RUSSELL INVESTMENTS RESEARCH

Equity factor report

2026 Q2: Growth and Momentum led broad rally

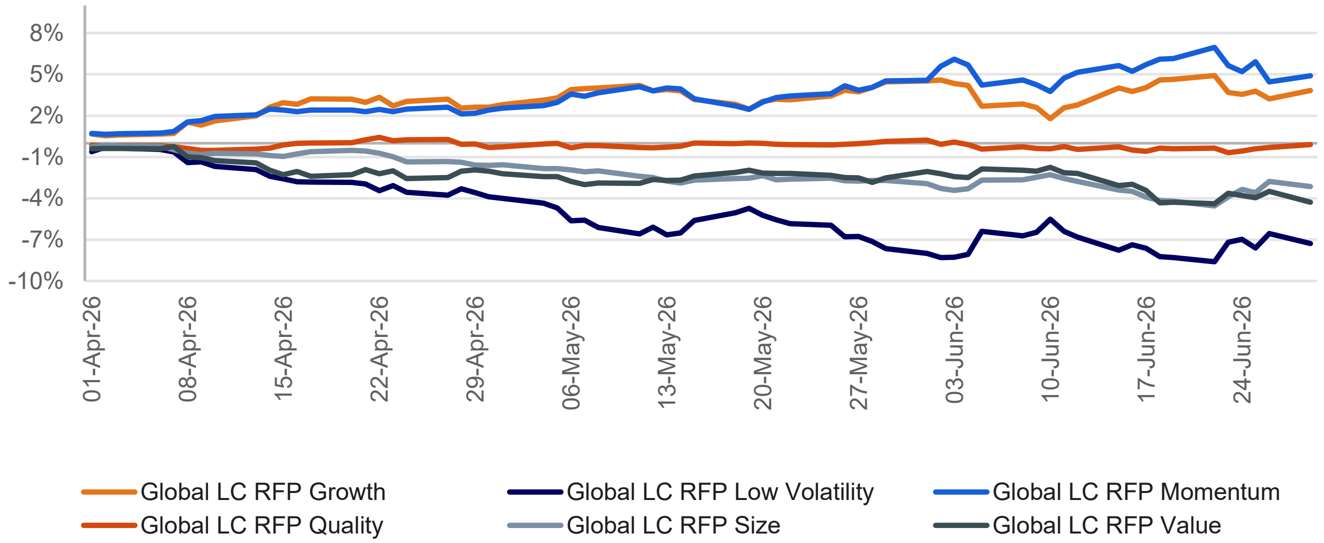
Overview

Equity markets rallied strongly in the second quarter of 2026, with benchmarks across the regions in this report ranging from +8.1% in Developed ex U.S. Small Cap to +24.1% in Emerging Markets. The average regional benchmark return was +15.7%, a sharp reversal from Q1's mixed backdrop. Investors rewarded growth and price momentum as risk appetite strengthened, while defensive Low Volatility and valuation-sensitive Value exposures lagged.

Among Russell Investments' Factor Portfolios (RFPs), Growth delivered positive excess returns in all six regions, and Momentum was positive in five of six. Global large-cap Growth and Momentum finished at +4.47% and +5.53%, respectively, while Emerging Markets produced the strongest Growth result (+6.33%). Low Volatility and Value underperformed across every region, with Global large-cap Low Volatility at -7.78% and Value at -5.03%. Quality was mixed but near flat overall.

Exhibit 1: Cumulative Excess Returns

For Global Russell Investments Portfolios vs. MSCI ACWI



Source: Russell Investments and MSCI; Data as of 04/01/2026-06/30/2026.

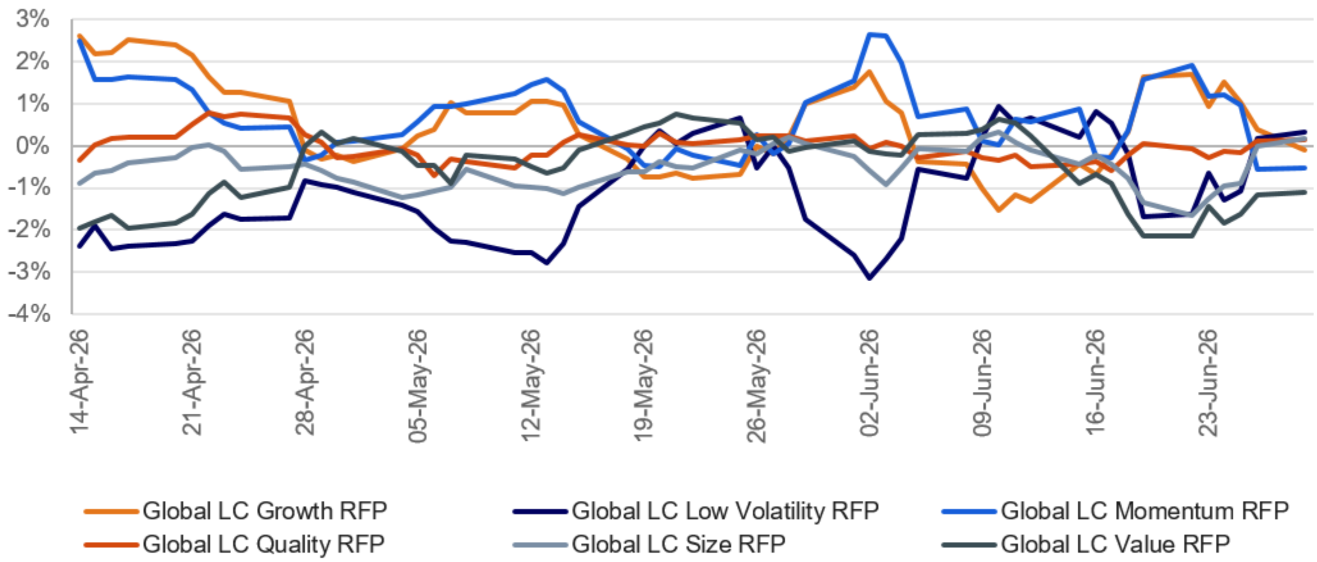
Factor performance

Global Russell Investments
Factor Portfolios' performance dynamics

Dispersion remained wide across the factor set in Q2 2026. Momentum and Growth moved higher through most of the quarter and finished as the clearest sources of excess return. Low Volatility weakened steadily as markets rallied, while Value gave back Q1 leadership. Quality hovered near the benchmark and Size drifted lower, leaving the quarter defined by pro-growth, pro-momentum leadership rather than defensive or valuation support.

Exhibit 2: 10-Day Rolling Excess Returns

For Global RFPs vs. MSCI ACWI



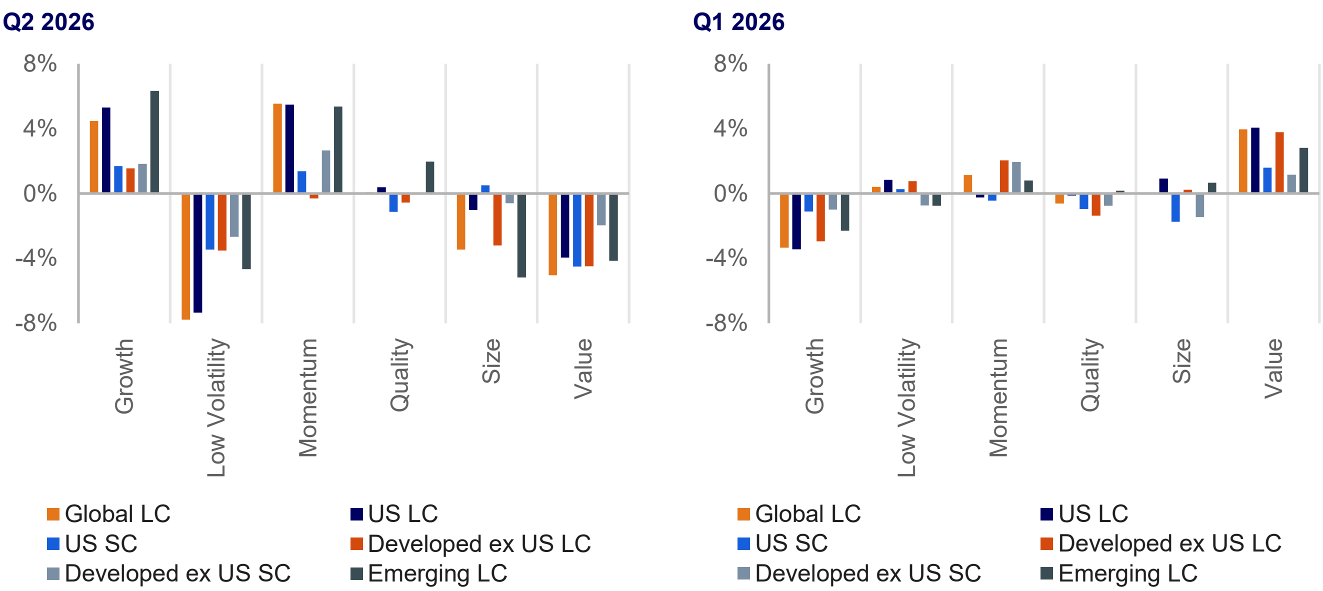
Source: Russell Investments and MSCI; Data as of April 14, 2026, to June 30, 2026.

Factor Portfolios' performance across regions

Growth outperformed in all six regions in Q2 2026, with excess returns ranging from +1.5% in Developed ex U.S. Large Cap to +6.3% in Emerging Markets. Momentum was also broadly positive, led by Global Large Cap (+5.53%), U.S. Large Cap (+5.48%), and Emerging Markets (+5.36%), with Developed ex U.S. Large Cap the only negative result (-0.31%).

Low Volatility lagged in every region, with the largest shortfalls in Global Large Cap (-7.78%) and U.S. Large Cap (-7.35%). Value also underperformed across all six regions, while Size was mostly negative except for U.S. Small Cap (+0.51%). Quality was mixed, positive in Global Large Cap, U.S. Large Cap, and Emerging Markets, but negative in U.S. Small Cap and both developed ex U.S. segments.

Exhibit 3: Excess Returns of RFPs vs. Corresponding Benchmarks



Source: Russell Investments; FTSE Russell; MSCI

Performance of subfactors in the global universe

Exhibit 4 illustrates the performance of subfactors in the MSCI All-Country World Index (ACWI) universe for Q2 2026, represented by cap-weighted top-minus-bottom quintile portfolios. Growth was the clear leader, with strong gains across forecast and realized growth measures. Momentum also contributed positively across all four measures. Low Volatility was under pressure across the price volatility and earnings variability signals, while Value subfactors all declined. Quality was mixed, with Gross Profit/Assets and Low Debt/Equity positive but 3Yr ROE and Low Accruals weaker.

Subfactor Performance

Growth and Momentum subfactors led performance in Q2 2026, reversing the Value-led pattern from Q1. 3Yr EPS Growth Forecast (+28.76%), 12M Momentum (+24.54%) and 3Yr SPS Growth Forecast (+23.88%) were the strongest subfactors, while Low 1Yr Volatility (weekly) (-29.62%) was the weakest. Value subfactors were broadly negative and Low Volatility measures lagged sharply.

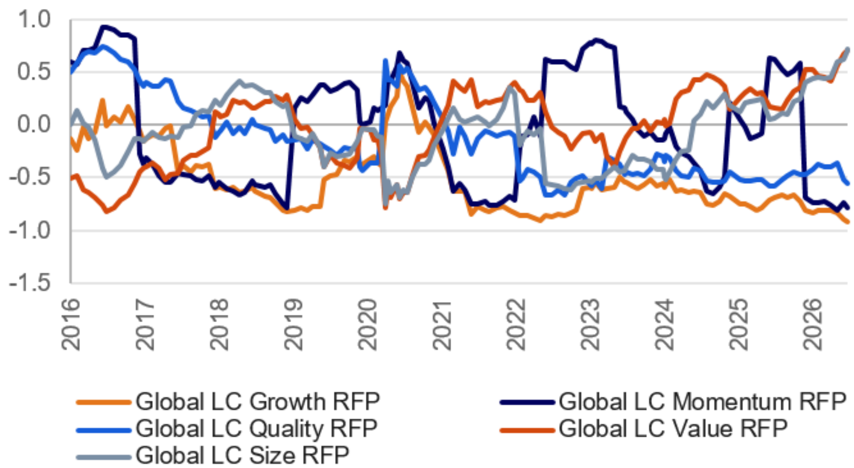
Exhibit 4: Performance of Cap-weighted Top-minus-bottom Quintiles - Q2 2026

Source: Russell Investments; MSCI; Refinitiv

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

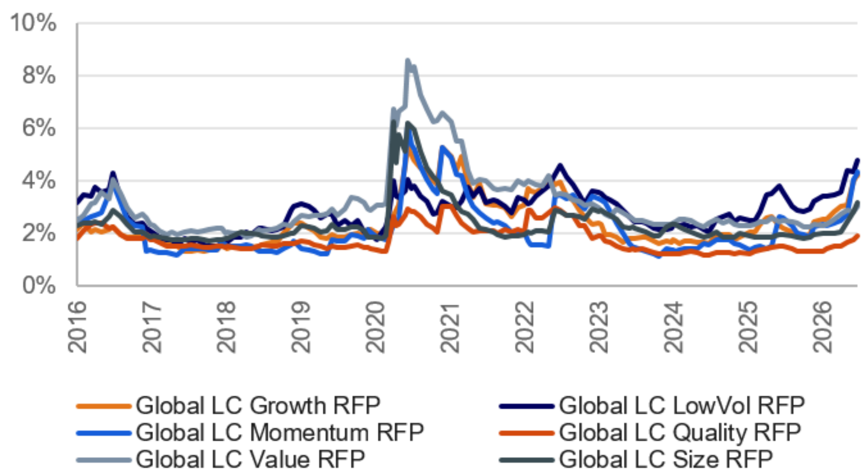
In Q2 2026, correlations with Global Large Cap Low Volatility moved further apart across the factor set. By quarter-end, Low Volatility's correlations stood at -0.91 with Growth, -0.78 with Momentum, and -0.56 with Quality, while correlations with Value and Size rose to +0.71 and +0.72. Ex-ante active risk increased for every Global RFP, with the largest moves in Momentum, Low Volatility, Growth, and Size.

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



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

Exhibit 6: Ex-ante Tracking Errors of Global RFPs



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

Ex-ante Correlations and Active Risk

Correlations with Low Volatility became more polarized over the quarter, ending deeply negative with Growth, Momentum, and Quality and strongly positive with Value and Size. Ex-ante active risk rose across all Global RFPs.

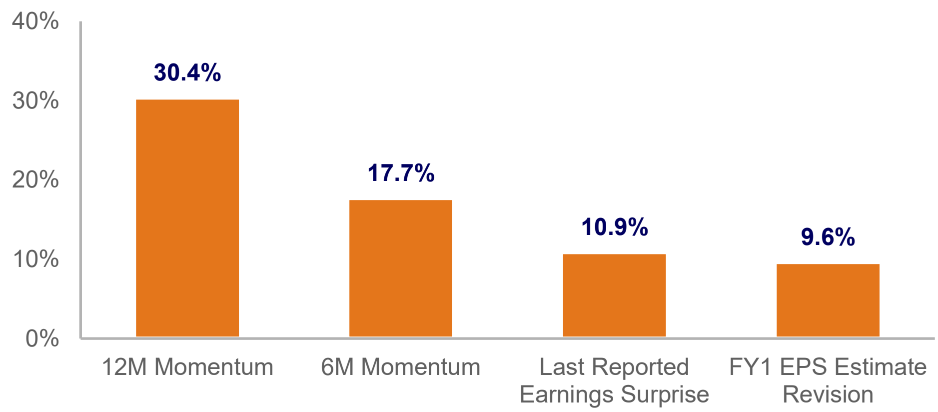
Spotlight On: Momentum's price-led rally

Price has been the faster signal

Momentum has been a clear beneficiary of the recent market environment. Price-based momentum has recently outperformed earnings-led momentum, suggesting that investors have been rewarding existing winners faster than earnings revisions or reported surprises have confirmed the full extent of that enthusiasm. As illustrated in **Exhibit 7**, 12-month Price Momentum has outperformed both Earnings Surprise and Estimate Revision by approximately 20% year-to-date.

Price momentum is a responsive signal. It can capture changes in expectations, positioning, and investor behavior before those changes show up in company fundamentals. This responsiveness is useful, especially in markets where leadership is moving quickly. It also means price-based subfactors tend to be more volatile, because they react directly to shifts in sentiment as well as changes in fundamentals.

Exhibit 7: Momentum subfactor YTD returns



Source: Russell Investments; Data as of January 2026-June 2026.

Why the disconnect can emerge

A gap between price momentum and earnings-led momentum can appear for several reasons. For example, investors may extrapolate recent winners even in the absence of positive earnings momentum. In other cases, both prices and earnings indicators may be improving, but prices move more quickly. The current environment feels closer to the latter pattern: earnings momentum (and the reward to earnings momentum) is not absent, but price momentum has become the more dominant determinant of performance.

The AI trade is central to understanding this dynamic. For many market leaders, strong earnings revisions and positive earnings surprises helped validate earlier gains. More recently, however, expectations have often moved ahead of the available earnings evidence. Semiconductor and AI-adjacent businesses are the most visible examples: fundamentals remain supportive, but share prices seem to be anticipating an even more optimistic path.

This is different from a purely speculative environment in which fundamentals are weak or missing. The issue is not that earnings momentum has collapsed. Rather, the disconnect implies that investors see even rosier future fundamentals for the names that are today's performance winners.

Why earnings-led momentum still matters

Ultimately, price leadership needs fundamental support. Investors can pay up for strong price trends for a time, but durable leadership usually requires evidence that business performance is improving as well. Earnings revisions and reported earnings surprises provide that discipline.

This is why earnings-led momentum is a valuable model input even when price momentum is working well. It is generally less volatile than price-based momentum, and it anchors the signal to a different type of information that investors should reward over time: better-than-expected earnings and improving forward estimates. This diversification benefit may also be helpful if the strongest price momentum names disappoint on lofty future expectations and see their prices decline. In that setting, earnings-led momentum may provide a different and potentially more resilient way to access the momentum risk premia.

Why we blend price and earnings definitions

Defining momentum using price alone would make the signal more responsive, but also more exposed to sentiment-driven reversals. Defining it using earnings alone would make it more fundamental, but potentially slower to capture new leadership. Combining the signals creates a more balanced exposure: price can identify trends early, while earnings can help confirm whether those trends are being supported by improving fundamentals.

The subfactors are related, but they are not redundant. Each captures a different expression of momentum, and the diversification across definitions is part of the point. A blended approach can participate when price leadership is being rewarded, while still retaining exposure to earnings-based signals that may be rewarded when investors demand more fundamental confirmation.

The last-five-year monthly spread correlations below show that the price-based measures are most closely linked to each other, while earnings-led measures bring additional, imperfectly correlated information. Here, spread refers to each subfactor's monthly top-minus-bottom quintile return spread.

Monthly Spread Correlation (Last 5 Years)

Subfactor	FY1 EPS Estimate Revision	Last Reported Earnings Surprise	6M Momentum	12M Momentum
FY1 EPS Estimate Revision	1.00	0.74	0.52	0.55
Last Reported Earnings Surprise	0.74	1.00	0.37	0.59
6M Momentum	0.52	0.37	1.00	0.76
12M Momentum	0.55	0.59	0.76	1.00

The recent environment is therefore not an argument for abandoning earnings-led momentum. It is a reminder of why it belongs in the definition. Price momentum may lead in fast-moving markets, but earnings eventually need to support the story. A more complete momentum allocation should recognize both forces.

The bottom line

Q2 2026 marked a sharp reversal from Q1: Growth and Momentum led in a broad equity rally, while Value and Low Volatility lagged across all regions.

Subfactor results reinforced the same pattern, with forecast growth and momentum measures at the top and volatility-oriented signals at the bottom. Correlations with Low Volatility became more polarized and ex-ante active risk rose across the factor set.

Where to next?

Call Russell Investments at 800-426-8506
or visit russellinvestments.com/implementation

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