

# Equity factor report



2025 Q4: Value outperformance continues

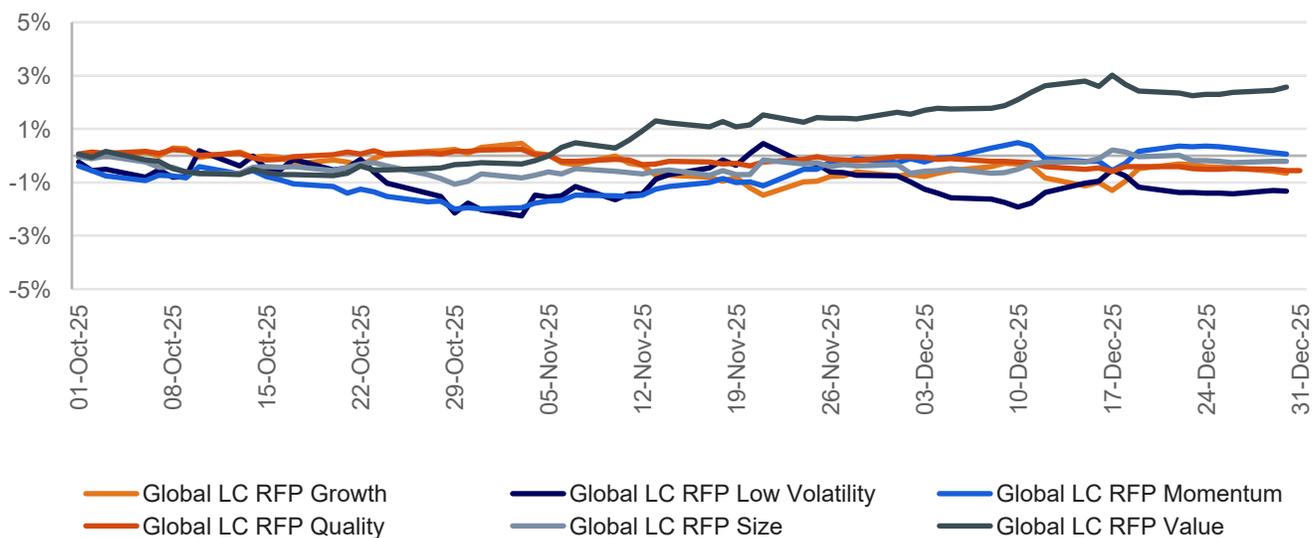
## Overview

Equity markets posted modest gains in the fourth quarter of 2025, with several indices ending the year near multi-year highs. In the U.S., the Russell 1000 and Russell 2000 indexes returned +2.4% and +2.2%, respectively. Market leadership remained concentrated in AI and other growth-oriented areas, though scrutiny around AI-related capex grew during the quarter. At the same time, market participation broadened, particularly toward value-tilted and international markets amid cheaper valuations and improving fundamentals. With this, Developed ex-U.S. Large Cap gained +5.3%, followed by Emerging Markets at +4.8%.

Among Russell Investments' Global Factor Portfolios (RFPs), Value was the only factor that outperformed the benchmark, delivering an excess return of +2.59% for the quarter. In contrast, Low Volatility underperformed by -1.25% given the strategy faced headwinds in the prevailing risk-on environment. The Global Large Cap Growth and Quality portfolios also lagged the benchmark, with excess returns of -0.72% and -0.56%, respectively.

## Exhibit 1: Cumulative Excess Returns

For Global Russell Investments Portfolios vs. MSCI ACWI



Source: Russell Investments and MSCI; Data as of October 1, 2025-December 31, 2025.



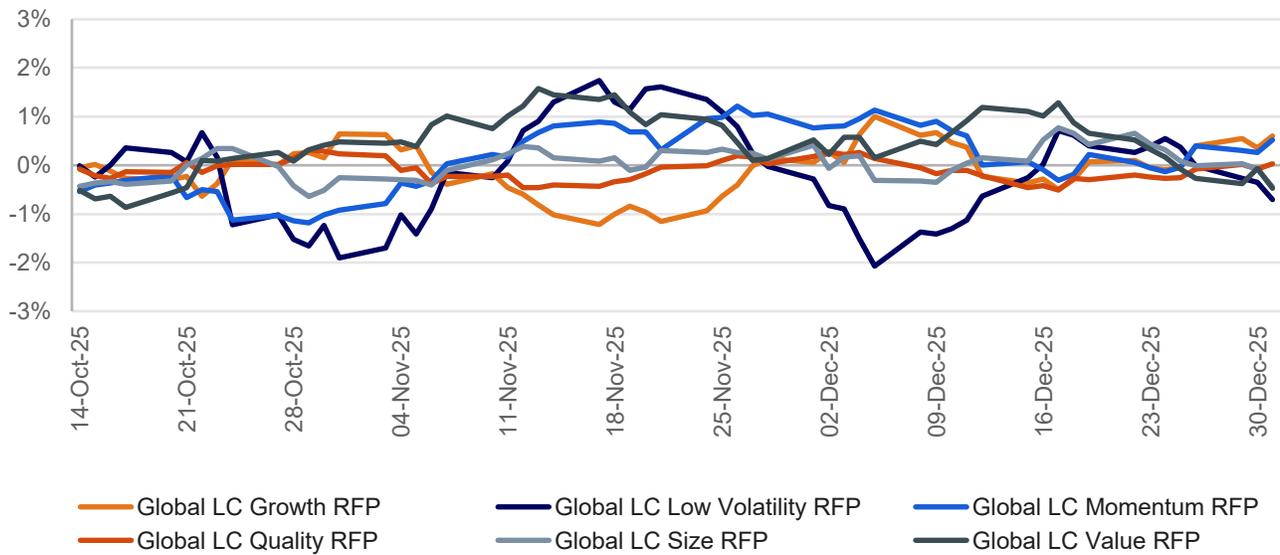
# Factor performance

## Global Russell Investments Factor Portfolios' performance dynamics

The performance dynamics among Global Russell Factor Portfolios (RFPs) in the fourth quarter were mixed. Value RFPs delivered positive excess returns for much of the period, while Growth and Low Volatility exhibited greater volatility and periods of underperformance. Quality and Size remained close to the benchmark, resulting in relatively modest dispersion across the factors throughout the period.

### Exhibit 2: 10-Day Rolling Excess Returns

For Global RFPs vs. MSCI ACWI



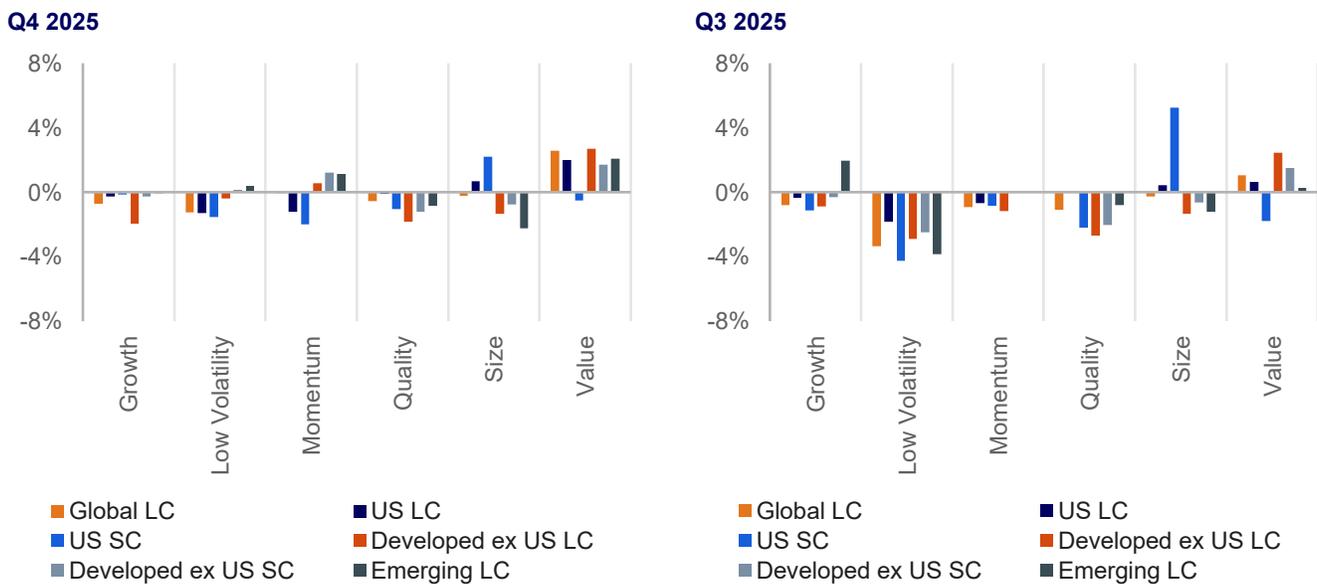
Source: Russell Investments and MSCI; Data as of October 14, 2025, to December 31, 2025.

## Russell Investments Factor Portfolios' performance across regions

In the fourth quarter of 2025, factor performance was more muted and less consistent across regions. Value, while less pronounced than in the prior quarter, continued to outperform across regions relative to its respective benchmarks, with excess returns ranging from +1.7% to +2.6%.

Conversely, Quality and Growth factor portfolios underperformed in all regions during the period. Low Volatility also struggled, particularly in U.S. markets, with excess returns ranging from -1.2% to -2%. The Momentum and Small Cap factor portfolios delivered mixed results between U.S. and ex-U.S. markets, with relatively weaker momentum and smaller cap exposures showing more favourable performance in the U.S.

### Exhibit 3: Excess Returns of RFPs vs. Corresponding Benchmarks



Source: Russell Investments; FTSE Russell; MSCI

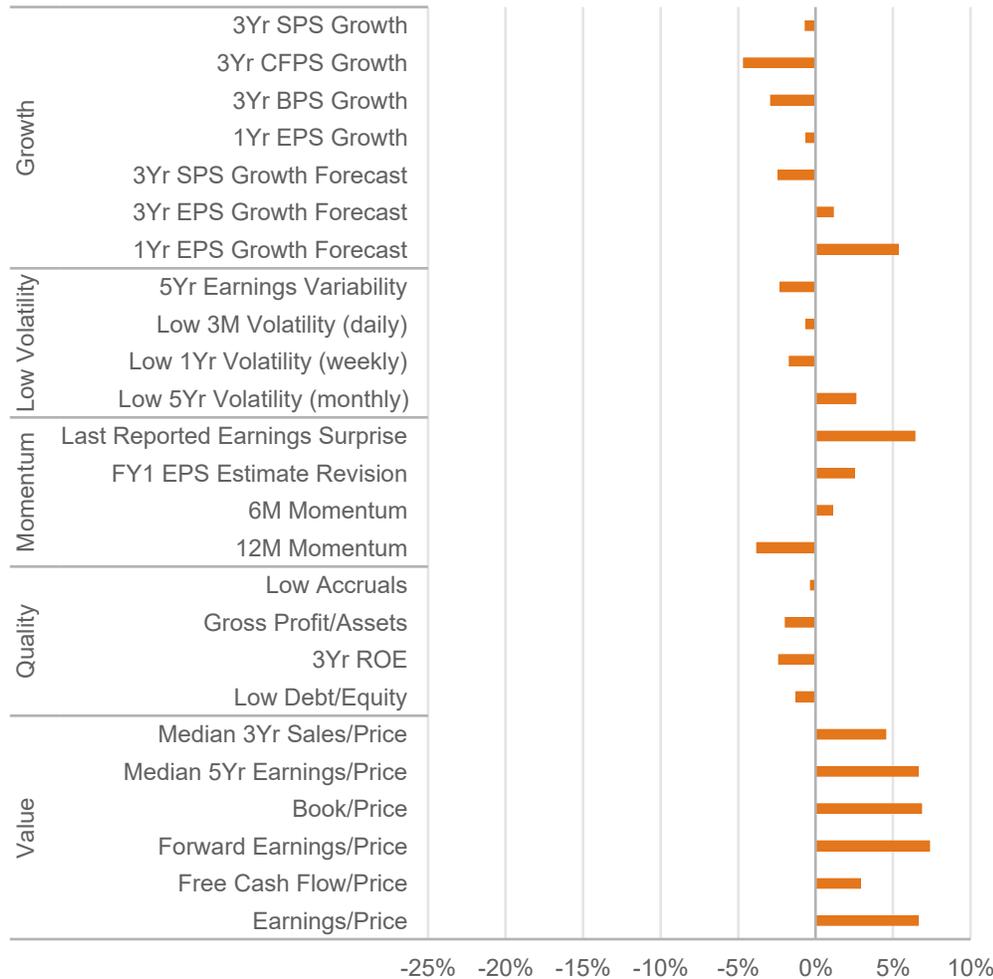
## Performance of subfactors in the global universe

Exhibit 4 below illustrates the performance of subfactors in the MSCI All-Country World Index (ACWI) universe for the last quarter, represented by top-minus-bottom quintile portfolios. All Value subfactors delivered positive returns in Q4, extending the trend from the prior quarter. Forward Earnings-to-Price was the largest contributor, with a return of 7.41%. Most Momentum subfactors also generated positive returns, led by Last Reported Earnings Surprise, which returned 6.43% for the period. In contrast, Growth subfactors generally posted negative returns, except for 1- and 3-year EPS Growth Forecast subfactors. Low Volatility and Quality subfactors detracted modestly over the quarter.

### Subfactor Performance

Continuing the trend from the prior quarter, Value subfactors delivered positive returns for the quarter. Momentum subfactors were also rewarded while Growth, Quality, and Low Volatility subfactors struggled. Among the subfactors, Forward Earnings-to-Price was the top contributor (+7.41%), while 3-year Cash Flow per Share Growth was the worst performing subfactor, with a return of -4.67%.

**Exhibit 4: Performance of Cap-weighted Top-minus-bottom Quintiles - Q4 2025**



Source: Russell Investments; MSCI; LSEG

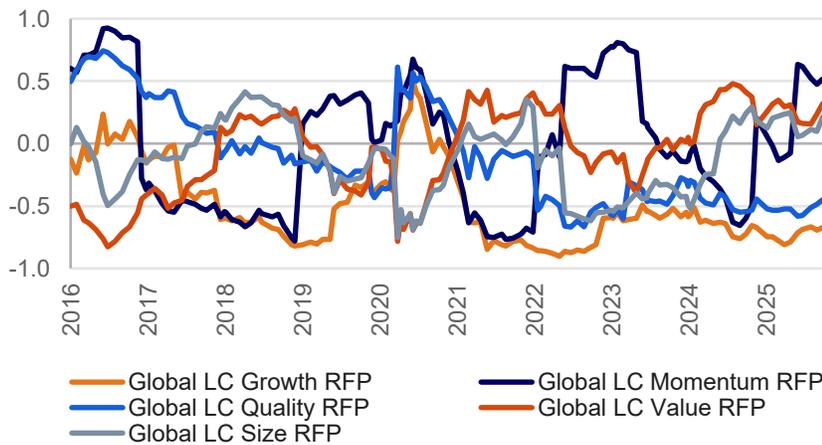
## Ex-ante correlations and active risk of Global Russell Investments Factor Portfolios

In the fourth quarter, correlations between Low Volatility and other factors shifted modestly. The correlation between Momentum and Low Volatility reversed over the period as the MSCI-based factor portfolios were rebalanced in the fourth quarter, while correlations with Value and Size continued to trend higher. Correlations between Low Volatility and both Quality and Growth remained relatively stable, as shown in Exhibit 5 below. Ex-ante active risk levels—predictive measures of the active risk associated with factor portfolios shown in Exhibit 6—edged higher over the quarter, except for Quality, which remained steady.

### Ex-ante Correlations and Active Risk

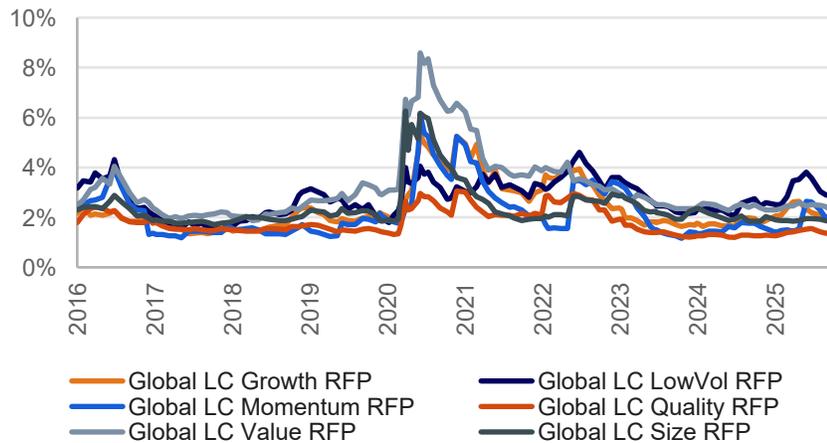
The correlation between Momentum and Low Volatility reversed during the fourth quarter, while the correlation between Low Volatility and both Value and Size continued to trend higher. Ex-ante active risk level predictive measures of the active risk associated with factor portfolios edged slightly higher across most factor portfolios.

**Exhibit 5: Ex-ante Correlations with Global LC Low Volatility RFP**



Source: Russell Investments; Axioma; MSCI;  
Data as of January 8, 2016-November 28, 2025.

**Exhibit 6: Ex-ante Tracking Errors of Global RFPs**



Source: Russell Investments; Axioma; MSCI;  
Data as of January 8, 2016-November 28, 2025.

## Spotlight On: Russell Factor Portfolios on Stylized Universes

We recently rolled out factor portfolios on stylized universes—Russell 1000 Growth and Russell 1000 Value. These stylized indices come with a pre-tilt toward Growth and Value factors, respectively.

Our aim was to create RFPs on these universes, which would further increase the exposure toward one of the intended factors (Growth, Value, Low Volatility, Momentum, Quality and Size). We find that the resulting factor portfolios end up with a dual tilt—first toward the ‘style’ of the starting universe (in this case, either Growth or Value) and the second toward the intended factor.

The tables below show the risk model score of the given portfolio relative to that of the respective benchmark. For example, the Russell 1000 Growth Low Volatility portfolio has an increase of 0.13 standard deviations in the Low Volatility factor score relative to the Russell 1000 Growth Index. We observed that the increments are largest for the intended factor—as indicated by the green cells along the diagonal. Although the size of increment varies for each factor, we generally consider increments greater than 0.1 to be significant.

### Exhibit 7a: Relative Risk Model Scores (in Number of Standard Deviations)

#### Russell 1000 Growth RFPs relative to Russell 1000 Growth Index

| Portfolio                          | Factor |                |          |         |        |      |
|------------------------------------|--------|----------------|----------|---------|--------|------|
|                                    | Value  | Low Volatility | Momentum | Quality | Growth | Size |
| Russell 1000 Growth Value          | 0.4    | 0.09           | -0.18    | -0.05   | -0.15  | 0.02 |
| Russell 1000 Growth Low Volatility | 0.06   | 0.13           | -0.05    | -0.05   | -0.16  | 0.01 |
| Russell 1000 Growth Momentum       | -0.04  | -0.07          | 0.26     | -0.01   | 0.12   | 0.03 |
| Russell 1000 Growth Quality        | -0.04  | -0.05          | 0.03     | 0.17    | 0.07   | 0.02 |
| Russell 1000 Growth Growth         | -0.07  | -0.16          | 0.08     | 0.03    | 0.23   | 0.03 |
| Russell 1000 Growth Size           | 0.12   | -0.12          | -0.09    | -0.1    | -0.01  | 0.18 |

Source: Russell Risk Model; as of January 13, 2025.

### Exhibit 7b: Relative Risk Model Scores (in Number of Standard Deviations)

#### Russell 1000 Value RFPs relative to Russell 1000 Value Index

| Portfolio                         | Factor |                |          |         |        |      |
|-----------------------------------|--------|----------------|----------|---------|--------|------|
|                                   | Value  | Low Volatility | Momentum | Quality | Growth | Size |
| Russell 1000 Value Value          | 0.72   | -0.01          | -0.25    | 0.06    | -0.19  | 0.09 |
| Russell 1000 Value Low Volatility | -0.04  | 0.15           | 0.04     | 0.00    | -0.14  | 0.00 |
| Russell 1000 Value Momentum       | -0.13  | -0.06          | 0.74     | 0.01    | 0.31   | 0.05 |
| Russell 1000 Value Quality        | 0.00   | -0.01          | -0.05    | 0.75    | 0.13   | 0.06 |
| Russell 1000 Value Growth         | -0.25  | -0.12          | 0.27     | 0.04    | 1.02   | 0.05 |
| Russell 1000 Value Size           | 0.19   | -0.25          | -0.15    | 0.04    | 0.05   | 0.34 |

Source: Russell Risk Model; as of January 13, 2025.

## Returns

The excess returns from the RFPs built on top of the stylized indices had excess returns aligned with our beliefs around long-term factor payoffs over the backtest period. We find that the returns of the stylized RFPs are significantly positively correlated with the corresponding RFPs in the Russell 1000 universe.

### Exhibit 8a: Rolling Excess Return Correlations of Stylized RFPs vs Russell 1000 RFPs

#### Russell 1000 Growth RFPs relative to Russell 1000 Index

| Portfolio                          | Russell 1000 Value | Russell 1000 Low Volatility | Russell 1000 Momentum | Russell 1000 Quality | Russell 1000 Growth | Russell 1000 Size |
|------------------------------------|--------------------|-----------------------------|-----------------------|----------------------|---------------------|-------------------|
| Russell 1000 Growth Value          | 0.91               | 0.55                        | -0.45                 | -0.49                | -0.64               | 0.66              |
| Russell 1000 Growth Low Volatility | 0.71               | 0.97                        | -0.46                 | -0.51                | -0.87               | 0.13              |
| Russell 1000 Growth Momentum       | -0.27              | -0.38                       | 0.91                  | 0.43                 | 0.62                | -                 |
| Russell 1000 Growth Quality        | 0.07               | 0.04                        | 0.26                  | 0.52                 | 0.13                | 0.29              |
| Russell 1000 Growth Growth         | -0.48              | -0.73                       | 0.65                  | 0.54                 | 0.89                | 0.06              |
| Russell 1000 Growth Size           | 0.40               | -0.04                       | -0.09                 | 0.01                 | -                   | 0.89              |

Source: Russell Risk Model; as of January 13, 2025.

### Exhibit 8b: Rolling Excess Return Correlations of Stylized RFPs vs Russell 1000 RFPs

#### Russell 1000 Value RFPs relative to Russell 1000 Index

| Portfolio                         | Russell 1000 Value | Russell 1000 Low Volatility | Russell 1000 Momentum | Russell 1000 Quality | Russell 1000 Growth | Russell 1000 Size |
|-----------------------------------|--------------------|-----------------------------|-----------------------|----------------------|---------------------|-------------------|
| Russell 1000 Value Value          | 0.83               | 0.2                         | -0.4                  | -0.32                | -0.4                | 0.77              |
| Russell 1000 Value Low Volatility | 0.21               | 0.86                        | -0.13                 | -0.05                | -0.53               | -0.13             |
| Russell 1000 Value Momentum       | -0.34              | -0.14                       | 0.87                  | 0.39                 | 0.51                | -0.19             |
| Russell 1000 Value Quality        | -0.29              | -0.11                       | 0.21                  | 0.67                 | 0.33                | 0.07              |
| Russell 1000 Value Growth         | -0.37              | -0.5                        | 0.67                  | 0.5                  | 0.78                | 0.06              |
| Russell 1000 Value Size           | 0.31               | -0.26                       | -0.15                 | 0.08                 | 0.08                | 0.88              |

Source: Russell Risk Model; as of January 13, 2025.



## Exhibit 9a: Back-tested Performance Statistics

### Russell 1000 Growth RFPs relative to Russell 1000 Growth Index

| Portfolio                          | Excess Return | Tracking Error | Information Ratio |
|------------------------------------|---------------|----------------|-------------------|
| Russell 1000 Growth Value          | 1.81%         | 5.05%          | 0.36              |
| Russell 1000 Growth Low Volatility | 0.53%         | 5.01%          | 0.11              |
| Russell 1000 Growth Momentum       | 1.45%         | 3.83%          | 0.38              |
| Russell 1000 Growth Quality        | 1.07%         | 1.86%          | 0.58              |
| Russell 1000 Growth Growth         | -0.07%        | 4.40%          | -0.02             |
| Russell 1000 Growth Size           | 0.72%         | 5.10%          | 0.14              |

Source: Russell Risk Model; as of January 13, 2025.

## Exhibit 9b: Back-tested Performance Statistics

### Russell 1000 Value RFPs relative to Russell 1000 Value Index

| Portfolio                         | Excess Return | Tracking Error | Information Ratio |
|-----------------------------------|---------------|----------------|-------------------|
| Russell 1000 Value Value          | 1.80%         | 4.14%          | 0.43              |
| Russell 1000 Value Low Volatility | -0.14%        | 4.27%          | -0.03             |
| Russell 1000 Value Momentum       | 1.21%         | 3.69%          | 0.33              |
| Russell 1000 Value Quality        | 1.49%         | 2.43%          | 0.61              |
| Russell 1000 Value Growth         | 0.52%         | 3.72%          | 0.14              |
| Russell 1000 Value Size           | 1.10%         | 5.92%          | 0.19              |

Source: Russell Risk Model; as of January 13, 2025.

Disclaimer – Our backtest incorporates a semi-annual rebalance of RFPs. Gross monthly returns for both the portfolio and the benchmark are geometrically compounded over the backtest period and then annualized to derive the respective returns. Excess returns are calculated as the difference between the portfolio and benchmark returns.

The RFPs on stylized universes will allow our portfolio managers to more precisely position portfolios around factors when the benchmark is already a style tilted benchmark.



## The bottom line

This quarter saw a continuity in factor trends: Value remained the leading factor in the fourth quarter of 2025, extending its outperformance from the prior quarter, while Growth, Low Volatility, and Quality marginally underperformed.

Correlations with Low Volatility shifted modestly this quarter: correlation with Momentum declined as the MSCI-based factor portfolios were rebalanced in the fourth quarter, while correlation with both Value and Size trended higher.

# Where to next?



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