

EQUITY FACTOR REPORT

2025 Q1
THE REVERSAL



RUSSELL INVESTMENTS RESEARCH

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Equity Factor Report

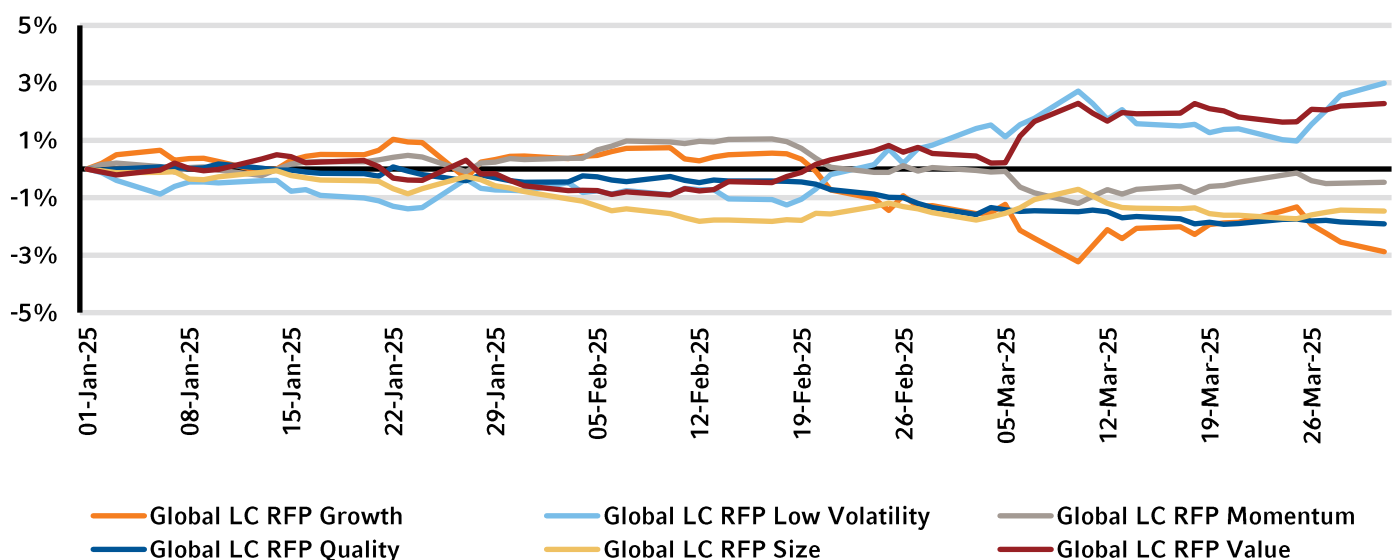
2025 Q1: The Reversal

Overview

The anticipation of aggressive U.S. tariff policies combined with elevated valuations in the U.S., especially the Magnificent Seven, led to the U.S. equity market significantly underperforming the rest of the world in the first quarter. The Russell 1000 Index returned -4.49% while Developed ex-U.S. Large Cap and Emerging Markets rallied by 6.35% and 3%, respectively. This reversal extended to small cap stocks as well, with the Developed ex-U.S. Small Cap Index increasing by 3.53% while the Russell 2000 Index decreased -9.48%.

The factor performance also reversed relative to the prior quarter. Among Russell Investments' Global Factor Portfolios (RFPs), Low Volatility and Value outperformed the benchmark for the quarter with positive excess returns of +2.99% and +2.28%, respectively. Conversely, last quarter's winners, Global Large Cap Growth and Momentum, underperformed for the quarter with returns of -2.88% and -0.46%. The Global Large Cap Quality and Size portfolios underperformed by -1.91% and -1.47%, respectively.

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



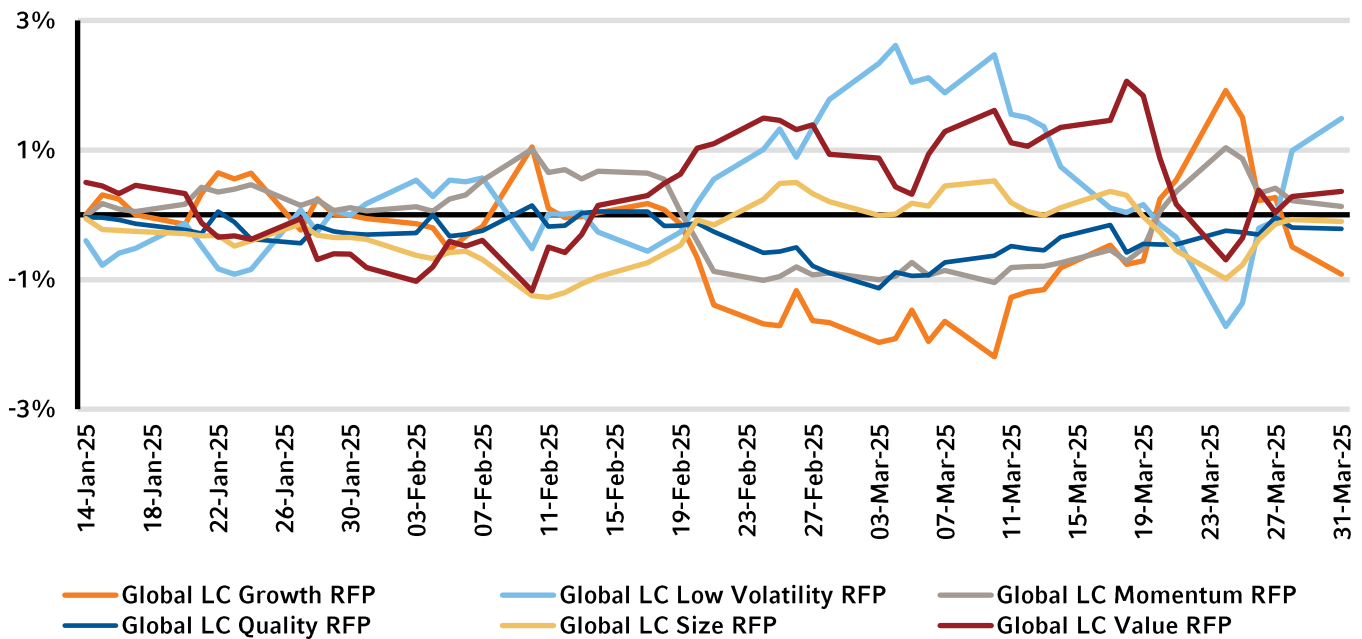
Source: Russell Investments and MSCI; Data as of 01/01/2025 – 03/31/2025.

Factor Performance

Global Russell Investments Factor Portfolios' performance dynamics

The performance dispersion among Global Russell Factor Portfolios (RFPs) in the first quarter was reasonably high. The factor portfolio performance reversed coming into March with Value and Low Volatility surging while Growth, Momentum, and Quality struggled.

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



Source: Russell Investments and MSCI; Data as of 01/01/2025 – 03/31/2025.

Russell Investments

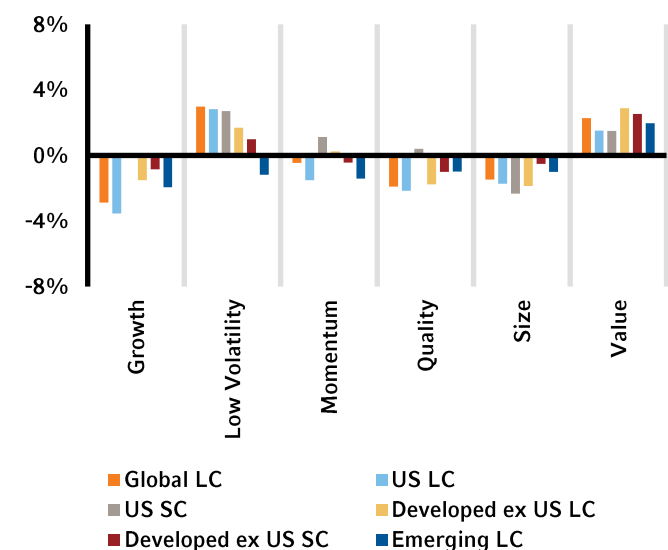
Factor Portfolios' performance across regions

In the first quarter of 2025, the factor performance was reasonably consistent across regions with Value and Low Volatility outperforming and the rest underperforming. The Value factor outperformed strongly across all regions against its respective benchmarks, with excess returns ranging from +1.5% to +2.9%. Except for the Emerging Markets region, the Low Volatility factor outperformed from 1% to 3%.

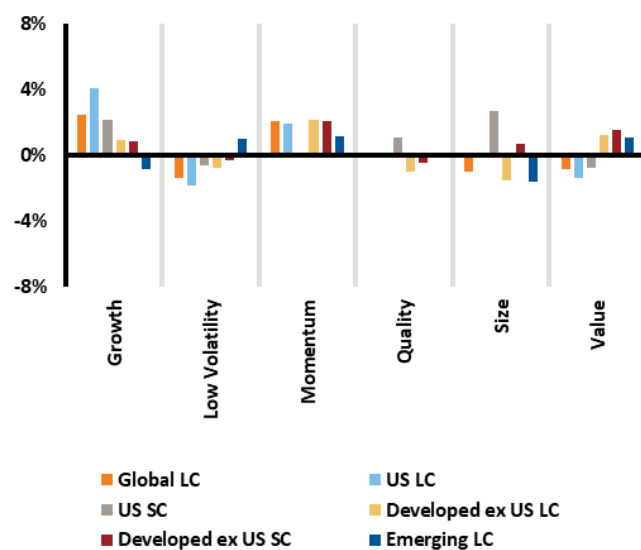
The Small Cap factor portfolios were especially challenged, with underperformance in the both the Large Cap and Small Cap space. Quality suffered in all regions except U.S. Small Cap.

Exhibit 3: Excess returns of RFPs vs. corresponding benchmarks

Q5 2025



Q4 2024

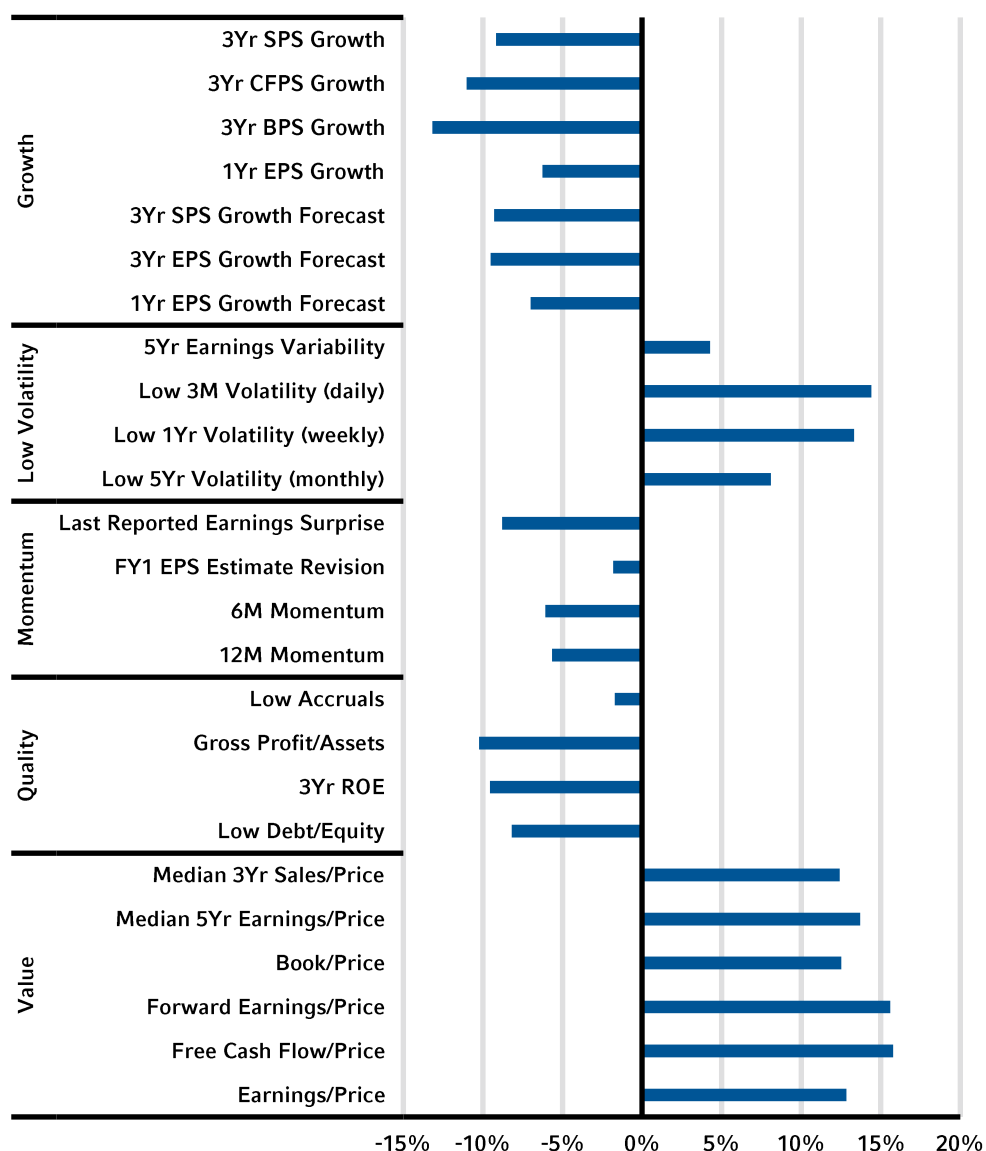


Source: Russell Investments; FTSE Russell; MSCI

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 Value and Low Volatility subfactors had strong positive returns in Q1, reversing a trend from the prior quarter. The largest positive return for the quarter came from Free Cash Flow to Price with a return of 15.77%. All Growth, Quality, and Momentum sub-factors had negative returns, with 3-year Book Value per Share Growth having the largest negative return for the quarter at -13.17%.

Exhibit 4: Performance of cap-weighted top-minus-bottom quintiles – Q1 2025



Subfactor performance

In a reversal from the prior quarter, all Growth, Momentum, and Quality subfactors had negative performance in Q1 while all Low Volatility and Value subfactors had positive returns. Free Cash Flow to Price was the best performer (15.77%), while 3-year Book Value per Share Growth was the worst performing subfactor, with a return of -13.17%.

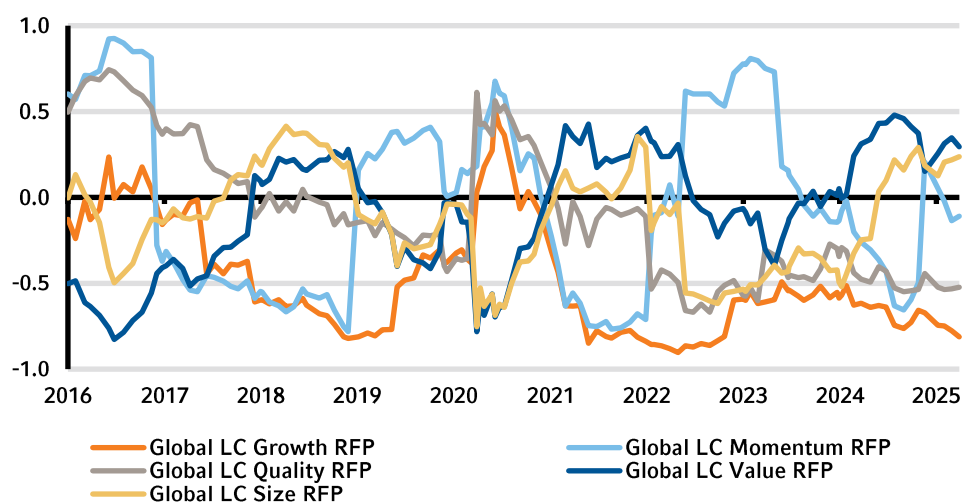
Source: Russell Investments; MSCI; LSEG

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

In the first quarter, the correlation between Low Volatility and the other factor portfolios were steady as illustrated in **Exhibit 5** below.

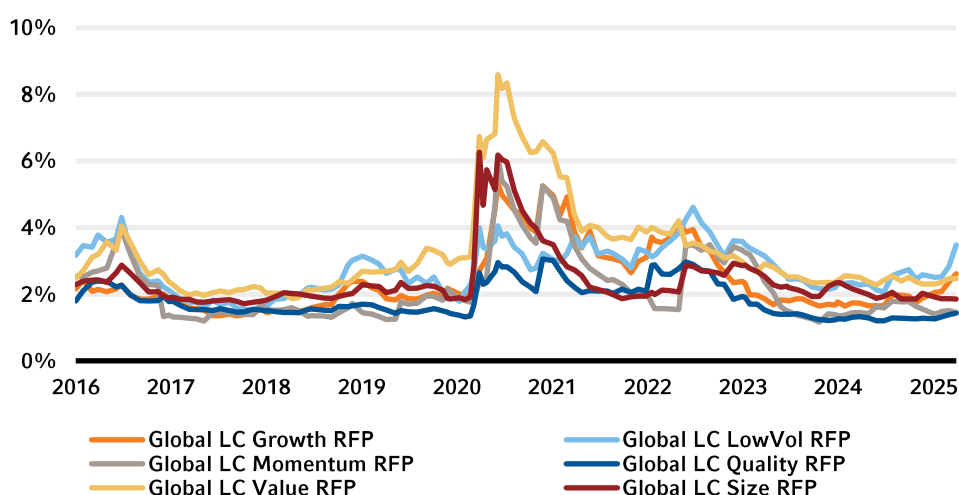
Ex-ante active risk levels—predictive measures of the active risk associated with factor portfolios in **Exhibit 6**—were steady throughout the quarter with the exception of Low Volatility and Growth, which began rising in March.

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



Source: Russell Investments; Axioma; MSCI; Data as of 01/2016-03/2025.

Exhibit 6: Ex-ante tracking errors of Global RFPs



Source: Russell Investments; Axioma; MSCI; Data as of 01/2016-03/2025.

Ex-ante correlations and active risk

The correlation between Momentum and Low Volatility reversed sharply over the fourth 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.

The bottom line

In a reversal from the prior quarter, among Russell Investments Factor Portfolios, Global Large Value and Low Volatility outperformed the benchmark for the first quarter of 2025 while Global Large Cap Growth, Quality, Momentum, and Size underperformed.

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.

QUESTIONS?

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