Equity factor report

2026 Q3: Value and Low Volatility lead as Momentum lags

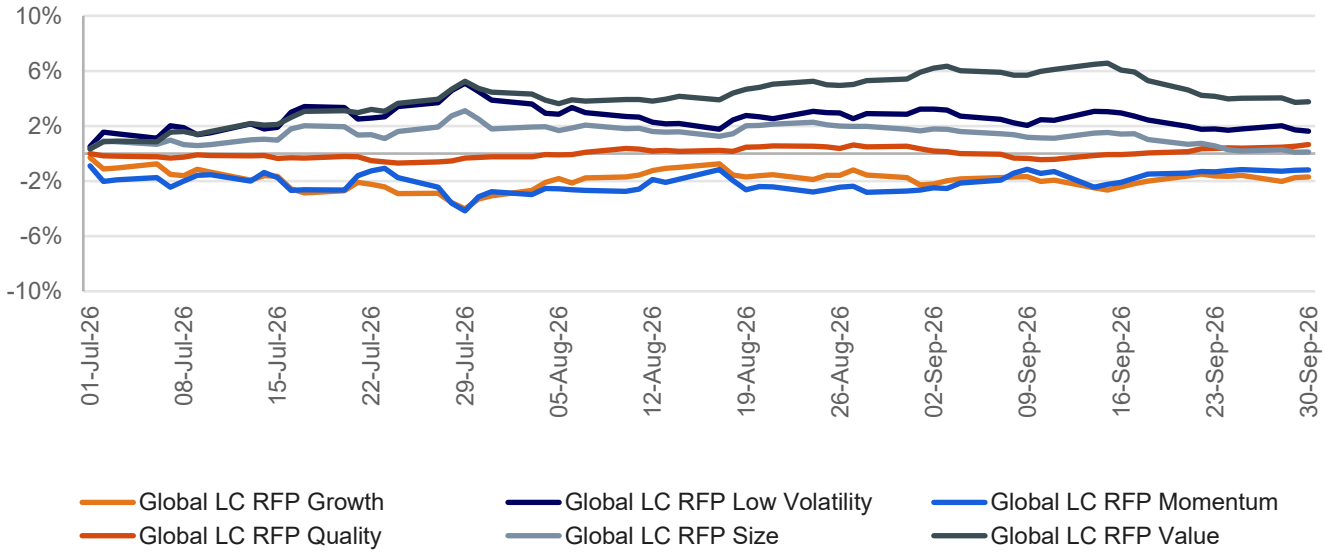
Overview

Equity markets were mixed in the third quarter of 2026, with benchmark returns ranging from -7.2% in U.S. Small Cap to +3.0% in Developed ex U.S. Small Cap. The average return across the six regional benchmarks was approximately flat. Factor leadership rotated sharply from Q2: Value and Low Volatility outperformed in every region, while Momentum lagged across all six and Growth underperformed in four.

Among Russell Investments' Factor Portfolios (RFPs), Value delivered the strongest and most consistent excess returns, from +2.77% in U.S. Small Cap to +4.46% in U.S. Large Cap. Low Volatility was positive in all six regions. Momentum was negative everywhere, while Growth was weakest in Emerging Markets (-3.96%) and modestly positive only in the two small-cap regions. Quality was mixed, and Size was positive in five of six regions.

Exhibit 1: Cumulative Excess Returns

For Global Russell Investments Portfolios vs. MSCI ACWI



Source: Russell Investments and MSCI; Data as of July 1, 2026 to September 30, 2026.

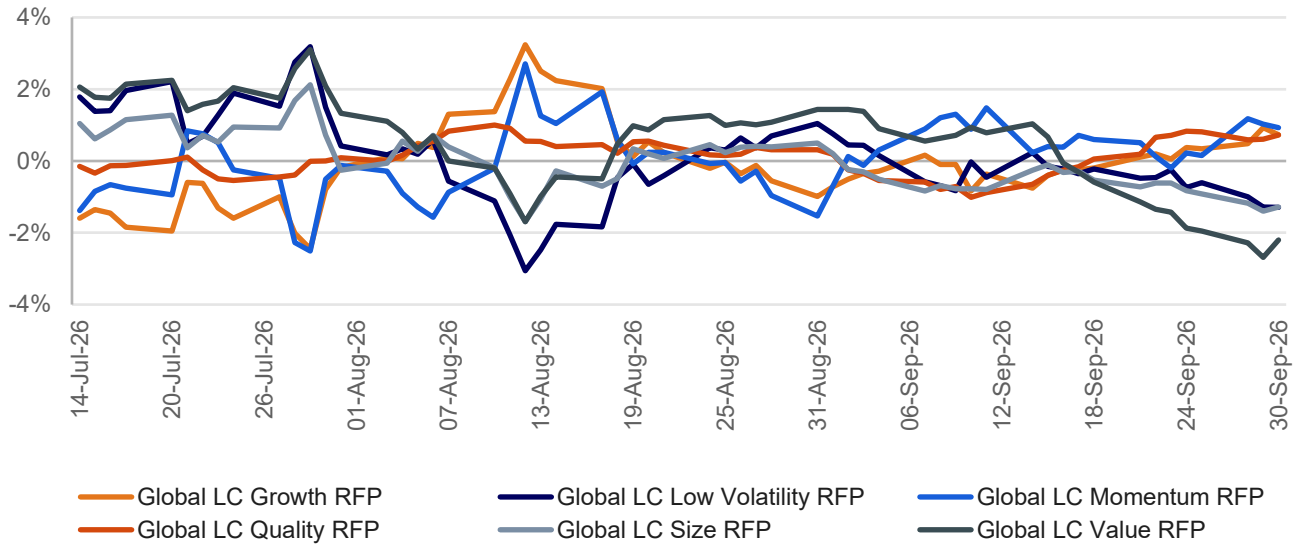
Factor performance

Global Russell Investments
Factor Portfolios' performance dynamics

Value established an early lead in Q3 2026 and remained the strongest Global Large Cap factor through quarter-end. Low Volatility also built positive excess returns, particularly in July, and stayed above the benchmark throughout the quarter. Momentum and Growth moved into negative territory early and finished as the main detractors. Quality ended modestly positive, while Size finished close to the benchmark.

Exhibit 2: 10-Day Rolling Excess Returns

For Global RFPs vs. MSCI ACWI



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

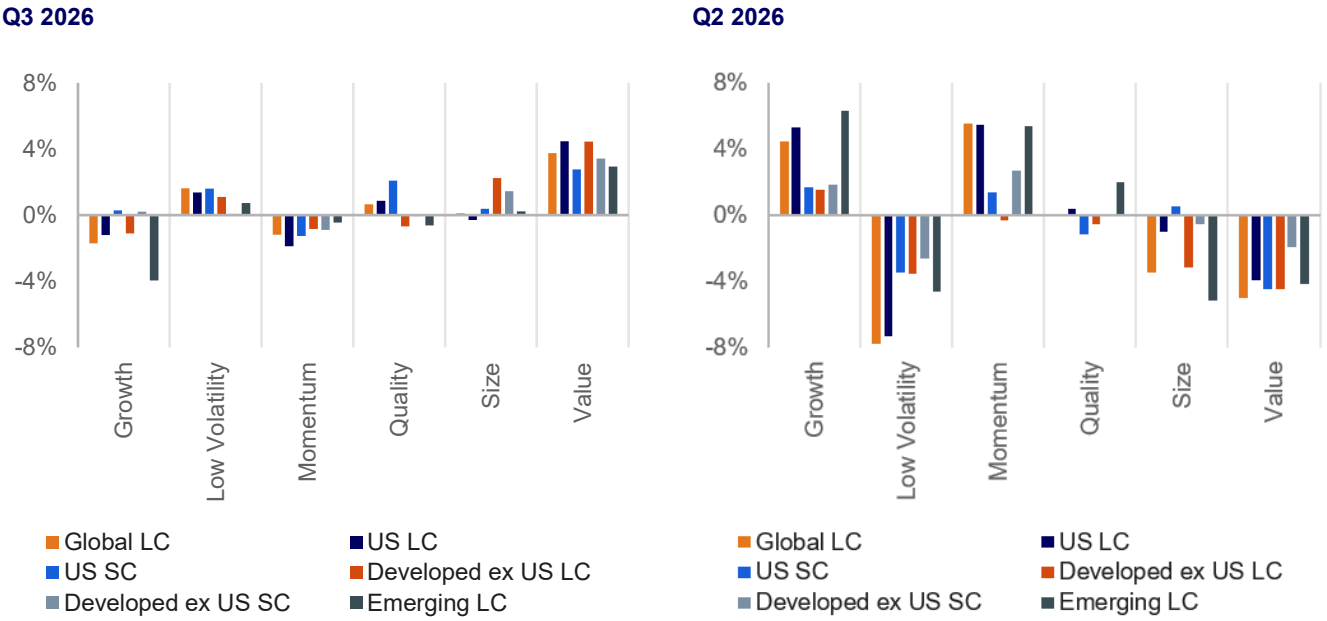
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Russell Investments
Factor Portfolios' performance across regions

Value outperformed in all six regions in Q3 2026, with excess returns ranging from +2.77% in U.S. Small Cap to +4.46% in U.S. Large Cap. Low Volatility was also positive across every region, led by Global Large Cap (+1.62%), U.S. Small Cap (+1.61%), and U.S. Large Cap (+1.36%).

Momentum lagged in every region, with the largest shortfalls in U.S. Large Cap (-1.88%) and U.S. Small Cap (-1.26%). Growth was negative in four regions and weakest in Emerging Markets (-3.96%), but modestly positive in both small-cap regions. Size outperformed in five regions, led by Developed ex U.S. Large Cap (+2.24%), while Quality was mixed.

Exhibit 3: Excess Returns of RFPs vs. Corresponding Benchmarks



Source: Russell Investments; FTSE Russell; MSCI

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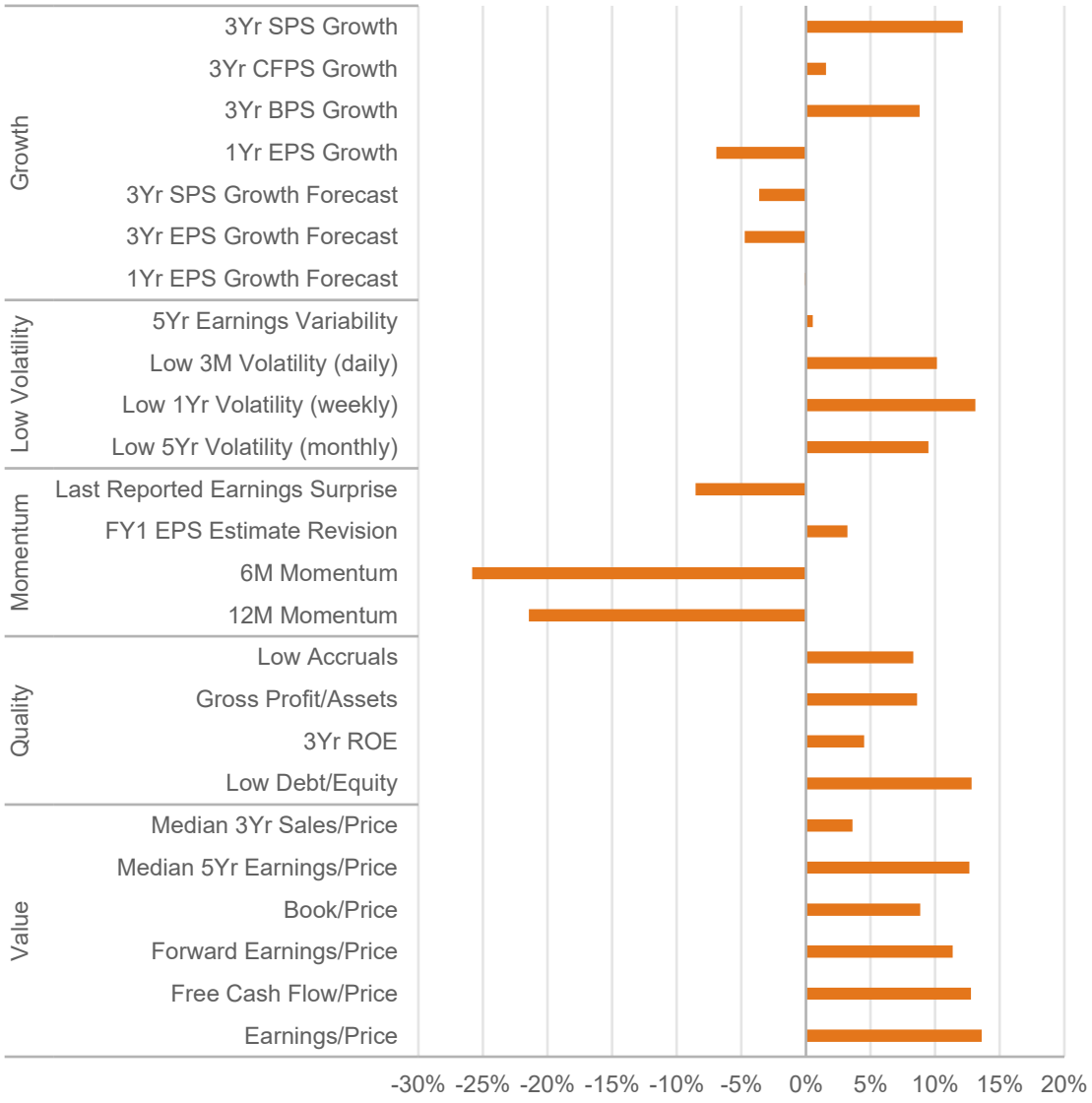
Performance of subfactors in the global universe

Exhibit 4 illustrates subfactor performance in the MSCI All-Country World Index (ACWI) universe for Q3 2026, represented by cap-weighted top-minus-bottom quintile portfolios. All six Value subfactors were positive, as were the three price-based Low Volatility signals. Quality also contributed broadly. Growth was mixed: realized 3Yr SPS Growth and 3Yr BPS Growth were strong, while several forecast and earnings-growth measures declined. Within Momentum, only FY1 EPS Estimate Revision was positive.

Subfactor Performance

Value, Low Volatility, and selected Quality subfactors led in Q3 2026, while Momentum reversed sharply. Earnings/Price (+13.61%), Low 1Yr Volatility (weekly) (+13.11%), Low Debt/Equity (+12.82%), Free Cash Flow/Price (+12.78%), and Median 5Yr Earnings/Price (+12.64%) were among the strongest subfactors results. 6M Momentum (-25.85%) and 12M Momentum (-21.44%) were the weakest.

Exhibit 4: Performance of Cap-weighted Top-minus-bottom Quintiles - Q3 2026



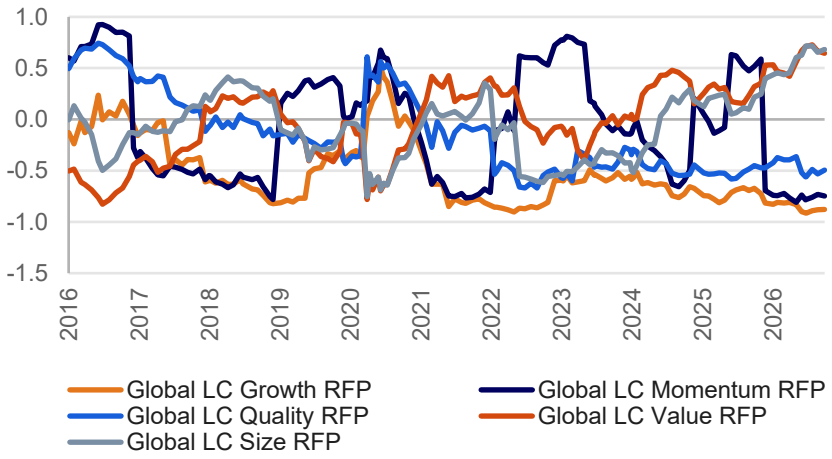
Source: Russell Investments; MSCI; Refinitiv

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

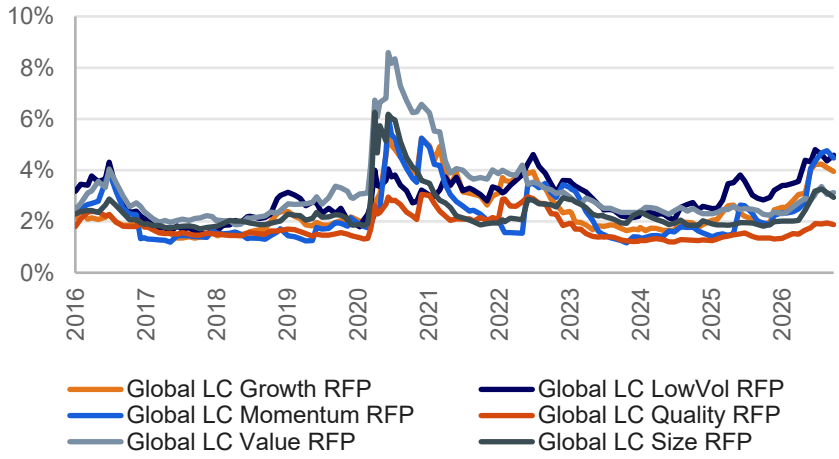
At the latest observation, Low Volatility's correlations stood at -0.88 with Growth, -0.75 with Momentum, and -0.49 with Quality, while correlations with Value and Size were +0.64 and +0.68. Ex-ante active risk ended at 3.95% for Growth, 4.58% for Low Volatility, 4.48% for Momentum, 1.88% for Quality, 3.13% for Value, and 2.94% for Size.

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



Source: Russell Investments; Axioma; MSCI; Data as of January 8, 2016 to October 2, 2026.

Exhibit 6: Ex-ante Tracking Errors of Global RFPs



Source: Russell Investments; Axioma; MSCI; Data as of January 8, 2016 to October 2, 2026.

Ex-ante Correlations and Active Risk

Correlations with Low Volatility moderated slightly from their Q2 extremes but remained negative with Growth, Momentum, and Quality and positive with Value and Size. Ex-ante active risk declined for four Global RFPs and rose modestly for Momentum and Value.

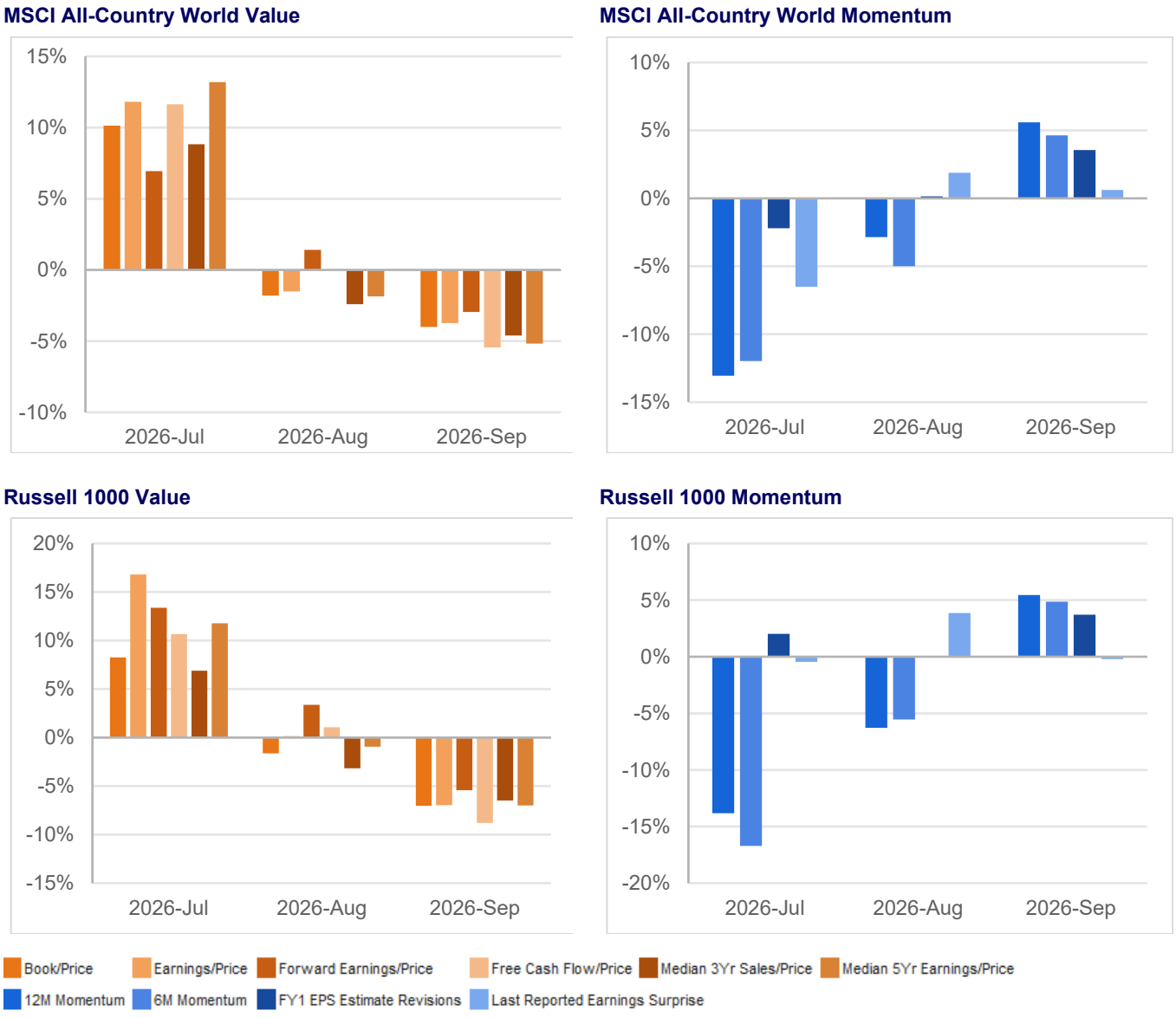
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Spotlight on: Value strikes back and Momentum struggles

Value shines while Momentum suffers

Value and Momentum are known to be negatively correlated, and this quarter provided a textbook example of that relationship. Value had a great run in Q3 2026, ranking among the top 10% of quarterly observations since 2002, while Momentum underperformed, ranking among the bottom 20%. Monthly returns over the past three months showed a strong negative relationship between the two factors. Value rebounded in July, gave back some gains in August, and declined in September. Momentum followed the opposite pattern. This pattern is illustrated in **Exhibit 7**.

Exhibit 7: Monthly Top-minus-Bottom Quintile Performance by Subfactor for RFP Value and Momentum, July to September 2026



Source: Russell Investments, LSEG, and MSCI. Data as of July-September 2026.

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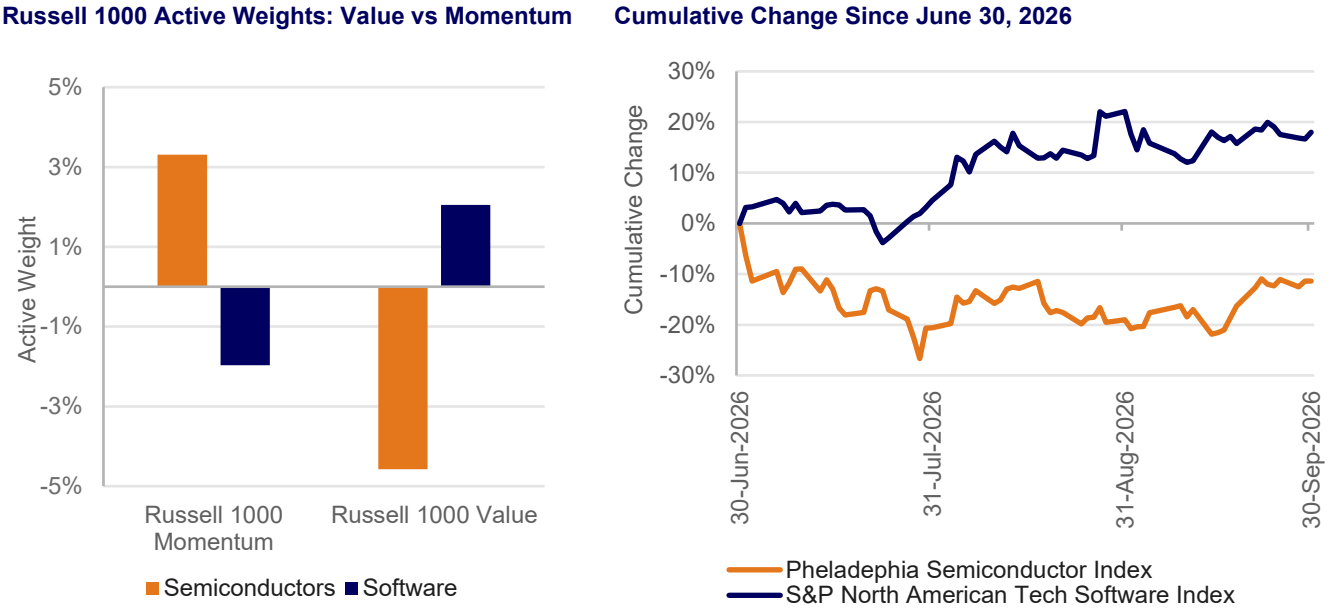
What drives this rapid rotation

Alongside the common-factor decomposition, the contrast between Value and Momentum may also reflect the energy sector's strong performance and the rotation between semiconductors and software. The current RFP Value portfolios have higher active exposure to the energy sector. Its strong performance amid continued tensions around the Strait of Hormuz after the short truce in June contributed to Value returns. We observe this pattern in both the Russell 1000 RFP and MSCI ex-US RFP portfolios.

The rotation between semiconductors and software may also help explain Momentum's setback during the quarter. As shown in **Exhibit 8**, the Russell 1000 Value and Momentum portfolios had substantially different active positions in these industries. Semiconductor stocks fell sharply in July after a strong run during the AI boom, while software stocks first stabilized and then gained as investors responded to resilient earnings and reassessed the risk that AI could reduce software companies' earnings. These industry moves are reflected in the Philadelphia Semiconductor Index and the S&P North American Technology Software Index, respectively. The benchmark's market-cap weighting means that mega-cap stocks have a large influence on their performance; Nvidia, for example, represented 6.30% of the Russell 1000 Index last quarter. This demonstrates how industry rotation can help drive factor portfolio returns, especially in markets where the industries are well aligned with dominant market themes.

The role of industry exposure in factor investing has been debated. Some studies find that industry-relative factors, such as industry-relative Value, are more effective, while others emphasize industry components, particularly in Momentum. However, the role of active industry exposure in long-only factor portfolios has received less attention. While we constrain sector positioning in our factor portfolio construction, we do allow the portfolio to have more degrees of freedom to express style factor exposures through the underlying industry positioning.

Exhibit 8: Active Weights of Russell 1000 Value and Momentum factors and cumulative changes of Semiconductor and Software Index



Source: Russell Investments and Bloomberg. Data as of July-September 2026

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The bottom line

Q3 2026 brought a clear reversal in factor leadership. Value outperformed across every region and Low Volatility was also consistently positive, while Momentum lagged everywhere and Growth was weak in most large-cap markets.

Subfactor returns confirmed the rotation: valuation, balance-sheet quality, and low-volatility signals led, while 6M and 12M Momentum were the weakest. Ex-ante correlations became less extreme and changes in active risk were mixed.

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