

# Equity Factor Insights

QUARTERLY REPORT | **APRIL 2025**

**Value outperforms and Momentum stalls amid diverging global equity returns**

**Value outperforms broadly in Q1**

First quarter factor performance saw a shift from 2024 trends when Momentum held sway. In Q1, Value outperformed broadly as did Yield in 5 of 6 regions. Momentum lagged in the US, Emerging and Asia Pacific regions.

**US factors reverse course**

In Q1, Momentum and Quality lagged the US benchmark while Yield, Size, Value and Low Vol outperformed in a reversal from Q4. This was consistent with the stalling of the US mega-cap rally, particularly within Tech and Discretionary.

**Financials and Tech sway factor returns**

Financials and Tech exposures greatly influenced factor relative returns. As monetary policies diverged and yield curves steepened in several regions, a Financials overweight generally benefited factor returns. Conversely, a Tech overweight in the US and Emerging, where it posted steep losses, hurt performance.

**Valuation changes mixed**

Changes in absolute 12M factor forward P/Es were mixed. US and Emerging factors remained expensive relative to history.

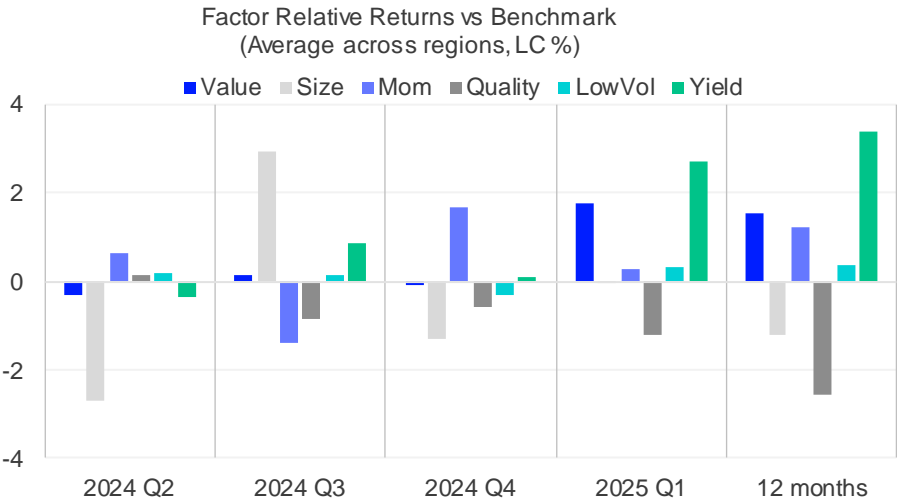
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## Regional Factor Performance Highlights

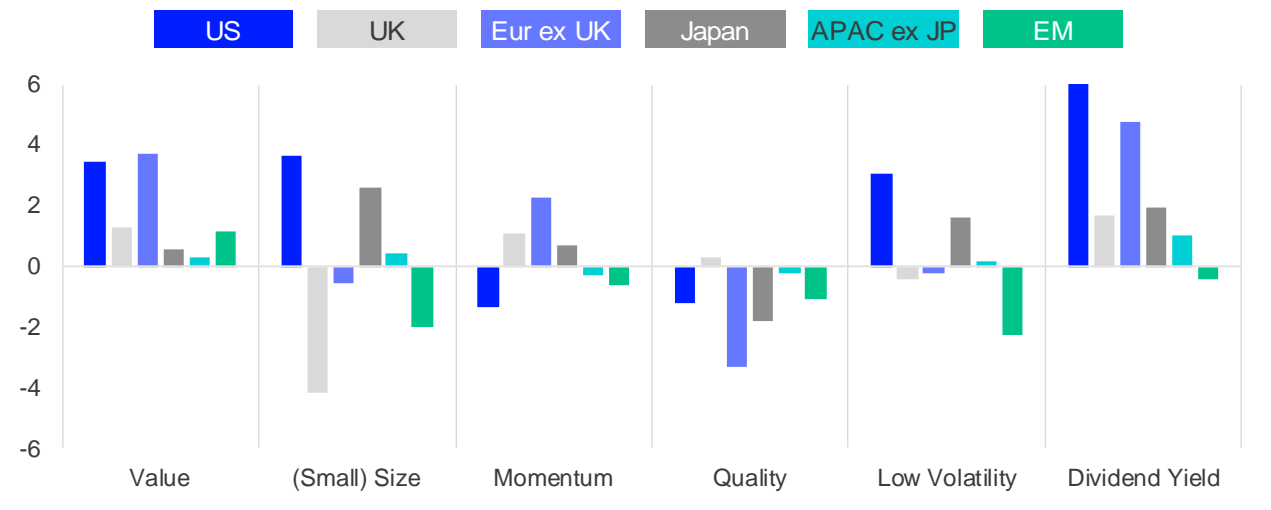


Select Regional Relative Returns, 3M (%)	
<b>+3.5%</b> US Value	<b>-1.4%</b> US Momentum
<b>+3.7%</b> Europe ex UK Value	<b>-3.3%</b> Europe ex UK Quality
<b>+1.3%</b> UK Value	<b>-4.2%</b> UK Size
<b>+2.6%</b> Japan Size	<b>-1.8%</b> Japan Quality

# Global View – Factor and Benchmark Performance Highlights, 3M

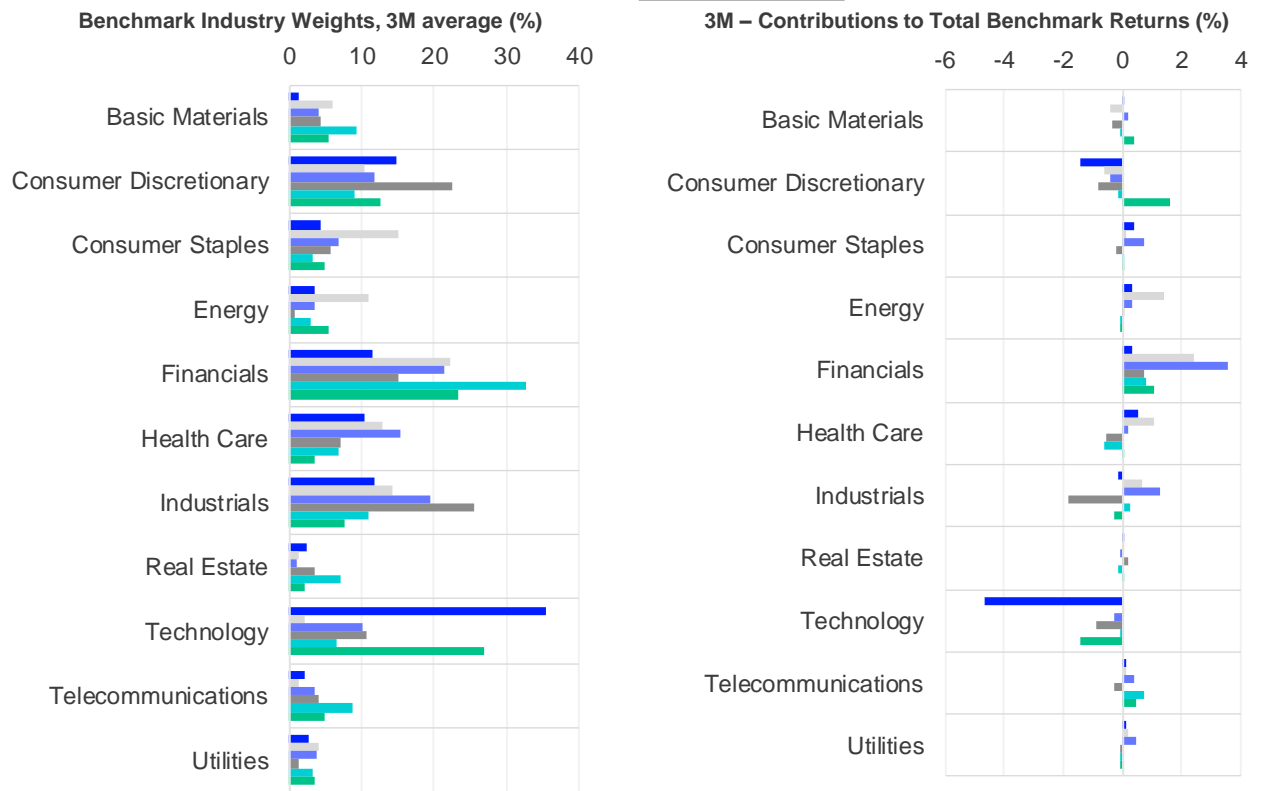
In Q1 2025, amid diverging global equity returns, Momentum stalled in several regions, while Value and Yield broadly outperformed. Momentum lagged the US, Emerging and Asia Pacific indices but outperformed those in Europe, the UK and Japan. This was a change from its performance over 2024 when it had more broadly beat regional benchmarks. US factor performance essentially flipped from Q4 2024, with Momentum and Quality lagging in Q1 and other factors, including Size and Low Vol, outperforming. It indicated a pullback in larger, more expensive US equities in Q1.

Regional Relative Factor returns vs benchmark — 3M (TR, LC%)



Regional Equity Market Returns – 3M (TR, LC %) – Returns diverge; European equities on top

Europe and the UK outperformed peers in Q1 while the US lagged the most followed by Japan. US and Japanese equities posted losses in local currency terms. US Tech and Discretionary industries and Japan Industrials detracted notably from their respective index returns. Financials contributed broadly to benchmark performance.

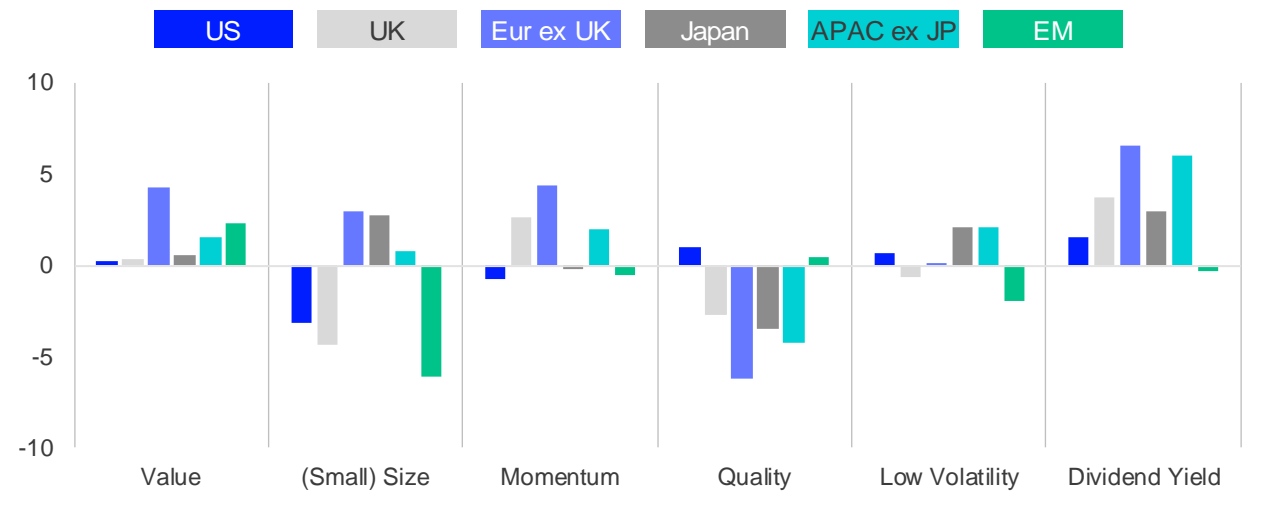


Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

# Global View – Factor and Benchmark Performance Highlights,12M

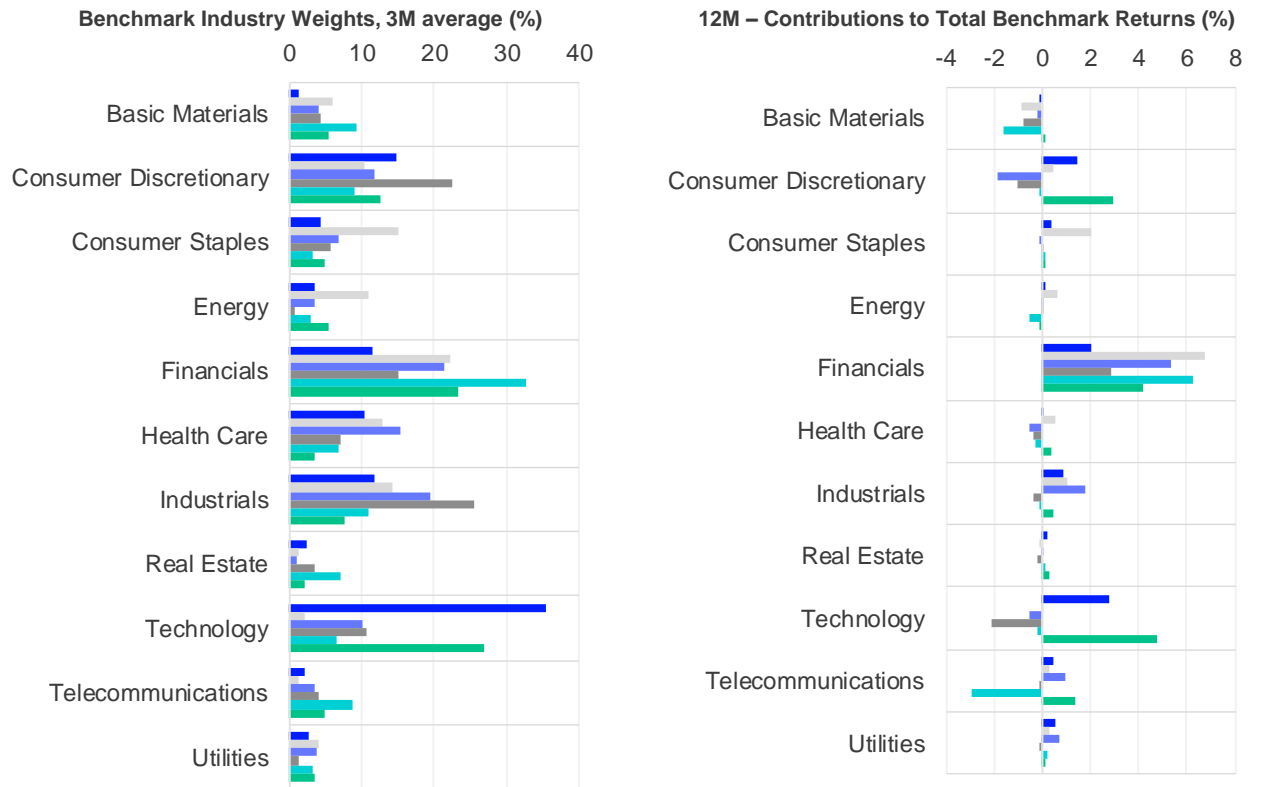
Over 12M, Momentum outperformed in the UK, Europe and Asia Pacific regions, while it lagged the US, Emerging and Japan indices at quarter-end. Value and Yield also beat regional benchmarks broadly (after Q1's outperformance) indicating a shift in the stocks driving equity returns in several regions. Quality continued to lag in 4 of 6 regions, except in the US and Emerging. This can be partly attributed to the dominance of larger Tech and Discretionary stocks in their 12M index performance. Size notably underperformed in the US, UK and Emerging over the longer timeframe.

Regional Relative Factor returns vs benchmark — 12M (TR, LC%)



Regional Equity Market Returns – 12M (TR, LC %) – Emerging equities lead

Chinese equities rallied strongly in Q1 and helped the Emerging index lead 12M performance. The UK, US, Europe, Asia Pacific and Japan (which posted losses in local currency terms) followed. Financials contributed strongly across regions, as did Tech and Discretionary in the US and Emerging, Consumer Staples in the UK and Industrials in Europe.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

# Global View – Factor rotation

The first quarter of 2025 saw a challenge to the dominant macro and market belief coming into the year namely, a ‘soft landing’ in the US in terms of efforts to tame inflation, and US equity outperformance of global peers. This shift in narrative provided the backdrop for Momentum’s underperformance over Q1 in several regions, especially in the US (Chart 1) and Value’s broad outperformance (Chart 2), which was a reversal from 2024’s factor performance trends.

During Q1, the anticipated impact of new US trade and tariff policies resulted in noticeably higher US inflation expectations in the near term (Chart 3). Concerns about the economic impact of these policies also emerged and high yield spreads began to rise globally, but again more steeply in the US (Chart 4). By contrast, the German election outcome and planned stimulus boosted the outlook for German growth and European equities. Monetary policy also diverged as the Fed took a wait-and-see approach to further monetary easing, the ECB and the BoE loosened rates, and the BoJ further normalized its policy rate with a hike (Chart 5). As a result, the German, UK and Japan government bond curves steepened while the US curve flattened slightly (Chart 6). Financials was a key industry influencing factor performance over Q1 and likely benefitted from steepening yield curves in several regions.



Chart 1: Momentum relative to benchmark (LC, rebased)

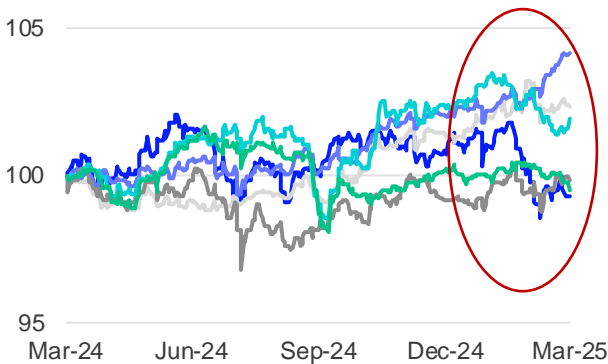


Chart 2: Value relative to benchmark (LC, rebased)

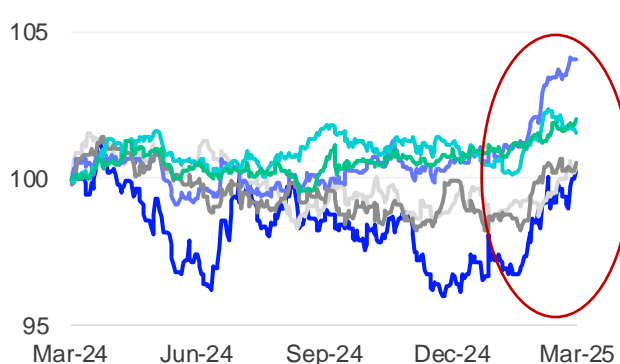


Chart 3: Breakeven inflation, 1-3 year maturity (%)

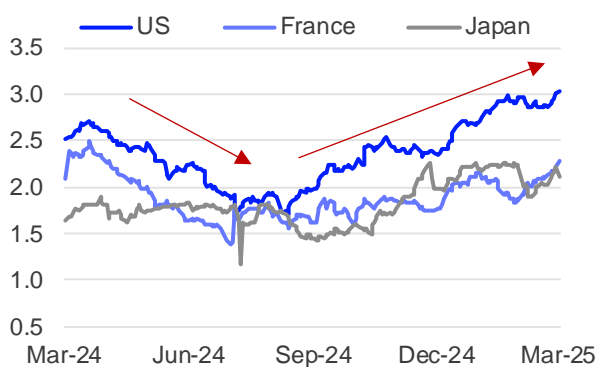


Chart 4: High yield option adjusted spreads (bps)



Chart 5: Central bank policy rates (%)

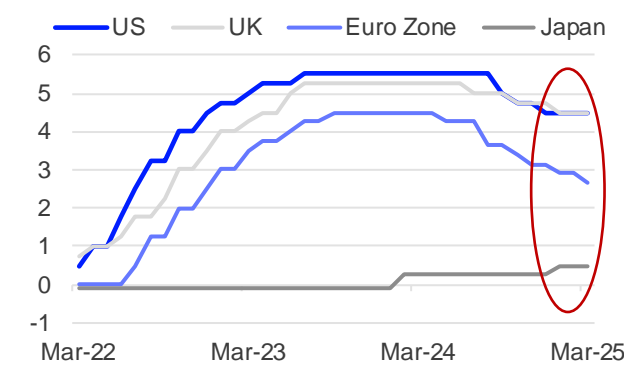
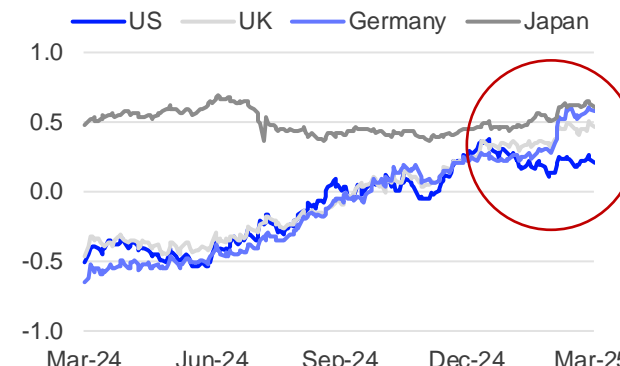


Chart 6: Government bond yield curve slope, 7-10 yr-1-3 yr (%)

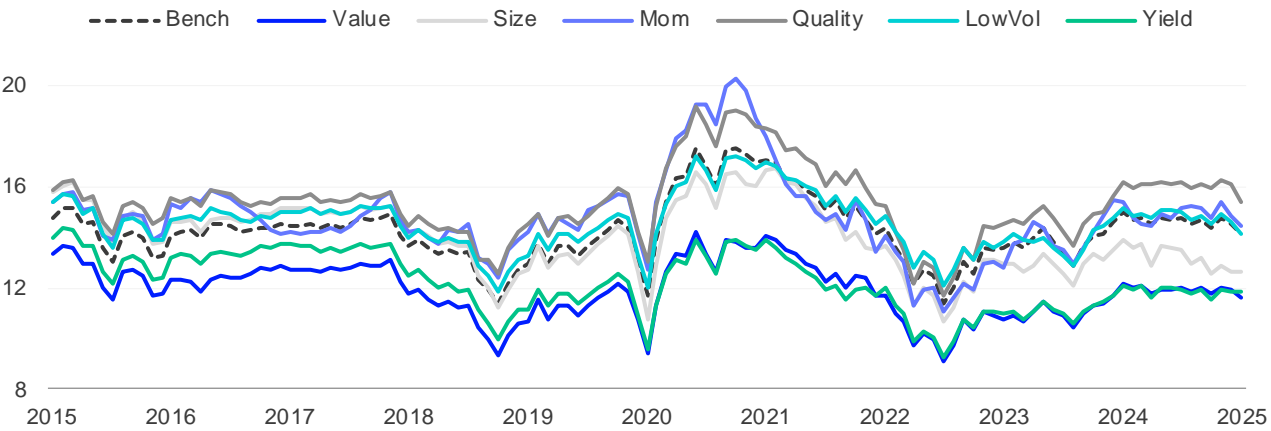


Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

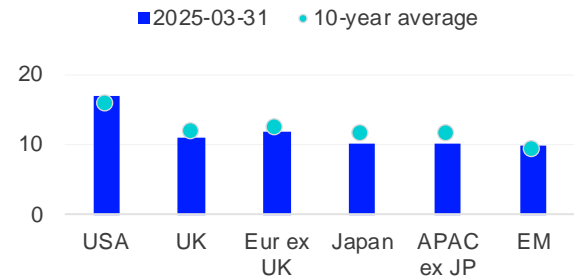
# Global View – Factor Valuations

Since end-2022, average factor forward P/E's have broadly rerated. Most factors sustained higher valuations over 2024 but moderated in Q1 2025 as benchmark indices pulled back in a couple of regions. At quarter-end, Size traded at the largest discount to 10-year averages in most regions, except in the US and Emerging where most factors were expensive relative to history.

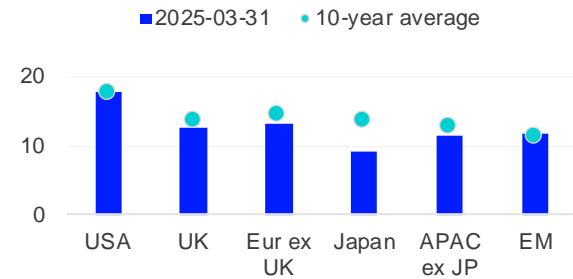
12-month forward factor P/E ratios, average of six regions



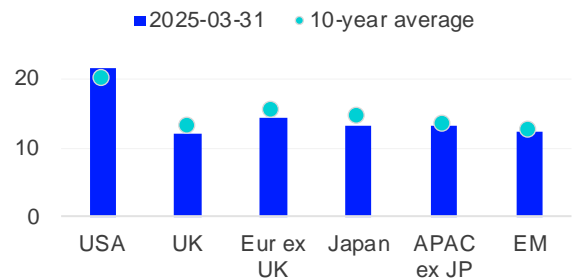
Value - 12M forward P/E



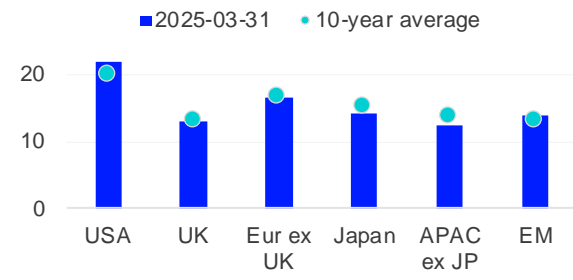
Size - 12M forward P/E



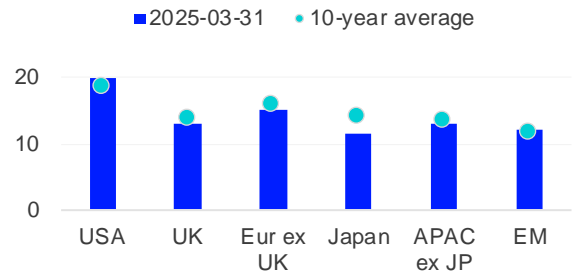
Momentum - 12M forward P/E



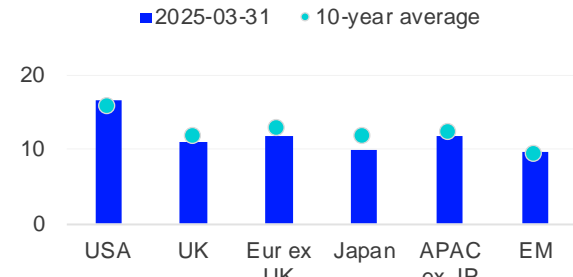
Quality - 12M forward PE



Low Volatility - 12M forward PE



Yield - 12M forward PE



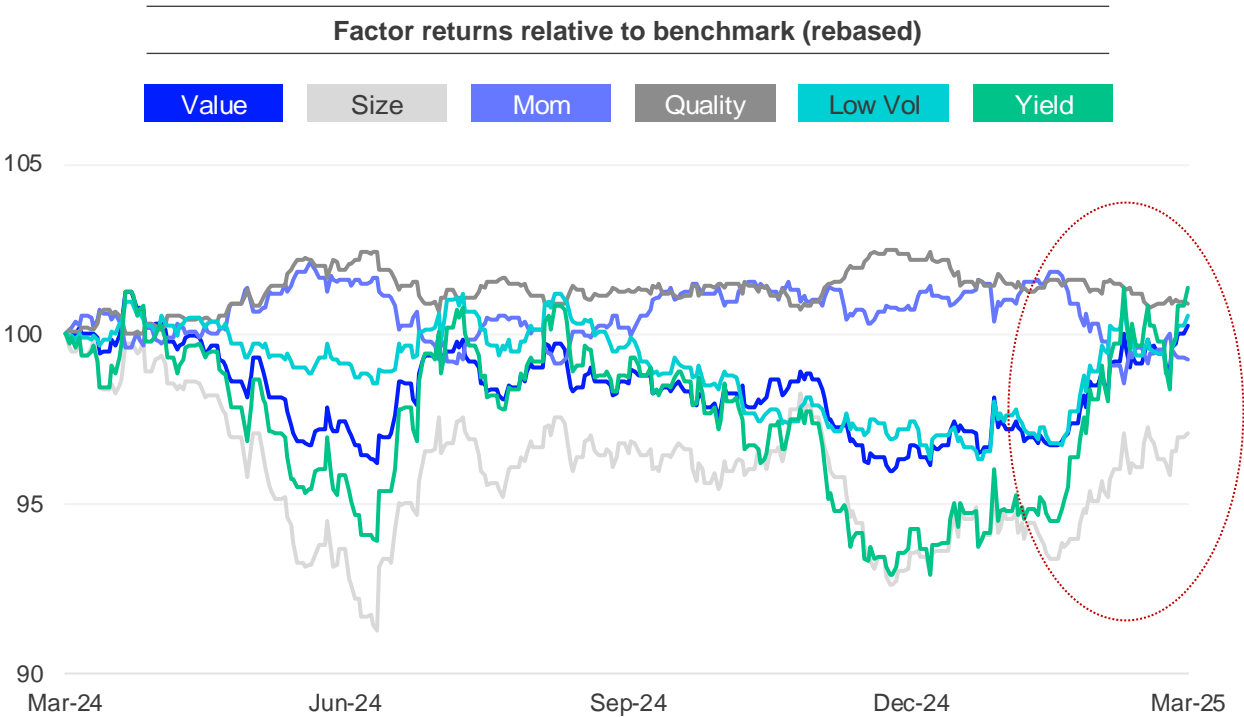
Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

# US Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, Momentum and Quality underperformed the benchmark in a reversal from Q4 2024. Both factors were hurt by their overweight to Tech, which posted steep losses. Momentum also saw negative selection effects within Tech and Consumer Discretionary indicating a shift in the stocks leading performance in these industries.
- Yield, Value, Size and Low Vol saw notable jumps in relative performance starting in February, as Momentum began to lag. They beat the benchmark for the quarter.
- Over 12M, Momentum lagged the benchmark, as did Size despite Q1's outperformance.
- Absolute factor forward P/Es moderated notably in Q1. Still, US factor valuations remained above their long-term averages.
- In relative terms, Momentum and Quality traded above their 10-year average P/Es.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.



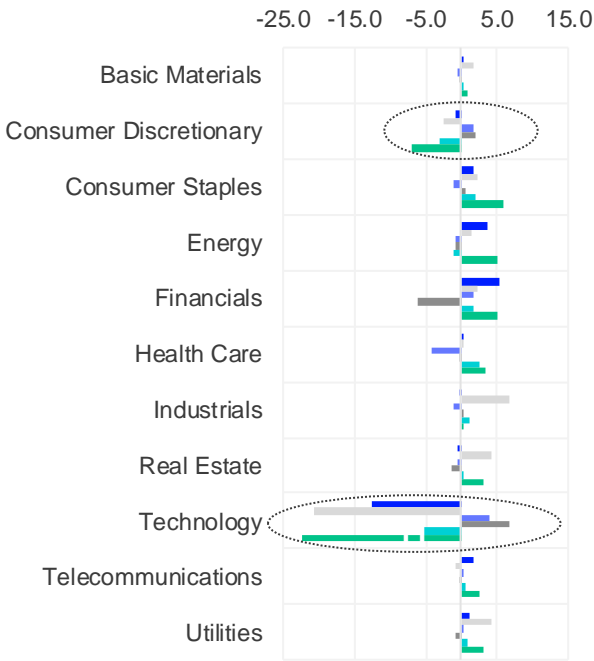
# US Factor Performance & Industry Attributions — 3M

## Tech exposure hurts Momentum and Quality

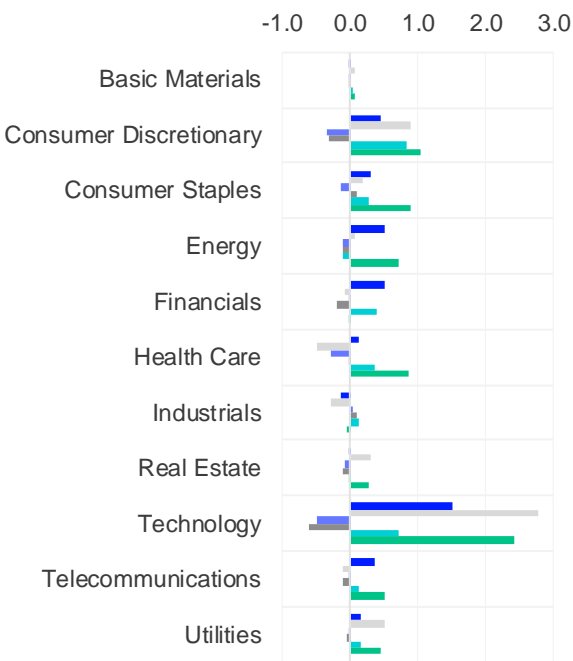
In Q1, Momentum and Quality lagged, while other factors outperformed the US benchmark, primarily owing to positive allocation effects from their Tech underweight as US Tech pulled back sharply. Within Tech, Momentum saw negative selection effects while others, particularly Size, saw positive selection, indicating that smaller, cheaper tech stocks fared better. Momentum and Quality were also hurt by negative allocation and selection within Consumer Discretionary.

2025 Q1	Relative to Benchmark (TR %)					
FTSE USA	Value	Size	Mom	Quality	Low Vol	Yield
-4.3%	3.5	3.6	-1.4	-1.2	3.1	7.2

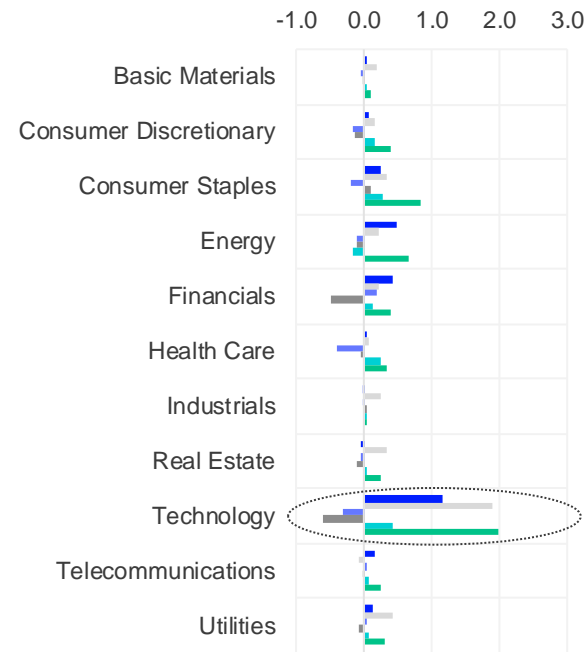
Industry active weights, 3M average



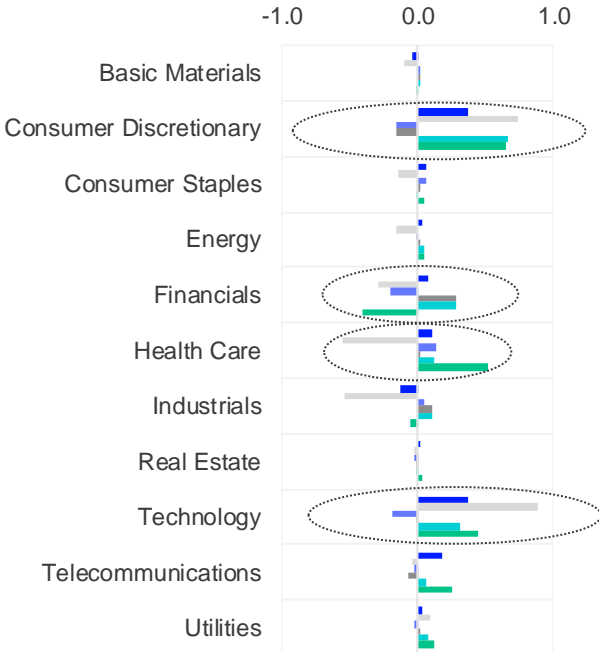
Total industry effects, 3M



Industry allocation effects, 3M



Stock selection within industry, 3M



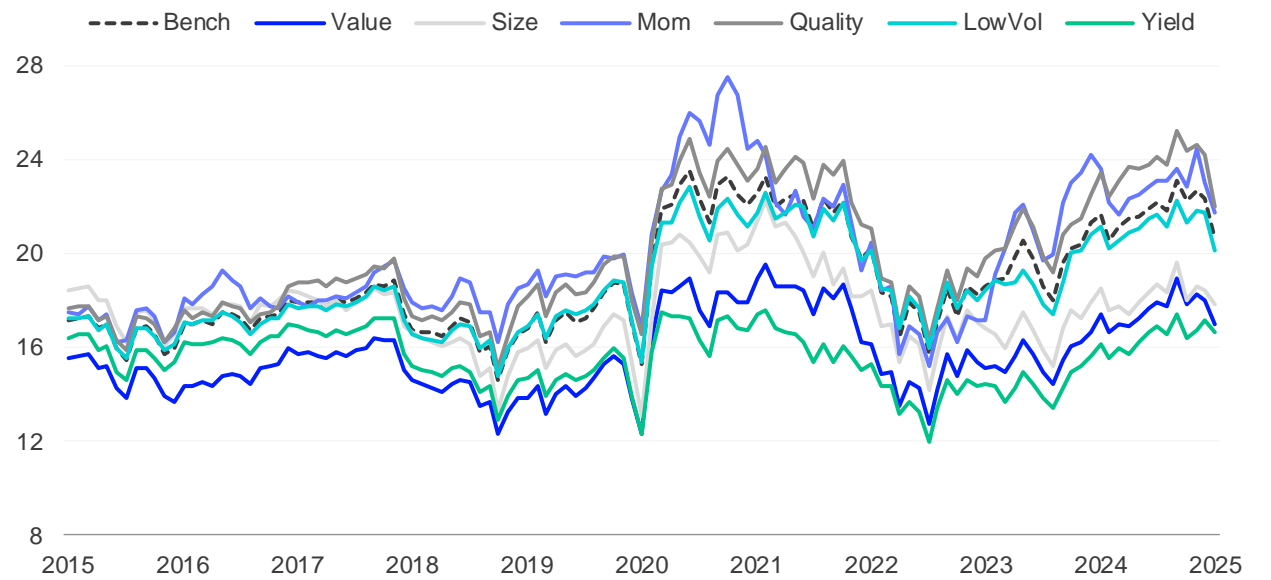
Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.  
FTSE Russell | Equity Factor Insights Q1 2025

# US Factor Valuations

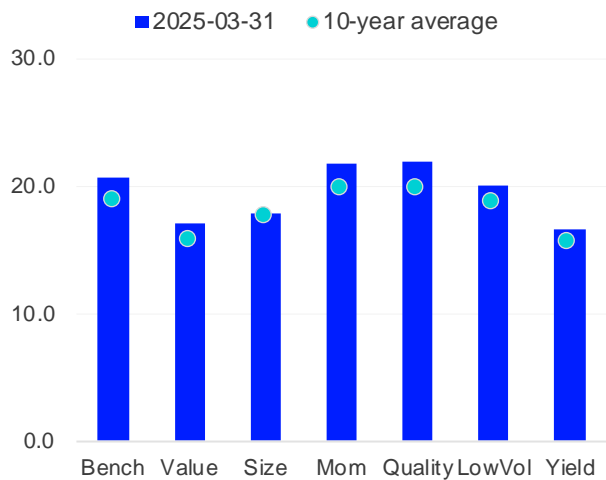
US factor forward P/E's have re-rated sharply since their trough toward the end of 2022. However, they fell notably over Q1 starting in February (except for US Yield) as US equities pulled back. Despite this, all US factors traded above their 10-year average valuation in absolute terms at quarter-end. Quality's premium over Value narrowed over the quarter to 29% from 35% at end-2024.

In relative terms, both Momentum and Quality were more expensive compared to the 10-year average at quarter-end as the benchmark experienced sharp losses over the quarter. Size continued to trade at the largest discount.

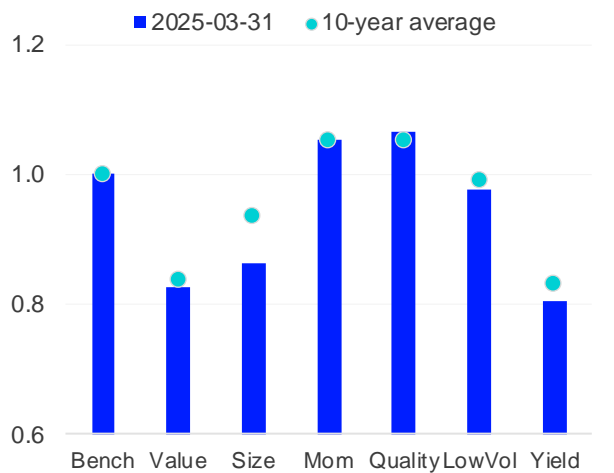
FTSE USA – Absolute 12M forward P/E's



Current Absolute 12M forward P/E vs history



Current Relative 12M forward P/E vs history



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.



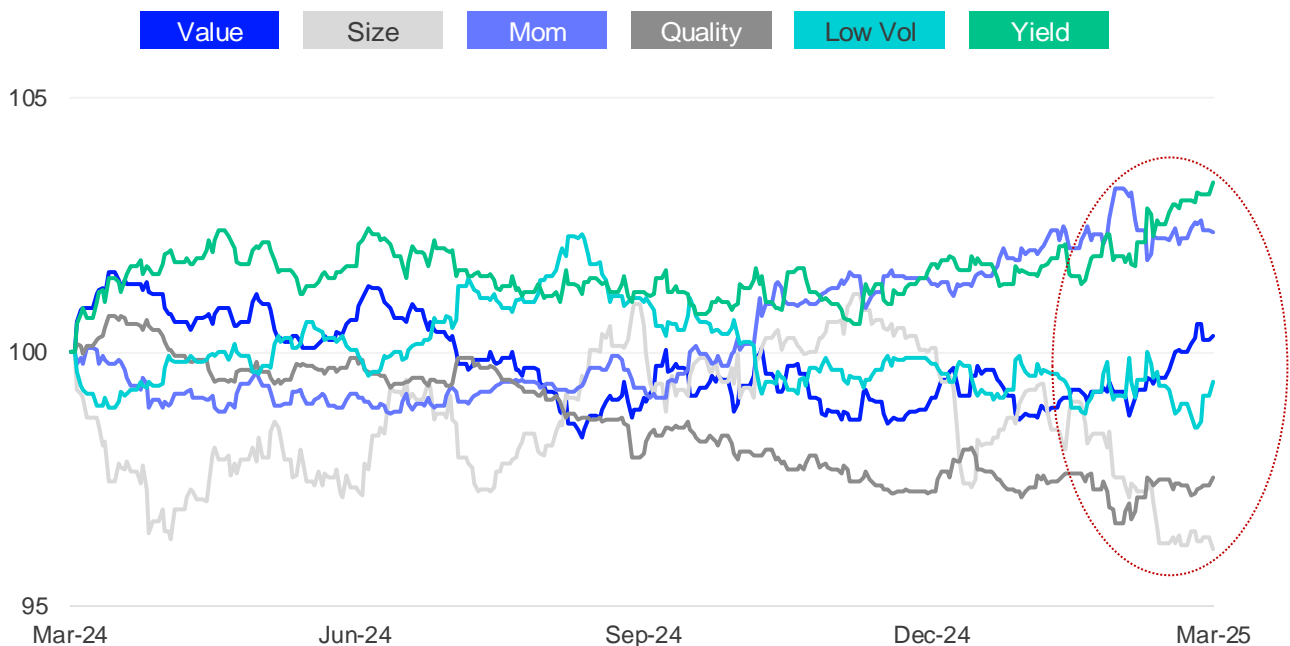
# UK Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, Value and Yield led factor relative performance followed by Momentum and Quality. Size pulled back steeply.
- Value and Yield were helped by positive allocation effects from Discretionary, Energy and Financials, as well as positive selection within Financials.
- Size was hurt by large negative allocation effects from Discretionary and Energy, and negative selection within Industrials.
- Over 12M, Momentum continued to outperform the benchmark along with Value and Yield. Size lagged the most.
- Absolute factor forward P/Es rerated over Q1, except for Size and Momentum. They were still below historical averages at quarter-end.
- Quality was the most expensive UK factor on both an absolute and relative basis.

Factor returns relative to benchmark (rebased)



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

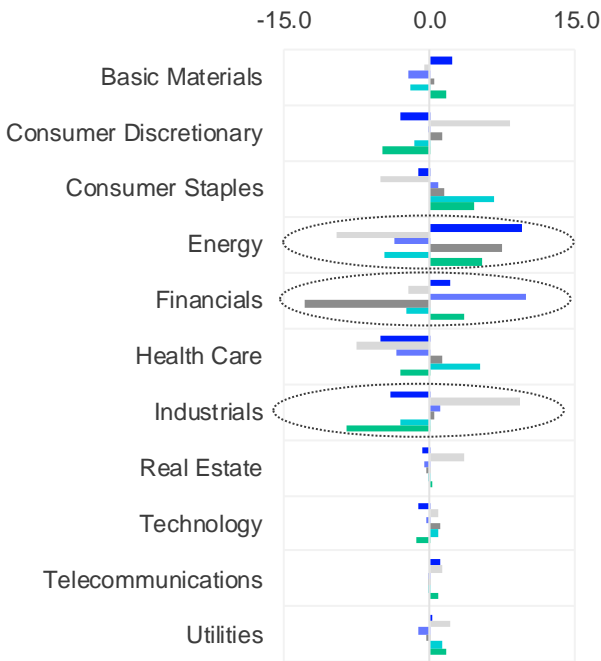
# UK Factor Performance & Industry Attribution — 3M

## Value and Yield lead; Momentum holds up

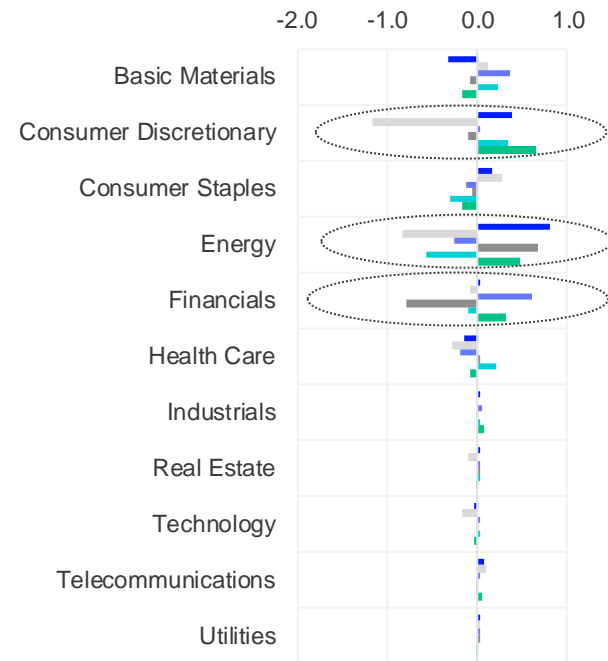
In Q1, Value and Yield overtook Momentum in terms of relative factor performance as compared to Q4 2024. They beat the benchmark along with Quality. Size lagged steeply. An overweight to Energy and Financials, which mainly contributed to UK index returns over the quarter, helped Value and Yield, as did an underweight to Discretionary which performed poorly. Size was hurt by negative allocation effects from Discretionary & Energy and negative selection within Industrials.

2025 Q1	Relative to Benchmark (TR %)					
FTSE UK	Value	Size	Mom	Quality	Low Vol	Yield
5.4%	1.3	-4.2	1.1	0.3	-0.4	1.7

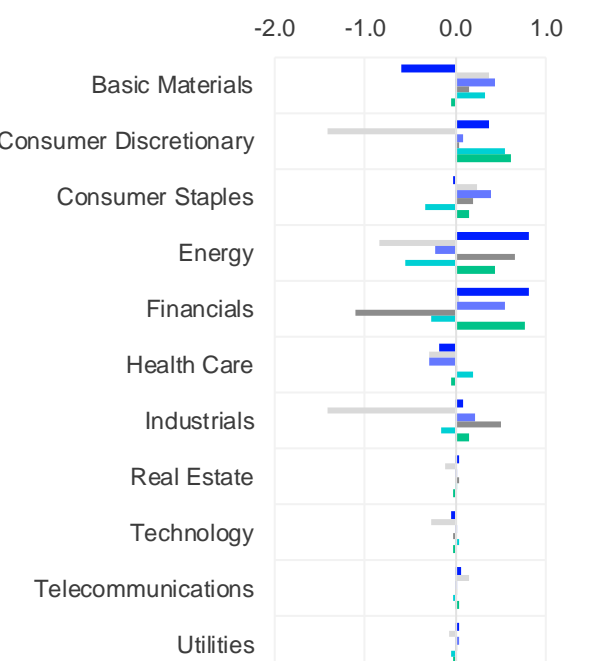
Industry active weights, 3M average



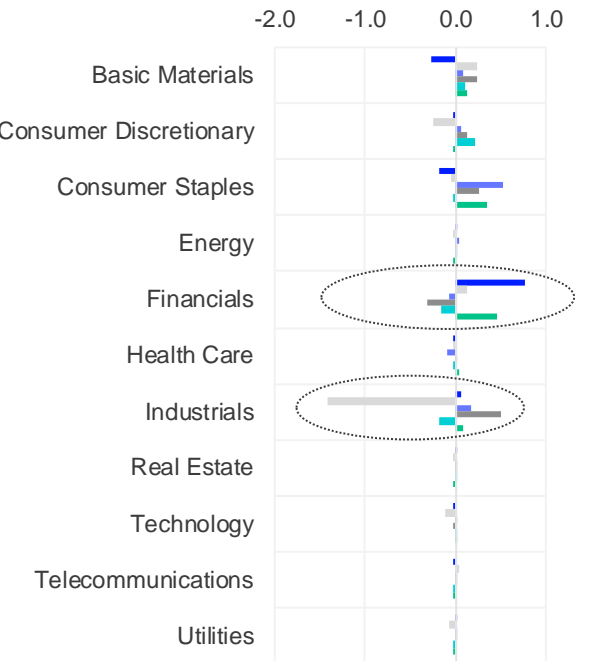
Industry allocation effects, 3M



Total industry effects, 3M



Stock selection within industry, 3M



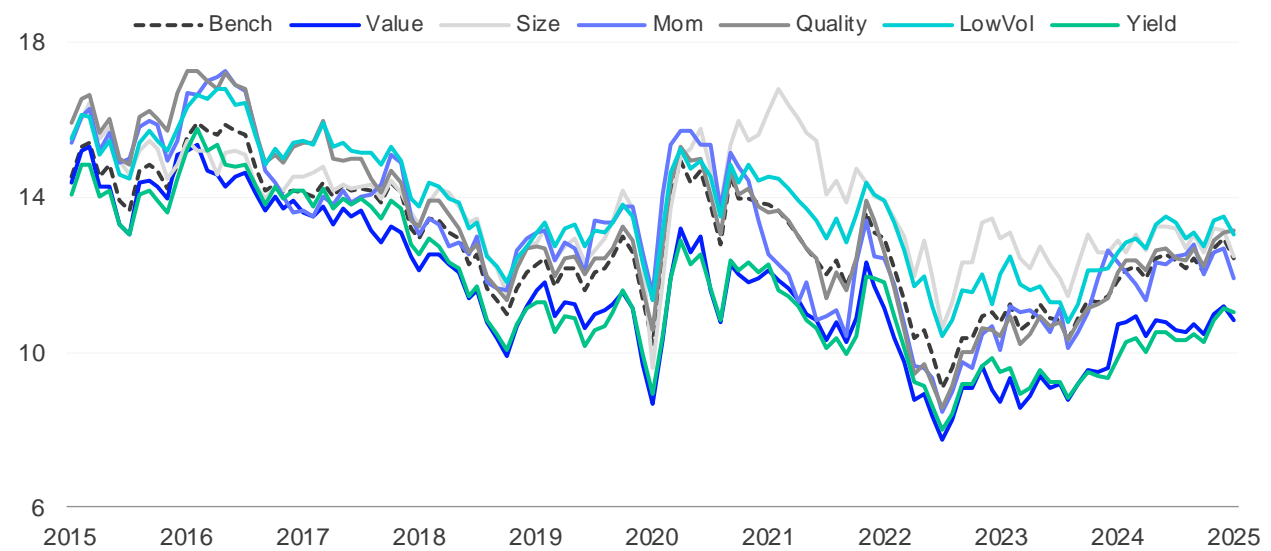
Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

# UK Factor Valuations

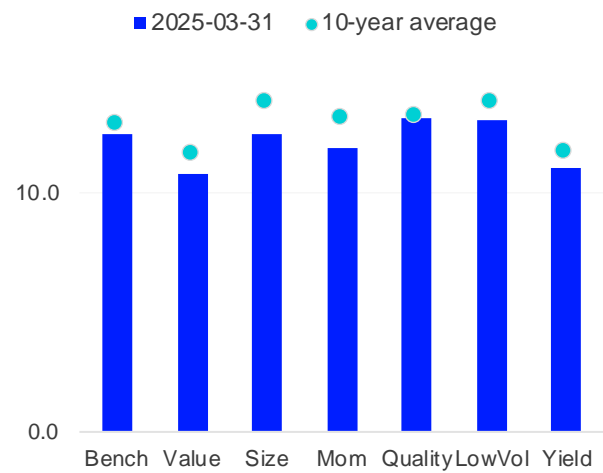
UK factor forward P/Es have re-rated since end-2022. In Q1 2025, even as they dipped toward quarter-end, absolute valuations finished the quarter higher except for Size and Momentum which derated. All absolute factor forward P/Es still traded below their long-term average, with UK Quality being the most expensive relative to history. The Quality-Value premium increased to 21% from 17% at the end of 2024.

In relative terms, all factors except Quality traded below their historical averages.

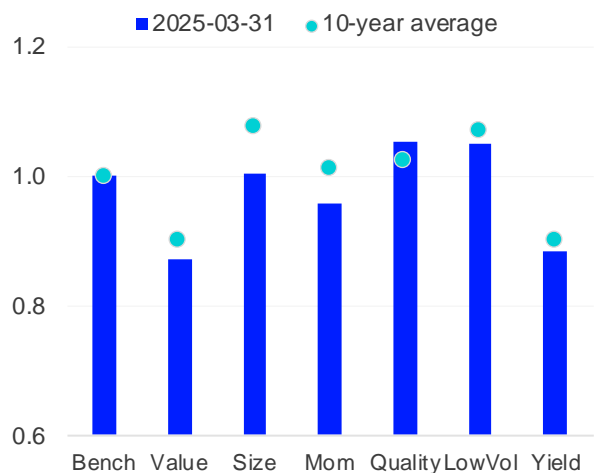
FTSE UK – Absolute 12M forward P/Es



Current Absolute 12M forward P/Es vs history



Current Relative 12M forward P/Es vs history

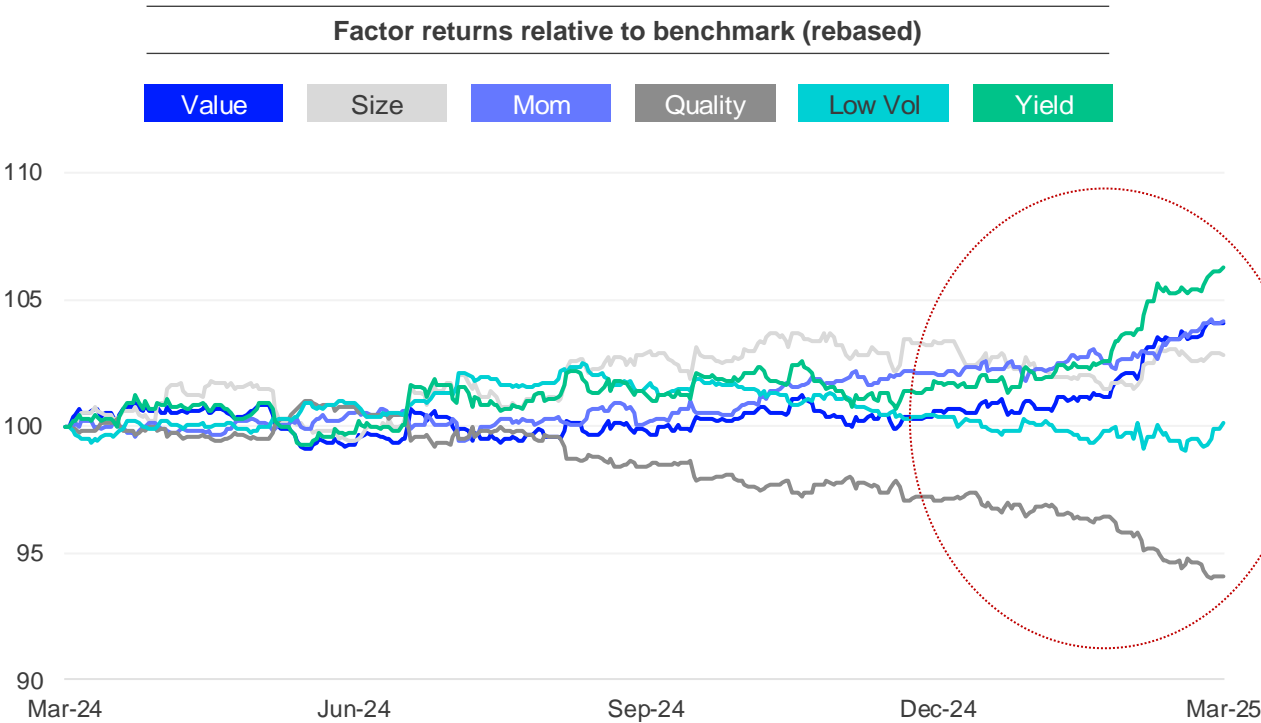


# Europe ex UK Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, Value and Yield outpaced the benchmark followed by Momentum. Quality lagged the most.
- Financials was a key driver of benchmark performance over the quarter and influenced factor relative returns. Value and Yield were helped by positive allocation from and selection within Financials. Quality was hurt by its underweight to Financials.
- Over 12M, Quality was the only factor to lag the Europe equity index, having steadily diverged from other factor performance since Q3 2024.
- Absolute factor forward P/Es rerated in Q1 but remained below their 10-year averages.
- In relative terms, Quality remained expensive and traded above its historical average relative P/E, despite derating since mid-2024.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

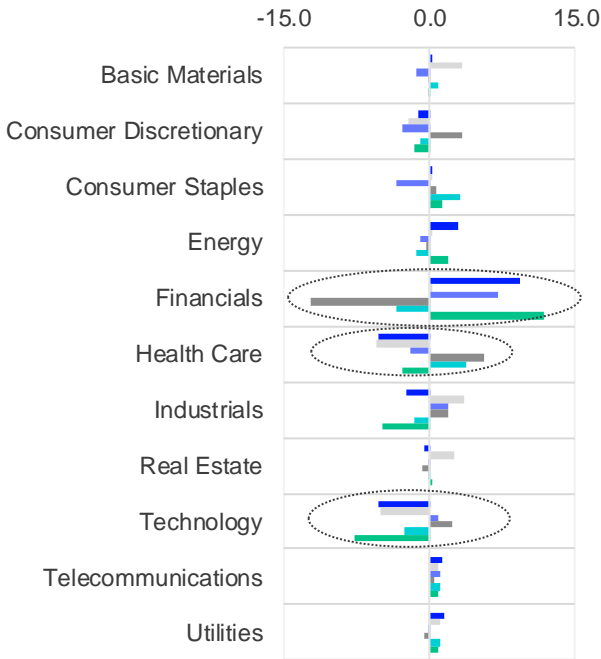
# Europe ex UK Factor Performance & Industry Attribution — 3M

## Value and Yield outpace benchmark

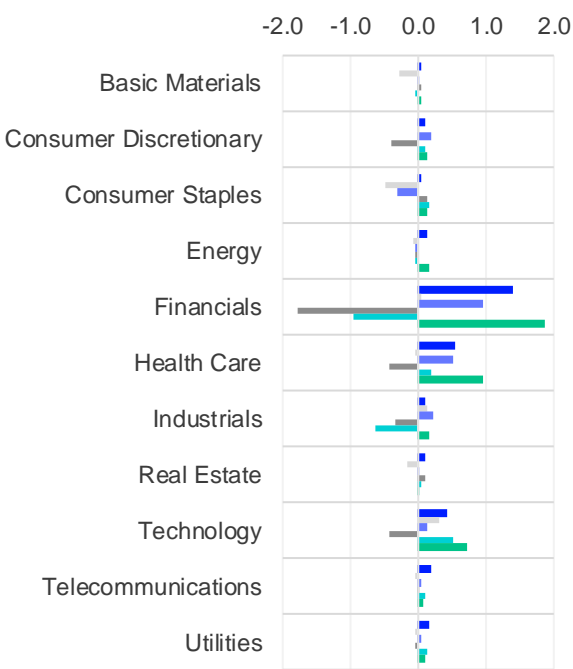
In Q1, Value and Yield led factor relative performance, followed by Momentum. Quality lagged steeply. Value and Yield benefited from positive allocation effects from Discretionary (underweight), Financials (overweight), Health Care (underweight) and Tech (underweight), as well as positive selection within Financials and Health Care, among others. Quality suffered mainly from its underweight to Financials as well as negative selection within Financials, among others.

2025 Q1	Relative to Benchmark (TR %)					
FTSE Dev Europe ex UK	Value	Size	Mom	Quality	Low Vol	Yield
6.4%	3.7	-0.5	2.2	-3.3	-0.3	4.7

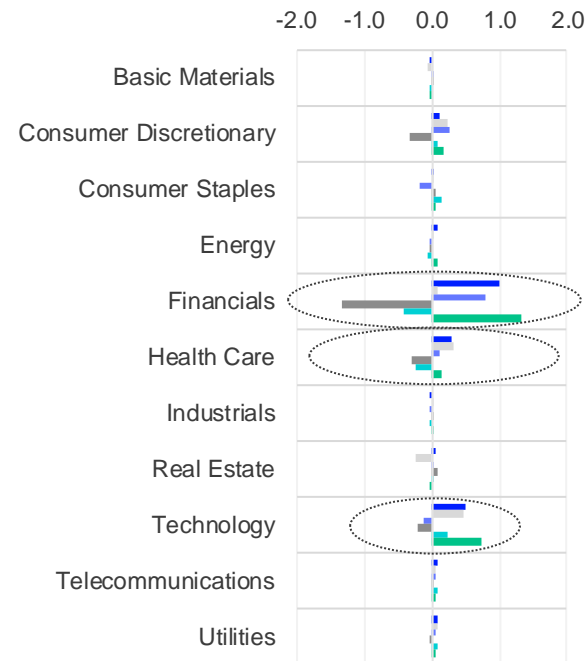
Industry active weights, 3M average



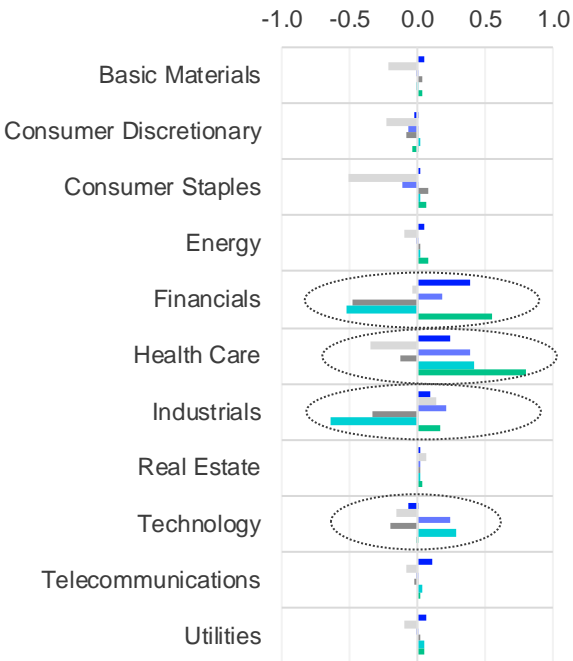
Total industry effects, 3M



Industry allocation effects, 3M



Stock selection within industry, 3M



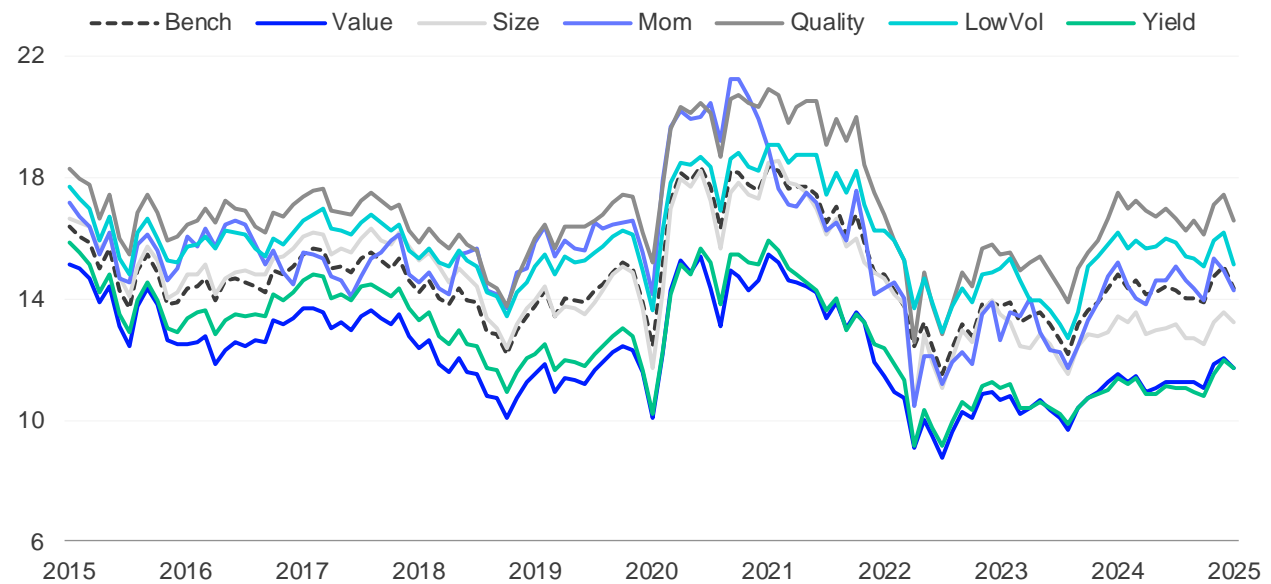
Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.  
FTSE Russell | Equity Factor Insights Q1 2025

# Europe ex UK Factor Valuations

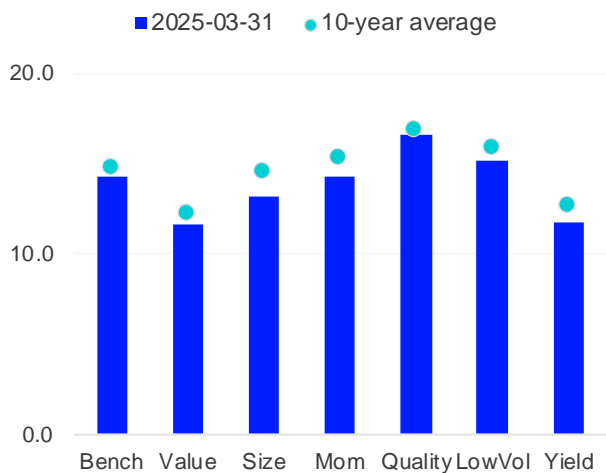
In Q1, absolute factor forward P/Es rerated (despite declining slightly in March) in a reversal from Q4 2024. However, they remained below their 10-year averages. Quality's premium over Value declined slightly to 42% but was still higher than the historical average premium of 37%.

In relative terms, all factors except Quality traded below their 10-year average P/Es at quarter-end, during a quarter when the benchmark rerated.

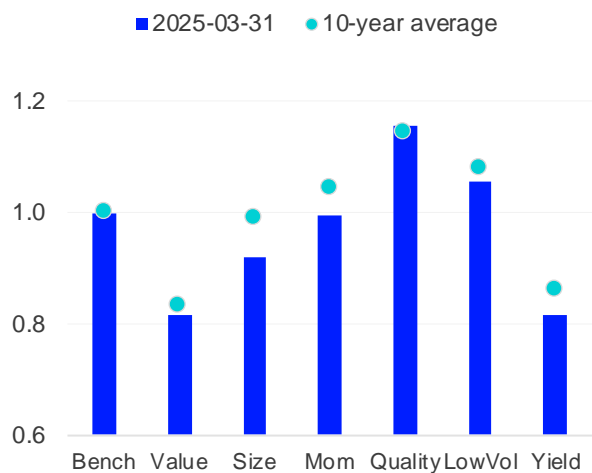
FTSE Europe ex UK – Absolute 12M forward P/Es



Current Absolute 12M forward P/Es vs history



Current Relative 12M forward P/Es vs history



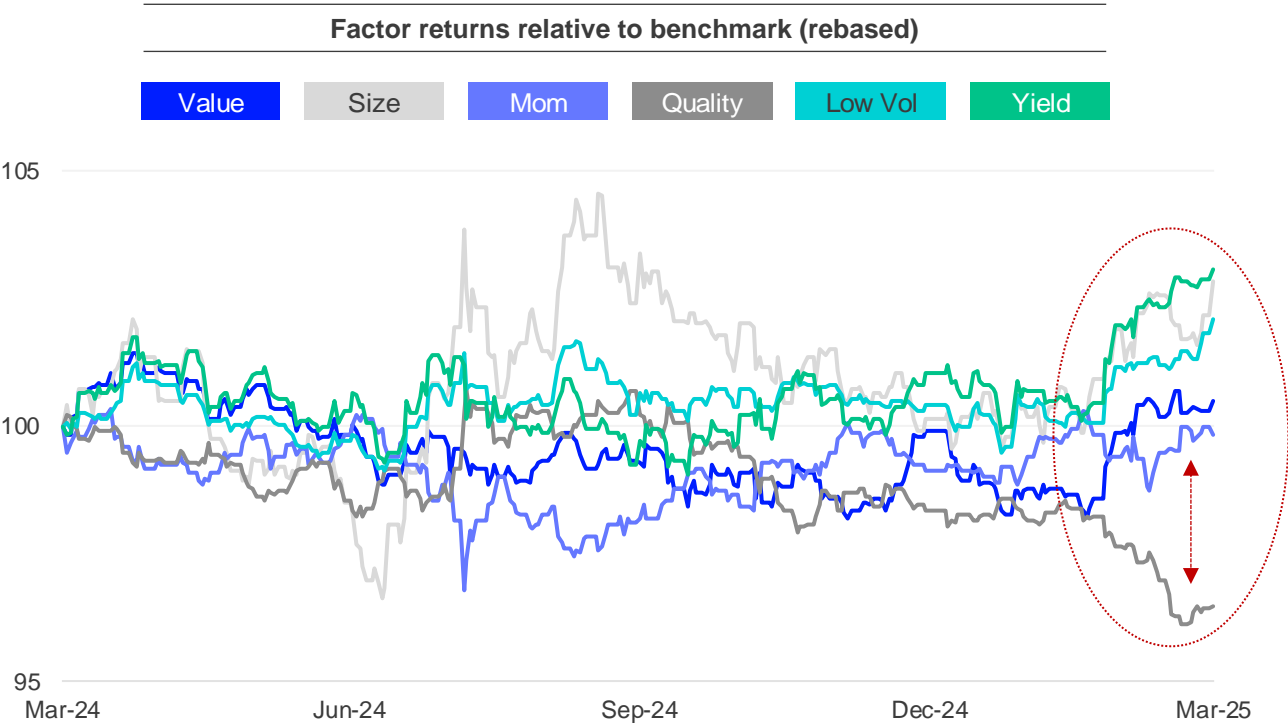


# Japan Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, Size rebounded to lead factor performance. All factors, except Quality, outperformed the benchmark.
- Financials was the largest contributor to index returns and relative exposure to Financials greatly influenced factor relative performance.
- Over 12M, Yield, Size, Low Vol and Value outperformed the benchmark, while Quality lagged steeply, and Momentum just underperformed.
- In Q1, absolute factor forward P/Es contracted, with Quality and Value derating the most.
- In relative terms, Quality and Momentum remained expensive while Size traded at the largest discount to history.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.



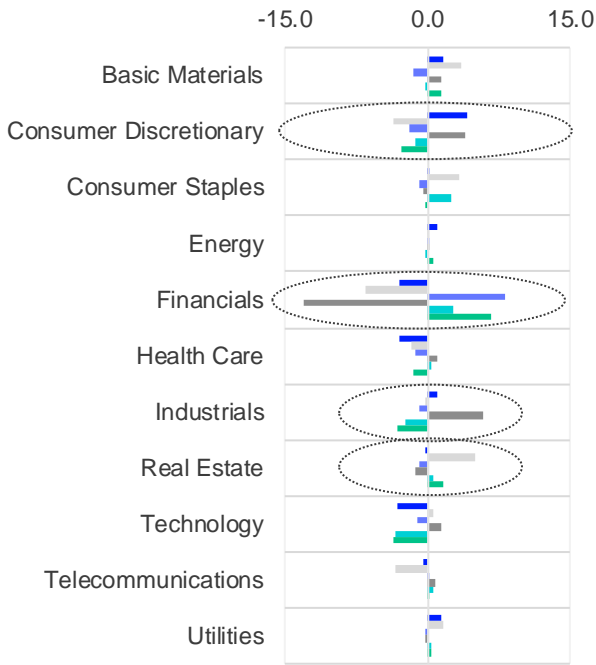
# Japan Factor Performance & Industry Attribution — 3M

## Size rebounds to lead factor returns

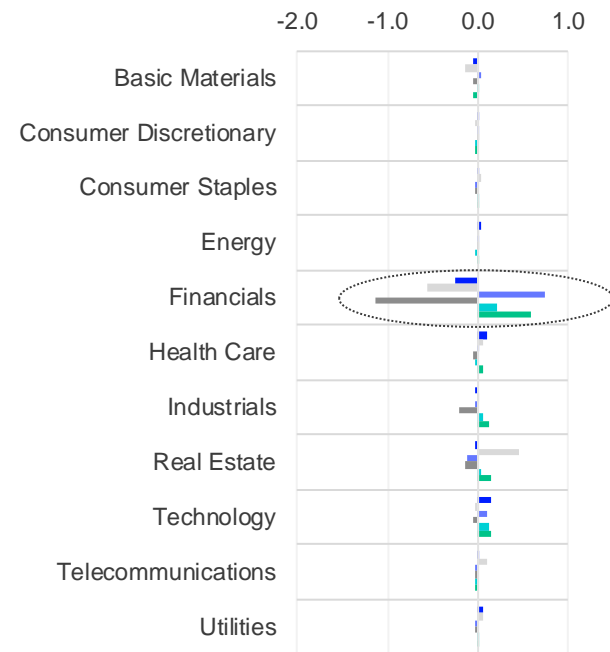
In Q1, Size led factor relative returns after lagging the benchmark the most in Q4. It was followed by Yield, Low Vol, Momentum and Value, all of which outperformed while Quality continued to lag the benchmark. Exposure to Financials, the largest contributor to index returns, greatly influenced factor relative returns. However, Size was primarily helped by positive selection effects within Industrials, Discretionary and Tech, and a positive allocation effect from Real Estate.

2025 Q1	Relative to Benchmark (TR %)					
FTSE Japan	Value	Size	Mom	Quality	Low Vol	Yield
-3.9%	0.6	2.6	0.7	-1.8	1.6	1.9

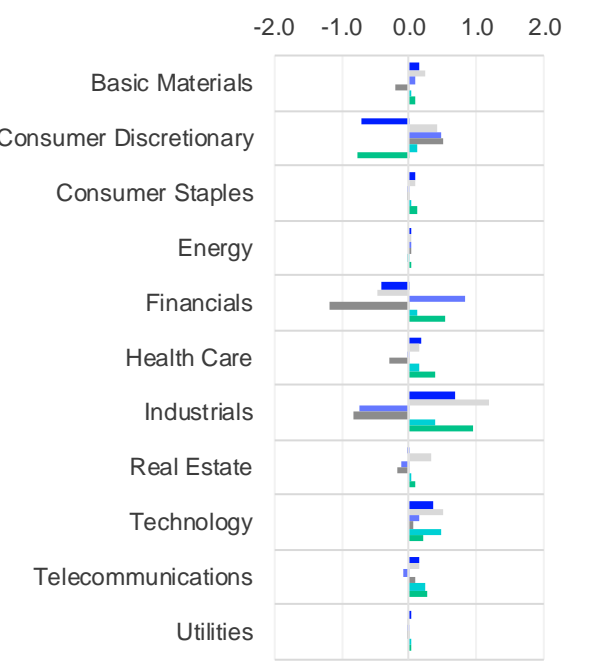
Industry active weights, 3M average



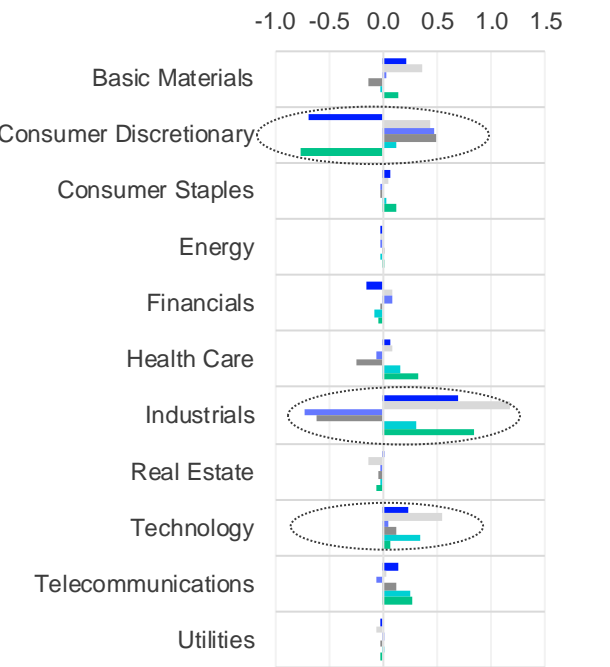
Industry allocation effects, 3M



Total industry effects, 3M



Stock selection within industry, 3M



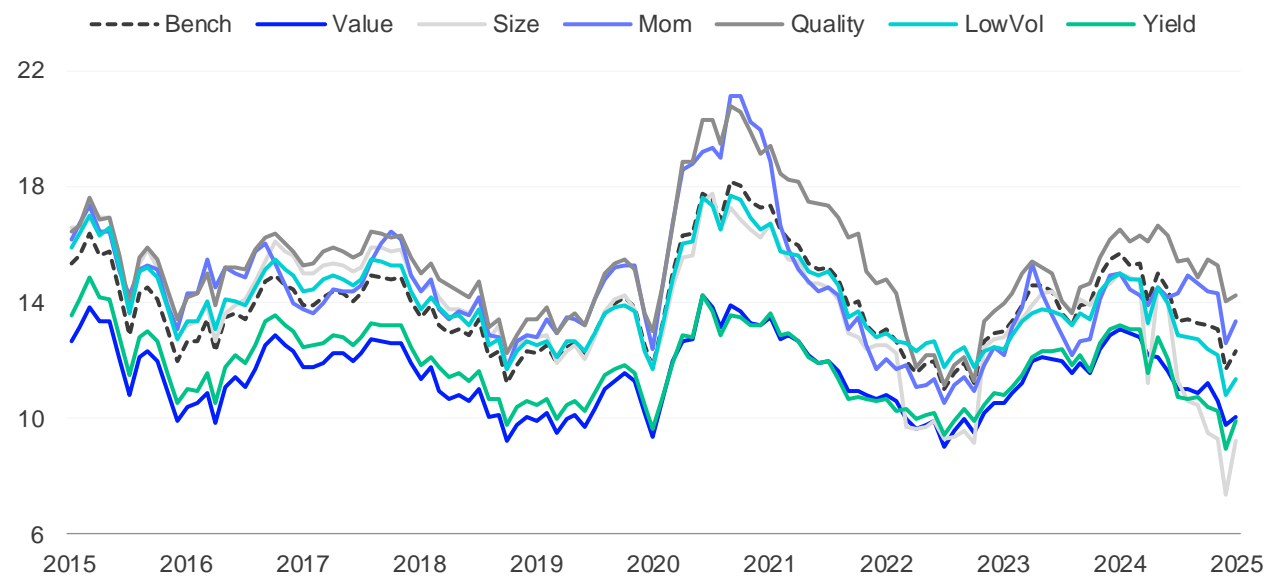
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FTSE Russell | Equity Factor Insights Q1 2025

# Japan Factor Valuations

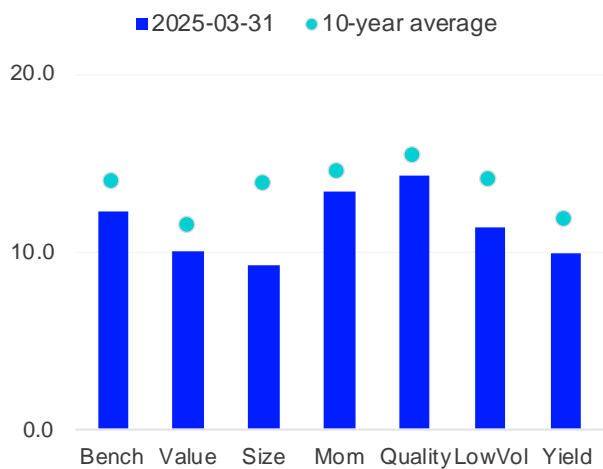
In Q1, as the Japan index pulled back, all absolute factor forward P/Es contracted, with Quality derating the most followed by Value. Factor valuations were still below their 10-year averages, with Size trading at the steepest discount at quarter-end.

In relative terms, Quality and Momentum remained expensive compared to their historical averages. Again, Size traded at the largest discount to the 10-year average relative P/E.

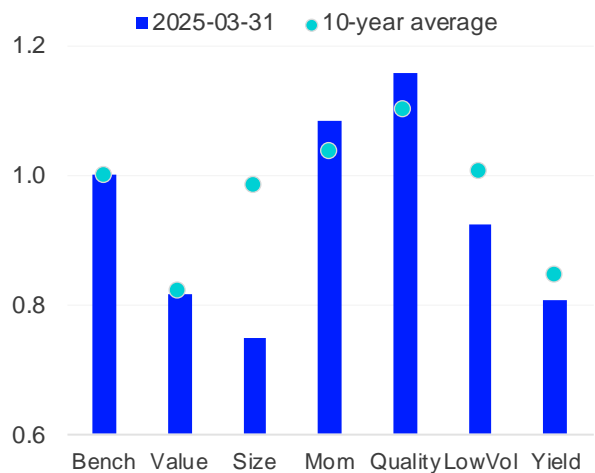
FTSE Japan – Absolute 12M forward P/Es



Current Absolute 12M P/Es vs history



Current Relative 12M P/Es vs history



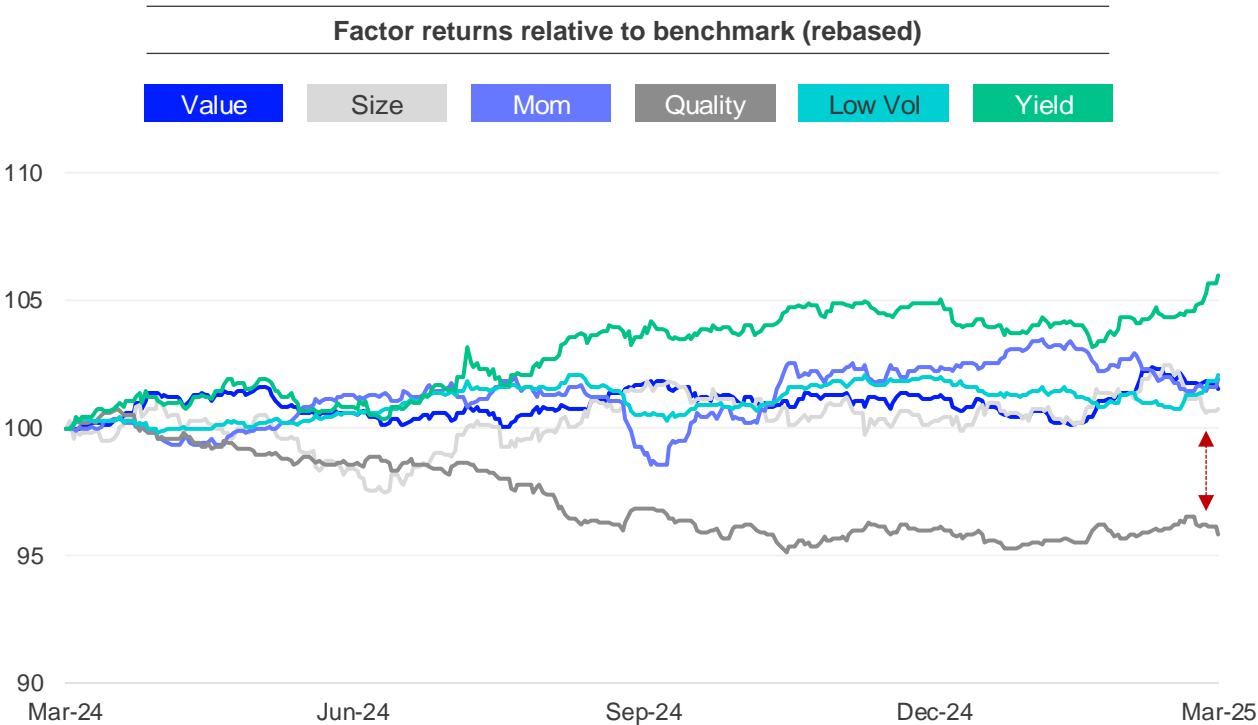
Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.  
FTSE Russell | Equity Factor Insights Q1 2025

# Asia Pacific ex Japan Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, Yield led factor relative returns, while Momentum lagged the most in a reversal from Q4.
- Relative exposure to Telecoms, Financials and Health Care influenced factor performance through large allocation effects. Yield also benefited from a large positive selection effect within Real Estate.
- Over 12M, Yield led factor relative performance, while Quality lagged badly.
- Moves in factor valuations were mixed, but all absolute factor forward P/Es were below their long-term averages at quarter-end.
- In relative terms, Momentum, Low Vol and Yield were expensive relative to history.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

# Asia Pac ex Japan Factor Performance & Industry Attribution — 3M

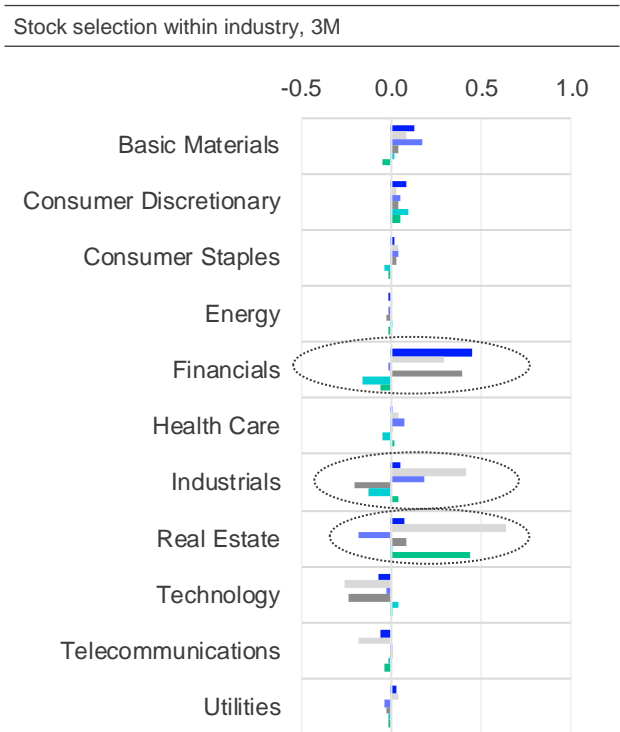
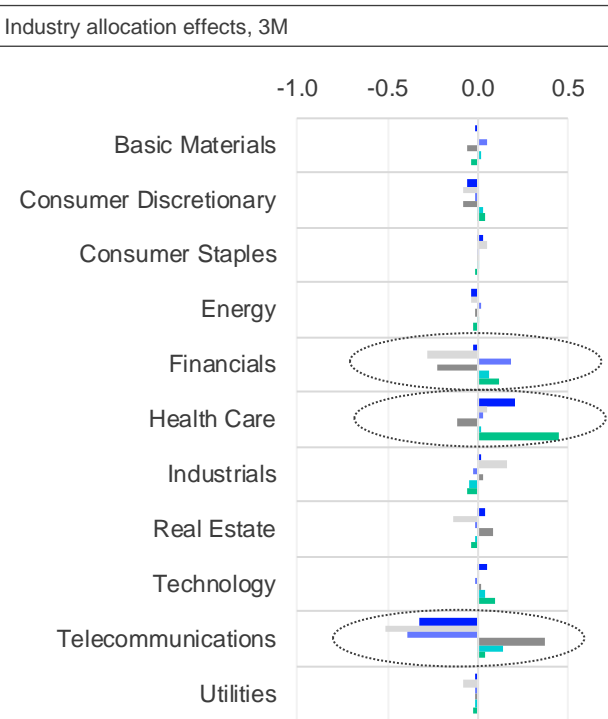
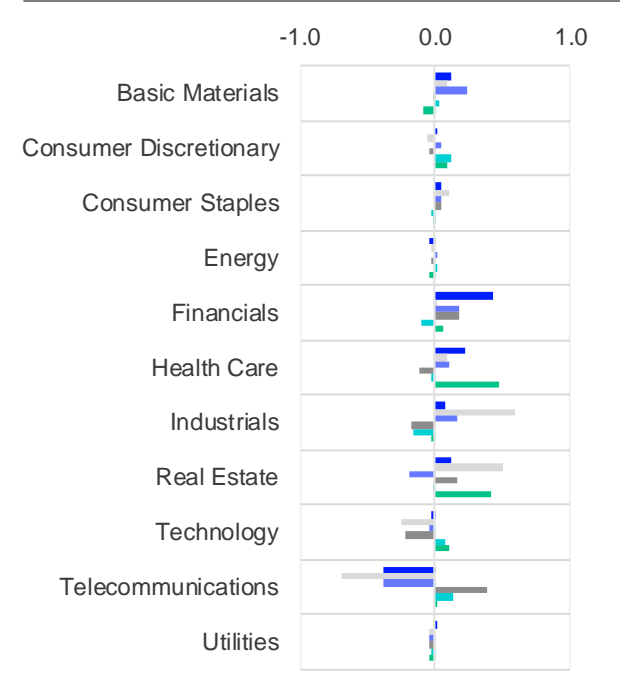
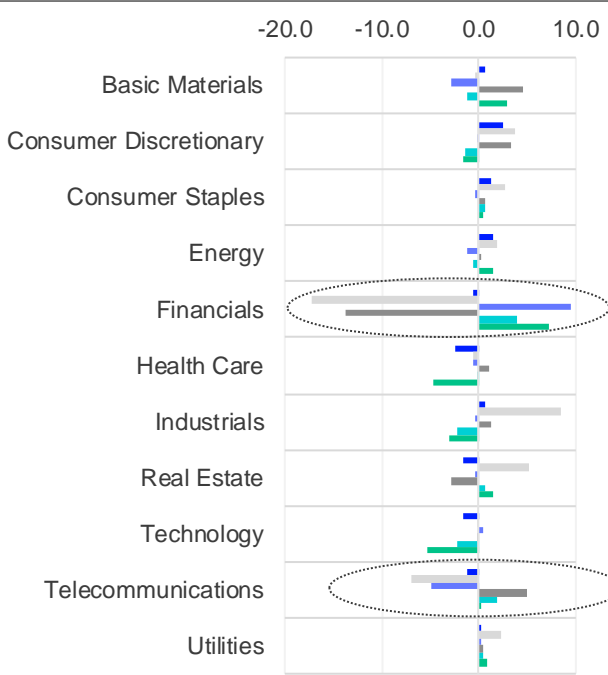
## Yield leads, Momentum lags

In Q1, Yield led factor relative returns followed by Size, Value and Low Vol. Momentum lagged after outpacing the benchmark in the previous quarter while Quality continued to underperform. Yield benefited from a positive allocation effect from Health Care (underweight) and selection effect within Real Estate. Size and Value saw positive selection within Financials, Industrials and Real Estate. An underweight to Telecoms hurt Momentum and other factors.

2025 Q1	Relative to Benchmark (TR%)					
FTSE Dev Asia Pacific exJP	Value	Size	Mom	Quality	Low Vol	Yield
0.7%	0.3	0.4	-0.3	-0.2	0.1	1.0

Industry active weights, 3M average

Total industry effects, 3M

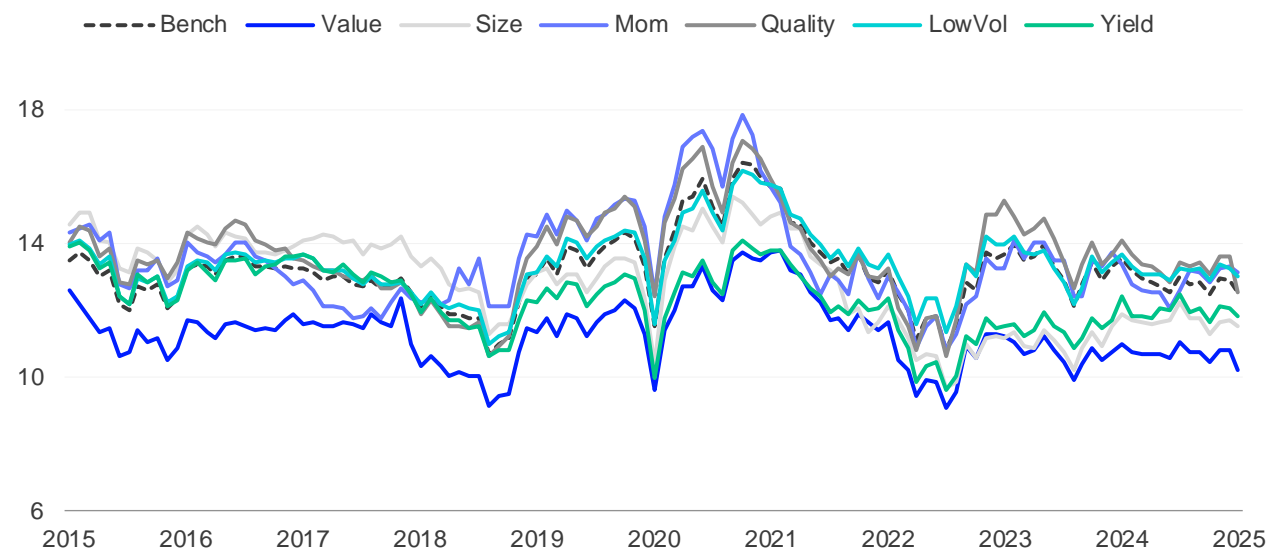


# Asia Pacific ex Japan Factor Valuations

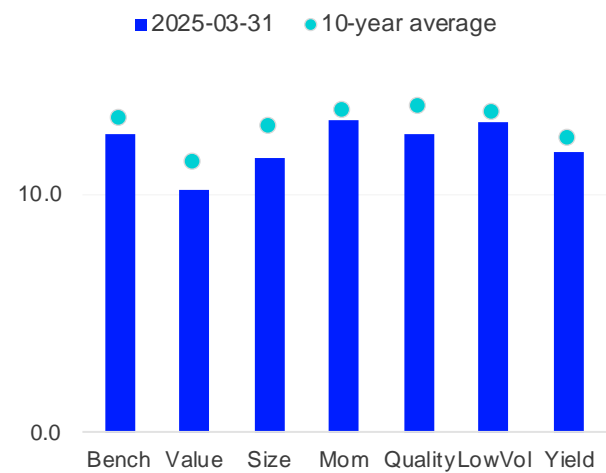
In Q1, moves in Asia Pacific ex Japan factor forward P/E's were mixed. While valuations for Size, Momentum, Low Vol and Yield expanded, those for Value and Quality contracted. At quarter-end, all absolute factor forward P/E's were below their 10-year averages. The Quality/Value premium narrowed to 23% and was just above its 10-year average of 21%.

In relative terms, Momentum, Low Vol and Yield traded above their historical averages at the end of Q1.

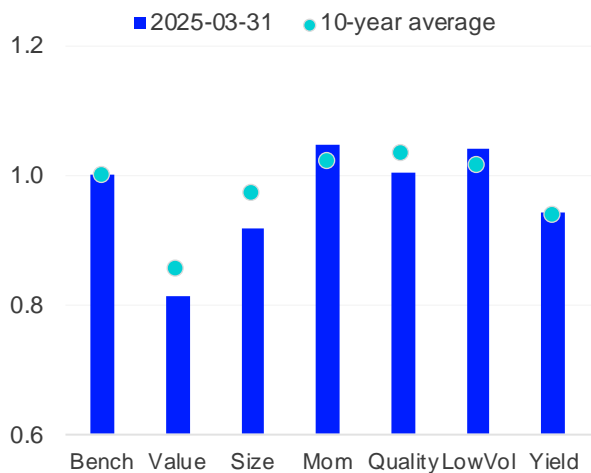
FTSE Asia Pacific ex Japan – Absolute 12M forward P/E's



Current Absolute 12M forward P/E's vs history



Current Relative 12M forward P/E's vs history

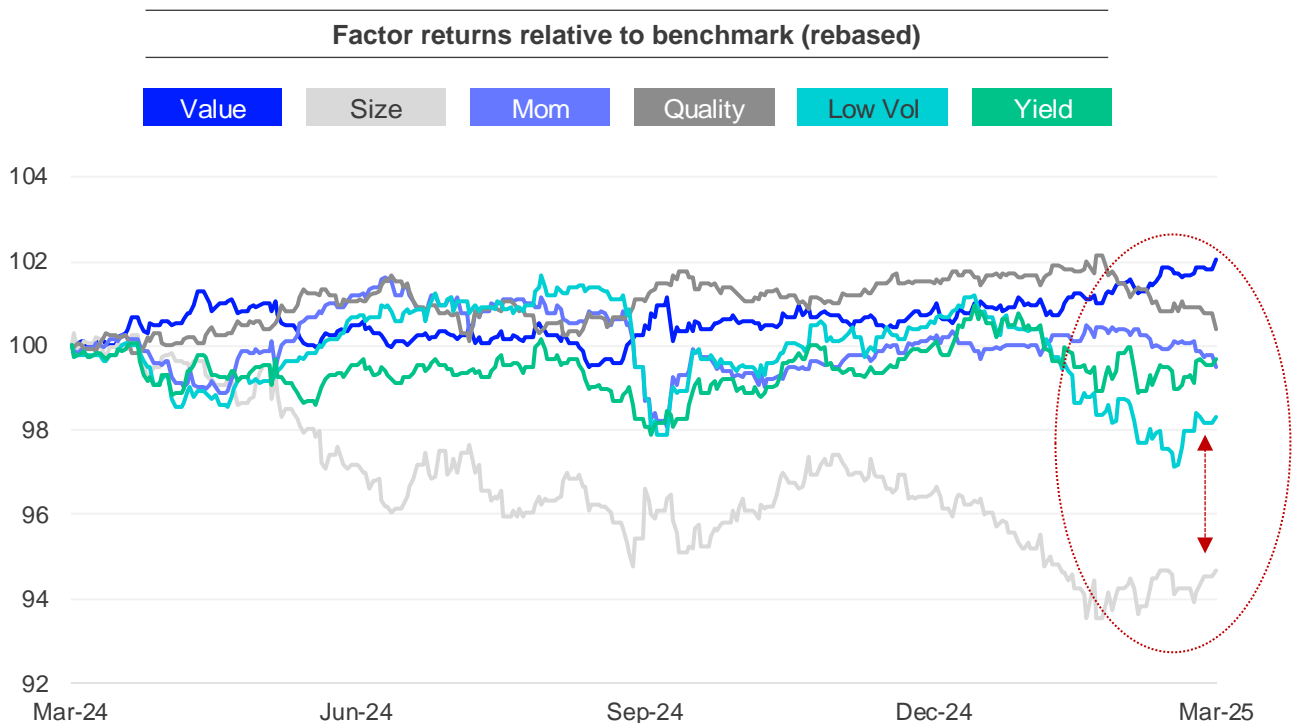


# Emerging Markets Equity Factor Insights

FIRST QUARTER | 2025

## Key Observations

- In Q1, most Emerging factors lagged the benchmark, except Value. Low Vol and Size lagged the most.
- Overweights to Financials and Discretionary, and underweights to Tech helped factor relative performance. Value also saw positive selection effects within Financials and Discretionary.
- Over 12M, most factors outperformed the benchmark, with Value leading at the end of Q1. Size continued to lag.
- Absolute factor forward P/Es for Value and Size expanded during Q1, while they contracted for other factors. Most remained expensive relative to history.
- In relative terms, Value, Quality and Yield traded slightly above long-term average P/Es.



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

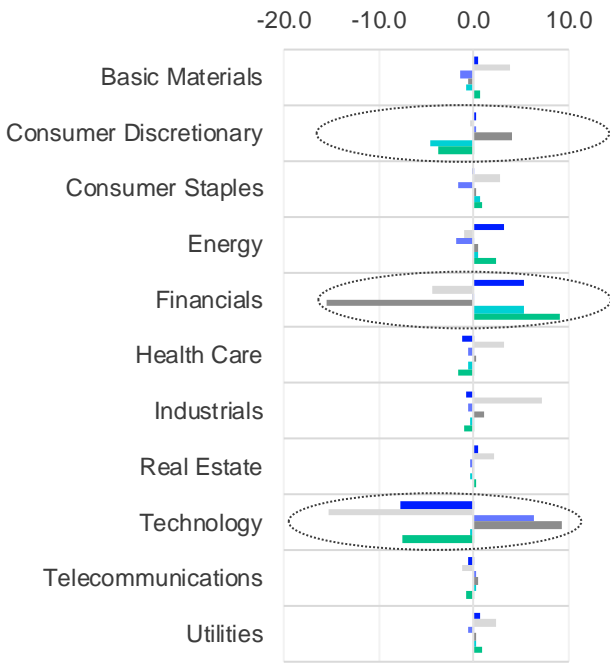
# Emerging Markets Factor Performance & Industry Attribution — 3M

## Value is sole factor to outperform

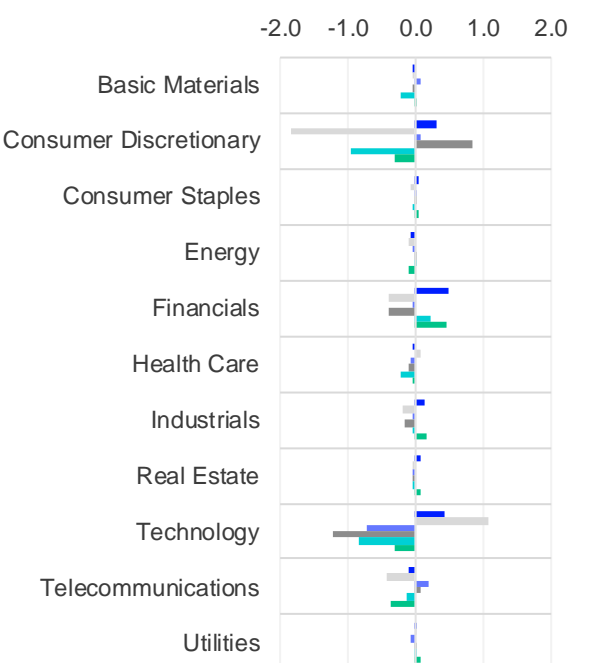
In Q1, Value was the sole factor to outperform the Emerging index. Low Vol and Size lagged the most. Relative exposure to Tech, which posted losses for the quarter, resulted in large allocation effects. Most factors, except Size, saw negative selection within Tech. However, Value was helped by a positive allocation effect from Tech (among others) and positive selection within Financials and Discretionary.

2025 Q1	Relative to Benchmark (TR %)					
FTSE Emerging	Value	Size	Mom	Quality	Low Vol	Yield
2.0%	1.1	-2.0	-0.6	-1.1	-2.3	-0.4

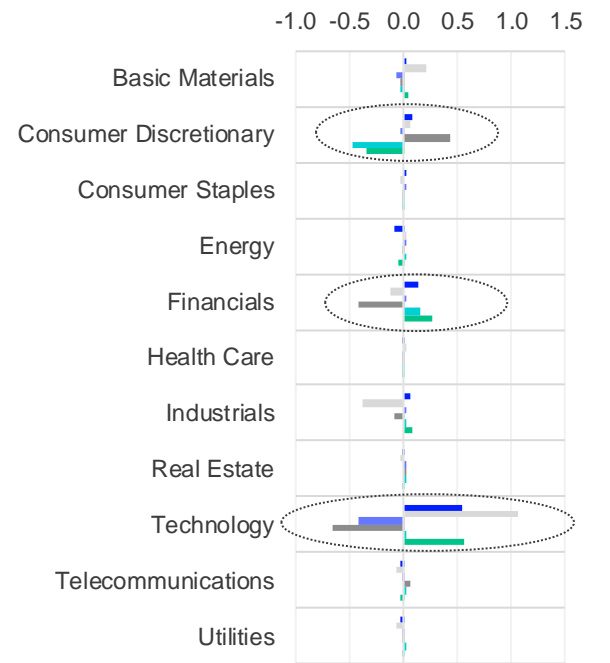
Industry active weights, 3M average



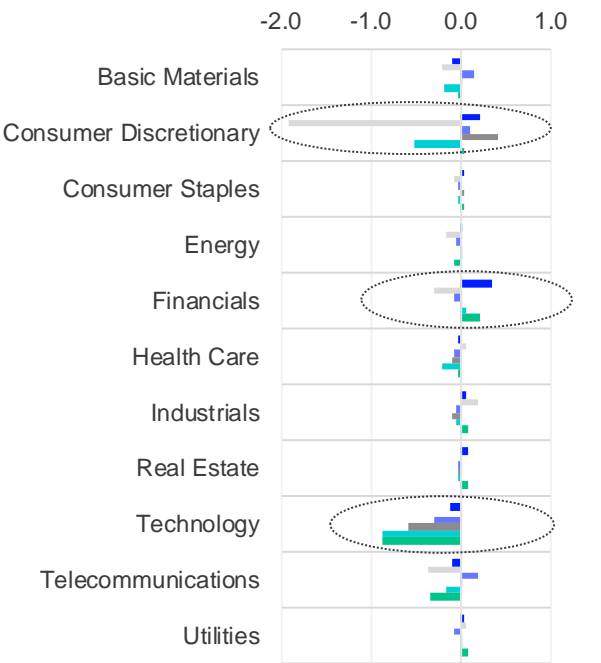
Total industry effects, 3M



Industry allocation effects, 3M



Stock selection within industry, 3M



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

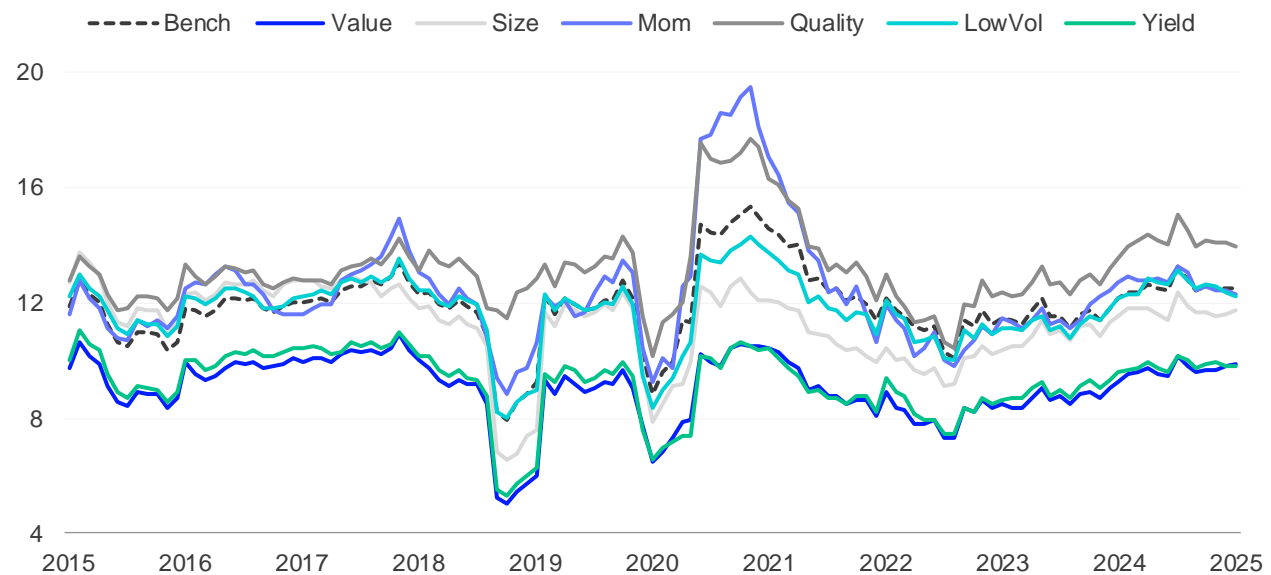


# Emerging Markets Factor Valuations

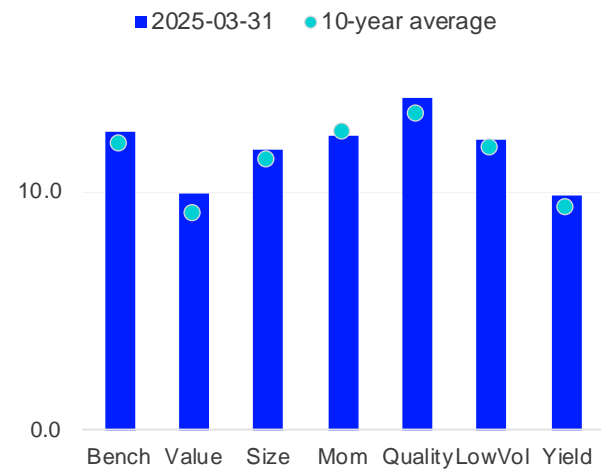
In Q1, absolute factor forward P/Es for Value and Size expanded, while they contracted for other factors. At quarter-end, they remained expensive relative to their 10-year average, except for Momentum. The Quality/Value premium narrowed over the quarter to 41%, less than its long-term average.

In relative terms, Value, Quality and Yield traded slightly above their 10-year average relative P/Es.

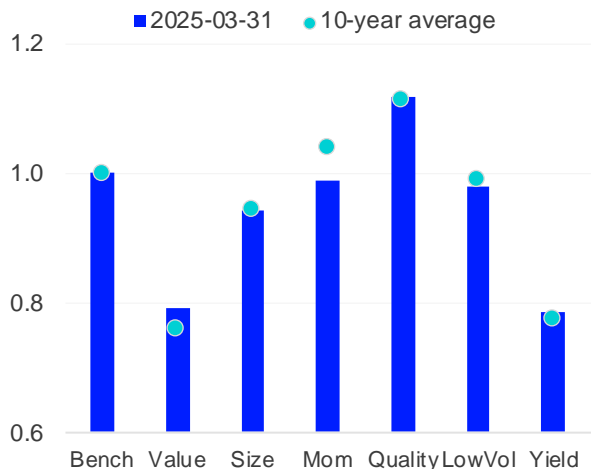
FTSE Emerging – Absolute 12M forward P/Es



Current Absolute 12M forward P/Es vs history

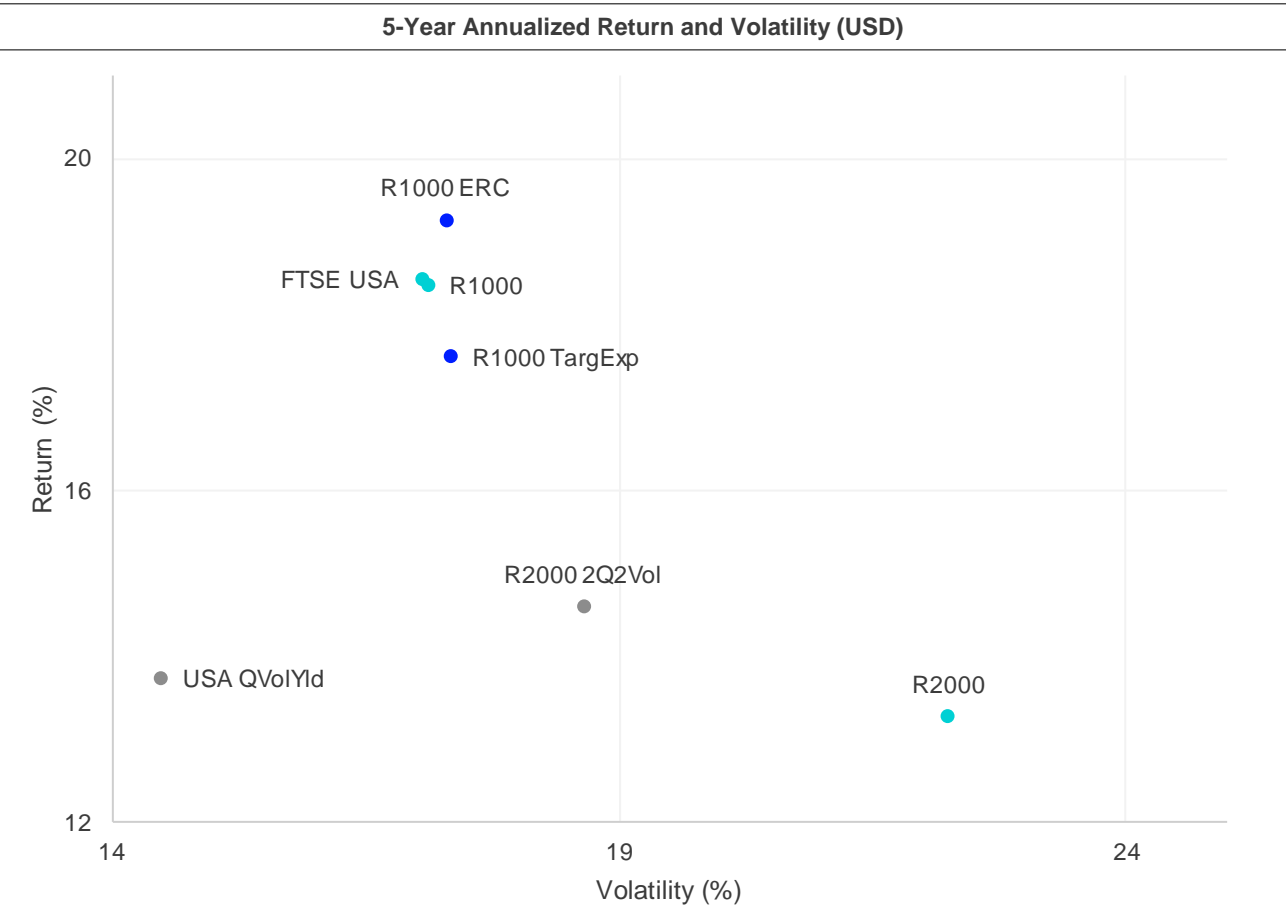


Current Relative 12M forward P/Es vs history



Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

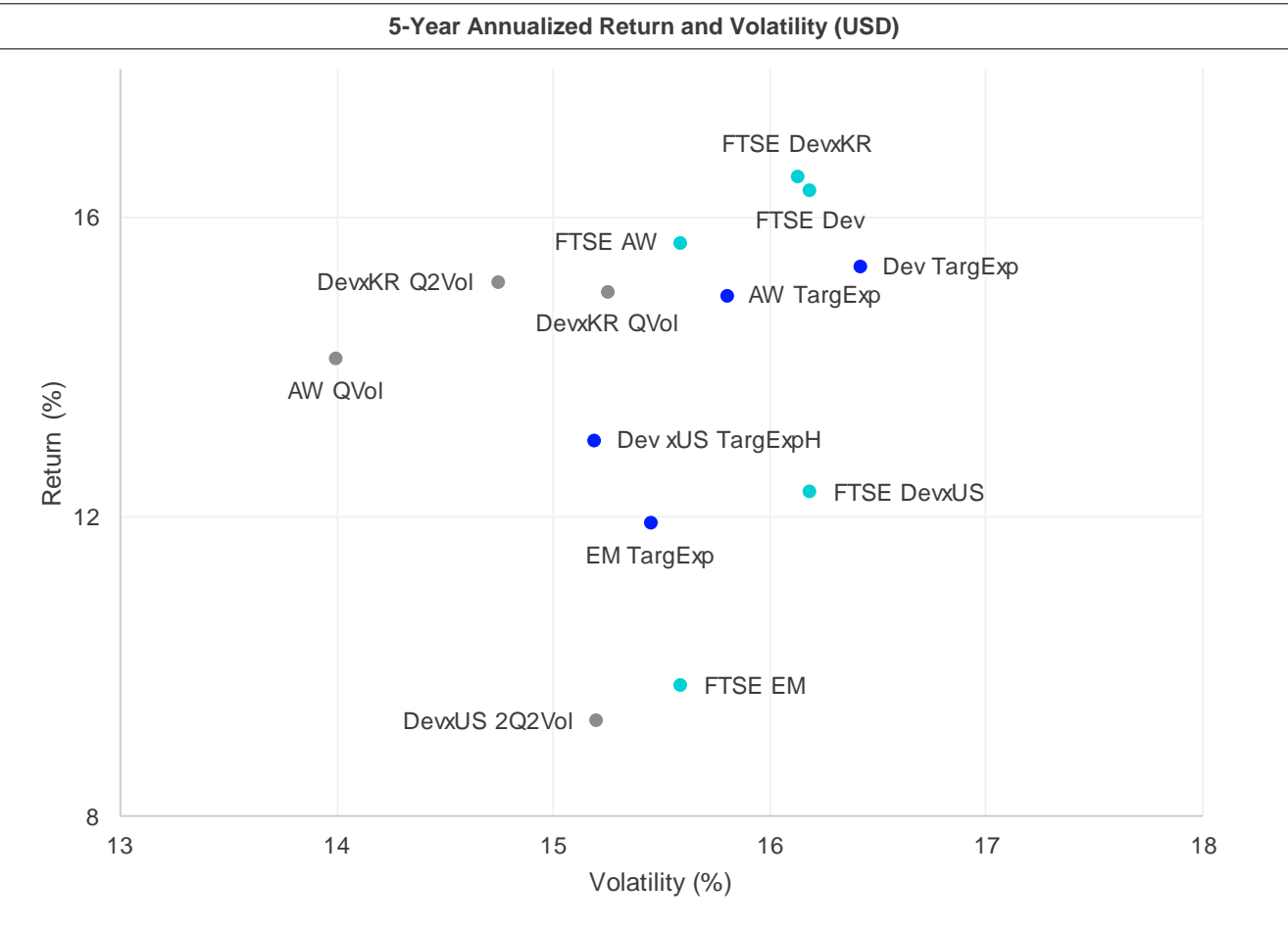
FTSE Russell US Factor Index Risk/Return Performance



Annualized Returns and Volatility (USD %)					
Label	Index	1-yr return	5-yr return	5-yr volatility	
Diversified Indices					
● R1000 ERC	Russell 1000 Comprehensive Equal Factor Risk Contribution	4.7	19.3	17.3	
● R1000 TargExp	Russell 1000 Comprehensive Target Exposure Factor Index	1.5	17.6	17.3	
Defensive Indices					
● R2000 2Q2Vol	Russell 2000 2Qual/2Vol 3% Capped Factor Index	5.8	14.6	18.6	
● USA QVolYld	FTSE USA Qual/Vol/Yield Factor Index	10.0	13.7	14.5	
Benchmarks					
● FTSE USA	FTSE USA Index	8.5	18.5	17.1	
● R1000	Russell 1000® Index	7.8	18.5	17.1	
● R2000	Russell 2000® Index	-4.0	13.3	22.2	

Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

FTSE Russell Global Factor Index Risk/Return Performance



Annualized Return and Volatility (USD %)					
Label	Index	1-yr return	5-yr return	5-yr volatility	
Diversified Indices					
● AW TargExp	FTSE All-World Comprehensive Target Exposure Factor Index	2.3	15.0	15.8	
● Dev TargExp	FTSE Developed Comprehensive Target Exposure Factor Index	2.0	15.4	16.4	
● Dev xUS TargExpH	FTSE Developed ex US Comprehensive High Target Exposure	10.6	13.0	15.2	
● EM TargExp	FTSE Emerging Comprehensive Target Exposure Factor Index	10.3	11.9	15.5	
Defensive Indices					
● AW QVol	FTSE All-World Target Exposure Qual Vol Factor Index	8.7	14.1	14.0	
● DevxKR Q2Vol	FTSE Developed ex Korea Qual/2 Vol Factor Index	8.4	15.1	14.7	
● DevxKR QVol	FTSE Developed ex Korea Qual/Vol Factor Index	7.1	15.0	15.2	
● DevxUS 2Q2Vol	FTSE Developed ex US 2Qual/2Vol 5% Capped Factor Index	0.4	9.3	15.2	
Benchmarks					
● FTSE AW	FTSE All-World Index	7.8	15.7	15.6	
● FTSE DevxKR	FTSE Developed ex Korea Index	7.7	16.6	16.1	
● FTSE DevxUS	FTSE Developed Ex US Index	4.4	12.3	16.2	
● FTSE Dev	FTSE Developed Index	7.2	16.4	16.2	
● FTSE EM	FTSE Emerging Index	12.5	9.8	15.6	

Source: FTSE Russell and LSEG. All data as of March 31, 2025. Past performance is no guarantee of future results.

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## Notes and Glossary

### Notes on Market Maps Factor Data

FTSE Russell employs a bottom-up “tilting” approach to create factor indices. Factor scores are calculated that range from 0 to 1, with higher scores being better. The underlying cap-weighted benchmark weights are multiplied by these scores, and this product is renormalized to give the factor index weights.

Intuitively, the index weights start with the benchmark weights and “tilt” towards stocks with better factor scores and away from stocks with worse factor scores. The magnitude of the index’s factor exposure can be controlled by raising the factor scores by an exponent, with higher exponents yielding higher factor exposure. All data in this Market Maps Equity Factor Insights report is based on hypothetical factor indicators that use an exponent (or tilt size) of 1 and are rebalanced monthly. For more Information on Factor Index Ground Rules and Construction Methodology, see: [FTSE Global Factor Index Series Ground Rules v4.4, January 2019](#)

The base indices used in this report are the FTSE USA, FTSE UK, FTSE Developed Europe ex UK, FTSE Japan, FTSE Developed Asia Pacific ex Japan, and FTSE Emerging indices.

### Glossary of Terms

#### VALUE

**Earnings Yield (E/P)** – Latest reported annual earnings per share divided by full market capitalization. Earnings are based on net income from continuing operations, before amortization of goodwill and extraordinary items and after tax, minority interests, preferred dividend, at fiscal year end.

**Cash-Flow Yield (CF/P)** – Latest reported annual cash-flow yield is cash earnings per share divided by full market capitalization. Cash earnings are earnings plus depreciation, amortization, deferred taxes, other non-cash items, extraordinary item and changes in working capital for the most recent fiscal year.

**Sales-to-Price (S/P)** – Latest annual sales from continuing operations per share for the full fiscal year divided by full market capitalization. Sales values are generally as reported but occasional adjustments may be made. They are also computed for banks, insurance and other financial companies based on appropriate definitions. Sales are attributed across different share classes, where common equity is comprised of more than one share type.

**MOMENTUM:** Measure of changes in total stock returns in local currency terms over those of the previous year excluding the most recent month.

**SIZE:** Size is calculated as the natural logarithm of each company’s full market capitalization in US dollars.

#### QUALITY

##### PROFITABILITY

**Return on Assets (ROA)** – Net income divided by average total assets, calculated relative to the regional median stock level.

**Delta Turnover** – Net sales revenue divided by average total assets, calculated relative to the regional median stock level.

**Accruals** – Net operating assets (NOA) for the most recent reporting period minus NOA from the previous reporting period, as calculated with following formula: Change in working capital + change in non-current net operating assets + change in net financial assets ([short-term investments + long-term investments] – [long-term debt + short-term debt + preferred stock]), divided by average total assets. Calculated relative to the regional median stock level.

##### LEVERAGE

**Leverage Ratio** – Operating cash flow divided by total debt. A company whose net operating cash flow is greater than total debt or has no debt is assigned a maximum Leverage Ratio of one.

**VOLATILITY (LOW):** Standard deviation of five years of weekly local total returns prior to the rebalance month. A minimum of 52 weekly return observations are required to calculate volatility.

#### YIELD

**Dividend Yield 12M** – Calculated as the natural logarithm of each company’s 12-month trailing dividend yield.

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For over 40 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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