# Russell US Indexes Spotlight

QUARTERLY REPORT | **JULY 2026**

## Small cap rotation is sustained in Q2, but Value lags Growth with Tech's rebound and Energy's pullback

**Small caps outperformed large caps, with broad industry contribution**

The rotation into small caps and broadening of the US equity rally continued into Q2. The Russell 2000 saw notable contributions from Tech, Health Care, Industrials and Financials amidst a resilient US economic environment.

**Value lagged Growth partly due to the Tech-Energy performance divergence**

Both large-cap and small-cap Value indices trailed their Growth counterparts unlike over the last 2-3 quarters. Tech's strong rebound in Q2, albeit with greater investor scrutiny, benefitted Growth. Energy was a drag on Value indices.

**US macro outlook points to potentially higher rates and volatility**

Q2 saw a decisive shift in Fed outlook from a rate cutting cycle to expectations of 1x to 2x rate hikes in 2026, as inflation remained sticky. The expected change in the Fed's communication strategy may add another layer of market uncertainty.

**In Focus – AI tailwinds shift direction to second-order beneficiaries**

Within Tech, there were at least two lines of differentiation: between hardware and software; and within hardware, between the winners to-date (chipmakers) and the second-order beneficiaries supporting the AI build-out. Russell 2000 benefited.

**Earnings outlook more resilient for large caps under new macro regime**

The earnings outlook for larger equities (Russell 1000 and style cohorts; Top 200) was revised up over Q2, alongside larger positive revision ratios when compared to the smaller cap segments. Larger companies with healthier balance sheets tend to fare better under tighter financial conditions.

**Valuation changes partly reflect differentiation within Tech**

12M forward P/Es rerated for most Russell segments but Russell 2000 Growth saw the largest valuation expansion. The 12M forward P/E derated slightly for Russell 1000 Growth, likely reflecting the evolution of the AI theme.

**IPO inclusions pick up slightly after Q1 dip; still within structurally lower trend**

Amid sustained uncertainty and equity volatility, IPO inclusion activity in the Russell indices ticked up slightly quarter-on-quarter but was still low by historical standards.

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Chart 1: The AI-fueled Tech Hardware story was as much a small cap story YTD as it has been for large caps over a longer period.

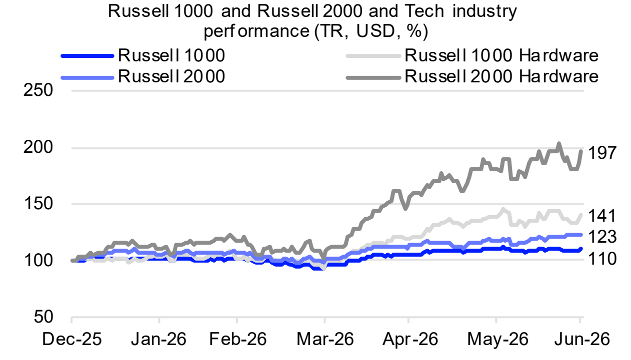
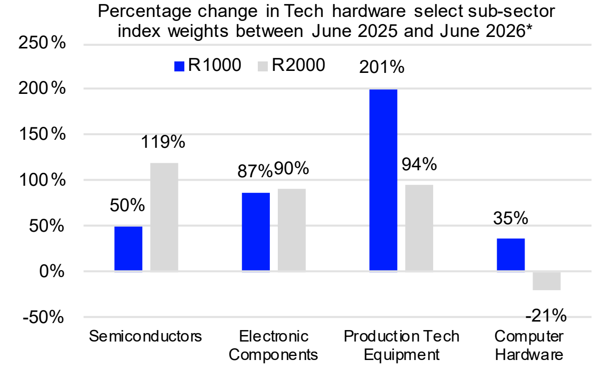



Chart 2: From a smaller base, small-cap Tech Hardware sectors saw phenomenal growth over the last 12 months.




Source: FTSE Russell and LSEG. Data as of June 30, 2026. *as of 22 June 2026, prior to Russell Reconstitution. Past performance is no guarantee of future results.

## Performance – Small caps remain on top, but Value lags Growth in Q2

In Q2, the small-cap Russell 2000 index outperformed the large-cap Russell 1000 index. This was consistent with the rotation into small caps and a broadening of the equity rally that we have seen, approximately, over 12M.

While Value outperformed Growth YTD and over 12M, in Q2, both large-cap and small-cap Growth indices outperformed their Value counterparts. This was partly due to the Tech industry's strong rebound in Q2 after the broad-based equity pullback in March and the software disruption related wobbles in January-February. With a higher weight in Tech, the large-cap and Growth indices benefitted more from this rebound than the small-cap and Value indices. Conversely, the Energy industry's losses due to oil prices sliding during Q2 was a drag on Value indices that have a higher relative weight in Energy (see Appendix pgs. 8-10 for industry returns and contributions.)

The Tech industry and AI tailwinds were an important driver of returns across size and style indices. However, two lines of differentiation have emerged within the AI theme: between Software (potential disruptees, AI spenders) and Hardware (those booking revenue today); and within Hardware, between the semiconductor manufacturers that have had a huge run-up in performance already and the second-order beneficiaries of AI capex, such as the makers of chip manufacturing and testing equipment, providers of networking and connectivity to data centers. These second-order beneficiaries may be spread across Tech, Telecoms and Industrials. Russell 2000 benefited from this trend (see pg.4 *In Focus* section for a more detailed analysis).

It is important to note that Russell 2000's performance was more broad-based than just in Tech. Small-cap Pharma & Biotech and Banks were other substantial contributors to returns. A key question for investors is whether the rotation into small caps and Value has further room. That depends on two factors, among others: how the AI theme evolves, and the US macro and interest rate policy outlook.

Chart 1: Russell 2000 continued to outperform Russell 1000 in Q2 as it did YTD and over 12M. However, the rotation into Value that had begun 2-3 quarters ago took a pause in Q2, when both large-cap and small-cap Growth outperformed their Value counterparts. The Technology-Energy performance divergence partly contributed to this shift in style leadership in Q2.

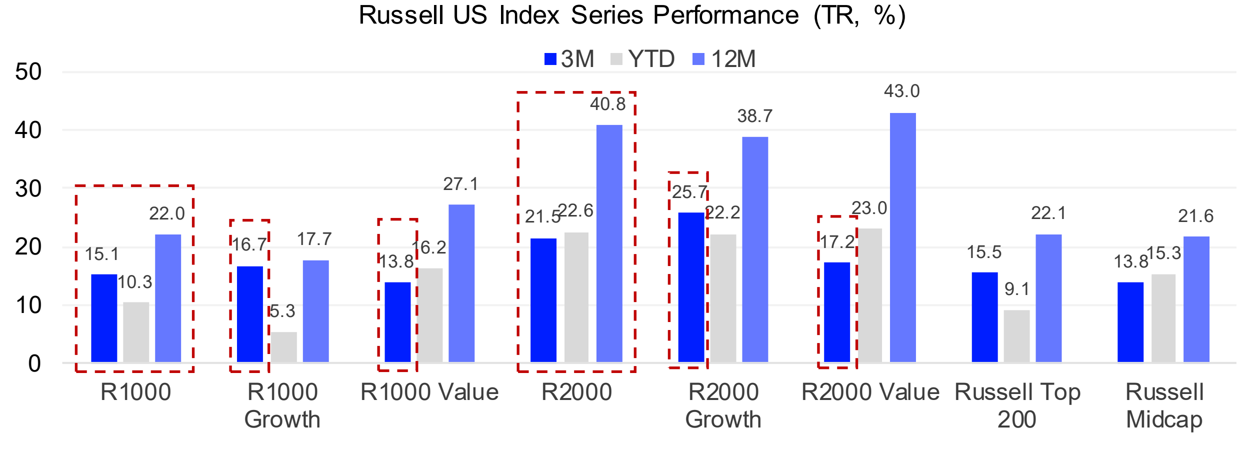
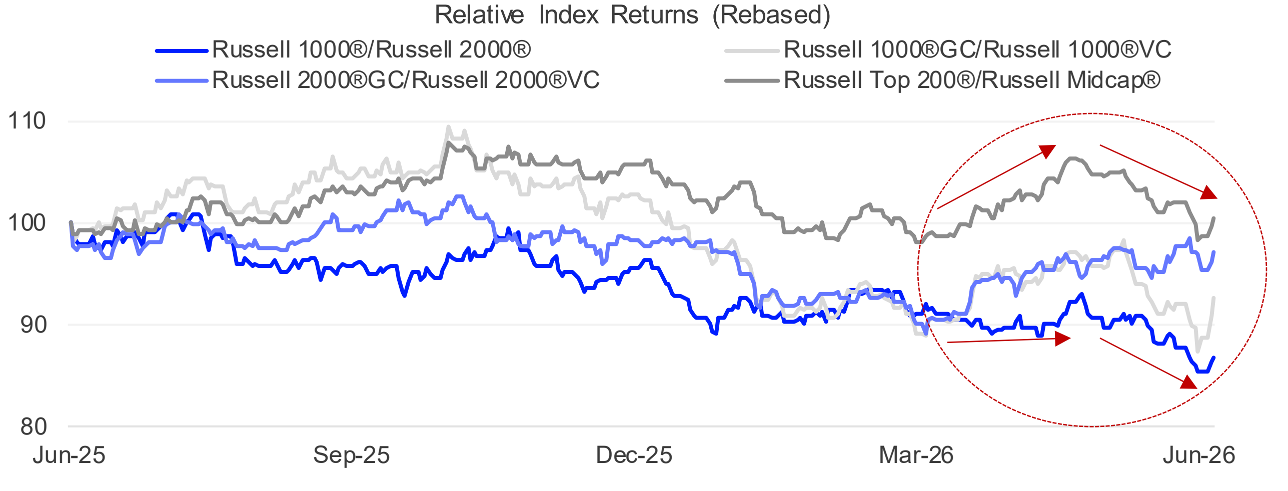



Chart 2: Early on in Q2, Tech rebounded strongly, with a sustained divergence in tech hardware and software's performance. The rebound helped the relative performance of larger stocks and the Growth style over Value. However, even tech hardware experienced a few wobbles at the end with renewed concerns around valuations and profit outlooks, and likely some profit-taking.




Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results.

## Macro Drivers – The new macro points to potentially higher rates and volatility

**While growth has stabilized, inflationary pressures point to a higher rate outlook.**

Q2 saw a dramatic reversal in expectations as regards energy prices and inflation. While markets had oscillated during the quarter between optimism and pessimism about a Middle East peace deal, the signing of the US-Iran memorandum of understanding (MoU) in June seemed to provide the most tangible prospects at the time for normalization of energy supplies. Oil and related commodity prices slid (Chart 1) in response alongside US inflation expectations (Chart 2). Realized CPI inflation was still sticky, including core CPI inflation, potentially indicating more entrenched price pressures. (At the time of writing, US-Iran hostilities had resumed, with the volatility reminiscent of the Q2 macro backdrop. June CPI was lower than expected providing breathing room for policymakers who remain on the watch for inflationary pressures.)

The US's forecast GDP stabilized after declining during March and April (Chart 3), and PMIs remained expansionary. The main growth driver leading to an economy running hot has been AI capex. June's job growth numbers were below expectations with prior month estimates revised down, offering a mixed growth picture overall. However, the latter should help moderate concerns around prices pressures. This was reflected in the market's outlook for Fed policy. After the June meeting where the policy rate was held, but where the new Fed chair reiterated its focus on price stability, markets priced in two 25 bps rate hikes in 2026. This moderated after the release of the June job growth numbers and CPI prints to between one and two hikes. Still, the shift in Fed policy outlook from a rate-cutting cycle to rate hikes led to a further flattening of the US yield curve (Chart 4). Rising short-term yields could potentially become a headwind for more interest-rate sensitive pockets of the markets, all else equal.

Overall, Q2 saw considerable volatility in US equities; this backdrop continued into Q3. The Fed's pared back communications approach may add another layer of uncertainty, augmenting the potential for volatility.

Chart 1: Energy prices* moderated substantially during Q2 as more tangible prospects for a Middle East peace deal emerged.

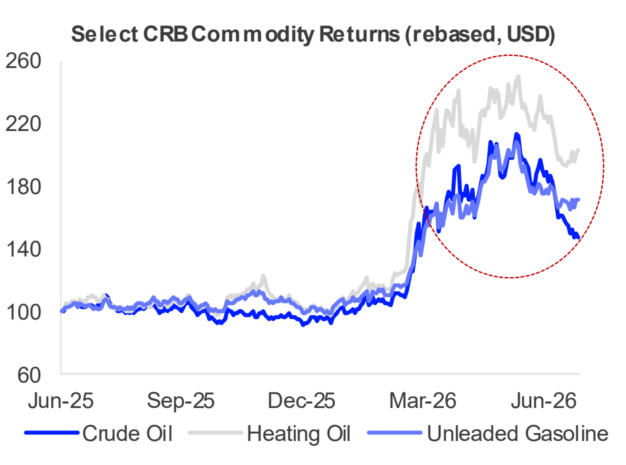



Chart 2: Short-term inflation expectations fell just as dramatically as they rose. Are markets too sanguine about the overall price impact?

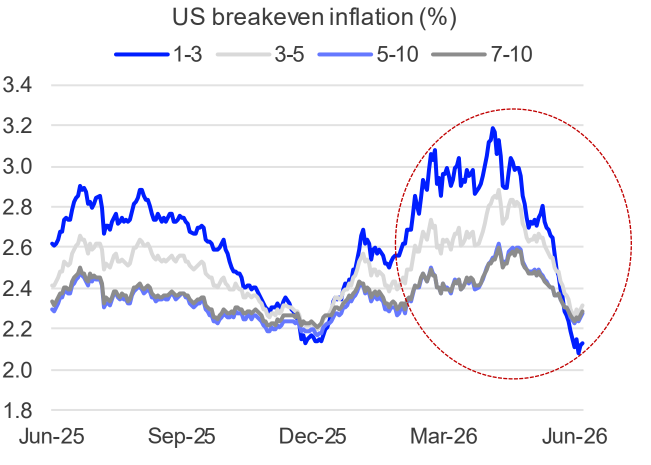



Chart 3: The US's 2026 GDP growth outlook had declined immediately following the crisis but has stabilized since April.

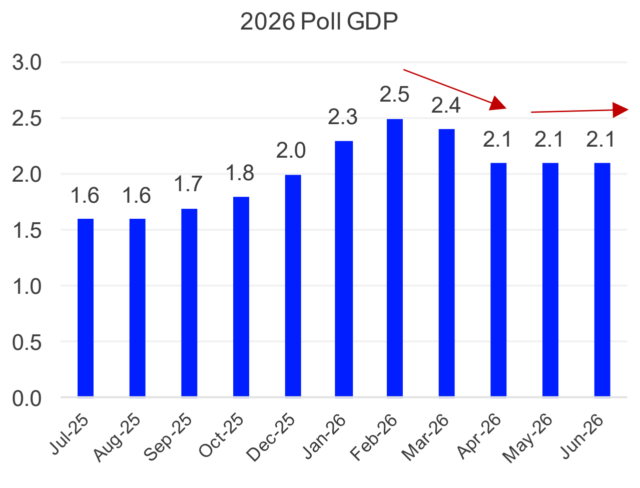
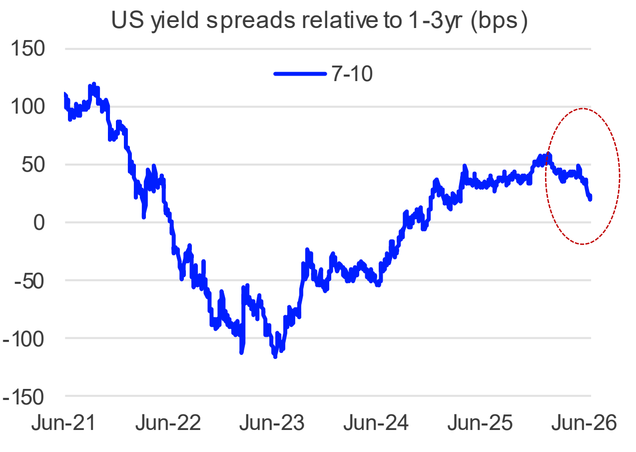



Chart 4: The US yield curve has bear flattened since the beginning of 2026 (-31 bps), but by almost -20 bps just in Q2.




Source: FTSE Russell and LSEG. All data as of June 30, 2026. *based on front-end futures prices. Past performance is no guarantee of future results.

## In Focus – AI tailwinds shift direction to second-order beneficiaries

The AI theme is evolving. While AI capex continues to be a driver of equity returns, the market is exhibiting greater scrutiny as regards the profit outlook on incremental investment. AI winners thus far face a higher hurdle for delivering further equity upside.

We have seen the market differentiate within the AI theme along two lines: hardware vs. software, and; AI winners thus far vs. second-order beneficiaries that have not already realized their upside potential. For example, while chip manufacturers have already seen an incredible runup, companies supporting that process with chip manufacturing and testing equipment may still have upside left. Similarly, companies that are part of the value chain for data center buildouts, such as network and connectivity providers, are also potential near-term beneficiaries. The Russell 2000 has more recently benefitted from this trend.

Potential beneficiaries span multiple industries across Tech, Telecoms, Industrials etc. Here, we look at how this theme has played out within the ICB Tech industry (see pg.12 for detailed classification). Chart 1 shows prior three semester returns for the large-cap and small-cap ICB Software and Hardware sectors. R2000 Tech sectors steadily grew to outpace R1000 sectors in H1 2026, particularly in Hardware. R2000 Hardware's weight in the parent index is still small at c.9% compared to R1000 Hardware's c.27% weight, but many of its sub-sectors have seen outstanding growth relative to starting weights over the last 12M (Chart 2).

Charts 3 and 4 show select Software and Hardware sub-sector returns, respectively. Note the difference in scale, reflecting the eye-popping returns Hardware sub-sectors have experienced YTD. R2000 Software sub-sectors outperformed R1000 Software sub-sectors in H1 2026, sometimes by losing less. Among Hardware, several R2000 sub-sectors kept pace with or outperformed R1000 counterparts in H1 2026, especially in Semiconductors.

Chart 1: Russell 1000 and Russell 2000 Tech sector performance (TR, USD, %)

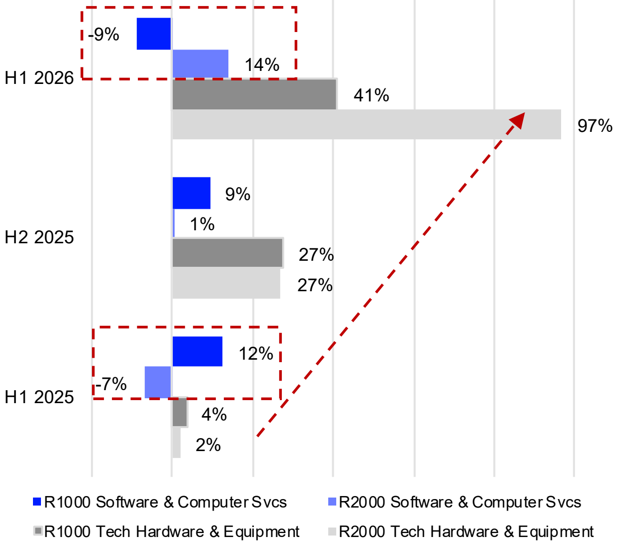



Chart 2: Russell 1000 and Russell 2000 Tech hardware select sub-sector index weights (%)

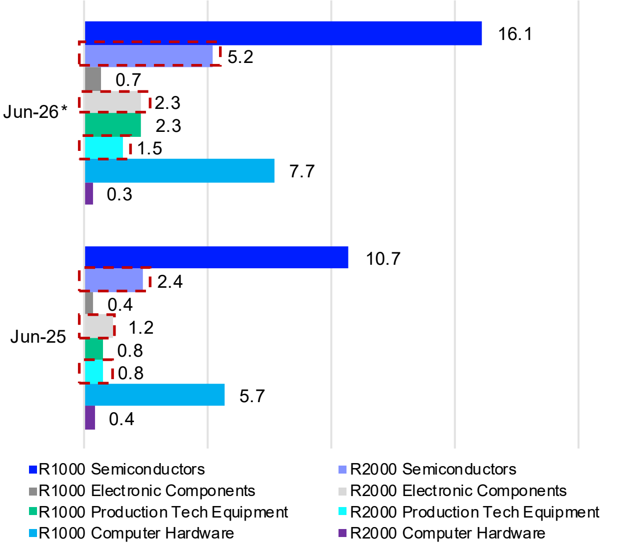



Chart 3: Russell 1000 and Russell 2000 Tech Software & Computer Services sub-sector performance (TR, USD, %)

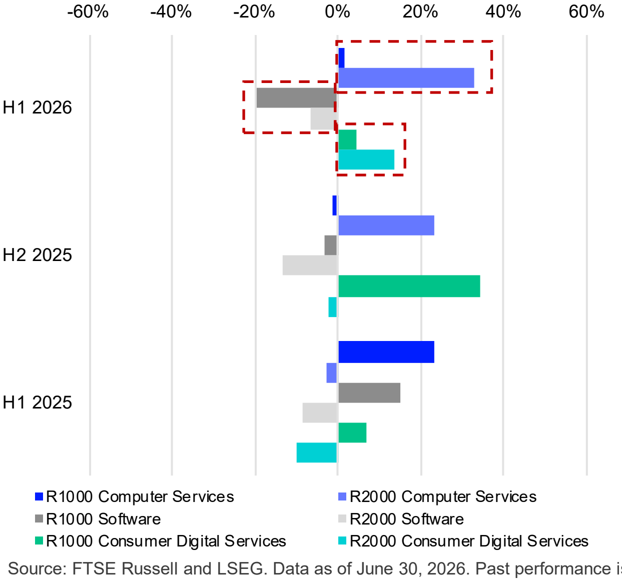
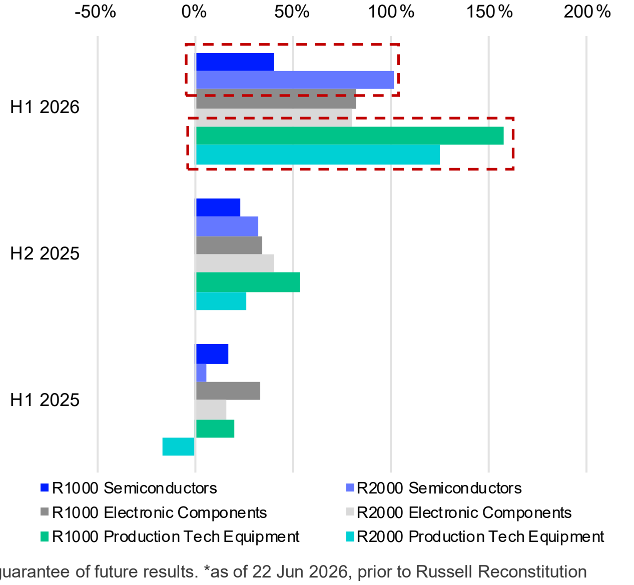



Chart 4: Russell 1000 and Russell 2000 Tech Hardware & Equipment select sub-sector performance (TR, USD, %)




Source: FTSE Russell and LSEG. Data as of June 30, 2026. Past performance is no guarantee of future results. *as of 22 Jun 2026, prior to Russell Reconstitution which altered sub-sector weights by month-end.

## Earnings Outlook – Earnings more resilient for large caps; revisions more conservative for small caps

A few important developments in Q2 likely impacted how forecast earnings growth evolved over the quarter. While the US growth outlook stabilized and forward-looking economic activity indicators (PMIs) pointed to an expansionary environment, the US monetary policy outlook decidedly shifted from a rate-cutting cycle to potential rate hikes in 2026. Further, AI tailwinds moved to boost second-order beneficiaries of the theme that may be found in the small-cap space.

12-month forecast earnings growth (IBES) rose over the quarter for the headline Russell 1000 index and its style segments, more so for Value than Growth. It also rose slightly for the Russell 2000 Growth index. However, forecast earnings growth was revised down for the Russell 2000 Value and the headline Russell 2000 index. This may reflect the market pricing in headwinds from tighter monetary conditions for small-cap equities.

Estimate revision ratios for Russell indices have been largely positive over Q2 (and since February-March when they were neutral or negative for most segments). Revision ratios rose over April and May but were lower in June, when more tangible prospects emerged for the resolution of the Middle East conflict but also a more hawkish Fed policy outlook.

Consistent with the idea that large-cap segments might be better positioned from an earnings standpoint in the face of a tighter monetary policy outlook, the largest positive revisions were for the Russell Top 200 and Russell 1000 and its style segments.

While small caps offer higher forecast EPS growth as might be expected with earlier stage companies, recent analyst sentiment as reflected in estimate revision ratios is more conservative for the Russell 2000 and its style cohorts.

Chart 1: 12-month earnings growth forecasts were revised up in June for Russell 1000 and its style segments compared to 3 mo ago, while they were revised down for Russell 2000 and its Value cohort consistent with the expectation that larger companies may fare better under tighter financial conditions. Forecast EPS growth for Russell 2000 Growth was slightly higher than 3 mo ago.

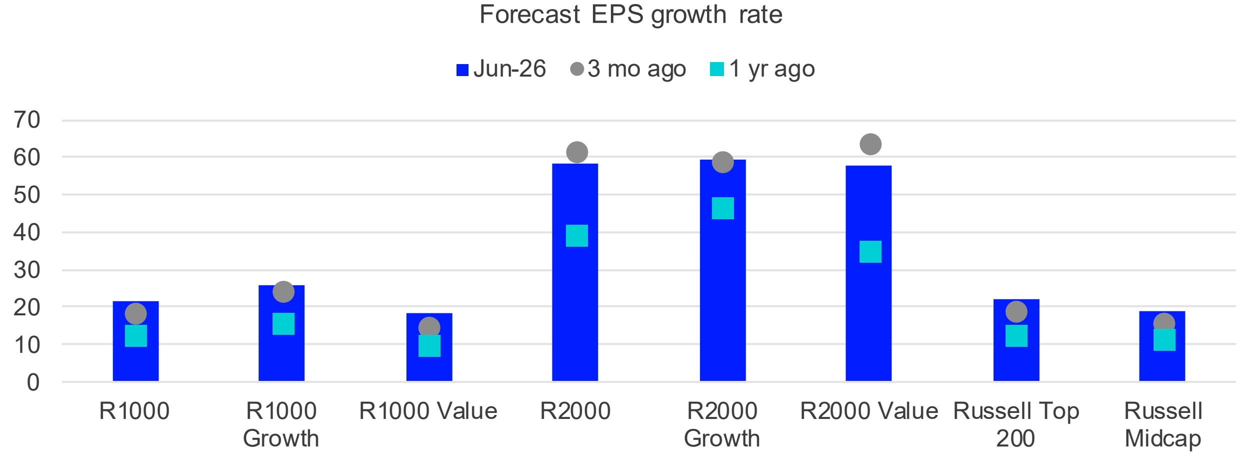
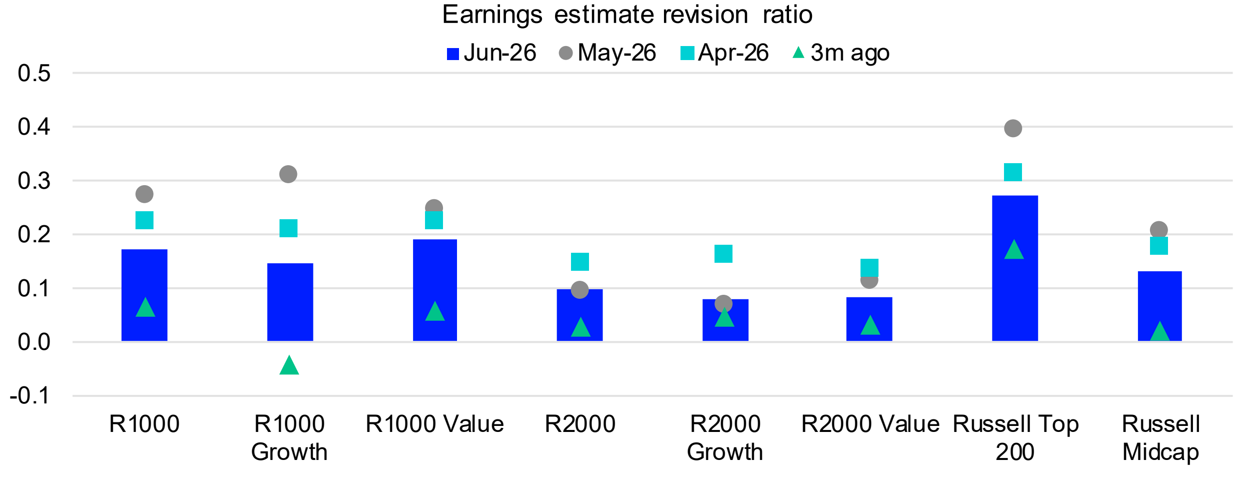



Chart 2: Earnings estimate revision ratios for Russell indices rose over April and May but were lower, albeit still positive, in June. The largest positive revisions were for the Top 200 and large-cap segments suggesting they might be better positioned from an earnings standpoint in the face of a tighter monetary policy outlook.




Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results.

# Valuations – Changes in Growth style P/Es may reflect evolution in AI theme

12-month forward P/Es (IBES) recovered over the second quarter for most Russell segments after the broad-based pullback in equities in March (Chart 1).

The exception was Russell 1000 Growth, which de-rated slightly over the quarter from 24.3x to 24.2x. Conversely, Russell 2000 Growth re-rated the most from 33.1x to 36.0x. This partly reflects market sentiment about the evolution of AI-related tailwinds and how they are impacting different pockets of the market (see pg.4 for a more detailed discussion.)

While large-cap Tech had seen an incredible run up over the last two years, valuation concerns began to emerge around mid-2025 with the Tech industry and AI related stocks seeing several wobbles over the last 12M. And forecast P/Es have corrected notably from 1-year ago levels for the Russell 1000 Growth (-4.0x), Russell Top 200 (-2.4x) and Russell 1000 (-2.0x) indices. Conversely, as US monetary conditions eased over 12M and the equity rally broadened, the Russell 2000 Value index re-rated the most (+2.3x) from a year ago.

A look at return decomposition YTD for the Russell 1000 (Chart2) and Russell 2000 (Chart 3) indices tells a slightly more granular story. While EPS growth has remained resilient for Russell 1000, P/Es started to moderate in January-February alongside AI-related software disruption worries. While P/Es rebounded in April and May, they once again derated sharply and detracted from the large-cap index's returns in June as chip stocks came under pressure with the bar for further upside quite high.

The Russell 2000, whose Tech industry composition looks slightly different from the Russell 1000's, saw a more modest derating in February and June that helped total returns even as its EPS growth has been slightly more volatile month-on-month (which may be expected for small-cap companies).

Chart 1: 12M forward P/Es are in line with 3-month ago levels for the large-cap Russell indices, while they re-rated more for the small-cap Russell segments. This is likely due to a combination of large Tech valuation concerns, and conversely, small Tech beneficiaries of the AI theme, plus a resilient and supportive growth environment for small caps over Q2.

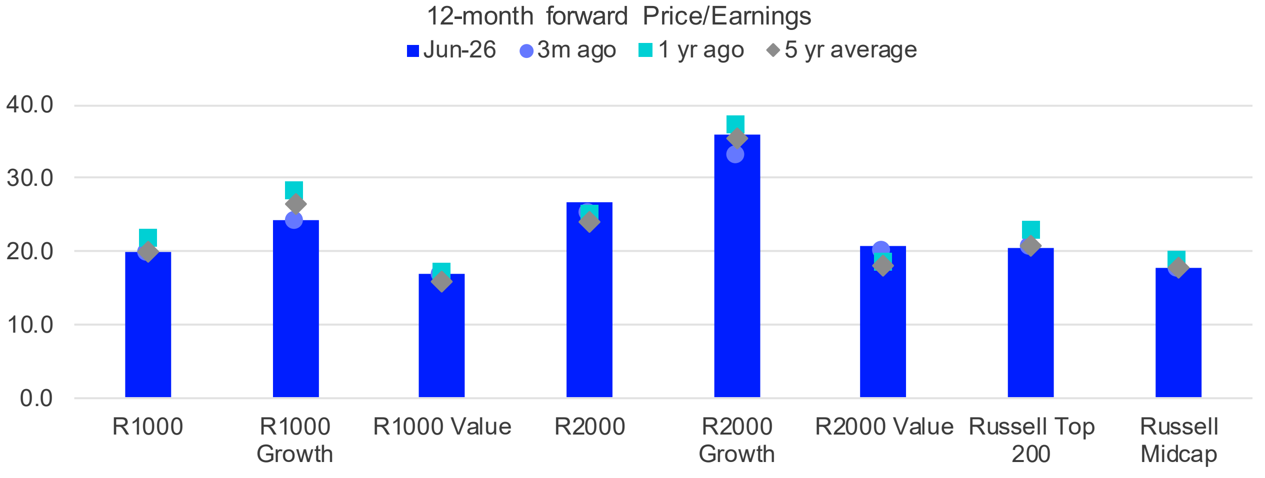



Chart 2: US large caps began derating in Jan-Feb with software disruption concerns; P/Es moderated further in June as chip stocks came under pressure as well (total return shown in box).

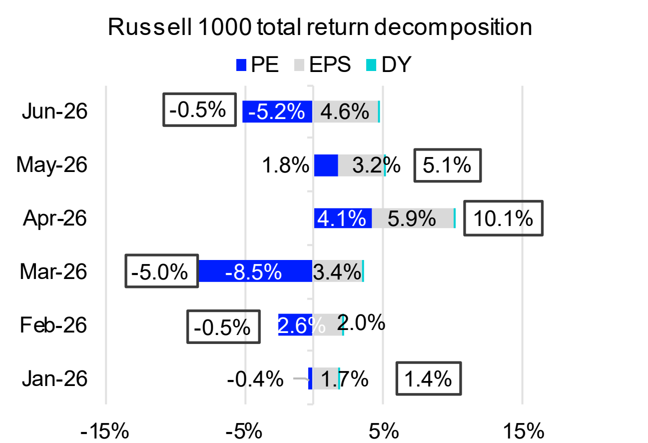
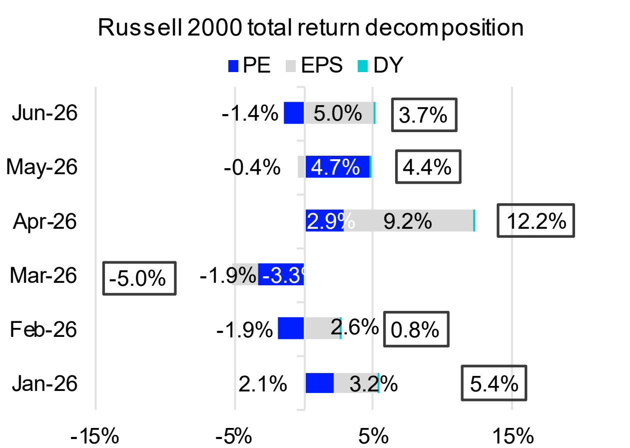



Chart 3: Among small caps, the valuation derating has been more modest than among large caps, partly owing to a different Tech industry composition of the two indices (total return shown in box).




Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results. Note: Return decomposition uses 12M forward P/E to calculate implied EPS from the price index before calculating the change in these variables. Dividend yield (DY) is the residual between total return and price return.

## IPO Additions – IPO inclusions pick up in Q2; stay within lower trend of last 4 years

IPO activity improved in 2026 compared to a year ago, but value has been concentrated in very large offerings driven primarily by the technology and AI themes. However, the application of new technological trends across sectors such as biotech may be another driver. Healthcare/biotech IPOs, while not as large as tech-related offerings, were more numerous, with investors still showing a preference for more mature companies.

IPO inclusions in the Russell 1000 and Russell 2000 indices dipped in Q1 with 11 inclusions, but recovered in Q2 with 22 inclusions, 17 of those in the small-cap index. Broadly, the structural decline in IPO inclusion activity over the last four to five years may reflect the trend of companies staying private for longer.

The 17 IPO inclusions in the Russell 2000 were distributed across Health Care (8), Consumer Discretionary (2), Industrials (2), Basic Materials (2), Energy (2) and Consumer Staples (1). Russell 1000 saw inclusions in Energy (2), Industrials (1), Real Estate (1) and Telecoms (1), the latter being the inclusion of SpaceX (which primarily draws its revenue from Starlink as of June 2026, influencing its classification as a Telecoms company.)

Chart 1: While the number of IPOs included in the Russell indices improved quarter-on-quarter in Q2, it remained within the lower band of IPO inclusions seen since 2021, partly reflecting the trend of companies staying private for longer.

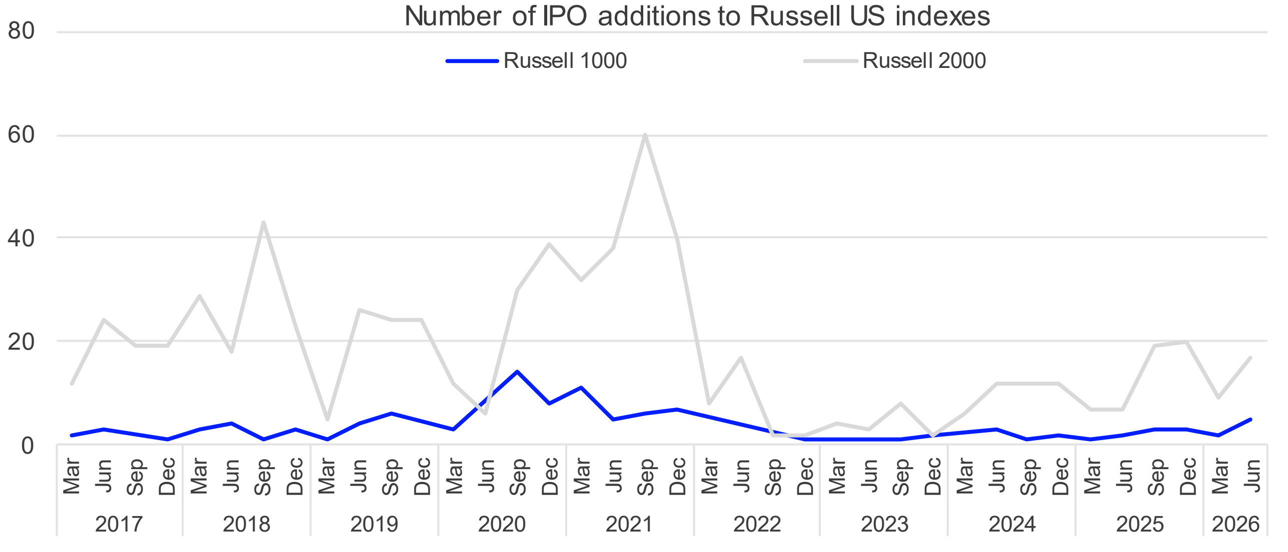
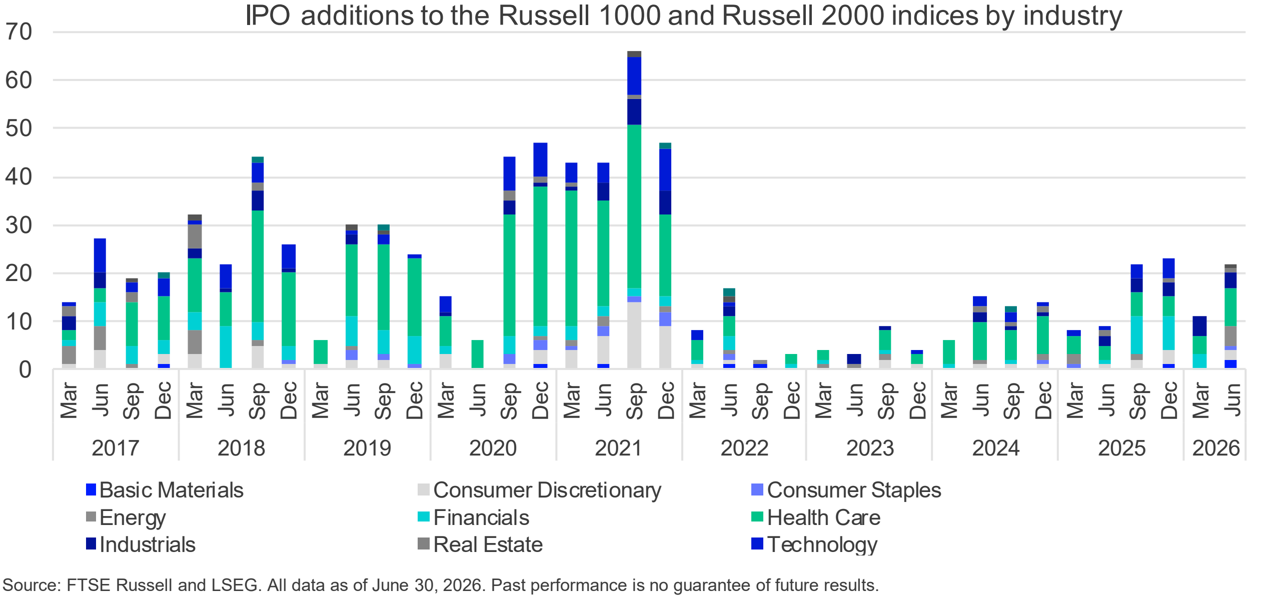
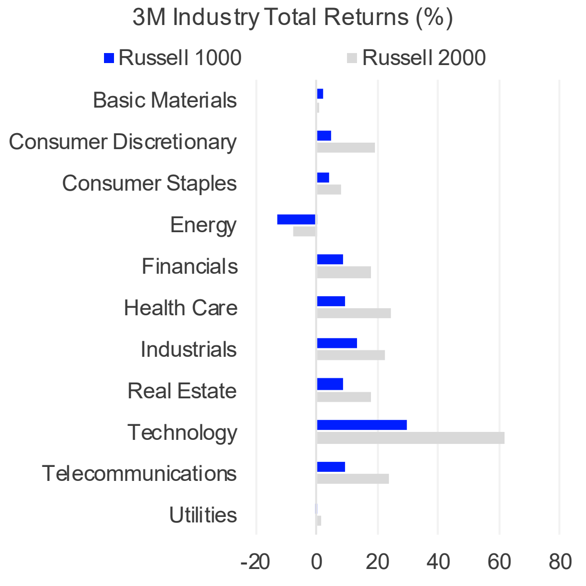


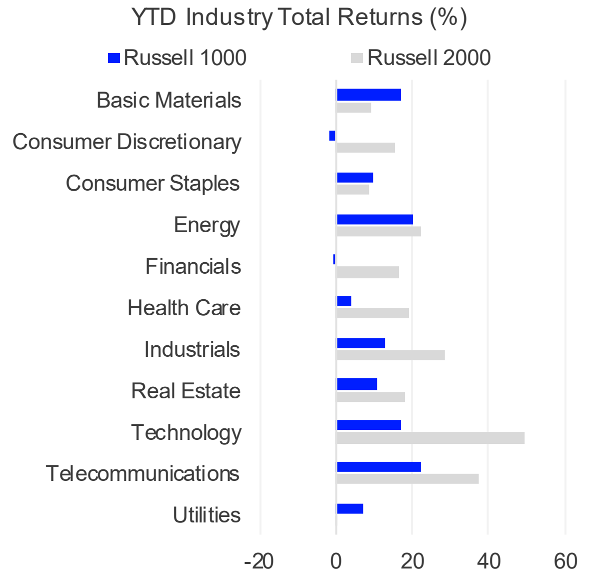

Chart 2: Consistent with historical IPO inclusion trends, Health Care led with 8 inclusions in Russell 2000, followed by Energy and Industrials with 4 and 3 inclusions, respectively, across large- and small-cap indices. SpaceX constituted the inclusion in Telecoms.

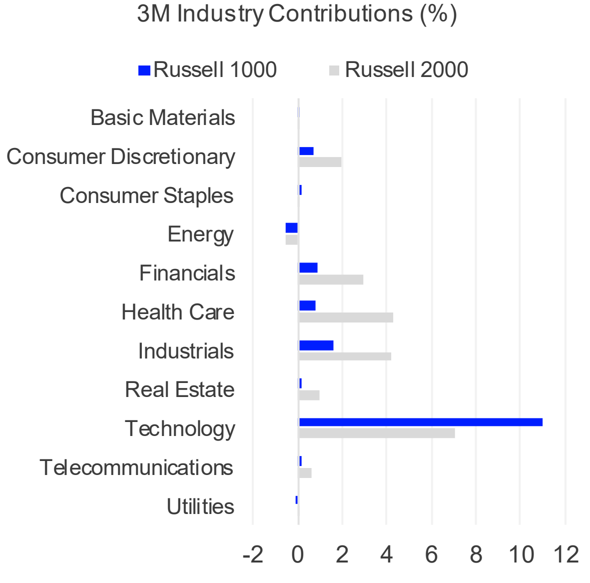


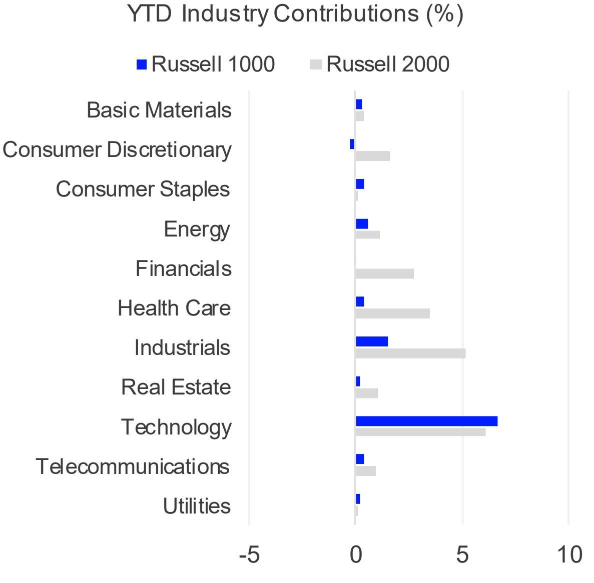

Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results.

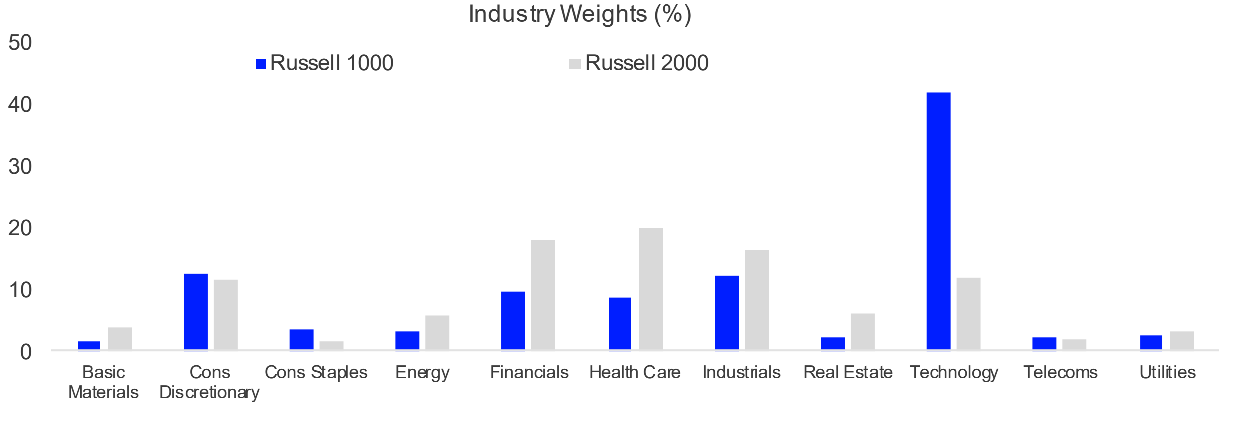
# Appendix - Industry Returns, Contributions & Weights – Large cap & Small cap



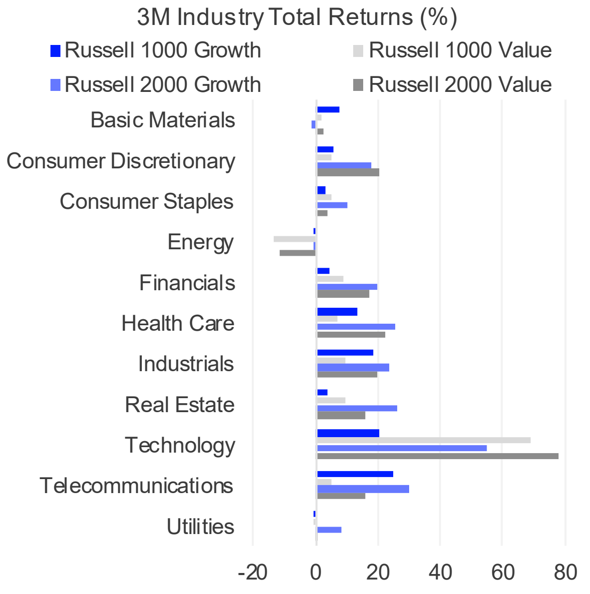



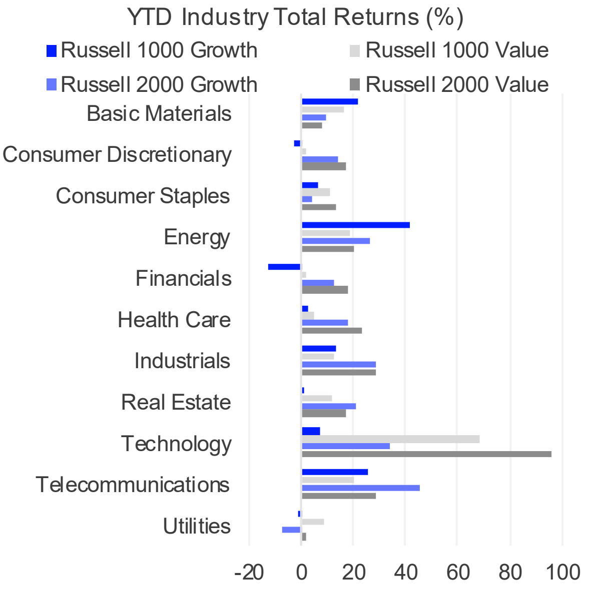



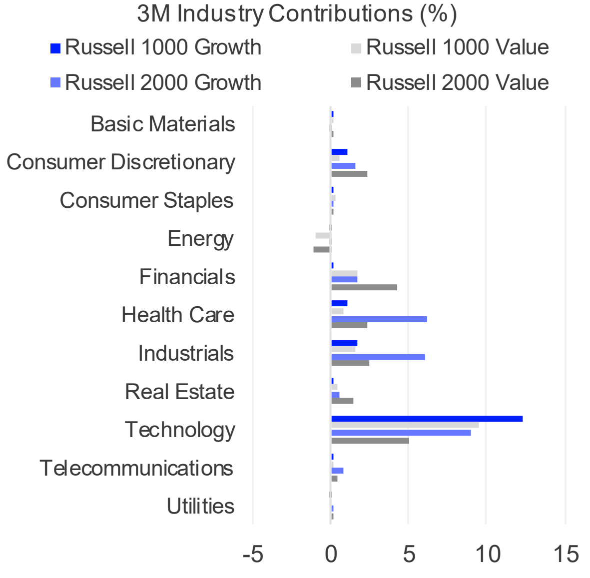



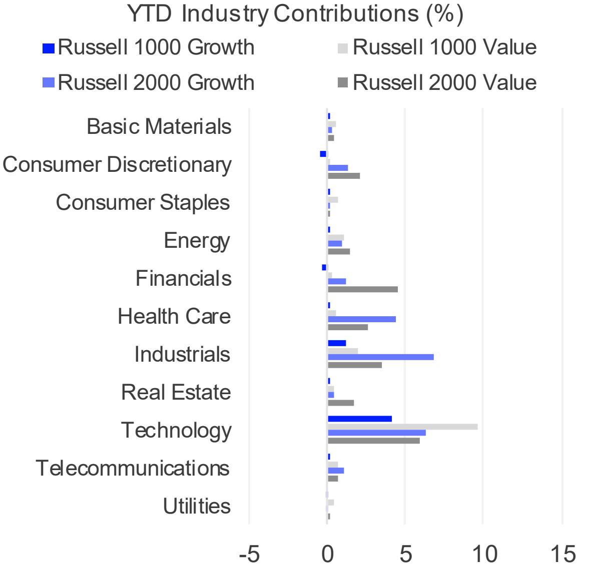



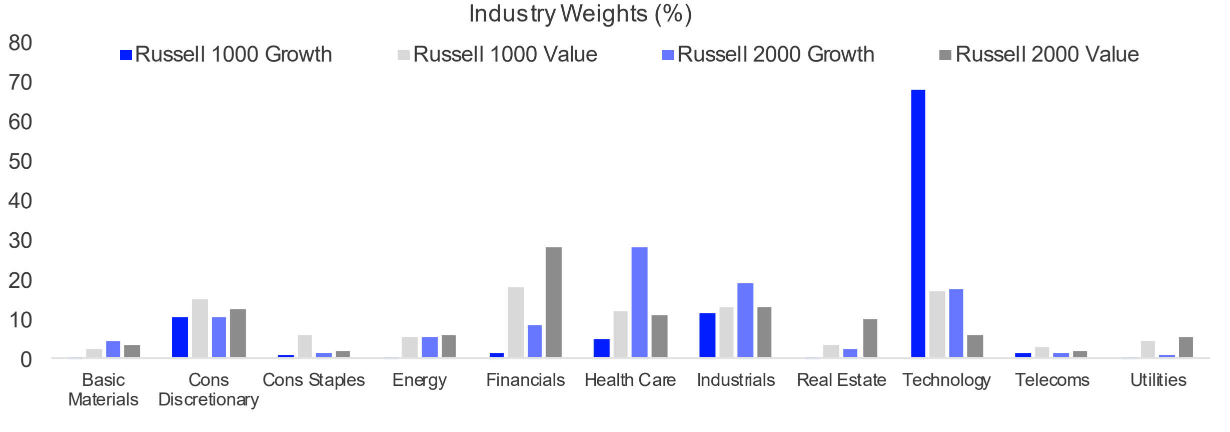

Source: FTSE Russell and LSEG. Based on Industry Classification Benchmark. All data as of June 30, 2026. Past performance is no guarantee of future results.

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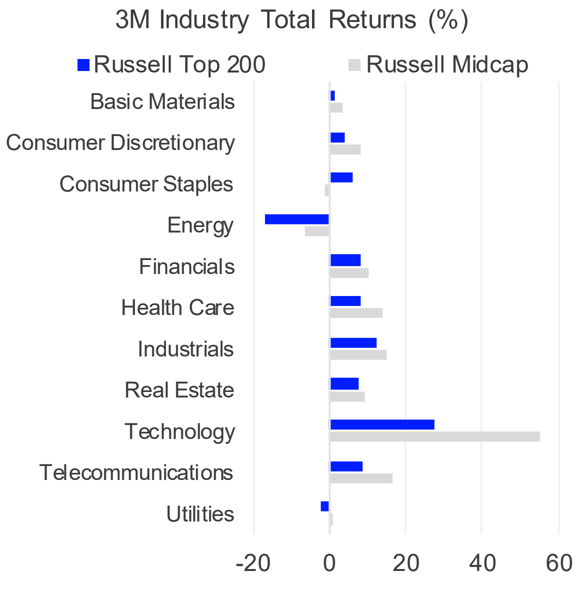
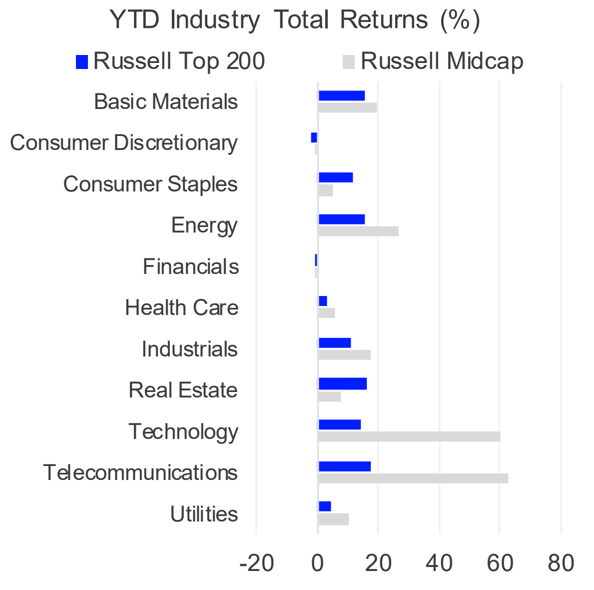
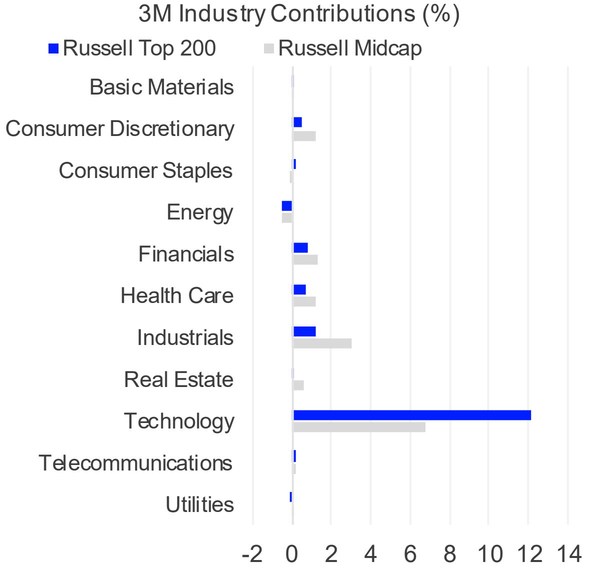
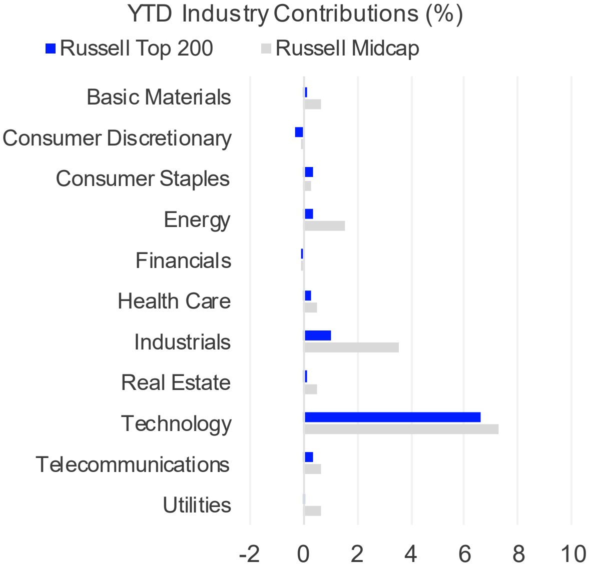
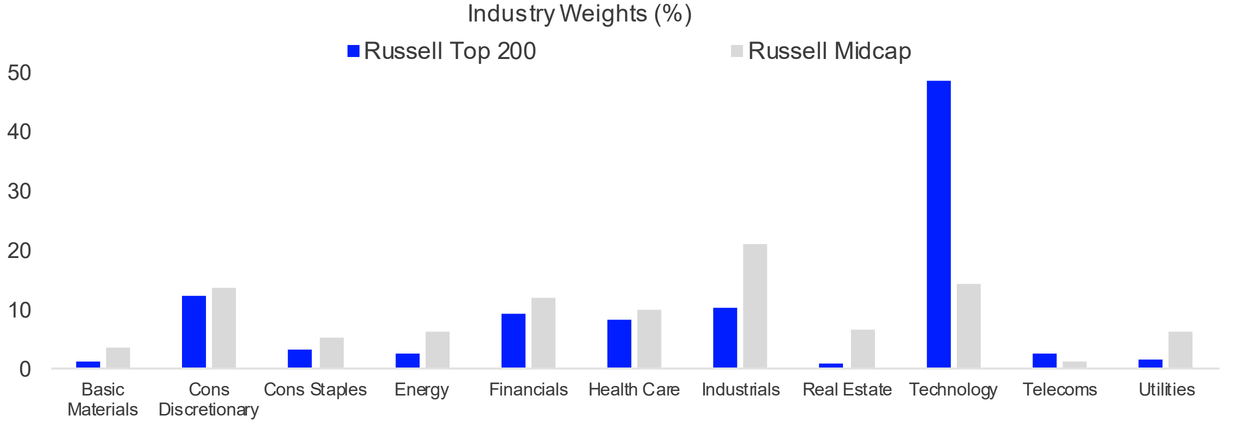
## Appendix - Industry Returns, Contributions & Weights – Top 200 & Midcap



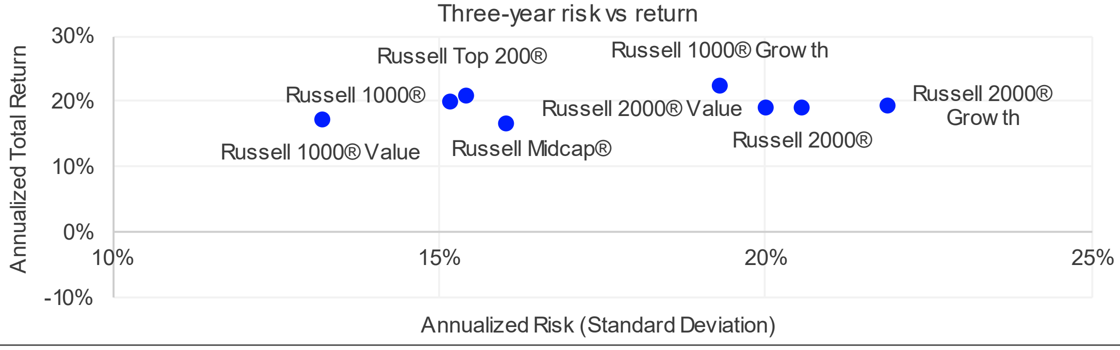



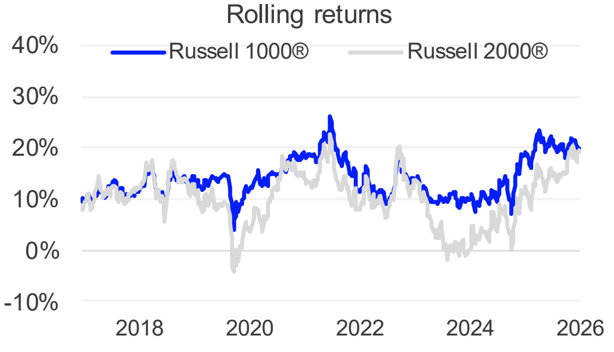

Source: FTSE Russell and LSEG. Based on Industry Classification Benchmark. All data as of June 30, 2026. Past performance is no guarantee of future results.

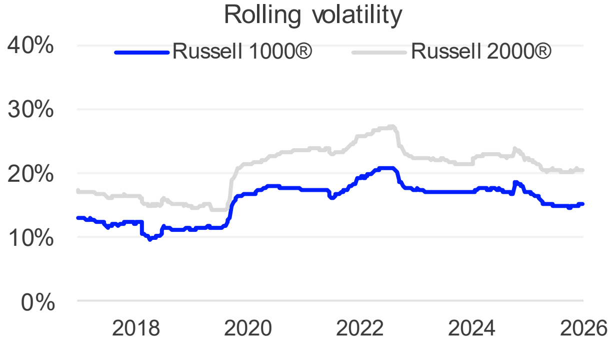
## Appendix – 3-year Return & Risk

In the most recent 3-year period ending Q2 2026, Russell Top 200 (1.35) offered the best return for unit risk, followed closely by Russell 1000 (1.30) and Russell 1000 Value (1.30).

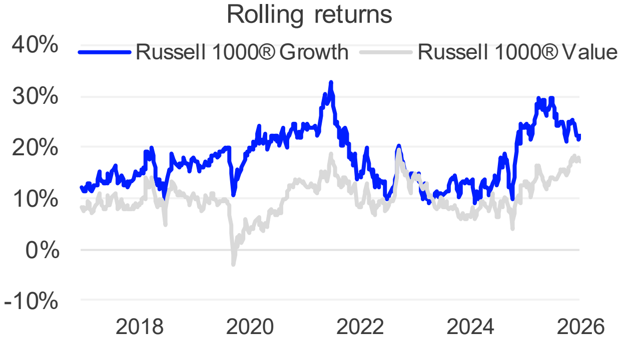


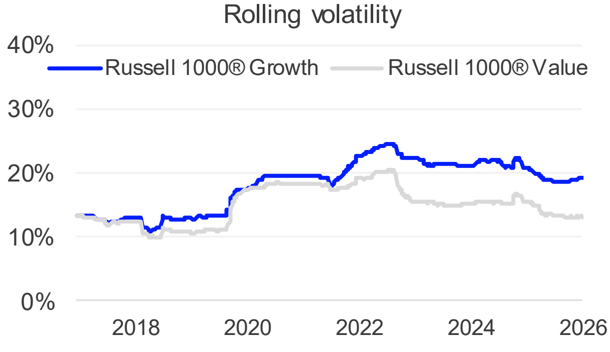

Russell 1000 rolling 3-year returns were stable over Q2 while the rose notably for Russell 2000.



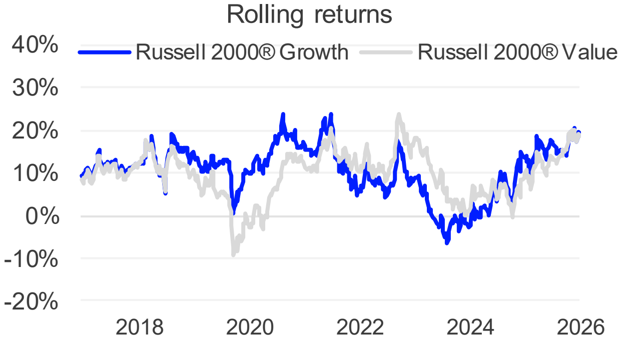



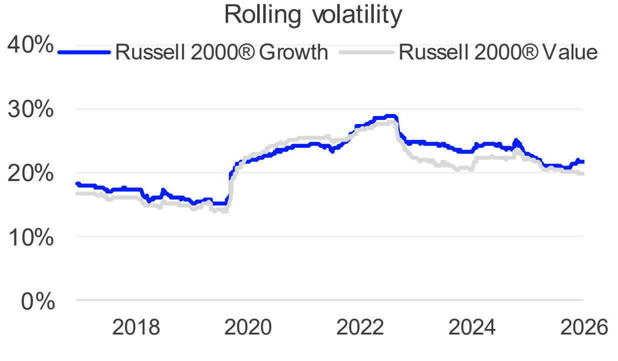

Rolling return for Russell 1000 Growth declined sharply in Q1 and Q2 with tech software disruption and valuation concerns.




Russell 2000 Growth and Value saw higher rolling returns in Q2 compared to the end of Q1, with stable volatility.




Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results.

## Appendix – ICB Technology industry classification

The Industry Classification Benchmark has the following classification for the Technology industry and its sectors and sub-sectors:

| Technology (industry) | | | |
|---|---|---|---|
| | Software and Computer Services (sector) | | |
| | | Computer Services (sub-sector) | Companies that provide consulting or integration services to other businesses relating to information technology. Includes providers of computer-system design, systems integration, network and systems operations, cloud computing, distributed ledger technology (DLT) consulting and integration, data management and storage, repair services and technical support. |
| | | Software (sub-sector) | Publishers and distributors of computer software for home or corporate use. Excludes computer game producers, which are classified under Electronic Entertainment. |
| | | Consumer Digital Services (sub-sector) | Companies involved in digital platforms that primarily generate revenue from advertising, content delivery and other virtual products for consumers. To a lesser extent they generate subscription fee revenue through related services offered by the platform and/or by the advertisers to utilize data content and customer insight. |
| | Technology Hardware and Equipment (sector) | | |
| | | Semiconductors (sub-sector) | Producers and distributors of semiconductors and other integrated chips, including other products related to the semiconductor industry, such as semiconductor capital equipment and motherboards. Excludes makers of printed circuit boards, which are classified under Electronic Components |
| | | Electronic Components (sub-sector) | Companies involved in the application of high-technology parts to finished products, including printed circuit boards. Excludes communications-related equipment. |
| | | Production Technology Equipment (sub-sector) | Manufactures of high-technology tools and/or equipment that are used in the creation of semiconductors, photonics, wafers, and other high-technology components. |
| | | Computer Hardware (sub-sector) | Manufacturers and distributors of computers, servers, mainframes, workstations and other computer hardware and subsystems, such as mass-storage drives, mice, keyboards and printers. Companies in this group can provide diverse applications for consumer and commercial use. Including companies providing computing hardware for cryptocurrency mining. |
| | | Electronic Office Equipment (sub-sector) | Manufacturers and distributors of electronic office equipment, including photocopiers and fax machines. |

Further details may be found here: [Industry Classification Benchmark (ICB) | LSEG]

Source: FTSE Russell and LSEG. All data as of June 30, 2026. Past performance is no guarantee of future results.

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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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