%	12.0%	12.0%	13.6%	16.9%	11.8%	14.5%
S&P 500 Revenue-Weighted	-0.6%	7.1%	10.4%	13.4%	16.6%	12.1%	13.8%
S&P 500 High Beta	5.5%	30.1%	19.3%	16.0%	21.7%	14.1%	13.4%
S&P 500 Equal Weight	1.0%	9.0%	8.9%	10.0%	13.5%	10.7%	12.8%
S&P 500 GARP	1.1%	13.4%	5.9%	10.2%	15.2%	10.8%	12.8%
S&P 500 Dividend Aristocrats	1.0%	4.2%	3.1%	6.4%	10.2%	10.0%	12.5%
S&P 500 Value	0.9%	7.8%	5.6%	13.0%	14.4%	10.5%	11.8%
S&P 500 Pure Value	-1.8%	4.7%	7.0%	8.4%	16.5%	8.5%	11.7%
S&P 500 Low Volatility	-0.3%	0.1%	9.3%	6.5%	8.8%	9.2%	11.4%
S&P 500 High Dividend	0.6%	3.2%	3.6%	5.8%	14.0%	8.7%	11.1%
S&P 500 Low volatility High Dividend	0.6%	1.3%	4.4%	6.2%	11.9%	8.4%	10.9%
S&P 500 Economic Moat	-0.1%	8.8%	14.9%	16.4%	17.2%	15.6%	NA
S&P 500	2.2%	14.2%	16.3%	17.1%	15.9%	13.7%	14.5%

As of July 31, 2025

Source: S&P Dow Jones



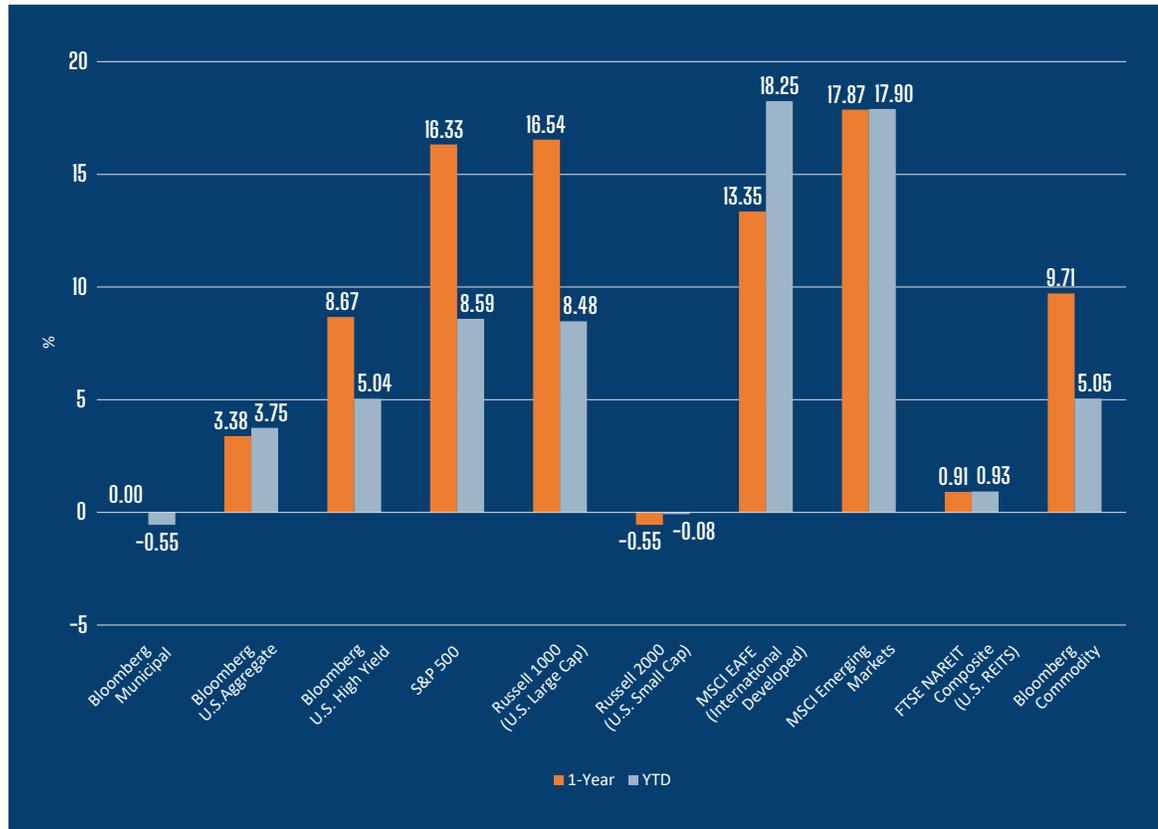
Factor analysis has always been used by investment professionals to analyze equities. Some analysts and portfolio managers use it to screen for companies with desirable attributes to focus on, while others use factor work exclusively to build portfolios. The amount and quality of data easily accessible in today's world make it a relatively simple but critical part of the portfolio management process. Benjamin F. Edwards uses factor analysis in constructing its four large-cap equity advisory portfolios. We focus on factors that we believe identify quality, growth and a good dividend policy (where appropriate) and score the 1,000 largest U.S. stocks to find companies that rate at the top of their sector, based on our propriety factor models. That quantitative analysis is approximately 80% of our process.

When constructing an equity portfolio with the goal of diversification and risk management, a basic understanding of factor analysis can be an important tool or lens to look through. Some factors are more easily discernable (value, high dividend) while others can be tougher to interpret (free cash flow aristocrats, revenue weighted). While momentum and beta have worked in recent periods, that isn't always the case. Many investors today find themselves heavily exposed to tech and telecom due to their strong outperformance and might consider adding other factor exposures to their portfolio for diversification purposes.



Asset Class Returns

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



As of July 31, 2025

Source: Conway Investment Research

Fixed Income

- Interest rates were volatile as usual in July, but they ultimately trended slightly higher, leading to modest losses in core fixed income and municipal bonds.
- Credit posted another month of essentially clipping coupons. The credit backdrop remains fairly benign outside of the riskiest issues.
- Bonds outside the United States were hurt by U.S. dollar strength and the slight backup in rates. Emerging market debt's higher yields provided a boost.

Equities

- U.S. equities posted solid gains in July, led by tech/growth stocks delivering solid earnings growth.
- Large caps outperformed small caps last month, and growth trounced value across large caps. There was little difference between growth and value stocks within small caps.
- Developed markets outside the United States fell last month, with most of the move coming from the stronger U.S. dollar.
- Unlike U.S. markets, value outperformed growth within Europe, Australasia and the Far East (EAFE) markets, and small caps beat large caps.
- Emerging markets gained another 2% in July, driven by strong returns from Chinese equities.
- U.S. dollar strength cost 278 basis points (bps) to EAFE returns and 142 bps in emerging markets.



July 31, 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%	0.37%	2.50%	4.66%	4.75%	2.89%	2.00%
Bloomberg Municipal	-0.20%	-0.20%	-0.55%	0.00%	1.54%	0.13%	2.11%
Bloomberg US Govt/Credit Intermediate	-0.02%	-0.02%	2.90%	4.68%	3.56%	1.54%	1.84%
Bloomberg U.S. Aggregate	-0.26%	-0.26%	3.75%	3.38%	1.64%	-1.07%	1.66%
Bloomberg U.S. High Yield	0.45%	0.45%	5.04%	8.67%	8.01%	5.09%	5.49%
Bloomberg Global Aggregate	-1.49%	-1.49%	5.67%	4.40%	1.52%	-2.07%	1.00%
U.S. Equity Indices							
DJ Industrial Average	0.16%	0.16%	4.72%	9.95%	12.55%	13.00%	12.02%
S&P 500	2.24%	2.24%	8.59%	16.33%	17.10%	15.88%	13.66%
NASDAQ Composite (Price)	3.70%	3.70%	9.38%	20.02%	19.46%	14.47%	15.21%
Russell 1000	2.22%	2.22%	8.48%	16.54%	16.94%	15.49%	13.38%
Russell 1000 Growth	3.78%	3.78%	10.10%	23.75%	22.60%	17.27%	17.06%
Russell 1000 Value	0.57%	0.57%	6.61%	8.79%	10.59%	13.18%	9.20%
Russell Mid Cap	1.86%	1.86%	6.78%	12.06%	11.48%	12.24%	10.01%
Russell 2500	1.93%	1.93%	2.38%	4.28%	8.40%	11.00%	8.61%
Russell 2000	1.73%	1.73%	-0.08%	-0.55%	7.03%	9.81%	7.43%
Russell 2000 Growth	1.70%	1.70%	1.21%	3.15%	9.09%	7.06%	7.27%
Russell 2000 Value	1.77%	1.77%	-1.45%	-4.27%	4.80%	12.41%	7.20%
Non-U.S. Equity Indices							
MSCI World	1.31%	1.31%	11.19%	16.22%	16.38%	14.31%	11.17%
MSCI ACWI	1.38%	1.38%	11.85%	16.39%	15.80%	13.31%	10.60%
MSCI ACWI Ex-U.S.	-0.26%	-0.26%	18.01%	15.36%	13.20%	9.65%	6.64%
MSCI EAFE	-1.39%	-1.39%	18.25%	13.35%	14.15%	10.89%	6.66%
MSCI EAFE Growth	-3.00%	-3.00%	12.73%	7.06%	9.94%	6.64%	6.50%
MSCI EAFE Value	0.27%	0.27%	23.87%	19.83%	18.51%	15.09%	6.57%
MSCI Europe	-1.77%	-1.77%	21.51%	14.55%	15.38%	11.82%	6.91%
MSCI Japan	-1.40%	-1.40%	10.39%	6.52%	12.82%	9.19%	6.25%
MSCI AC Asia	1.24%	1.24%	15.19%	15.41%	11.79%	6.95%	6.47%
MSCI EAFE Small Cap	-0.07%	-0.07%	21.24%	16.35%	11.42%	9.04%	6.85%
MSCI ACWI Ex-U.S. Small Cap	0.20%	0.20%	18.28%	14.76%	11.97%	10.22%	7.22%
MSCI Emerging Markets	2.02%	2.02%	17.90%	17.87%	11.02%	5.85%	6.19%
MSCI EM Asia	2.55%	2.55%	17.15%	18.78%	11.30%	5.49%	7.12%
MSCI China	4.84%	4.84%	23.14%	42.35%	8.43%	-1.69%	3.94%
MSCI EM Eastern Europe	0.90%	0.90%	51.97%	41.04%	34.16%	-11.60%	-2.50%
MSCI EM Latin America	-4.42%	-4.42%	24.46%	7.80%	9.02%	8.33%	4.55%
MSCI EM Small Cap	0.71%	0.71%	11.77%	9.64%	13.55%	12.54%	7.32%
MSCI Frontier Markets	6.88%	6.88%	28.56%	30.52%	13.30%	11.30%	5.84%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	0.70%	0.70%	4.29%	7.20%	7.26%	3.89%	3.24%
Real Assets Indices							
FTSE NAREIT Composite	-0.96%	-0.96%	0.93%	0.91%	0.19%	5.66%	5.84%
Alerian MLP	3.17%	3.17%	10.45%	16.02%	22.52%	29.70%	6.28%
Bloomberg Commodity	-0.45%	-0.45%	5.05%	9.71%	-1.41%	11.33%	3.09%
S&P Global Infrastructure	0.16%	0.16%	15.66%	22.54%	11.10%	12.49%	7.64%
Other							
CBOE Market Volatility (VIX)	-0.06%	-0.06%	-3.63%	2.20%	-7.80%	-7.33%	3.27%

Source: Morningstar



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 ManagementSM LLC, d/b/a Edwards Wealth ManagementSM (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.