

Equity factor report



2026 Q1: Value leadership continues

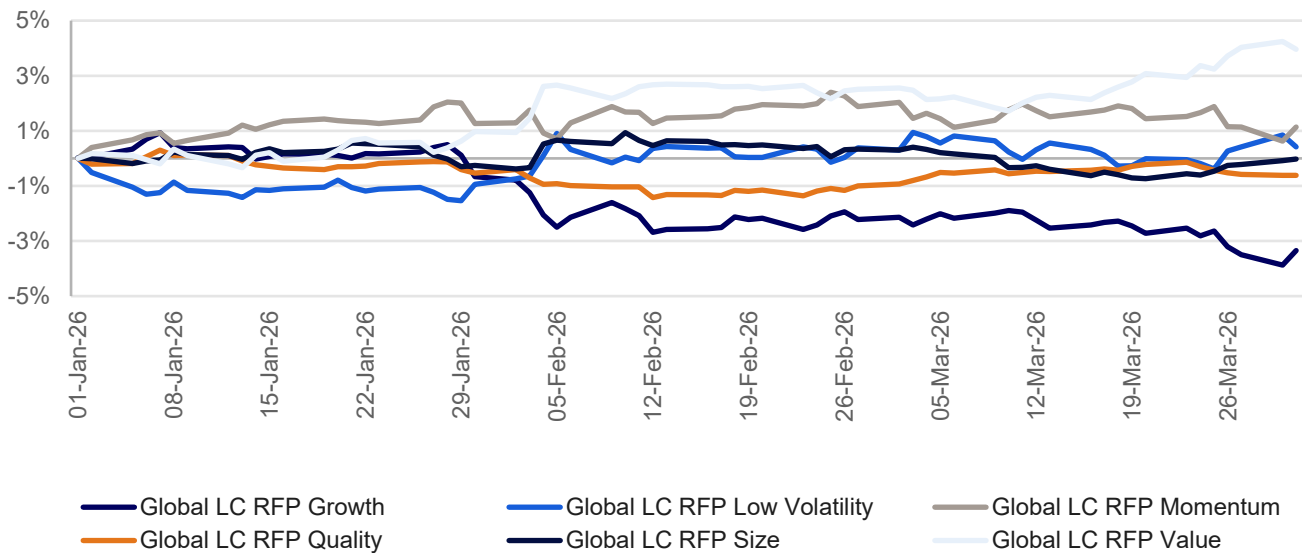
Overview

Equity markets were mixed in the first quarter of 2026, with U.S. large caps under pressure while smaller-cap and non-U.S. equities held up better. Benchmarks across the regions in this report ranged from -4.2% in U.S. large cap to +0.9% in U.S. small cap, leaving the average regional benchmark modestly negative for the quarter. Against this backdrop, investors continued to reward cheaper valuations and near-term cash flow support while penalizing expensive future-growth narratives.

Among Russell Investments' Factor Portfolios (RFPs), Value once again led performance, delivering a U.S. large-cap excess return of +4.06% and positive excess returns across all regions. Momentum was also positive globally, except for the U.S. market. Low Volatility in U.S. large caps modestly outperformed the benchmark (+0.81%), though results were mixed across regions. Quality underperformed in five of six regions, with Emerging Markets as the sole area of strength, while Growth lagged across all regions.

Exhibit 1: Cumulative Excess Returns

For Global Russell Investments Portfolios vs. MSCI ACWI



Source: Russell Investments and MSCI; Data as of 01/01/2026-03/31/2026.

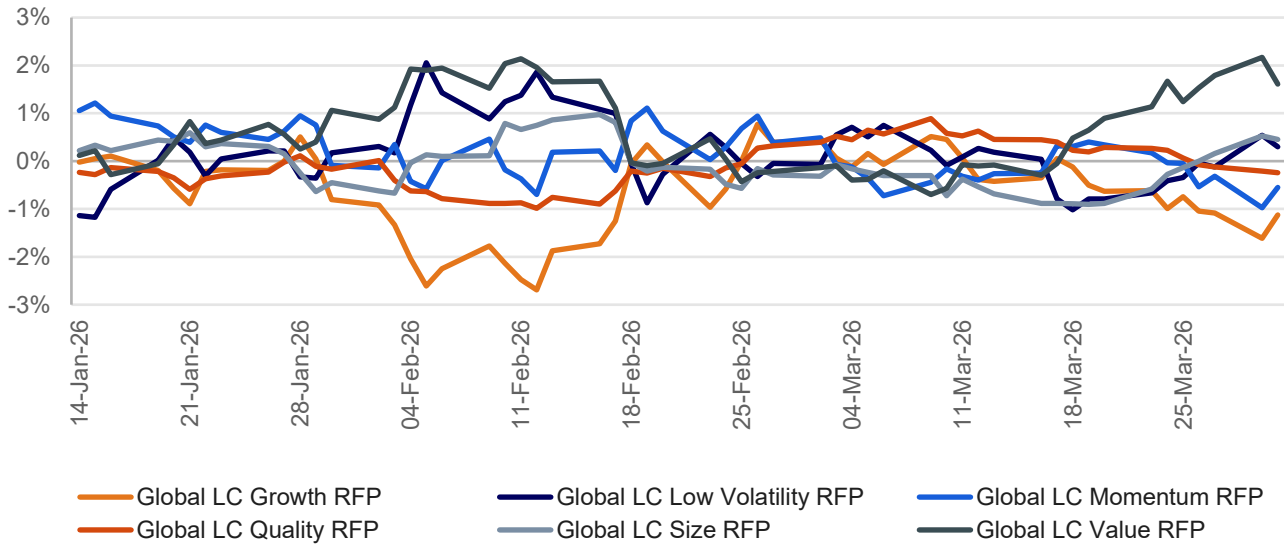
Factor performance

Global Russell Investments Factor Portfolios' performance dynamics

Dispersion widened across the factor set in Q1 2026. Value trended steadily higher through most of the quarter and finished as the dominant source of excess return. Growth weakened throughout most of the quarter, while Momentum was positive but more volatile. Low Volatility and Size stayed much closer to the benchmark, and Quality remained mildly negative overall as the market continued to favor cyclical and valuation-sensitive exposures over balance-sheet strength.

Exhibit 2: 10-day Rolling Excess Returns

For Global RFPs vs. MSCI ACWI



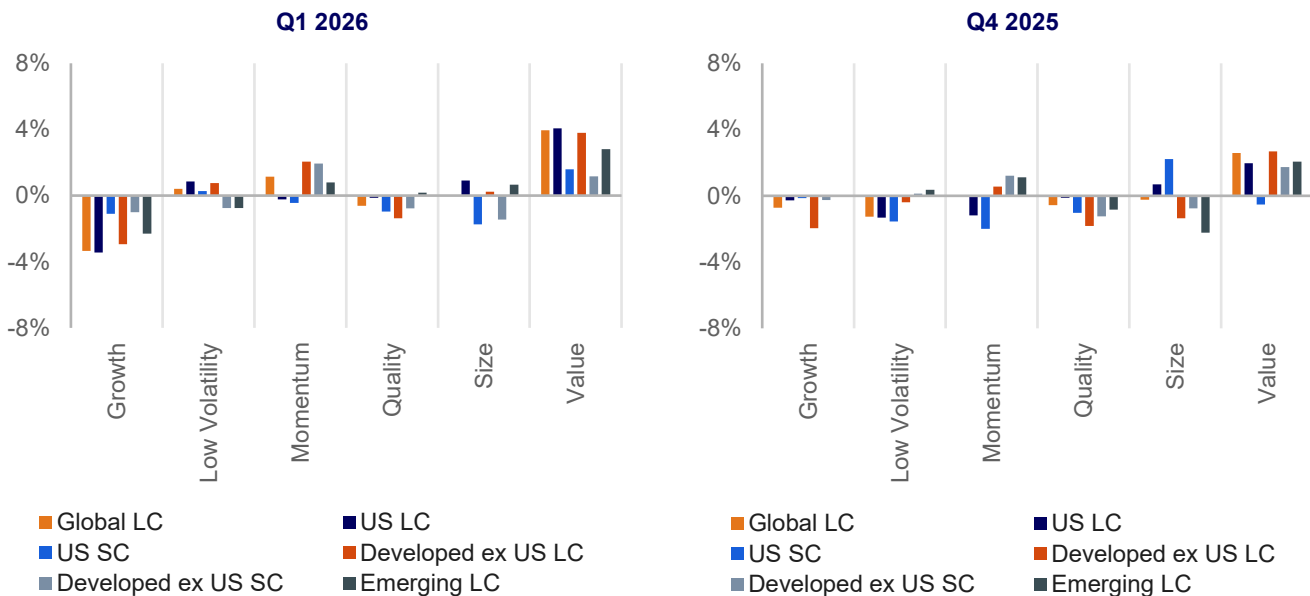
Source: Russell Investments and MSCI; Data as of January 14, 2026, to March 31, 2026.

Russell Investments Factor Portfolios' performance across regions

Value outperformed in all six regions in Q1 2026, with excess returns ranging from +1.2% in Developed ex U.S. Small Cap to +4.1% in U.S. Large Cap. Growth underperformed in all six regions, with the largest shortfalls in U.S. Large Cap and Global Large Cap. Momentum was strongest outside the U.S., especially in Developed ex U.S. Large Cap (+2.05%) and Developed ex U.S. Small Cap (+1.94%).

Quality lagged everywhere except Emerging Markets, where it eked out a small positive return (+0.17%). Low Volatility and Size were mixed: both helped in U.S. Large Cap and Emerging Markets, but detracted in the smaller-cap developed markets. Overall, the regional picture reinforced the quarter's preference for Value and select Momentum over Growth and Quality.

Exhibit 3: Excess Returns of RFPs vs. Corresponding Benchmarks



Source: Russell Investments; FTSE Russell; MSCI

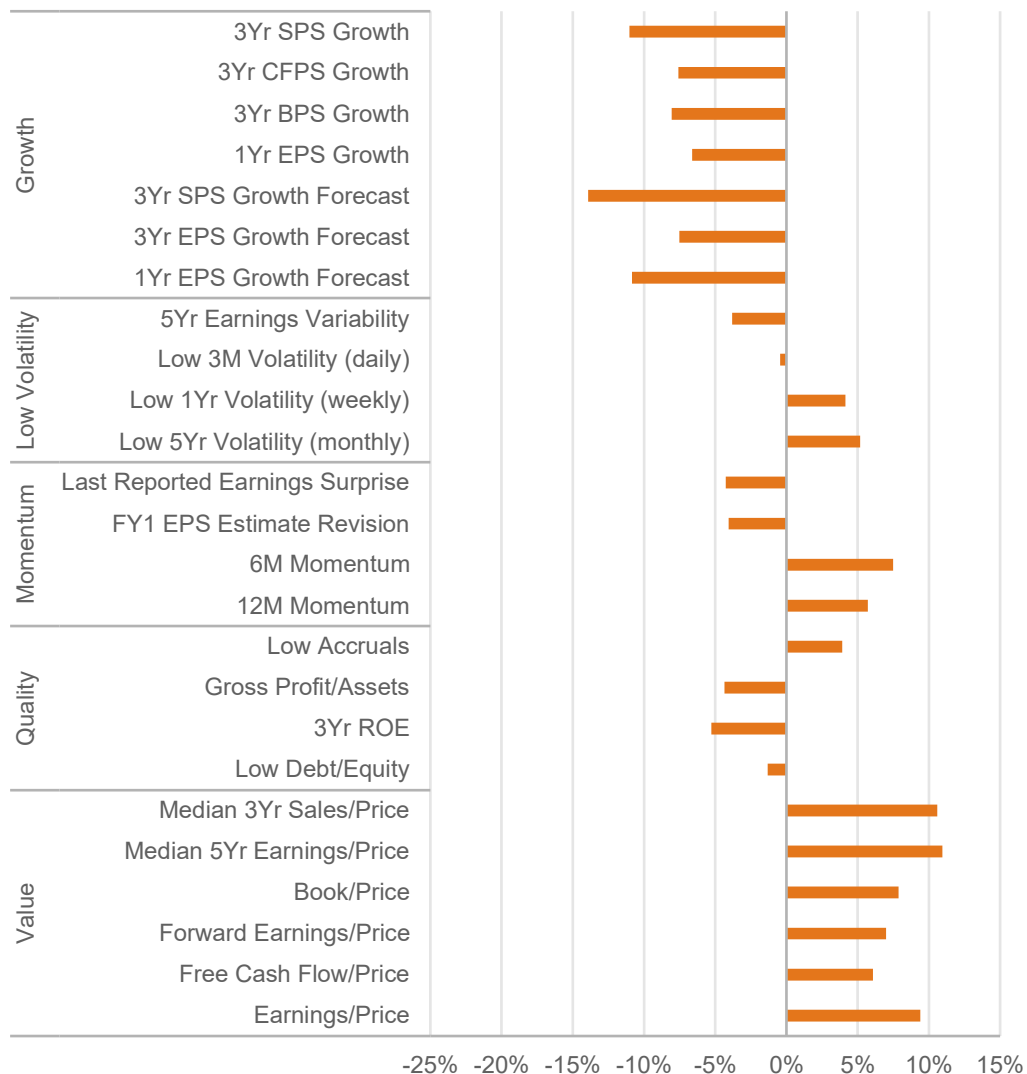
Performance of subfactors in the global universe

Exhibit 4 below illustrates the performance of subfactors in the MSCI All-Country World Index (ACWI) universe for Q1 2026, represented by cap-weighted top-minus-bottom quintile portfolios. Value was the clear leader, led by Median 5Yr Earnings/Price, Median 3Yr Sales/Price and Earnings/Price. Momentum was mixed but positive on balance, with 6M and 12M Momentum offset by weaker revision and surprise measures. Growth was broadly negative across the board, while Quality and Low Volatility split between weaker profitability signals and more favorable long-horizon risk measures.

Subfactor Performance

Value subfactors led performance in Q1 2026, with all six measures generating positive returns, extending the strong momentum observed in previous quarters. Growth was broadly negative, while Quality and Low Volatility were mixed. Median 5Yr Earnings/Price (+10.95%) and Median 3Yr Sales/Price (+10.58%) led performance, while 3Yr SPS Growth Forecast (-13.92%) was the weakest subfactor.

Exhibit 4: Performance of Cap-weighted Top-minus-bottom Quintiles - Q1 2026



Source: Russell Investments; MSCI; Refinitiv

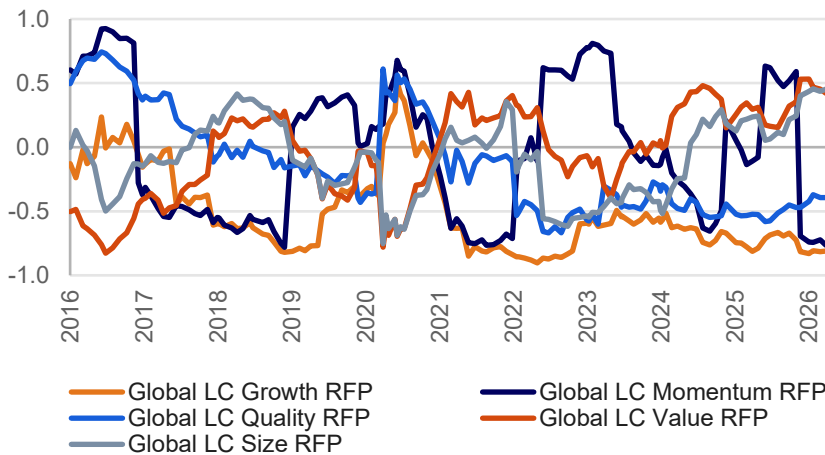
Ex-ante correlations and active risk of Global Russell Investments Factor Portfolios

In Q1 2026, correlations with Global Large Cap Low Volatility shifted materially. By quarter-end, Low Volatility was negatively correlated with Growth, Momentum, and Quality, while its correlations with Value and Size moved firmly positive. Ex-ante active risk levels were mixed: Growth and Low Volatility trended higher, Size drifted upward, and both Value and Quality finished the quarter lower than where they began.

Ex-ante Correlations and Active Risk

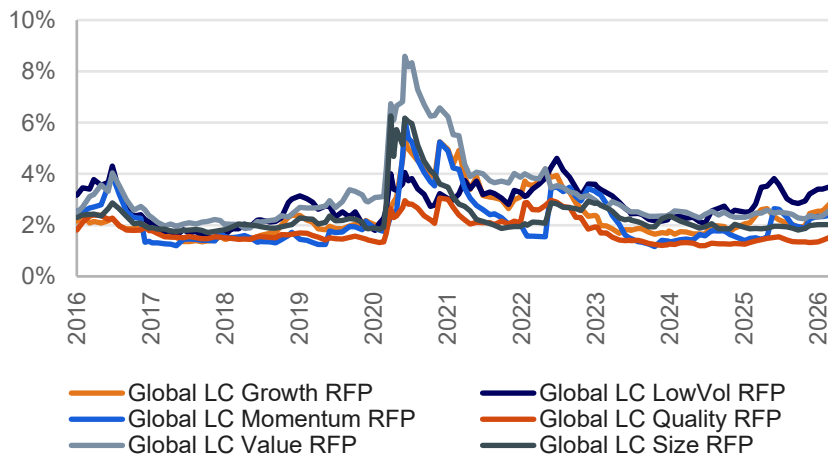
Correlations with Low Volatility changed sharply over the quarter, ending positive with Value and Size and negative with Growth, Momentum, and Quality. Ex-ante active risk rose for Growth and Low Volatility, but eased for Value and Quality.

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



Source: Russell Investments; Axioma; MSCI;
Data as of January 2016 - March 2026.

Exhibit 6: Ex-ante Tracking Errors of Global RFPs



Source: Russell Investments; Axioma; MSCI;
Data as of January 2016 - March 2026.

Spotlight On: Continued Challenges for Quality

The recent environment: Calendar Year 2025 and Q1 2026

Perhaps one of the biggest surprises of 2025 was the willingness of equity investors to embrace a decidedly risk-on stance in the middle of dramatic political and financial upheaval. Early in the year, defensiveness was rewarded as the global economy reeled from the Trump administration’s “Liberation Day” tariffs. But fear was soon outpaced by enthusiasm for the transformative power of AI, boosting stocks with ‘future potential’ at the expense of those with current business strength. Equity market risk taking was bolstered by the promise of falling interest rates and lower probability of recession in the U.S.. The speculative nature of 2025 meant that the core characteristics of ‘Quality’ – profitability, low leverage, strong balance sheets – were deeply out of favor.

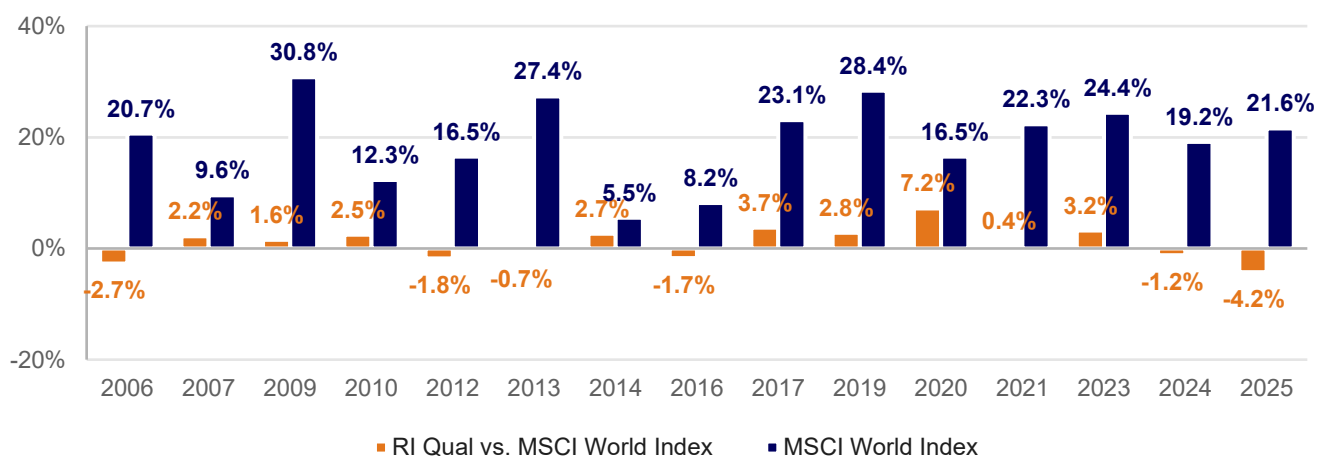
In Q1 2026, the global Quality factor again underperformed (with the exception of Emerging Markets) as illustrated in Exhibit 3 above. Contrast these results with the excess return to Value globally and it is clear that the preference for ‘possibility’ over ‘probability’ (or even ‘profitability’) was alive and well in the first months of the year.

The long-run case for Quality

Quality firms have been capable of providing strong excess returns at many points in the earnings cycle, but especially so during late-stage expansion (downturn) and recessionary periods, when growth wanes and then turns negative. This profile translates into the desirable characteristic of *upside participation paired with downside protection*. By this we mean that the Quality factor has turned in positive active return in many up-market environments and nearly all down-market environments. This combination has powerful compounding effects and is the reason that Quality has outperformed the broad market over time.

Using Russell’s own Global Quality factor portfolio¹ as an example and isolating only years in which the MSCI World Index delivered positive returns, we see that in nine of the 15 years, Quality has delivered positive excess returns. The underperformance of the factor in calendar year 2025 stands out as a dramatic exception because the average excess return to Quality in up-market environments is 0.94%².

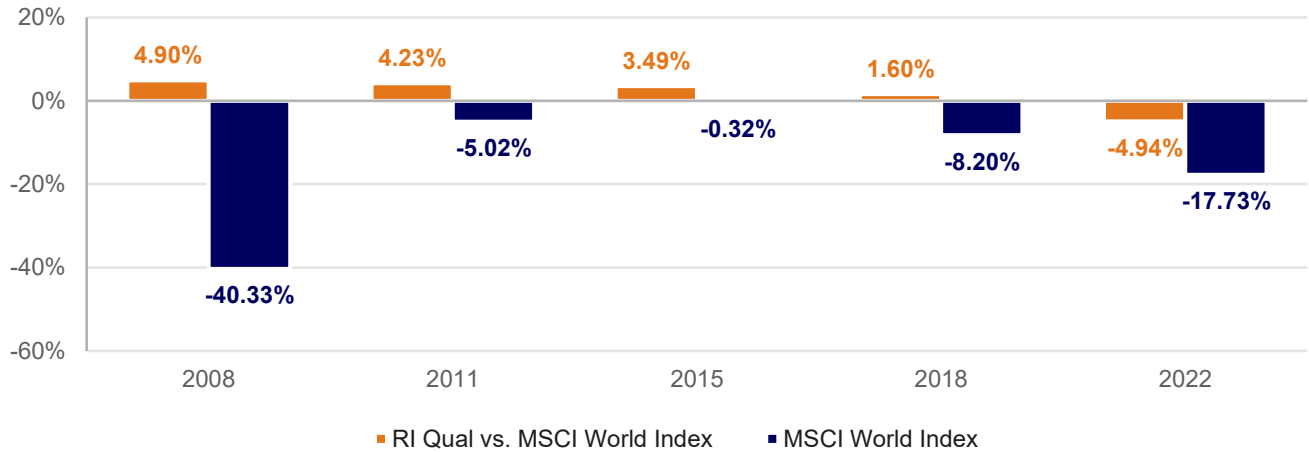
Exhibit 7: Active Return to Quality in Up-market Years



Source: Russell Investments. Data as of January 1, 2006 - December 31, 2025.

Though there have not been many down-market years over the period of study, Quality has played an important role in preserving capital when the market has sold off. In the following exhibit we isolate only years in which the Index had negative total returns. Calendar year 2022 stands out as the exception to the norm, with Quality underperforming during an acute sell-off. On average, though, the excess return to Quality in down-market environments has been 1.85%³

Exhibit 8: Active Return to Quality in Down-market Years



Source: Russell Investments. Data as of January 1, 2006 - December 31, 2025.

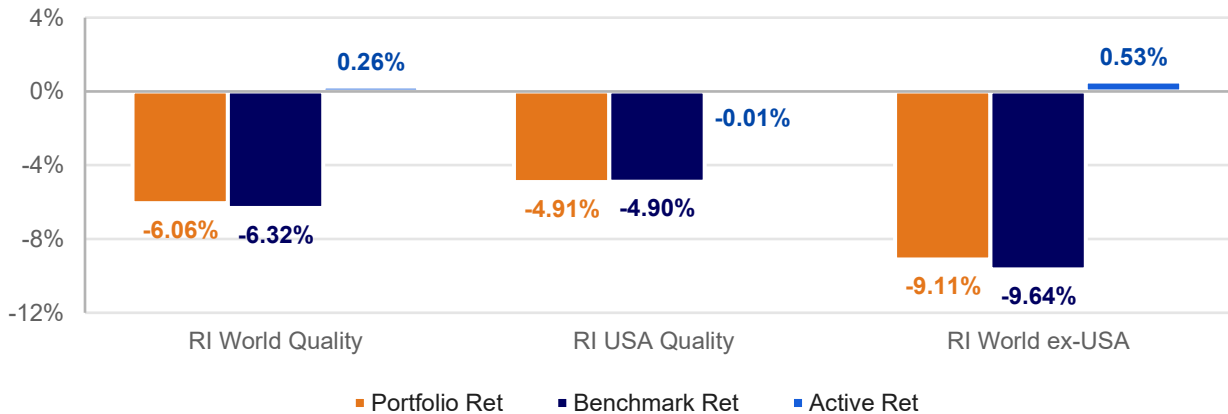
Is the tide changing?

While it is impossible to predict precisely when Quality may make a comeback, we point to the following as good reasons Quality’s active returns may improve in 2026:

- Continued geopolitical uncertainty. While Quality underperformed globally for the whole of Q1 2026, March was a different story in isolation. As global markets drew down in response to the war in Iran, Quality names held up better than their peers. This was especially true outside the U.S.. Quality’s defensive characteristics have served investors well during times of market turmoil – March was no exception.

Exhibit 9: Russell Investments Quality Factor Portfolio Monthly Performance

March 2026



Source: Russell Investments. Data as of March 1 - March 31, 2026

- The promises associated with AI (and other stories) are now baked into the prices of some of the largest stocks in the market. As with all speculative investments, there is a risk that what is promised in the form of future earnings growth or multiple expansion will not meet lofty investor expectations. The outperformance of Quality over time is evidence that equity investors ultimately return to and reward solid fundamentals. Quality has historically been helpful in diversifying the kind of speculative exposure that now forms a meaningful part of most equity portfolios.
- Signs of strain are emerging in private credit. If conditions worsen, Quality may outperform, as companies with stronger profits, steadier earnings, and lower leverage tend to be more resilient when credit tightens and defaults rise.

In sum, the underperformance of Quality in 2025, and into the first quarter of 2026, represents an exceptionally poor run for the factor. Given Quality's historic ability to add value in both up- and down-markets, paired with current geopolitical uncertainties and the riskiness in pockets of both equities and credit, we believe there is good reason to stick with a Quality allocation and good reason the active returns to the factor may improve in 2026.

The bottom line

Q1 2026 reinforced the market's preference for Value over Growth: Value outperformed in every region and produced the strongest excess return globally, while Growth lagged across the board.

Quality remained challenged in most regions, though Emerging Markets was a notable exception. At the subfactor level, Value was dominant, Growth was broadly weak, and Low Volatility's correlations shifted sharply toward positive relationships with Value and Size by quarter-end.

¹ MSCI World Index selection universe. Active Return to Quality exhibits are created using total annual returns (gross, USD) for the Russell Investments Quality factor portfolio and the MSCI World Index over the since-inception period Jan 2006 – Dec 2025.

² The median active return to Quality in the up-market years shown here was 1.55%.

³ The median active return to Quality in the down-market years shown here was 3.49%. Importantly, because there have only been five negative total return years for the MSCI World Index over this 20-year period, we must be cautious drawing conclusions about down-market capture, but these results make sense given what we believe to be true about investor preferences. Quality's promise is the delivery of *certainty* (typically, certain profitability) – this is an attribute prized during most down-market environments.

Where to next?



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