

Equities in Focus

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Beta Is Back, but Sharing the Wealth Pays

The equity markets have enjoyed quite a surge since early April, ignited by the 90-day pause on reciprocal tariffs. While other elements have contributed to this rally's winning streak, high-beta stocks have dominated. Granted, a win is a win, regardless of a stock's characteristics. But with the prospect of additional Fed easing, companies that generously return capital (that have been left behind by their higher-volatility cousins) are certainly worth a look.

Key Takeaways

1. Enjoy the beta train ride while it lasts

This risk-on rally may continue, but high beta's history is unfavorable versus other equity attributes.

2. Shareholder-friendly companies enjoy a performance edge

Year to date, companies paying dividends and buying back shares have outperformed those that have not.

3. Fed easing is often a dividend-equity tailwind

Previous Fed easing cycles have led to favorable returns for dividend-paying stocks.

Beta Can Be Fun...

The market's surge since early April has been remarkable and welcomed by most investors. But regardless of which direction stocks travel, understanding what fuels their movement is critical. As *Display 1* shows, the factor propelling this advance has been high-beta stocks. Conversely, many quality factors have lagged in comparison. Here, we focus on dividend yield, dividend growth, and shareholder yield (i.e., firms who consistently return capital via dividends and share buybacks). However, looking over a longer time horizon (*Display 2*), beta reveals a different investor experience versus other comparative attributes.

...However, Consider Companies in a Giving Mood

Another nuance of this year's market is the significant outperformance of firms paying dividends and buying back their stock, compared with those that have not (*Display 3*). This rhymes with the shareholder yield history noted previously. And, as *Display 4* reveals, the gift of dividends has gotten a sweetener in the form of excess returns when the Fed engages in a rate-cutting cycle.

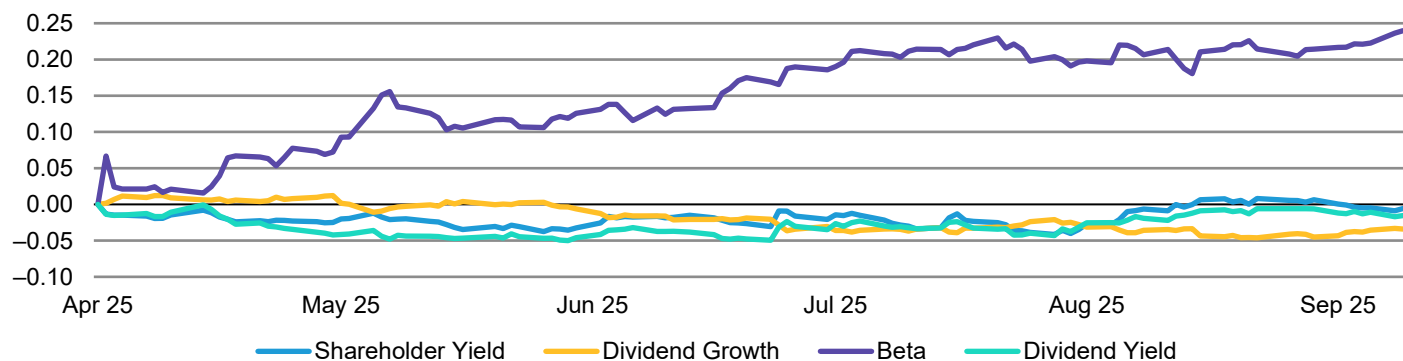
Our View

Considering the high valuation of the S&P 500 and other US indices, as well as risks such as stubborn inflation and geopolitical concerns, higher-volatility stocks would likely be more vulnerable to a sharp pullback versus stocks of higher quality. But, with the Fed expected to cut rates further, dividends and disciplined capital returns courtesy of thoughtful managements could reestablish such stocks as quiet outperformers.

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Display 1: High-Beta Stocks Have Handily Outperformed Capital Return Factors Since April*

For Period April 8 2025–September 16, 2025 (Percent)



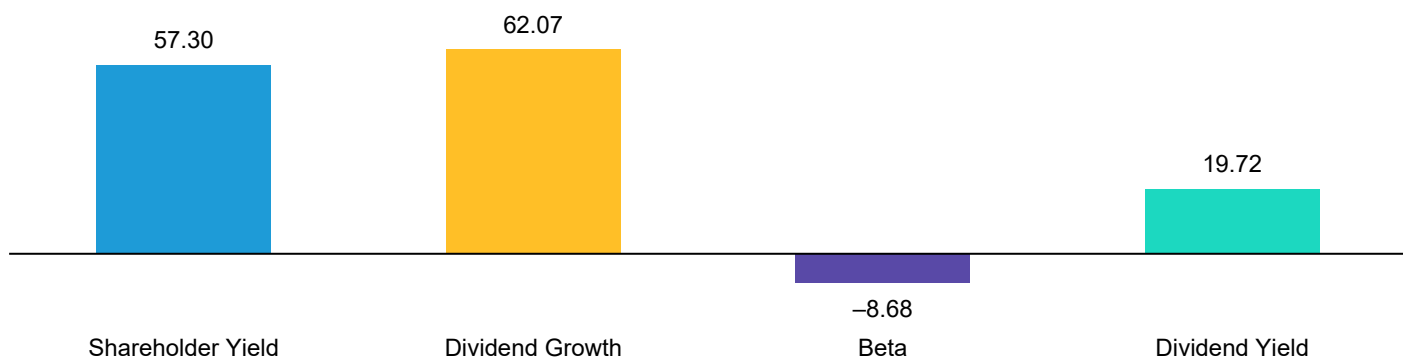
*Factor returns are calculated by the relative performance of the top-quintile cohort vs. the bottom-quintile cohort within the S&P 500.

As of September 16, 2025

Source: Piper Sandler and AB

Display 2: However, History Tells Us Beta's Staying Power is Not Robust

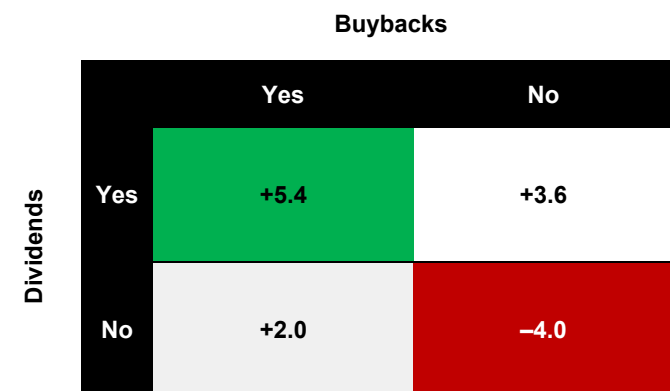
20-Year Cumulative Returns (Percent)



As of September 16, 2025

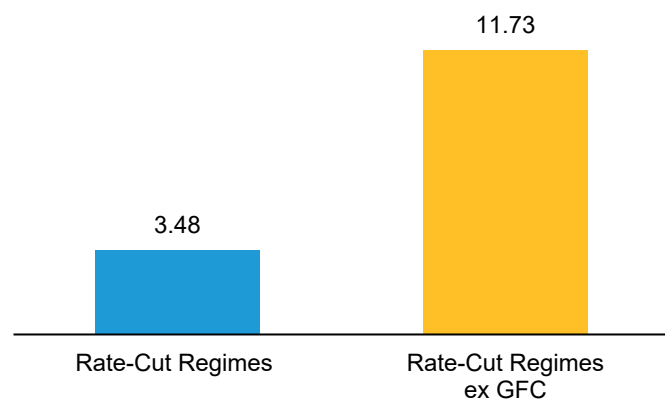
Source: Bloomberg and AB

Display 3: Shareholder Yield Outperforming YTD



Display 4: Dividend Stocks Have Delivered When the Fed Has Cut Rates

Average Annualized Monthly Excess Returns of the Highest Dividend Payers vs. the S&P 500 (Percent)[†]



[†]Top tercile of dividend payers, cap-weighted, recalculated monthly returns vs. the S&P 500 over six distinct Fed cutting regimes, starting from 1998, where a regime is defined to be at least three months of consecutive rate cuts.

Left display as of September 12, 2025; right display as of December 31, 2024

Source: Bloomberg and AB

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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