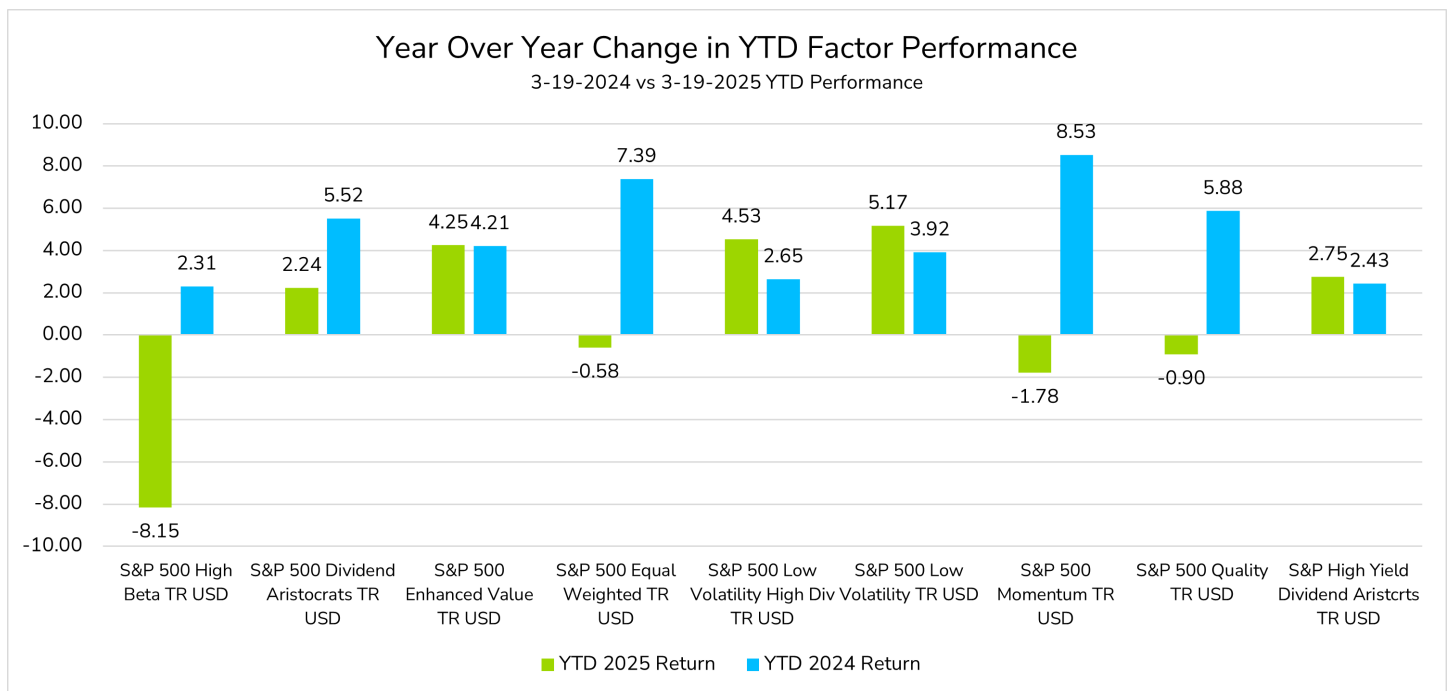


Recent factor performance data signals a notable shift in market leadership, presenting both risks and opportunities for investors and advisors. For years, U.S. Large Growth, High Beta, and Momentum factors have driven returns, leading many portfolios to tilt toward these areas—either through deliberate allocation choices or performance-driven drift. However, as reflected in 2025 year-to-date (YTD) returns, this positioning may now present greater risk than reward.

From Momentum & Growth to Stability & Value

Once-dominant High Beta and Momentum factors, which delivered strong returns in 2024 (2.31% and 8.53%, respectively), have sharply declined in 2025, posting -8.15% and -1.78% returns. This reversal suggests a market rotation away from speculative, high-volatility strategies and toward lower-risk, more defensive positioning.

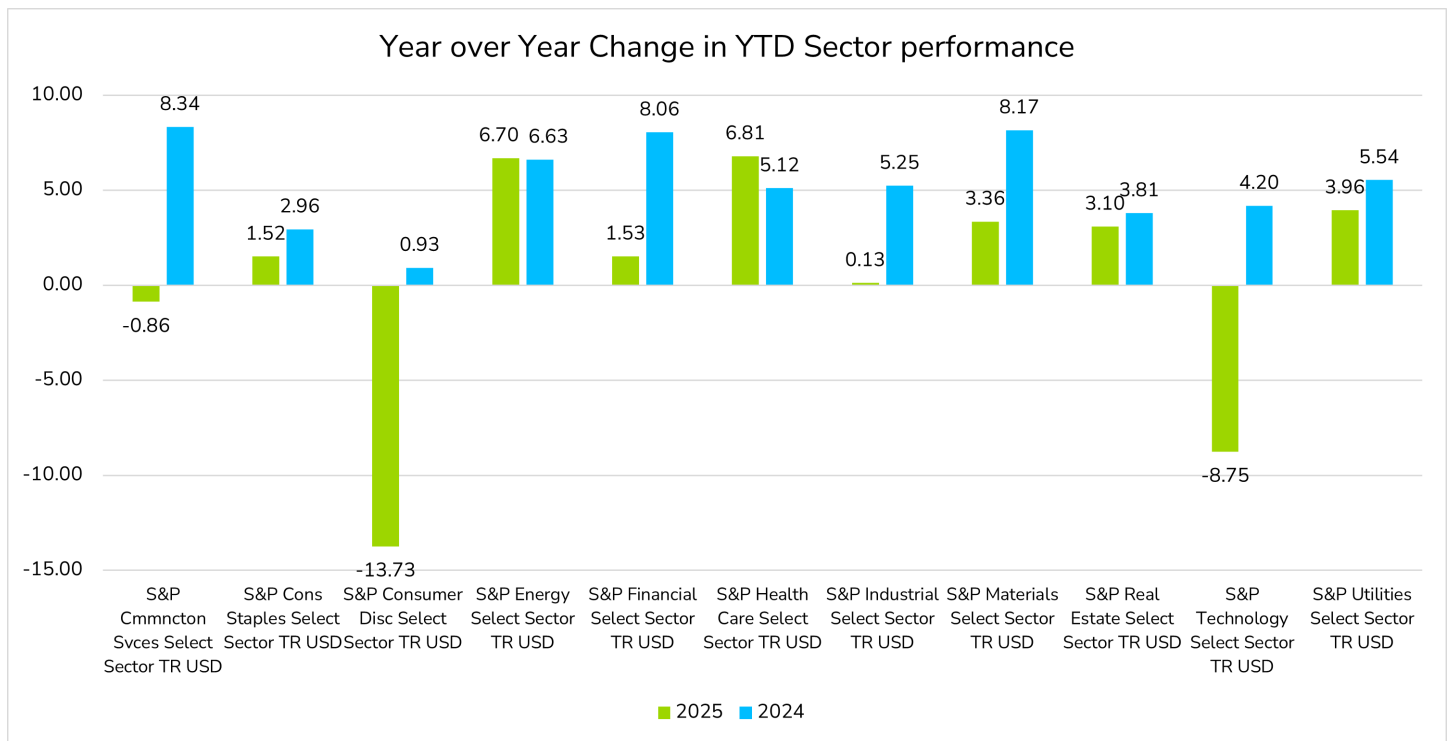


Source: Morningstar

At the same time, Low Volatility and High Dividend factors have strengthened, with Low Volatility TR USD increasing from 3.92% to 5.17%, and Low Volatility High Dividend TR USD rising from 2.65% to 4.53%. However, Dividend Aristocrats and Quality factors have weakened, while Equal Weighted strategies have fallen out of favor, declining from 7.39% to -0.58%. These shifts indicate that while investors seek stability, they are also selectively repricing traditional quality and equal-weighted strategies in favor of more concentrated defensive exposure.

Sector Rotation & Factor Leadership: A Reinforcing Cycle

The shift in factor leadership is closely tied to sector rotation trends within the U.S. markets. Over the past several years, growth-heavy sectors—such as Technology, Consumer Discretionary, and Communication Services—have been dominant, benefiting from strong earnings growth and momentum-driven flows. However, 2025 YTD data indicates a clear transition toward more defensive and value-oriented sectors:



Source: Morningstar

- Energy and Utilities have outperformed, driven by demand stability and resilient earnings.
- Health Care and Consumer Staples are gaining strength, reflecting investor preference for defensive positioning amid macroeconomic uncertainty.
- Financials and Industrials have shown relative resilience, aligning with the renewed appeal of Value-oriented equities.
- Technology and Consumer Discretionary, once dominant, have experienced increased volatility and underperformance.

This sector rotation reinforces the broader factor rotation narrative: as leadership shifts away from high-growth, high-beta sectors, factors aligned with stability—such as Low Volatility, High Dividend, and Value—are emerging as stronger performers.

The Case for Value and International Exposure

With U.S. Large Growth showing signs of fading leadership, advisors should consider whether their portfolios remain appropriately diversified. Value strategies, which have historically outperformed in periods of market normalization or rising interest rates, may warrant greater attention.

Additionally, with many international markets trading at more attractive valuations than U.S. equities, increasing global diversification can provide a crucial counterbalance, helping to reduce concentration risk while capturing potential upside abroad.

Key Takeaways for Advisors & Investors

1. **Factor leadership is shifting** – defensive and low-volatility strategies are gaining strength, while momentum and high beta are under pressure.
2. **Sector rotation supports this shift** – growth-heavy sectors are weakening, while defensive and value-oriented sectors are emerging as new leaders.
3. **Overconcentration risk is rising** – portfolios heavily tilted toward U.S. Large Growth may face heightened downside risk.
4. **Now is the time to rebalance** – increasing exposure to Value and International equities can help manage risk and position portfolios for the next market phase.

Advisors should proactively reassess portfolio allocations to ensure they are not simply reflecting past winners, but instead strategically positioned for what lies ahead.

Managers & Strategies to Consider

- **Low Volatility:** 3D Targeted Outcome, Lunt Factor Rotation
- **Dividend Opportunities:** 3D Dividend-Focused Large Cap Strategy, Dearborn Partners Core Rising Dividend
- **Value:** 3D US Equity Only ETF, Alpha Quant Value Equity
- **Fully Managed Solutions:** 3D, Avantis, BlackRock, Zacks
- **International:** HJIM International Select, Martin International Tortue Capital



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Except as otherwise specifically stated, all information is as of March 20, 2025.