Report

Confluence Style Analytics

Q1 2025
Factor Performance Analysis

Momentum equities kick off 2025 – But Sentiment Is Clearly Shifting

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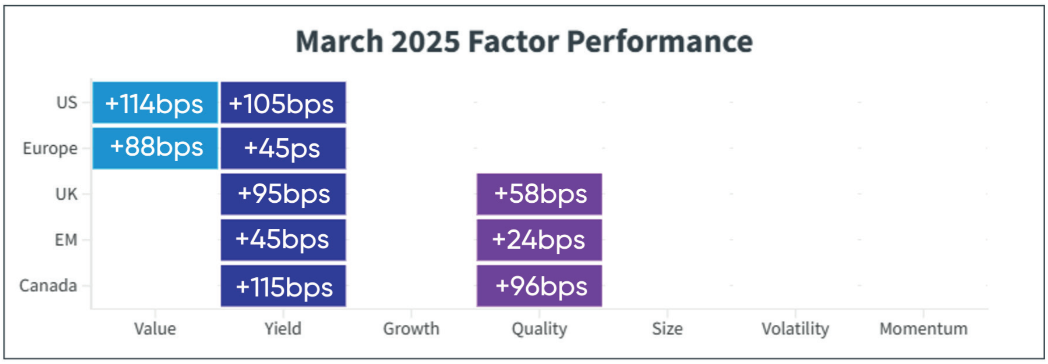
Market Background

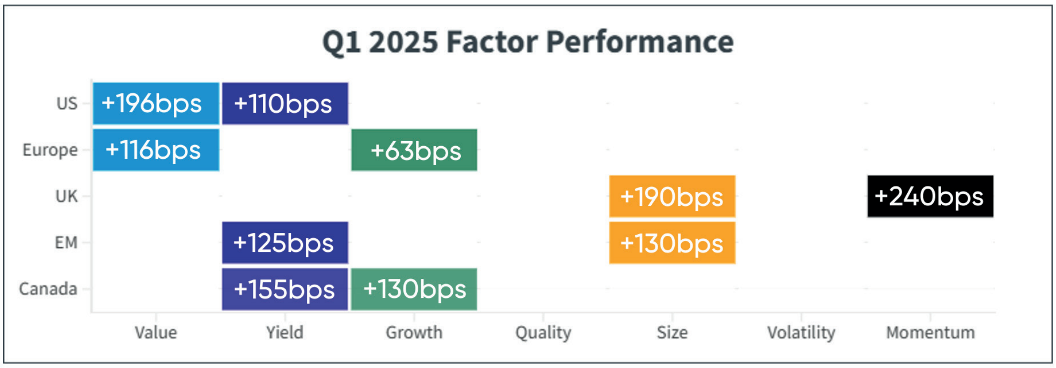
The first quarter of 2025 introduced renewed volatility to both U.S. and global equity markets. Lingering economic uncertainty—combined with March's aggressive tariff announcements—reshaped investor psychology and rippled across regional factor trends. In stark contrast to the Momentum-fueled gains of 2024, Q1 marked a pivot toward defensiveness, as High-Yield and Value factors led the way.

This shift may reflect growing investor skepticism toward macro stability, with geopolitical risk, trade policy shifts, and central bank maneuvering increasingly steering capital allocation. The headlines told one story, tariffs, inflation moderation, and rate pauses, but factor behavior told another: a subtle but growing preference for predictability and dividends over growth narratives and volatility

Emerging markets stood out as a relative bright spot, fueled by Large-cap leadership. Yet beneath the surface, cracks appeared, particularly in growth-sensitive sectors and Momentum's retreat. Meanwhile, commodity markets added complexity to the narrative: crude oil rallied sharply to $71 per barrel before correcting by the end of March to $60, and gold surged to new highs, reaching $3,137. Bitcoin staged a volatile comeback, reflecting a continued appetite for hedges amid financial crosswinds.

Factor Summary





Figures 1 & 2: *Regional relative factor performance (country and sector adjusted) for Mar '25 and Q1 '25. The arithmetic average of the subfactor's relative market return for each factor category and region. Source: Confluence Style Analytics*

US Equities

U.S. equity markets declined by -5.9% in March, bringing the region's total quarterly return to -4.6%. This downturn came amid policy changes, with concerns surrounding tariffs and their potential economic impact, along with inflation, employment, and consumer spending.

Despite the negative performance in March, Value, Quality, and Yield factors delivered positive returns, driving gains both for the month and the entire quarter. In contrast, Growth, Volatility, and Momentum were the main contributors to the region's underperformance. This trend, which began in February and marked a reversal from January, reflects a shift in investor sentiment. Compared to their outperformance earlier this year, the downturn in Volatility and Momentum sub-factors can be linked to political uncertainty and tariff announcements, prompting investors to favor safer, well-valued companies. Amid rising policy uncertainty and escalating tariffs, investors have begun shifting away from Large-cap growth companies, a reversal from the trend seen in the previous quarter.

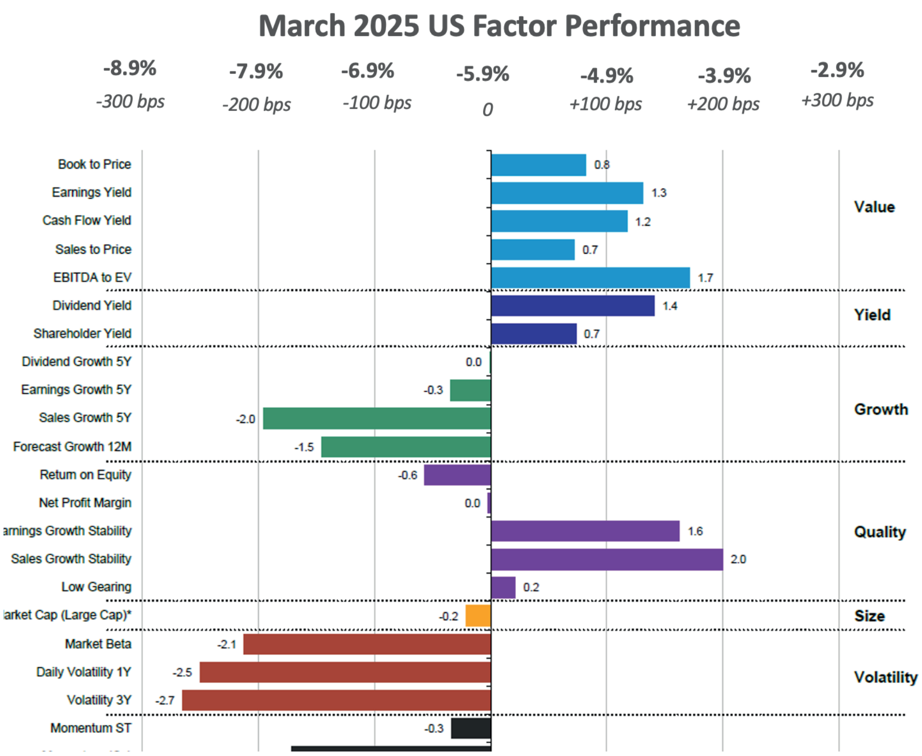


Figure 3: *Mar 2025 US Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

The Federal Reserve (Fed) has kept interest rates unchanged since December 2024. In March, annual inflation in the U.S. eased for the second straight month, falling to 2.4% from 2.8% in February, while the unemployment rate climbed to 4.2%—its highest level since November.

Notable outperformers with high earnings growth stability in Q1 include consumer staples companies Coca-Cola Co (1.3% in March and 15.88% Q1) and Philip Morris International Corp. (+3.1% in March and 33.1% in Q1) and energy company Chevron Corp (+5.5% in March and 16.8% in Q1). Financials company Berkshire Hathway Inc (3.7% in March and 17.5% in Q1) and healthcare company UnitedHealth Group (10.8% in March and 4.0% in Q1) contributed to the subfactor's March and Q1 performance.

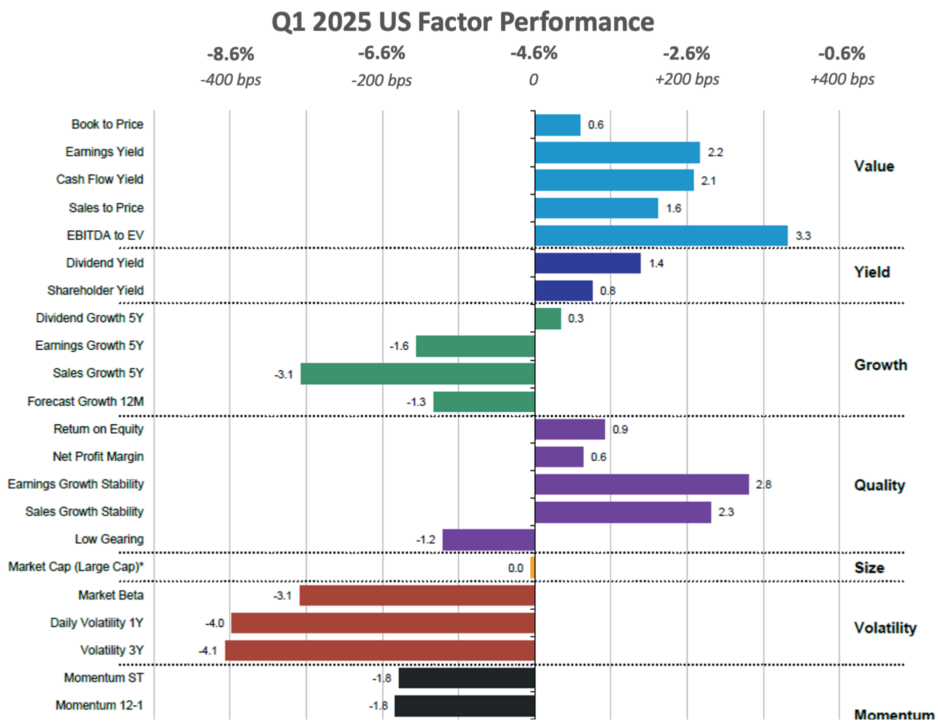


Figure 4: *Q1 2025 US Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

European Equities

After years of being overlooked in the stock market, Europe is finally regaining the spotlight. European equities posted their strongest quarterly performance in decades, outperforming the U.S. by 14% in this quarter of 2025. The European equity market saw outperformance in the Value, Momentum, and Yield sub-factors, a trend consistent with February's performance. While the overall quarterly performance mirrored that of February, March marked a shift in the trend. Securities with a high-Value sub-factor saw a decline, while Momentum and Yield continued to outperform the region's market. Volatility still underperformed in the Eurozone, weighing down the region's overall market performance. The securities that contributed to the underperformance of market beta, a Volatility sub-factor, in March and the quarter include consumer discretionary companies like Hermes International, Stellantis, and Kering Sa.

March marked the first monthly decline for the Euro Zone region, as investors anticipated the announcement of Trump's reciprocal tariffs. The factor trends during the month reflected a shift in investor sentiment from Large-Cap consistently outperforming securities, with Momentum and Size declining, toward safer, high dividend-yielding securities amid growing market uncertainty.

The ECB announced an interest rate cut by 25 basis points this month as inflation has continued to align with the previous outlook, and the disinflation trend is on track. Annual inflation in the Euro Area slowed to 2.2% in March 2025, marking the lowest level since November 2024. Annual inflation in the Euro Area declined to 2.2% in March 2025, its lowest level since November 2024, while the unemployment rate also dipped to a new low of 6.1% in February 2025, down from 6.2% the month before.

In the first quarter of 2025, investors preferred companies with dividend yield in the Eurozone region, which include German comm services company Deutsche Telekom (+2.3% in March and 23.6% in Q1) and financials company Allianz Se (+10.7% in March and 24% in Q1). Companies with high sales growth stability that contributed to the outperformance of the Euro Zone include French industrials company Airbus Se (2.3% in March and 10% in Q1) and financials company Axa (9.3% in March and 19.8% in Q1).

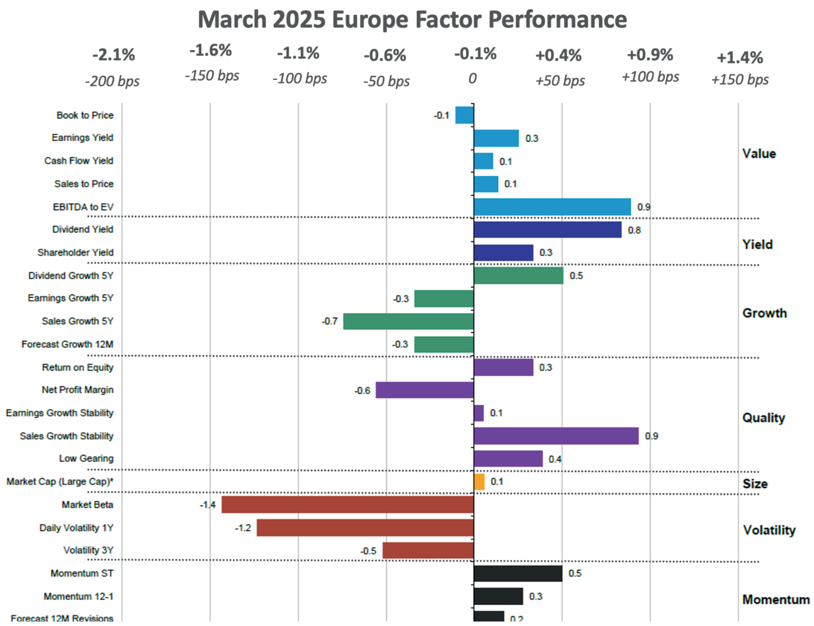


Figure 5: *Mar 2025 US Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

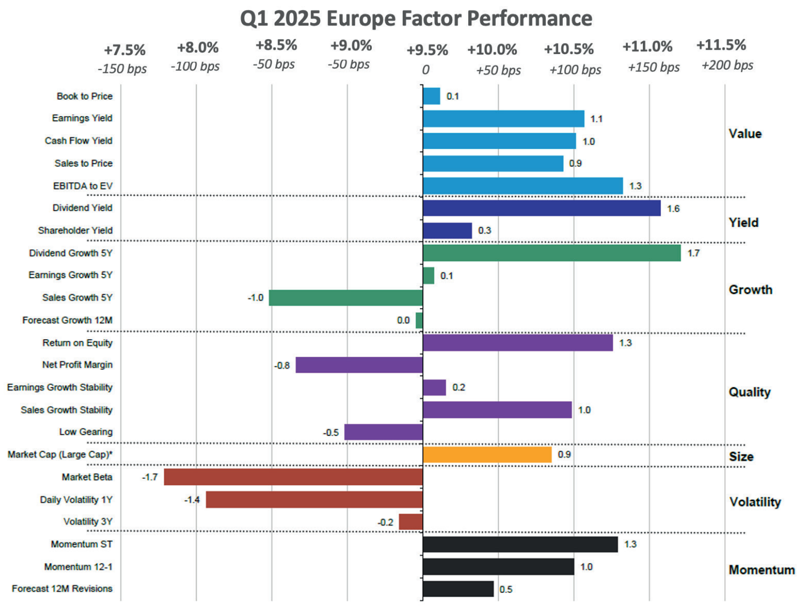


Figure 6: *Q1 2025 Europe Factor Performance (country/sector adjusted)*
Source: Confluence Style Analytics

UK Equities

In contrast to its outperforming European counterpart, the UK lagged with a -2.2% return in March. Despite this underperformance in the last month of the quarter, the region posted a positive overall performance for the first quarter of 2025, with a return of +4.3%. The UK's performance this quarter was mainly driven by Momentum, Size, and Yield. Although Momentum performed well initially, it declined in March, while Quality outperformed this month by an average of 58bps. In the UK, large-cap companies that outperformed this quarter were primarily high-yielding, Value stocks, and while most Growth subfactors outperformed the market overall, March showed disappointing results in this sector. The companies with high sales growth stability that outperformed the market in March include Shell Plc, Bae Systems, and British American Tobacco.

Compared to the previous year's first quarter, Value, Quality, and Momentum this quarter showed a trend reversal, outperforming the market overall. In March, the UK saw significant money withdrawn from the region's equities and shifted into the US market. There was a strong demand for US equities ahead of the tariff announcements.

The UK's annual inflation rate decreased to 2.8% in February 2025, down from 3% in January. The unemployment rate remained unchanged at 4.4% from November 2024 to January 2025. The UK bank rate was maintained at 4.5% in the meeting in mid-March. In February, the Monetary Policy Committee highlighted that significant progress in disinflation has been made over the past two years, stabilizing long-term inflation expectations.

Equities driven by strong dividend yield, which contributed to Yield's outperformance in the first quarter, include energy company BP Plc (+2.2% in March and 19.5% in Q1) and health care company GSK Plc (+2.2% in March and 13.1% in Q1). Companies with notable forecast 12M revisions outperformance contributing to the quarterly returns include consumer staples company Unilever plc (5.3% in March and 5.4% in Q1) and energy company Shell Plc (9.9% in March and 18.8% in Q1).

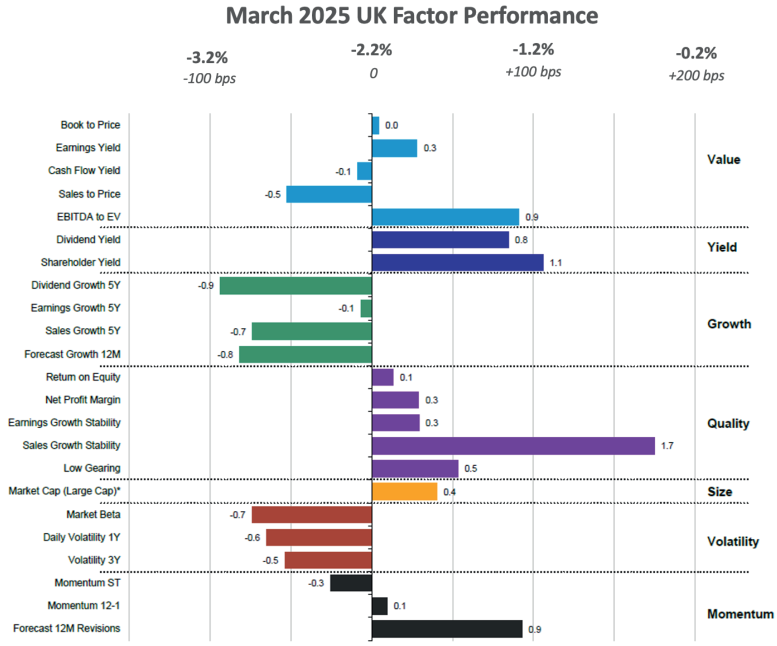


Figure 7: *Mar 2025 UK Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

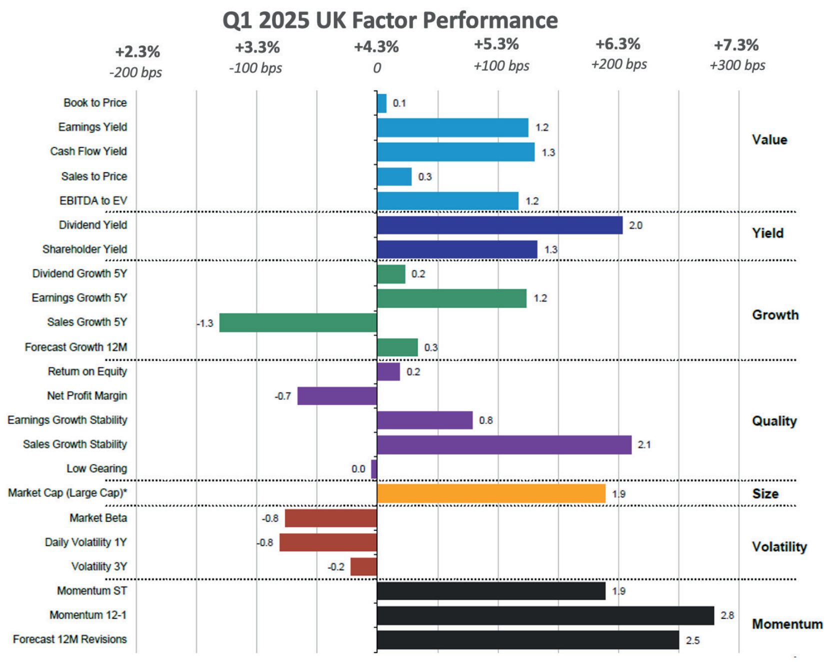


Figure 8: *Q1 2025 UK Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

Emerging Markets Equities

In March, Emerging Markets were the only ones to post positive performance, outperforming by 0.9% for the month. Despite a setback in February, the region managed to finish the first quarter of 2025 with an overall outperformance of 0.4%. The Yield, Value, and Size sub-factors drove the quarter's performance, while Momentum and Volatility weighed down the region's overall results. Yield subfactors, as in other regions, have consistently delivered strong outperformance since the beginning of this year. In March, investor confidence in securities with a value sub-factor declined, and the high-value sub-factor declined as valuations in the emerging markets region began to tilt toward being perceived as expensive.

The annual inflation rate in India eased to 3.62% in February of 2025 from 4.26% in the previous month, while the employment rate remained unchanged. On the other hand, the annual inflation rate in Brazil surged to 5.06% in Feb from 4.56% in the previous month. The unemployment rate in Brazil increased to 6.8%, compared to 6.5% in the previous period. In China, consumer prices fell by 0.1% year-on-year in March, marking the second consecutive month drop. South Korea's inflation rate inched up to 2.1% in March 2025, slightly higher than the 2.0% recorded in February. South Korea's employment rate rose to 62.5% in March 2025, up from 61.7% in February.

Emerging Markets equities that outperformed in March and in the first quarter of 2025, captured by dividend yield subfactor, include a Chinese consumer staples Kweichow Moutai Co ltd (+4.5% in March and 3.1%in Q1); Chinese communication services company China Mobile ltd (+6.5% in March and 10.1% in Q1). Notable outperformers with strong sales growth stability that outperformed in Q1 include Chinese communication services company China Telecom Corp ltd (+1.7% in March and 9.4% in Q1), Chinese financials company Industrial and Commercial Bank of China (0.7% in March and 2.4% in Q1).

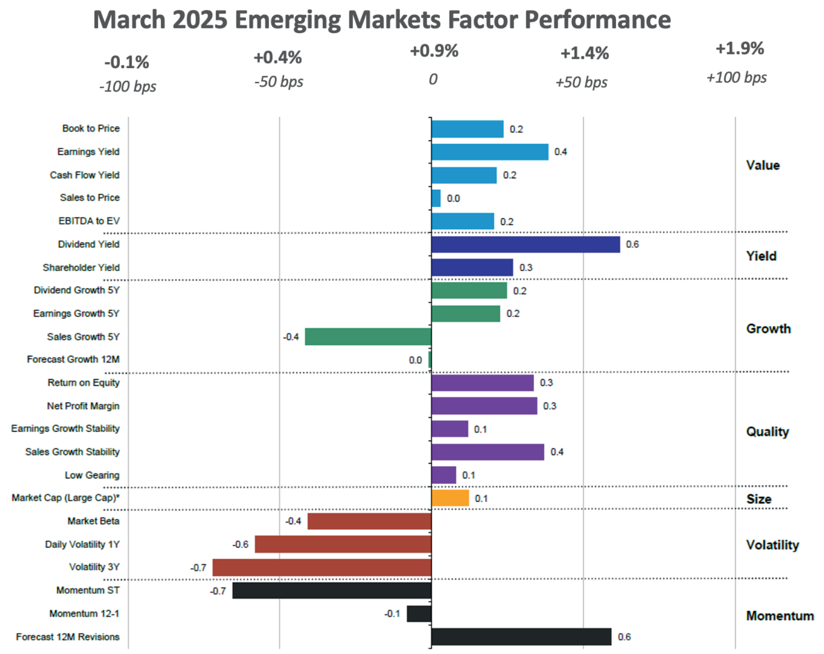


Figure 9: *Mar 2025 Emerging Markets Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

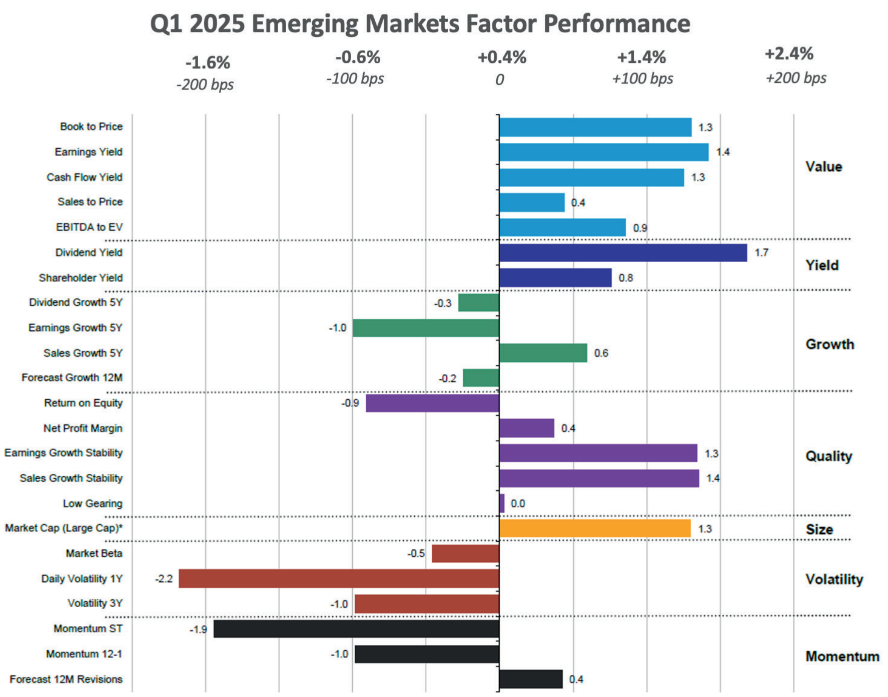


Figure 10: *Q1 2025 Emerging Markets Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

Canadian Equities

Although Canada experienced a negative performance in March, the first quarter of 2025 delivered a positive performance of 0.8% and 0.8% overall. Consistent with the previous two months, the region's outperformance this quarter was primarily driven by the Quality, Yield, and Growth subfactors. As investor confidence moved away from the highly volatile stocks of the previous year, they gravitated toward safer options, prioritizing companies with solid fundamentals and sustainable growth potential.

In the first quarter of 2025, Yield outperformed the market by an average of 155bps, while Quality and Growth closely followed, outperforming by 102bps and 130bps, respectively. In March, the Quality subfactor's net profit margin outperformed the region's market by an impressive 210bps. Securities driving subfactor net profit margin outperformance include materials company Agnico, energy companies Canadian Natural Resource, and TC Energy Corp.

Although tariff tensions impacted both Canadian and US equity markets, the decline seen in the United States was notably more severe in Canada this month. In response to growing concerns about a trade war, investors are seeking low-volatility exposures in the Canadian market, which is driving down the performance of highly volatile securities.

Canada's annual inflation rate rose to 2.6% in February, up from 1.9% in the previous month. The federal government's ending of the tax break was primarily responsible for the significant increase in annual inflation. The unemployment rate rose to 6.7% this month, compared with 6.6% recorded in February.

The outperformance of the Yield subfactor Dividend Yield and Growth subfactor Dividend Growth 5Y is indicative of the shift of investor sentiment to stable, dividend-yielding companies. These companies include high dividend yield companies like energy company Enbridge Inc (+3.1% in March and 5.9% in Q1); financials company Great-West Lifeco Inc (+6.2% in March and 19.5% in Q1); and high dividend growth companies like materials companies Wheaton Precious Metals Corp (+11.9% in March and 37.9% in Q1) and Imperial Oil ltd (+6.9% in March and 18.2% in Q1).

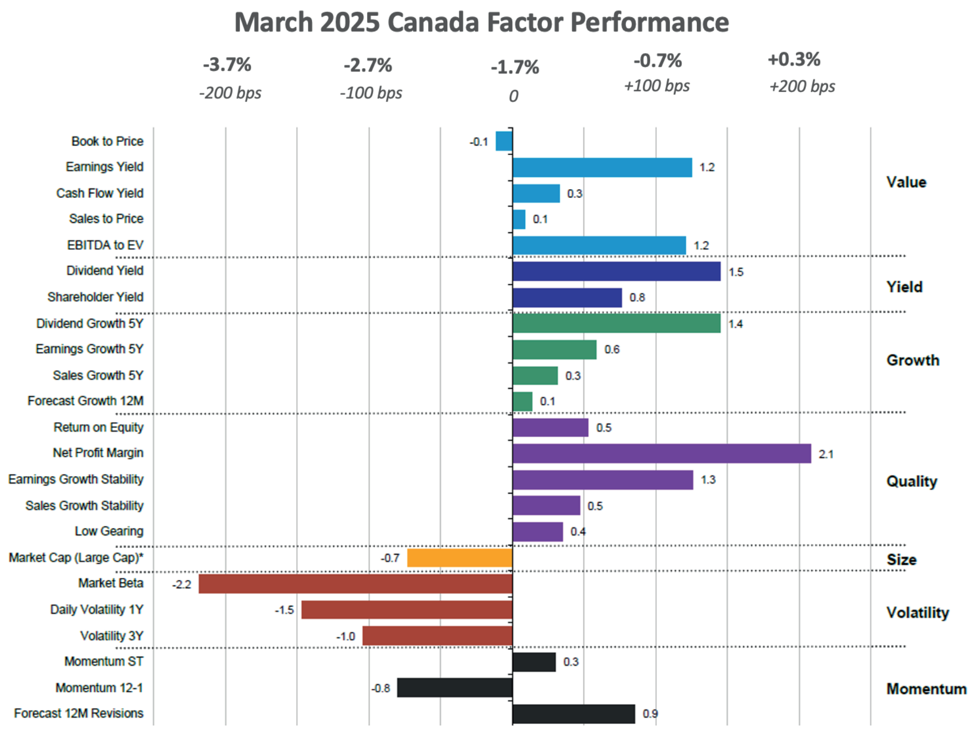


Figure 11: *Mar 2025 Canada Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

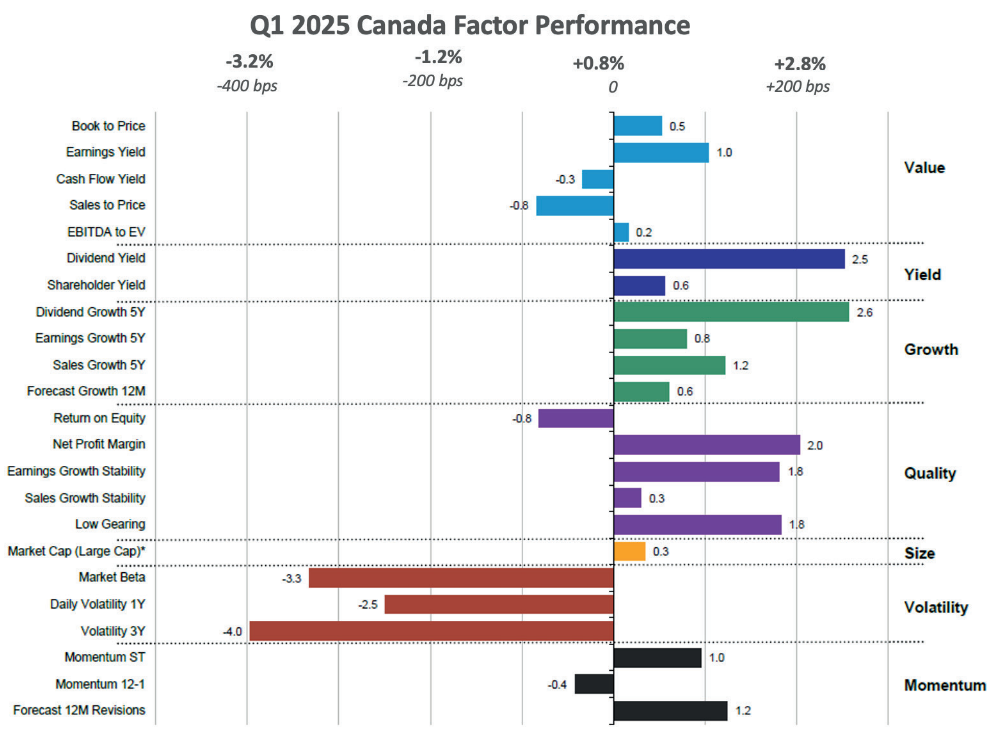


Figure 12: *Q1 2025 Canada Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

Conclusion

Q1 2025 reminded investors that markets are influenced not just by data but also by emotion, geopolitics, and shifting narratives. The pullback in Growth and Momentum, alongside the resurgence of Value, Yield, and Quality, highlights a clear change in investor focus: prioritizing stability over speculation and reliable cash flows over ambitious forecasts.

This quarter was not only a reaction to global events but also a reflection of deeper market intentions. Asset allocators are adjusting their strategies to favor resilience and risk management. As macroeconomic uncertainty continues, factor behavior will remain a valuable lens for identifying emerging trends before they are reflected in headline indices.

Clarity is one of the most valuable tools investors can have during periods of heightened volatility. Thoughtful factor analysis helps provide that clarity, supporting better decisions in complex times.

Style Analytics

Style Analytics provides industry-leading, visually compelling portfolio insights, empowering asset managers to analyze factor exposures with confidence. With advanced tools like the Style SkylineTM, users can visually compare their fund's factor exposures against benchmarks, enhancing portfolio strategy with faster, data-driven decisions. Access to 28,000+ funds with pre-calculated factor exposures enables efficient comparison and identification of similar or competing funds. The platform ensures transparency by validating style consistency and alpha generation through an independent factor lens, while offering 130+ factors for effective investor communication. Style Analytics allows users to track and understand factor shifts and simulate rebalancing decisions, optimizing risk management and portfolio differentiation.

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Appendix: How to read the charts

Each factor's performance is based on the relative performance of its top 50% of stocks by market cap, compared to the overall market. The Size factor uses the top 70% of stocks, as the only exception.

For example, for the book-to-price factor, we determine the period's performance of the basket of stocks with the highest book-to-price values, relative to the total market. Each factor is analyzed independently, market and fundamental data are adjusted to enable sector-average (within each country) relative data to be used, and the performance measurement isolates the factor's contribution to return..

Disclaimer

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