

EQUITY FACTOR REPORT



2025 Q2
REVERSAL REVERSED



RUSSELL INVESTMENTS RESEARCH

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Equity Factor Report

2025 Q2: Reversal Reversed

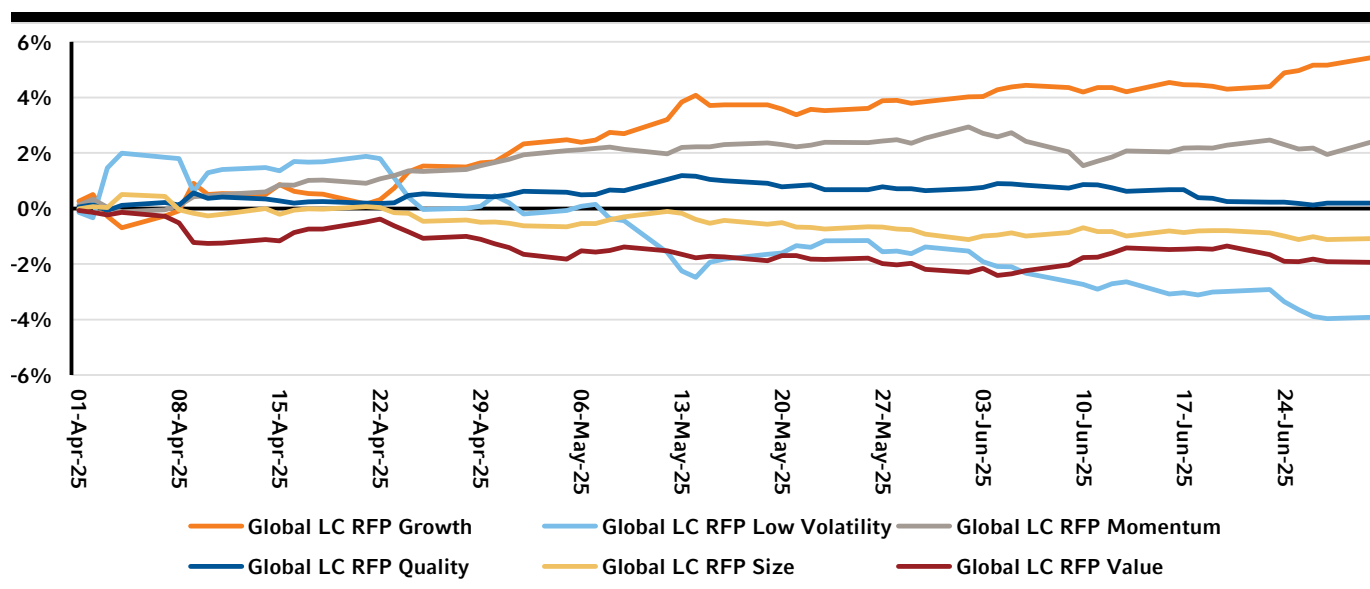
Overview

Following a muted performance in Q1, equity indices rallied in Q2 2025, with the Russell 1000 Index and the MSCI World ex USA Index returning 11.1% and 12.3% respectively.

In the U.S., large-cap stocks significantly outperformed small-cap stocks, with the Russell 1000 gaining 11.1% in the period while the Russell 2000 Index climbed 8.5%. This was driven by the large-cap tech rally and the flight of capital to companies (amid tariff uncertainty) with stable balance sheets and earnings expectations.

The factor performance also reversed relative to the prior quarter. Among Russell Investments' Global Factor Portfolios (RFPs), Growth and Momentum outperformed the benchmark for the quarter with positive excess returns of 5.43% and 2.39%, respectively. Conversely, last quarter's winners, Global Large Cap Low Volatility and Value, underperformed for the quarter with returns of -3.92% and -1.94%. Global Large Cap Quality and Size portfolios returned 0.19% and -1.09% relative to their benchmarks, respectively.

Exhibit 1: Cumulative excess returns for Global Russell Investments Portfolios vs. MSCI ACWI



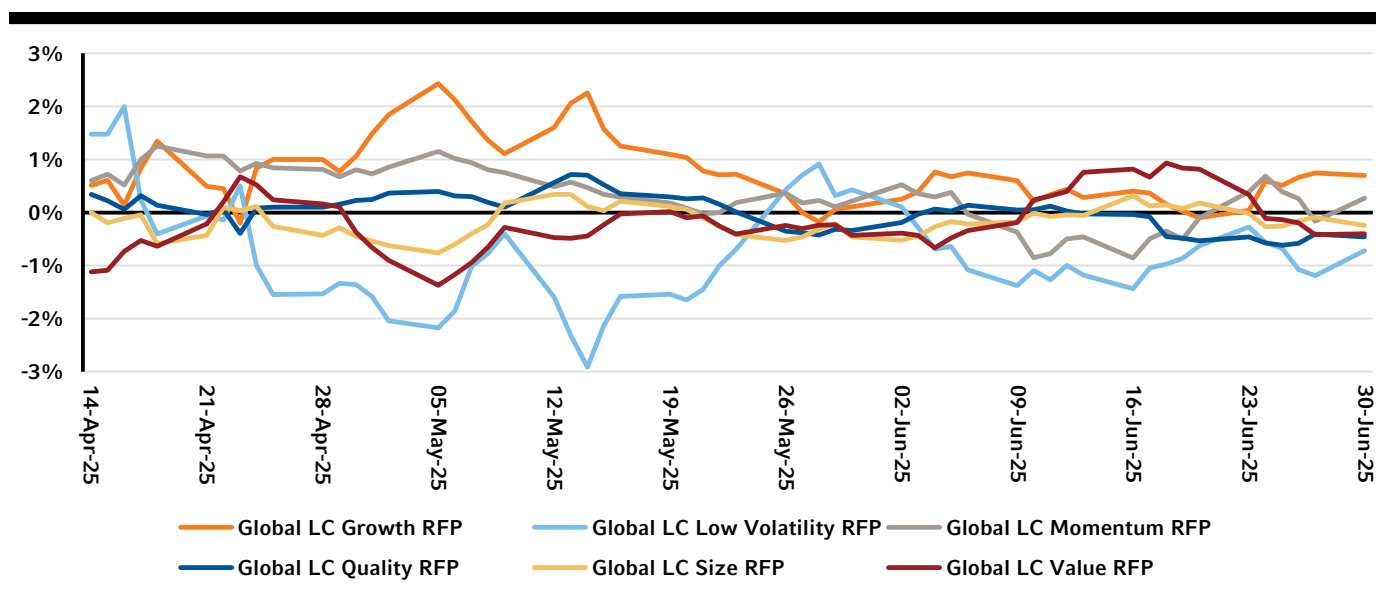
Source: Russell Investments and MSCI; April 1, 2025 to June 30, 2025.

Factor Performance

Global Russell Investments Factor Portfolios' performance dynamics

The performance dispersion among Global Russell Factor Portfolios (RFPs) in the second quarter was reasonably high. Growth and Momentum RFPs rallied in the first half of the quarter and remained positive for most of the remaining period. Value RFPs picked up for a small duration in June. Low Volatility RFPs underperformed throughout the period.

Exhibit 2: 10-Day rolling excess returns for Global RFPs vs. MSCI ACWI

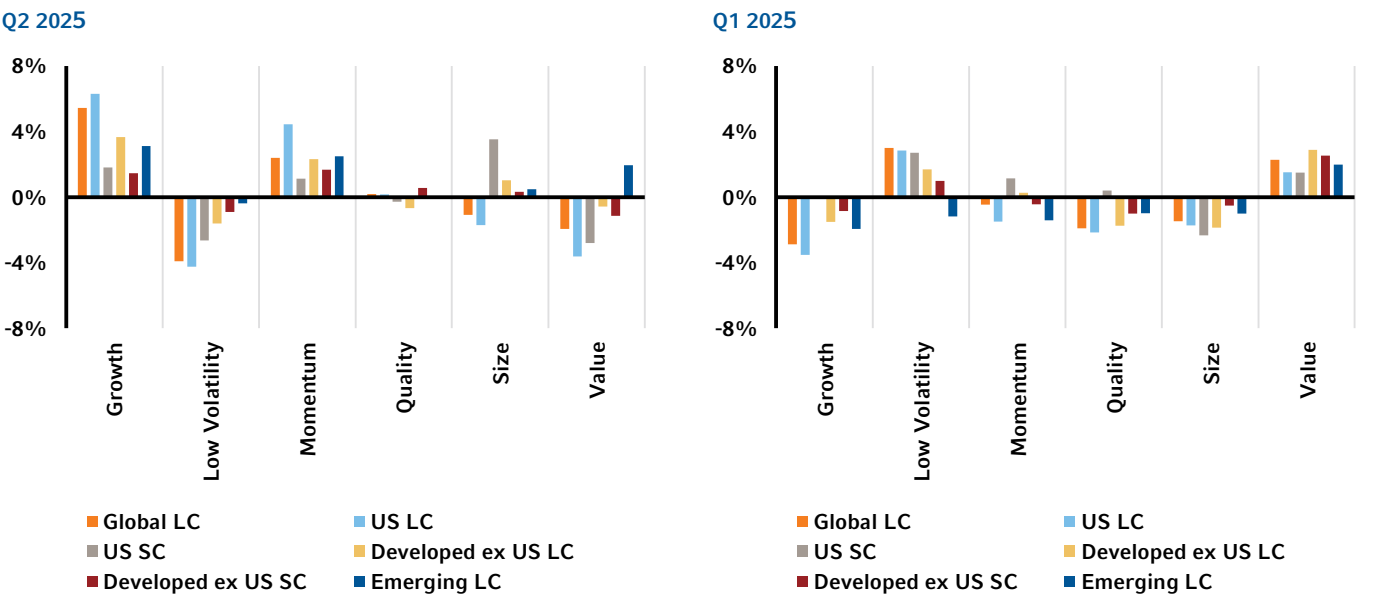


Source: Russell Investments and MSCI; Data as of April 14, 2025, to June 30, 2025.

Russell Investments
Factor Portfolios' performance across regions

In the second quarter of 2025, factor performance was reasonably consistent across regions, with Growth and Momentum outperforming and Low Volatility underperforming. Value underperformed in all regions except in Emerging Markets Large Cap. The performance of the Size factor across regions was mixed. Quality was mostly muted with values ranging between -0.7% and +0.6%

Exhibit 3: Excess returns of RFPs vs. corresponding benchmarks

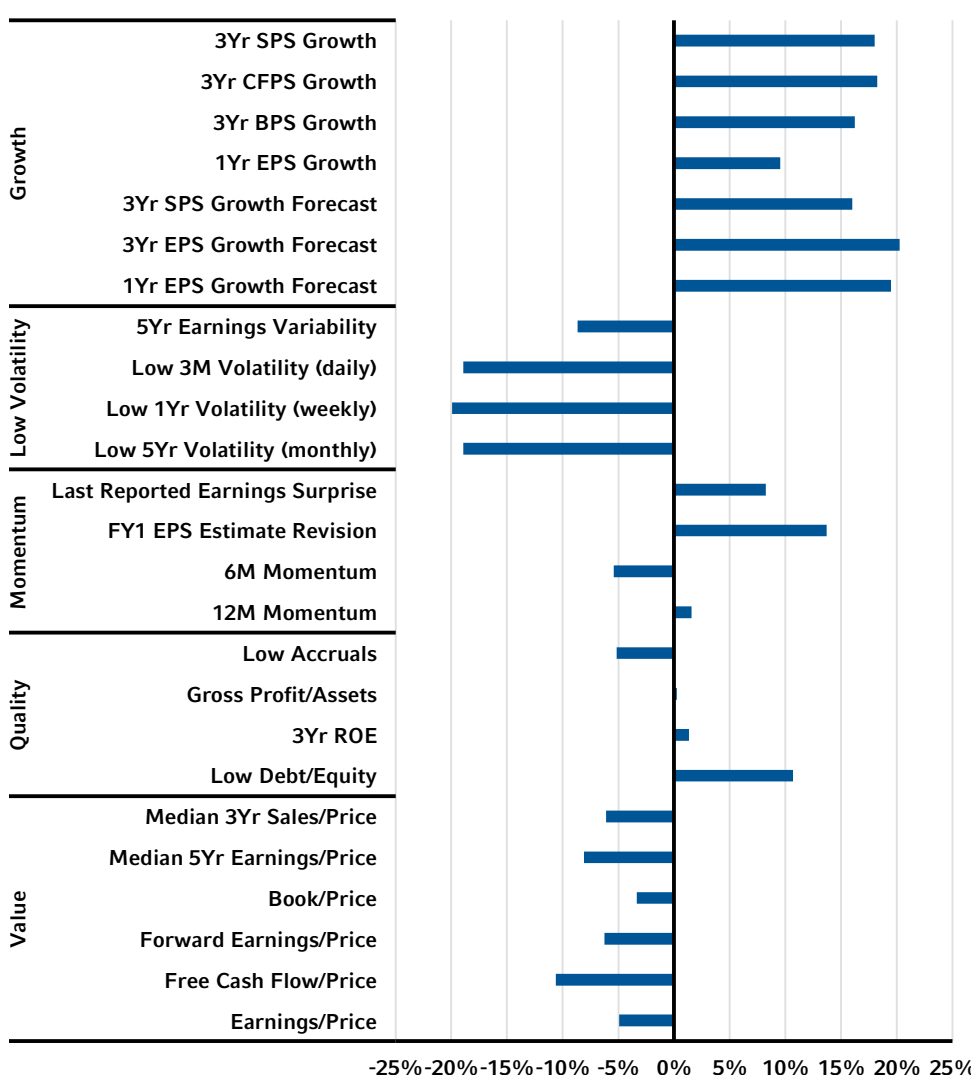


Source: Russell Investments; FTSE Russell; MSCI

Performance of subfactors in the global universe

Exhibit 4 below illustrates the performance of various subfactors in the MSCI All-Country World Index (ACWI) universe for the last quarter, represented by top-minus-bottom quintile portfolios¹. All Growth subfactors had strong positive returns in Q2, reversing a trend from the prior quarter. Most Momentum subfactors also did well. The largest positive return for the quarter came from 3-Year EPS Growth Forecast with a return of 20.26%. All Value and Low Volatility subfactors had negative returns, with Low 1-Year Weekly Volatility logging the largest negative return for the quarter at -19.92%.

Exhibit 4: Performance of cap-weighted top-minus-bottom quintiles – Q2 2025



Source: Russell Investments; MSCI; LSEG

Subfactor performance

In a reversal from the prior quarter, all Growth subfactors had positive performance in Q2 while all Low Volatility and Value subfactors had negative returns. 3-Year EPS Growth forecast was the best performer (20.26%), while Low 1-Year Weekly Volatility was the worst performing subfactor, with a return of -19.92%.

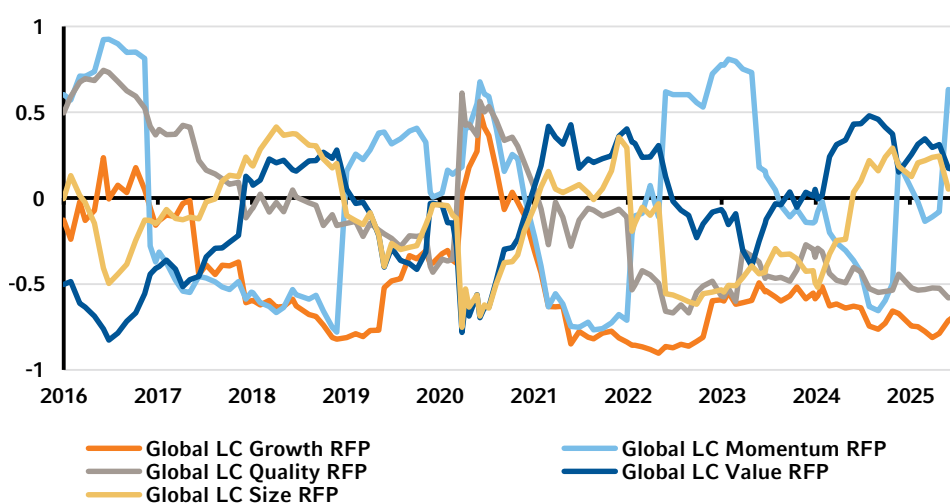
¹ Top minus bottom cap-weighted quintile portfolios are not investible and are used to proxy the performance of the subfactors used in the construction of RFPs. RFPs are long only portfolios.

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

In the second quarter, the correlation between Low Volatility and the other factor portfolios were steady with the exception of Momentum, as illustrated in Exhibit 5 below.

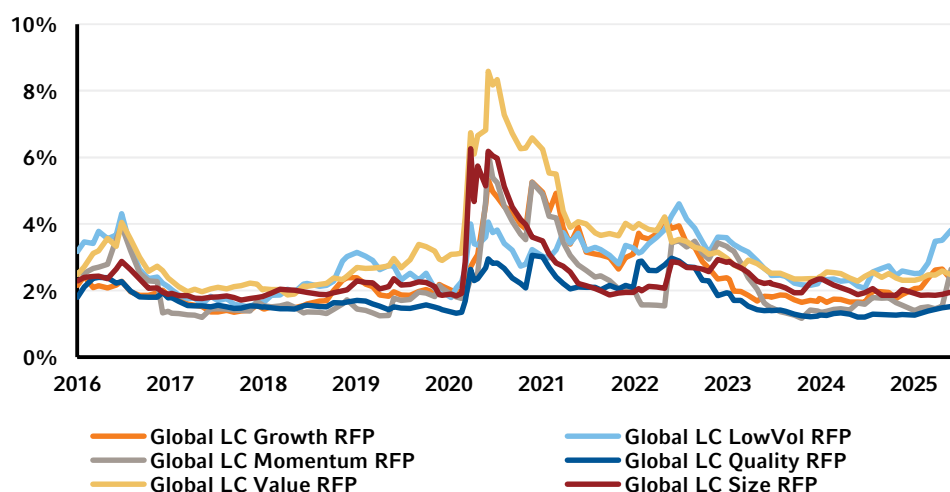
Ex-ante active risk levels—predictive measures of the active risk associated with factor portfolios in Exhibit 6—were steady throughout the quarter except for Low Volatility and Momentum, which began rising in April and June, respectively.

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



Source: Russell Investments; Axioma; MSCI; Data as of January 8, 2016-June 30, 2025

Exhibit 6: Ex-ante tracking errors of Global RFPs



Source: Russell Investments; Axioma; MSCI; Data as of January 8, 2016-June 30, 2025.

Ex-ante correlations and active risk

The correlation between Momentum and Low Volatility reversed sharply over the second quarter while the correlation between Global LC Value and Size RFPs to Global LC Low Volatility RFP decreased. The ex-ante active risk levels—predictive measures of the active risk associated with factor portfolios—flattened after a slight increase for Value, Low Volatility and Growth in the prior quarter.

Spotlight On: Factor Dispersions Across Regions

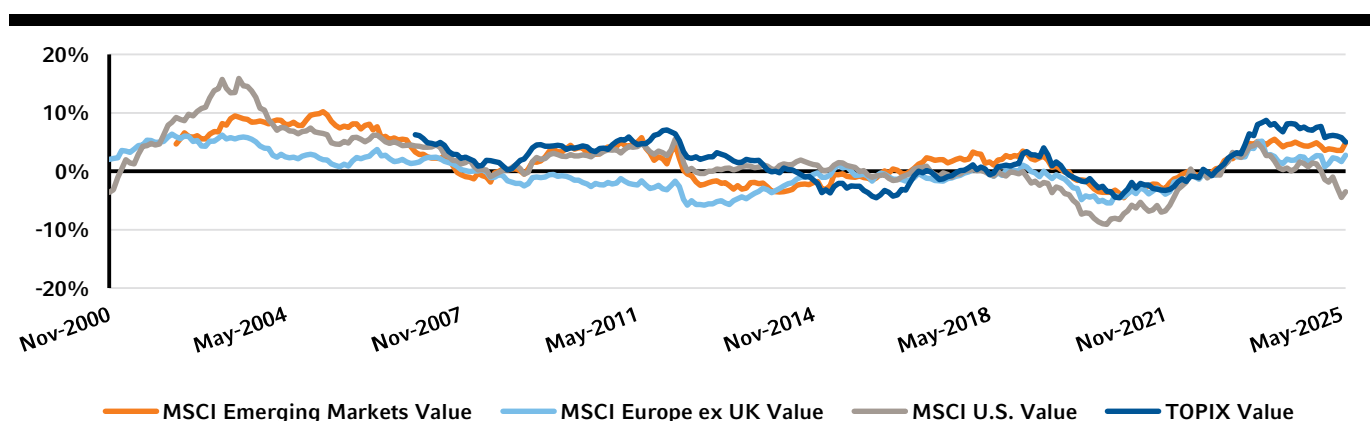
We compare the difference in performance between the excess returns of our factor RFPs across four universes (MSCI US, MSCI Emerging Markets, MSCI Europe Ex UK, and TOPIX), and find that the dispersion in performance of our RFPs across regions reached historically high levels for Value and Low Volatility factors in Q2 2025.

Methodology

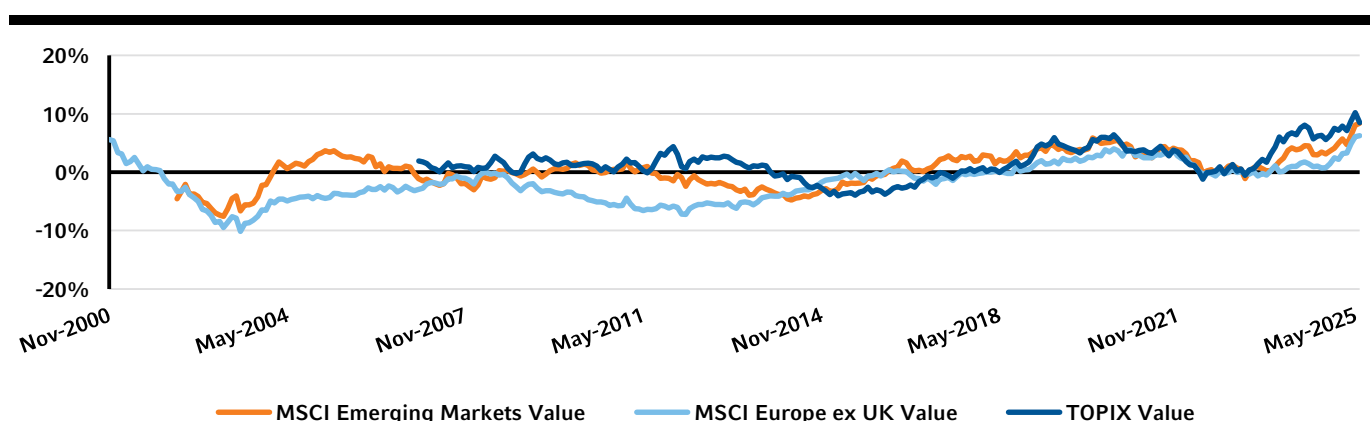
We first calculate the rolling 3-year excess returns of the portfolios relative to their respective benchmarks, and then the difference (dispersion) between the excess returns of a given RFP of a specific region relative to the corresponding U.S. RFP. This is followed by “Z-scoring” the dispersion and calculating the percentile of the deviation.

Exhibit 7: Rolling 3-year excess returns of the Value RFPs in four different regions and dispersions from the U.S. RFP.

Rolling 3-Year Excess Returns - Value RFPs



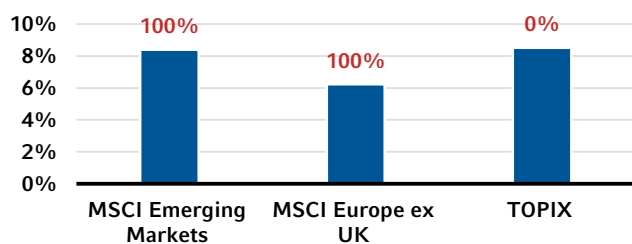
Rolling 3-Year Dispersion from U.S.



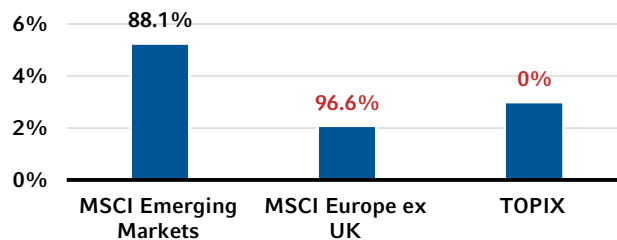
Source: Russell Investments; MSCI; Thomson Reuters; Data as of November 30, 2000-June 30, 2025.

Exhibit 8: Summary of the dispersion of returns of RFPs relative to U.S.

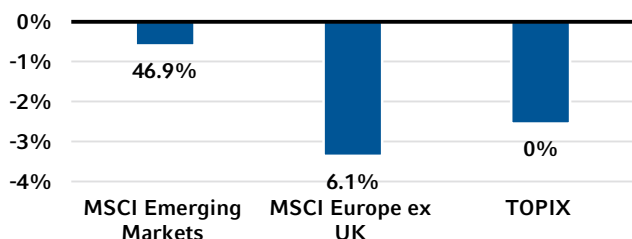
Value



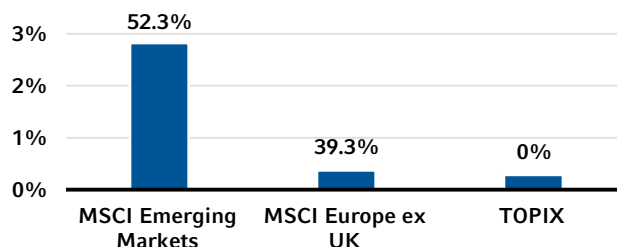
Low Volatility



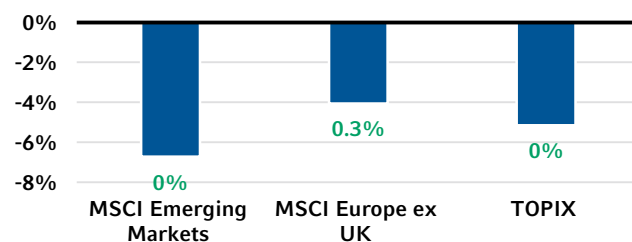
Quality



Momentum



Growth



Source: Russell Investments; MSCI; Thomson Reuters

The Value and Low Volatility RFP returns are at a historically high levels of dispersion. In other words, Value and Low Volatility RFPs in other regions have strongly outperformed the U.S. The Growth RFP is at a historically low level of dispersion and other regions have underperformed relative to U.S. Growth.

The Bottom Line

In a reversal from the first quarter—and in-line with the final quarter of 2024—among Russell Investments Factor Portfolios, Global Large Cap Growth and Momentum outperformed the benchmark for the second quarter of 2025 while Global Large Cap Value and Low Volatility underperformed.

QUESTIONS?

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First used: April 2025

CORP-12767 AUSF1-01290