

# Russell US Indexes Spotlight Report



Full Year 2021

## Large-caps trounce small-caps in 2021, but Russell 2000 Value still wins in style

US stocks rode reopening tailwinds to new heights in 2021, ultimately overcoming bouts of risk-off turbulence fueled by new virus outbreaks, surging inflation and the Fed's recent hawkish pivot. Amid simmering worries about the US recovery, Russell 1000 and large-cap Growth extended their winning streaks in Q4, but small-cap Value retained style leadership for the year.

### Highlights

#### Russell 1000 wins global reopening race

The R1000 outperformed the R2000 and non-US peers in Q4 and 2021 amid rising worries about the global recovery and a flight into reliable high-growth stocks. (page 3)

#### Large-cap Health & Tech underpin R1000 edge

Most R1000 industries beat R2000 peers in Q4 and full year, led by Health Care & Tech. Early reopening winners helped R2000 Value retain its full-year lead. (pages 4-6)

#### EPS upgrade cycle normalizes

Forward EPS forecasts hit fresh five-year highs across the Russell indexes in Q4. But upward revisions continued to moderate. (page 7-8)

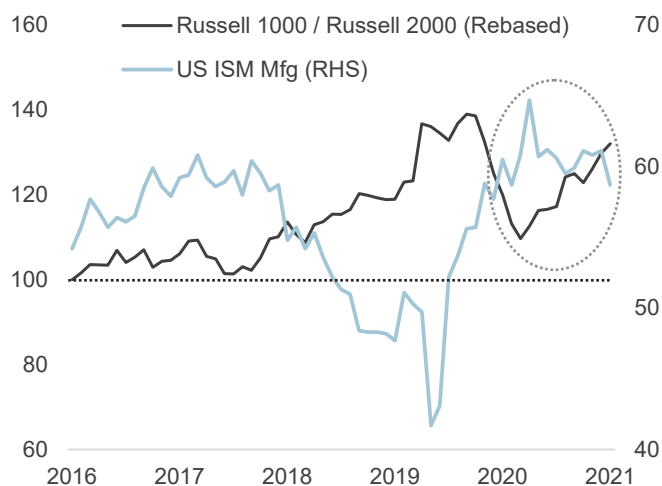
#### Valuation reset continues in Q4

Forward P/Es tightened last year but remain at five-year highs, particularly R1000 Growth after recent outperformance. (page 9)

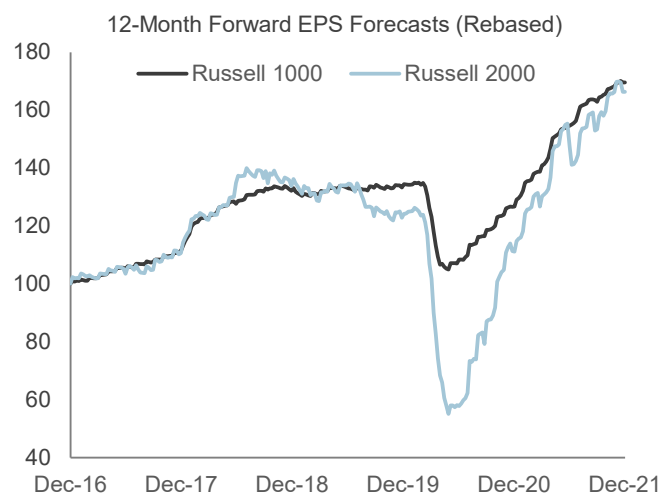
#### Small-cap IPOs hit record in 2021

Newcomers to the Russell US indexes hit a decade high in 2021. Health Care IPOs dominated last year, extending a long-standing trend. (page 10)

The R1000 seized the lead from its small-cap peer in the second half as economic momentum began to cool and bond yields eased.



Forward EPS estimates for R1000 and R2000 stretched to new five-year highs in Q4, even as the upgrade cycle began to wane.



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# Russell US Index Performance – Q4 & 2021 (%)

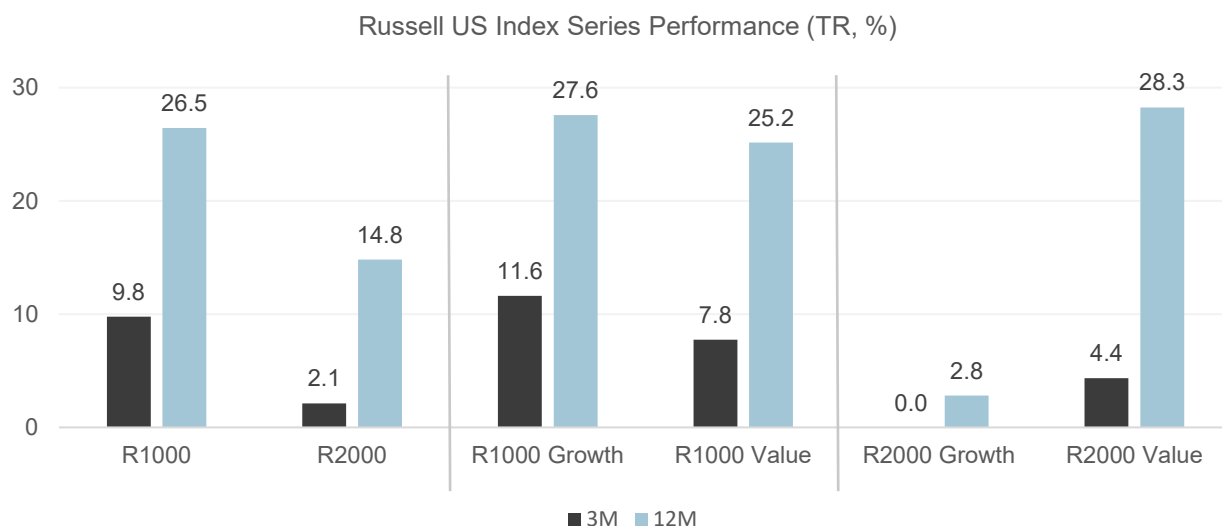
## Key Observations – Full year 2021

Despite the relentless pandemic overhang and several risk-off stumbles, large- and small-cap US stocks enjoyed a banner year in 2021, with the Russell 1000 and Russell 2000 climbing 26.5% and 14.8%, respectively. The US large-cap index was among the hands-down winners of the year, trouncing the FTSE All-World ex US and FTSE Emerging indexes (up 14.4% and 1.8%, respectively).

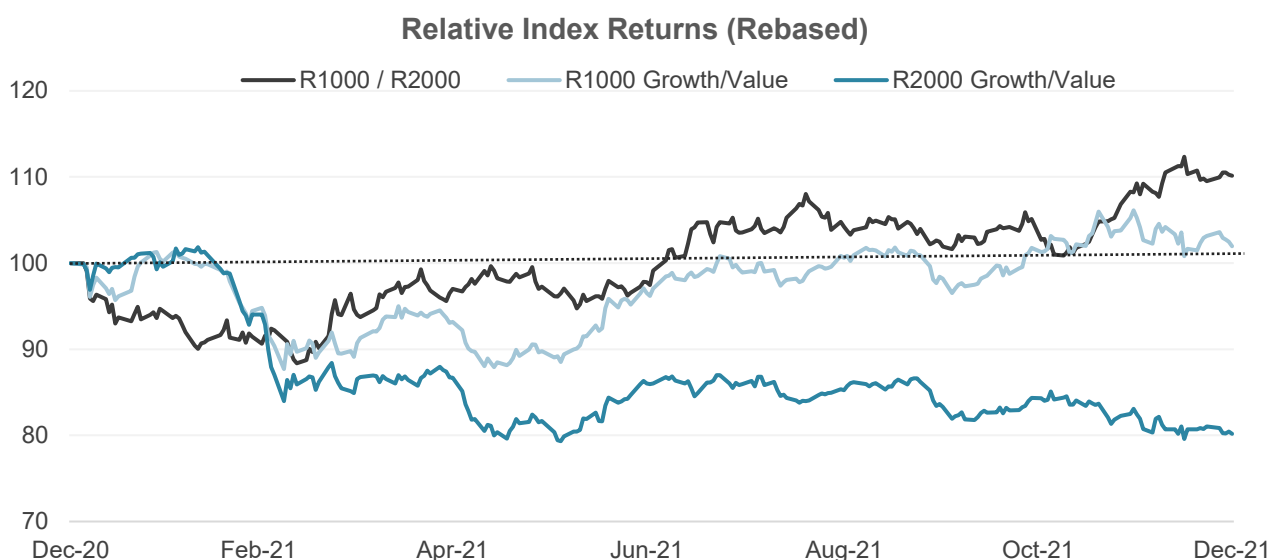
Beneath the surface, however, there was a dramatic rotation in US market and style leadership. As Chart 2 illustrates, the Russell 1000 has been gaining on its small-cap peer since mid-March, coinciding with the easing in US bond yields during the summer and a strong rebound in the high-growth stocks, notably Technology, which makes up a bigger share of the large-cap index (see pages 3 and 4).

The second-half bounce-back in growth stocks was much more powerful for the more tech-heavy Russell 1000 Growth than for small-cap Growth. Despite recent underperformance, however, the Russell 2000 Value retained the top performance perch among the Russell style indexes for the full year, though large-cap Growth finished close on its heels.

**Chart 1: Spurred by a Q4 upswing, the Russell 1000 strongly outpaced the Russell 2000 in 2021. And although Russell 2000 Value was the top-performing US style index for the year, Russell 1000 Growth came in close behind.**



**Chart 2: The Russell 1000 amassed a 10-point lead on the Russell 2000 in 2021, fueled by the revival in large-cap Growth stocks that began in July and gathered speed in Q4. In the small-cap realm, however, Value crushed Growth last year.**



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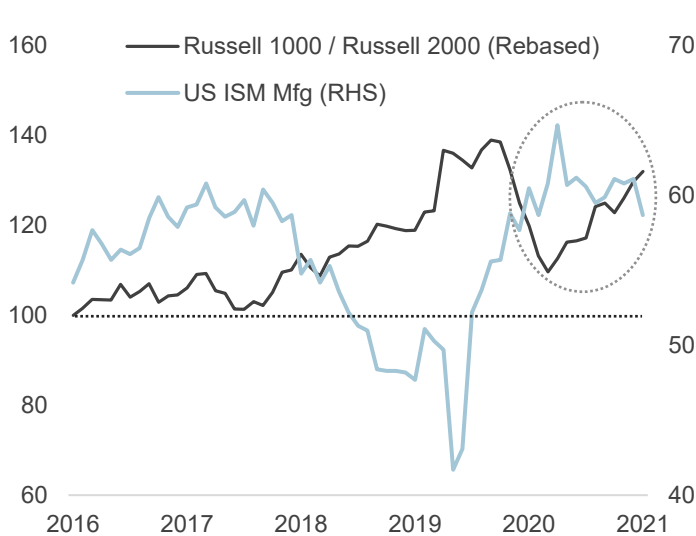
## Macro Drivers – Full year 2021

A wall of worry has been building over the past several months amid persistently elevated inflation, signs of fading recovery momentum and a hawkish Fed policy pivot. Although reopening optimism prevailed, these shifting economic and inflationary tides triggered dramatic swings in risk appetite and US style leadership throughout the year.

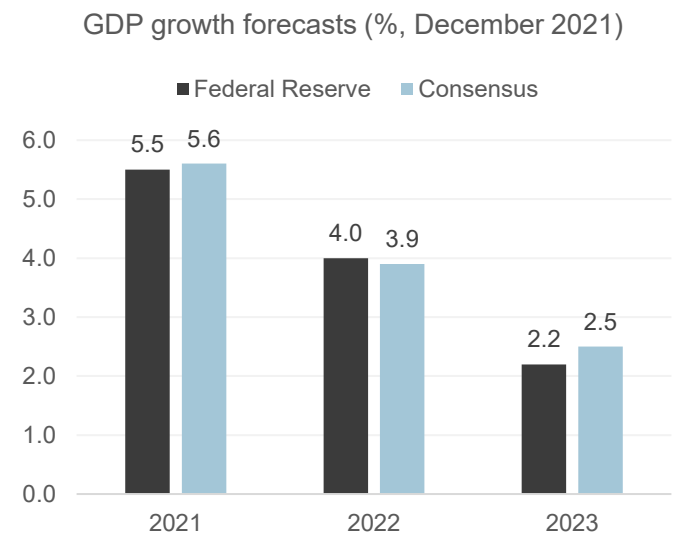
The US has staged a strong comeback from the pandemic shock of 2020. As shown in Chart 1, however, the ISM US Manufacturing Index (light blue line), a reliable proxy for US industrial activity, has rolled over since hitting decade-high expansionary levels in March. Though forecasts have been trimmed accordingly, the GDP outlook remains strong, with year-over-year growth settling around the 2% area by 2023 (Chart 2).

Inflation expectations also ratcheted higher in 2021 (Chart 3). Following a summertime lull, breakevens surged through October in response to persistent supply-chain snags and a stronger-than-expected CPI reading, then fell from their November peaks as the Fed telegraphed a faster tightening timetable. Bond-market signals followed suit: The 10-year Treasury yield (Chart 4) ended the year at 1.54%, up substantially from a low of 0.96% in January but flat for Q4 and below its Q1 peak of 1.75%. The Russell 1000 (along with Russell 1000 Growth) were major beneficiaries of the relatively benign rate environment last year.

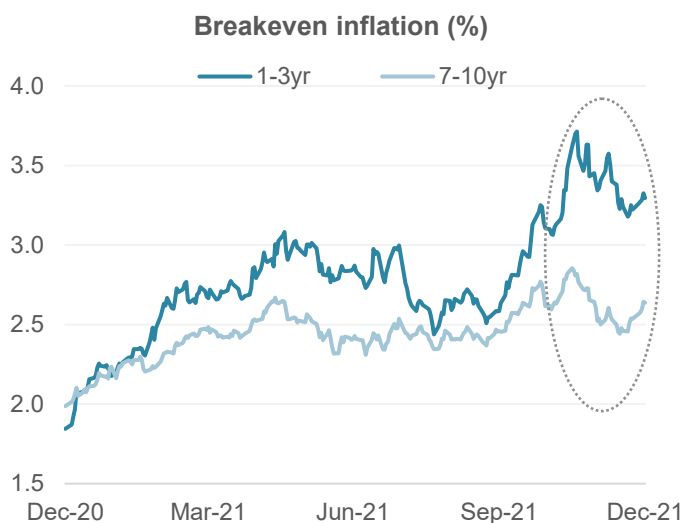
**Chart 1: R1000 leadership vs R2000 coincided with signs that the post-crisis US economic expansion was slowing.**



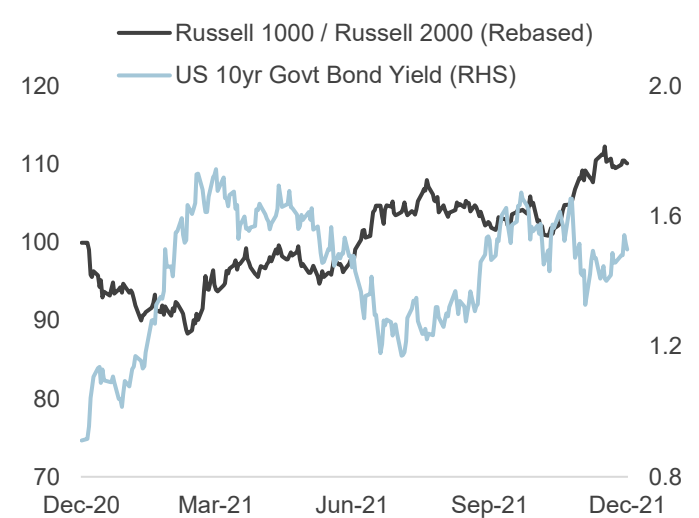
**Chart 2: Following the robust 2021 recovery, forecasts expect GDP growth to settle around 2%+ by 2023.**



**Chart 3: Inflation expectations eased in Q4 as the Fed began signaling a faster withdrawal of emergency stimulus.**



**Chart 4: R1000 vs R2000 performance closely tracked the sharp shifts in the inflation outlook and US bond yields.**



# Industry Returns and Exposures – Russell 1000 & Russell 2000

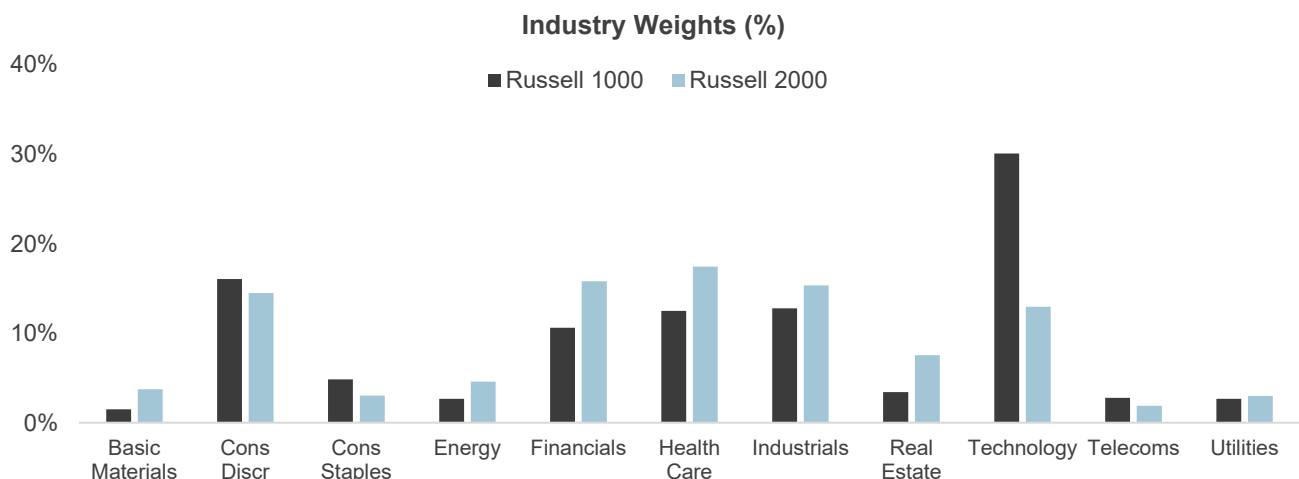
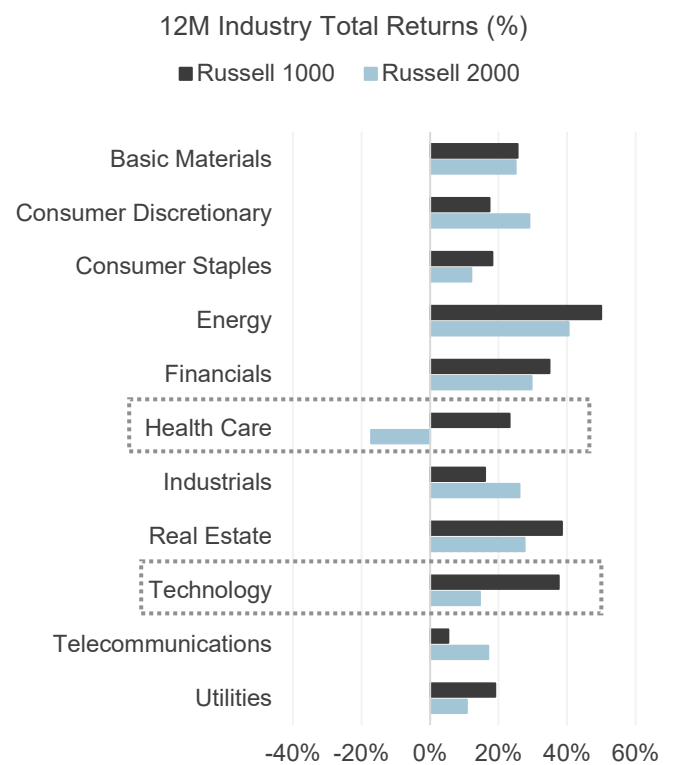
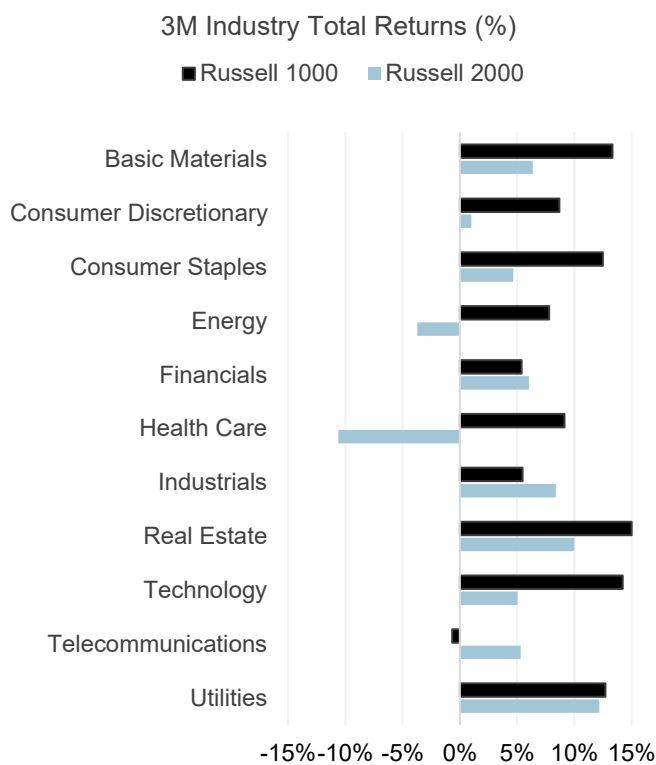
## Key observations

There were some striking reversals from earlier trends in both large- and small-cap industry performances in Q4 and the full year. We highlight the following key points:

- Amid widespread gains, most large-cap industries outperformed their small-cap peers in both Q4 and the full year.
- R1000 gains in 2021 were led by Energy, Real Estate, Technology and Financials; Telecom was the worst performer in both Q4 and the full year.
- Outperformances in large-cap Health Care and Tech stocks contributed most to R1000 vs R2000 leadership in 2021.
- R2000 gains in 2021 were led by Energy, Financials and Consumer Discretionary; small-cap Utilities, Real Estate and Industrials did best in Q4.
- Small-cap Health Care stocks fell in both Q4 and the full year.

**Chart 1: Large-cap industries outperformed their small-cap peers in all but Financials, Industrials and Telecom in Q4.**

**Chart 2: Most R1000 industries surpassed their R2000 peers in 2021, particularly in Health Care and Tech.**



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# Industry Returns & Exposures – Russell 1000 & 2000 Growth & Value

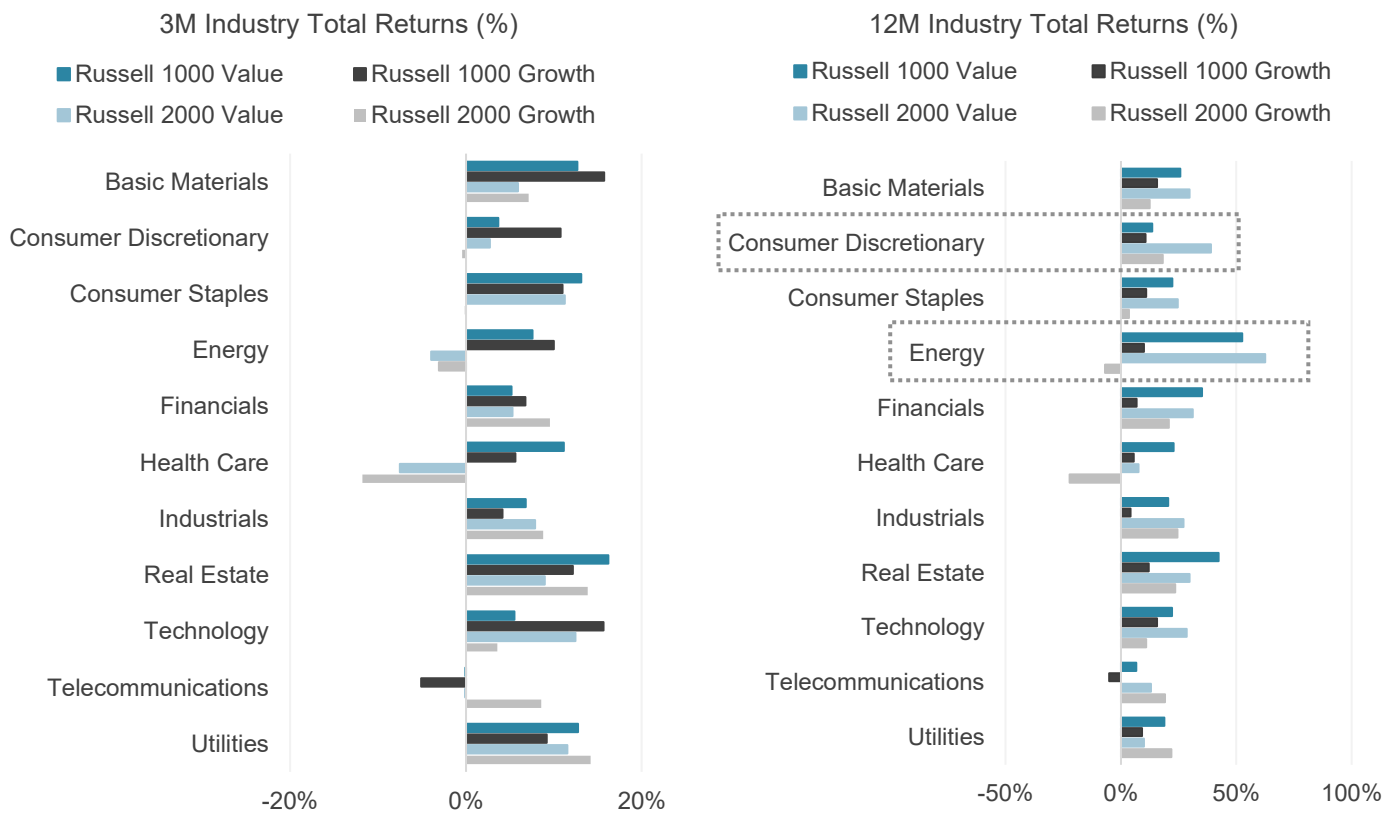
## Key observations

There were some striking reversals from earlier trends in industry performances across the Growth and Value style indexes in Q4 and full year. We highlight the following key points:

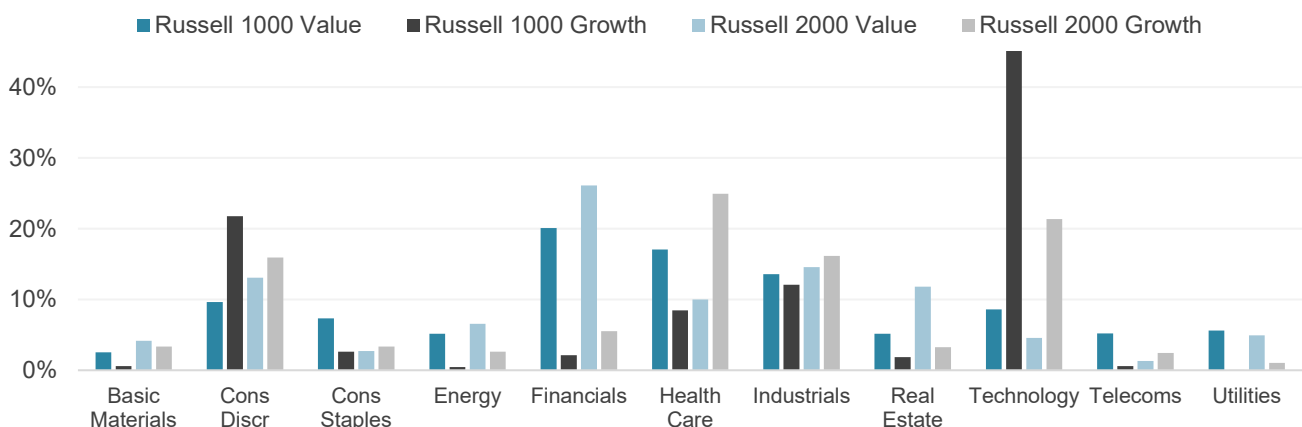
- R1 Growth outperformed all style indexes in Q4, underpinned by Consumer Discretionary, Tech and Energy.
- R1 Growth outpaced R2 Growth in Q4 and the full year, fueled by stronger gains in Health Care and Energy.
- R2 Value's lead vs R2 Growth in Q4 came mostly from outperforming Staples and Tech stocks; for the full year, most industries contributed to the R2 Value edge vs R2 Growth, particularly Energy and Health Care.
- Small-cap Value outperformed all other style indexes in five out of 11 industries in 2021.
- Most R2 Growth industries trailed their peers across all other style indexes in 2021 (it only outperformed in Utilities and Telecom).

**Chart 1: R1 Growth beat all style indexes in Q4, fueled by outperforming Discretionary, Tech and Energy.**

**Chart 2: R2 Value outpaced all style indexes in 2021, fueled by reopening winners, i.e., Energy & Discretionary.**



## Industry Weights (%)



Source: FTSE Russell / Refinitiv. All data as of December 31, 2021. Past performance is no guarantee of future results. Please see the end for important legal disclosures. For professional investors only.

# Russell 1000 Industries – Sector Weights & Contributions to Return\*

## Key observations

Drilling deeper into the sector performances of the 11 Russell 1000 industries in Q4, we highlight the following key points:

- As the best-performing industry in Q4, Real Estate' strength came entirely from its dominant exposure to REITs; the industry's other sector, Investment & Services Development, posted losses for the period.
- More than two-thirds of the Q4 increase of the second-best performing industry, Technology, came from the Hardware and Equipment sector, more than double the contribution from Software and Computer Services.
- REITs and Tech Hardware were also the best-performing sectors of all (up 15.5% and 9.2%, respectively), followed closely by the Electricity sector within Utilities, also up 9.2%
- A handful of other sectors contributed gains of 7% or more: Telecom Equipment, Oil, Gas & Coal and Precious Metals.
- For the worst-performing industry, Telecommunications, the biggest drag on returns came from its large exposure to Telecom Service Providers (more than half of the Telecom industry), with its loss of 5.3%.

**Table 1: REITs, Tech Hardware and Electricity were the top-performing sectors within the Russell 1000 in Q4; the Telecom Service Providers ranked at the bottom.**

Sector	Avg. Weight	Q4 Contrib.
<b>Basic Material</b>		
Chemicals	6.7%	-0.32%
Industrial Materials	26.8%	5.04%
Industrial Metals and Mining	7.8%	1.13%
Precious Metals and Mining	58.7%	7.28%
<b>Consumer Discretionary</b>		
Automobiles and Parts	13.9%	3.81%
Consumer Services	3.6%	-0.18%
Household Goods & Home Construction	2.2%	0.42%
Leisure Goods	3.5%	-0.10%
Media	7.4%	0.87%
Personal Goods	11.5%	-0.19%
Retailers	41.6%	4.00%
Travel and Leisure	16.3%	0.18%
<b>Consumer Staples</b>		
Beverages	27.8%	3.80%
Food Producers	22.6%	2.07%
Personal Care Drug & Grocery Stores	10.3%	0.35%
Tobacco	39.3%	6.08%
<b>Energy</b>		
Alternative Energy	5.7%	0.43%
Oil Gas and Coal	94.3%	7.34%
<b>Financials</b>		
Banks	36.6%	0.27%
Finance and Credit Services	6.9%	0.38%
Investment Banking and Brokerage Svcs	36.3%	3.54%
Life Insurance	0.7%	-0.01%
Mortgage Real Estate Investment Trusts	3.9%	0.24%
Non-life Insurance	15.5%	1.32%

Sector	Avg. Weight	Q4 Contrib.
<b>Health Care</b>		
Health Care Providers	17.8%	3.33%
Medical Equipment and Services	36.8%	2.11%
Pharmaceuticals and Biotechnology	45.4%	3.74%
<b>Industrials</b>		
Aerospace and Defense	6.3%	1.07%
Construction and Materials	10.4%	0.05%
Electronic and Electrical Equipment	9.0%	0.97%
General Industrials	16.3%	1.32%
Industrial Engineering	8.0%	0.41%
Industrial Support Services	36.5%	-0.61%
Industrial Transportation	13.5%	2.42%
<b>Real Estate</b>		
Real Estate Investment & Services Dev.	7.4%	-0.36%
Real Estate Investment Trusts	92.6%	15.51%
<b>Technology</b>		
Software and Computer Services	59.5%	4.01%
Technology Hardware and Equipment	40.5%	9.24%
<b>Telecommunications</b>		
Telecommunications Equipment	42.9%	7.77%
Telecommunications Service Providers	57.1%	-5.31%
<b>Utilities</b>		
Electricity	67.6%	9.18%
Gas Water and Multi-utilities	22.9%	2.44%
Waste and Disposal Services	9.5%	1.01%

Source: FTSE Russell. \*Indexes data shown here are from the Russell Capped Index Series, except for the Real Estate Industry. Data as of December 31, 2021. Past performance is no guarantee of future results. Please see the end for important legal disclosures. For professional investors only.

# EPS Growth Outlook and Revision Cycle – Russell 1000 & Russell 2000

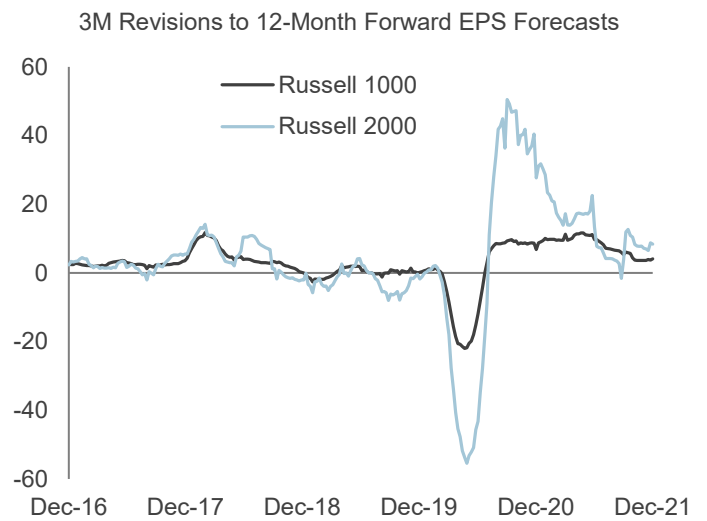
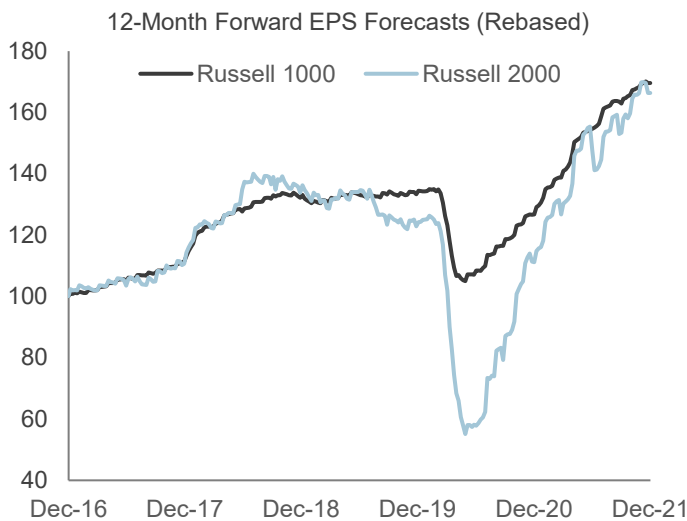
The US earnings outlook brightened considerably with the gradual reopening of the US economy last year. Consensus 12-month forward EPS forecasts for both the Russell 1000 and Russell 2000 remain at five-year highs (Chart 1). In recent months, however, expectations for future growth have levelled off, reflecting tougher comparisons and potential increased pressures on profit margins from persistent supply and labor shortages, rising wage growth and rocketing energy costs.

Early in the recovery, the Russell 2000 had been the EPS upcycle pacesetter, having suffered a far steeper earnings collapse than its large-cap counterpart last year. However, after surging off its 2020 lows amid reopening/vaccine euphoria earlier last year, upward revisions to the Russell 2000's 12-month forward EPS forecasts have since tapered off (Chart 2). Forward EPS estimates for the Russell 1000 were much more resilient.

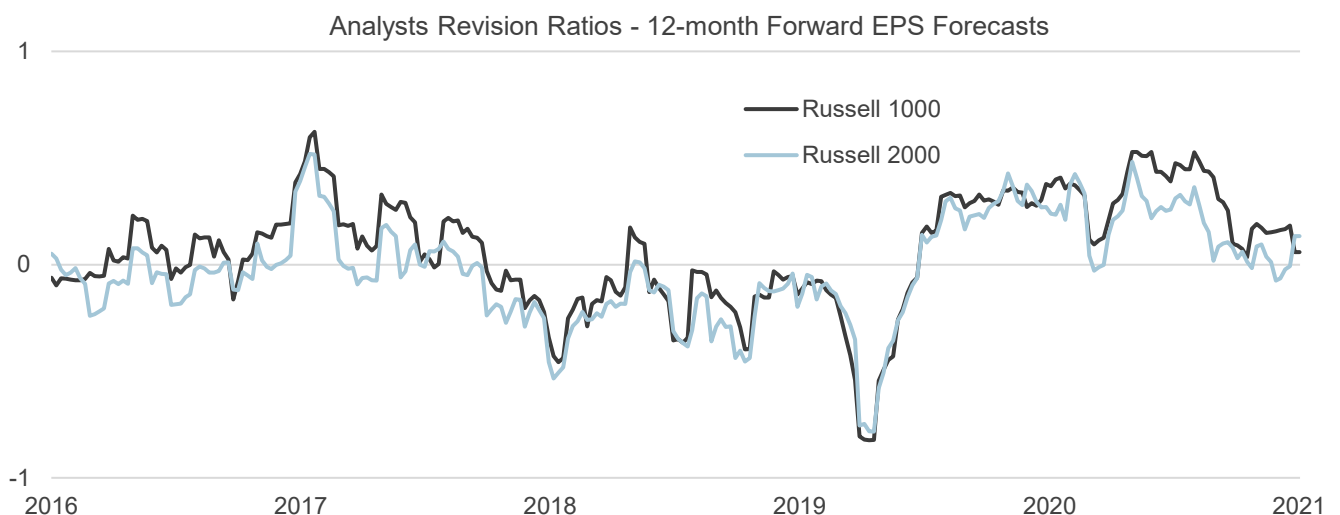
Analysts' revision ratios tell a similar story (Chart 3). The ratio of upgrades and downgrades narrowed significantly in Q4, more so for the Russell 1000 than the Russell 2000. Upgrades for both indexes were only modestly ahead of downgrades by quarter-end.

**Chart 1: Forward EPS forecasts for both R1000 and R2000 continued to edge higher in Q4, hitting new five-year highs.**

**Chart 2: The R2000 upgrades resumed after a negative turn in September; the R1000's revision cycle has been steadier.**



**Chart 3: While still outnumbering downgrades, upgrades to forward EPS forecasts for both the large- and small-cap indexes have plunged close to neutral levels in recent months from their post-crisis highs.**



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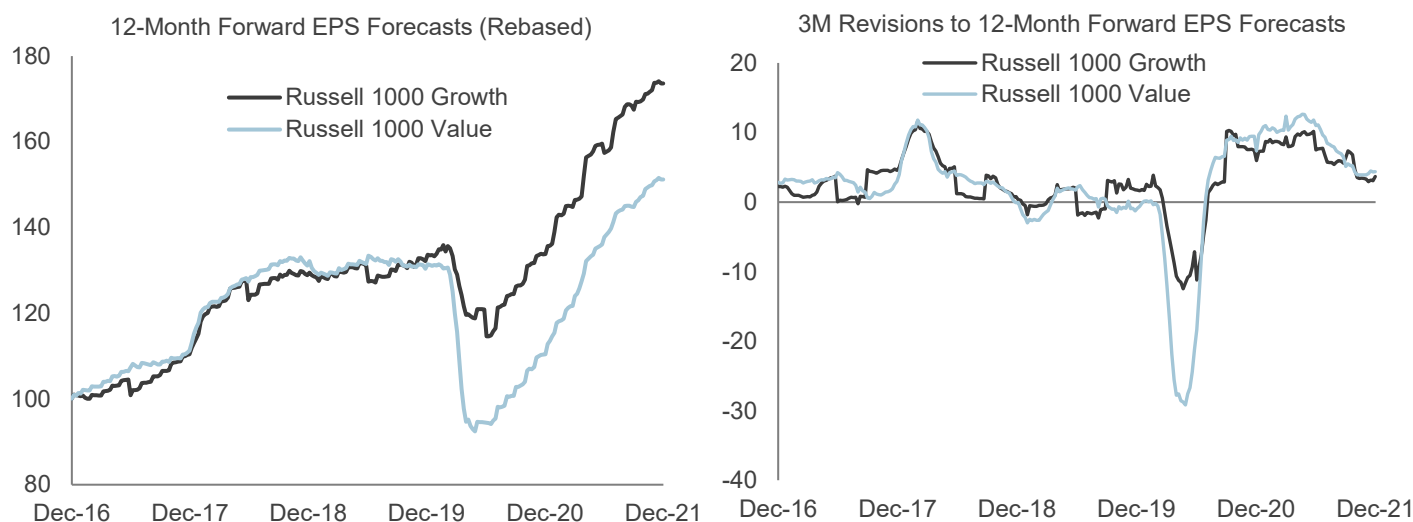
## EPS Growth Outlook and Revision Cycle – R1000 & R2000 Growth & Value

As in the case for the large- and small-cap benchmarks, the forward forecast upgrade cycle has leveled off across style indexes over recent months. Notably, revisions for R2000 Value briefly dipped into negative territory during the risk-off turbulence in September. Even so, consensus 12-month forward EPS forecasts for both large-cap style indexes and R2000 Value hit fresh five-year highs in Q4 (Charts 1 and 2, left). Small-cap Growth also crossed that threshold in the final months of 2021.

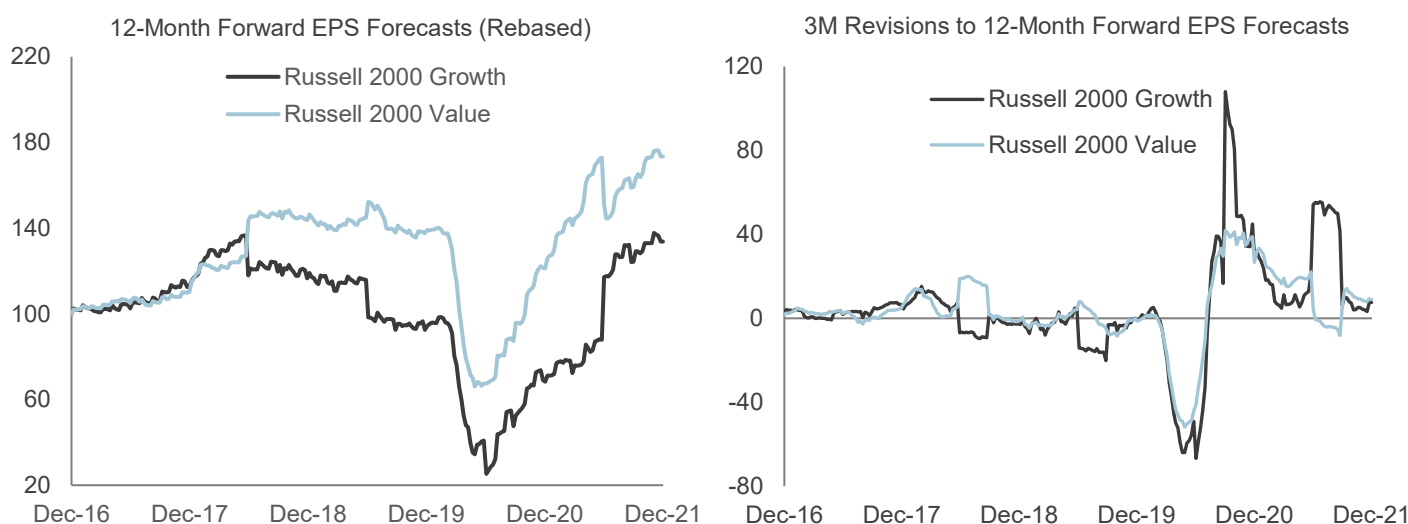
Upward EPS forecast revisions for both Russell 1000 Growth and Value have wavered since peaking in June (Chart 1, right).

Of the four style indexes, R2000 Value has been the pacesetter of the post-crisis EPS upcycle, having suffered a far steeper collapse in consensus estimates than its style peers in 2020. However, since peaking in late 2020, upgrades to that index's forward EPS forecasts have been trending lower, turning negative in Q3 before resuming their uptrend in Q4 (Chart 2, right). While the revision cycle was far more erratic for R2000 Growth than for its Value counterpart since the pandemic outbreak, it remained positive throughout 2021, with a sharp uptick in June/July.

**Chart 1: Forward EPS estimates for both R1000 Growth and Value climbed to new five-year highs in Q4, far more so for the former, despite the downtrend in forward EPS forecast upgrades for both indexes since June.**



**Chart 2: Upgrades to forward EPS forecasts have also moderated for the R2000 style indexes. Revisions for R2000 Value have resumed their uptrend since turning negative in September, while the cycle has been far more erratic for Growth.**





## Valuation Comparisons – 12-Month Forward P/Es

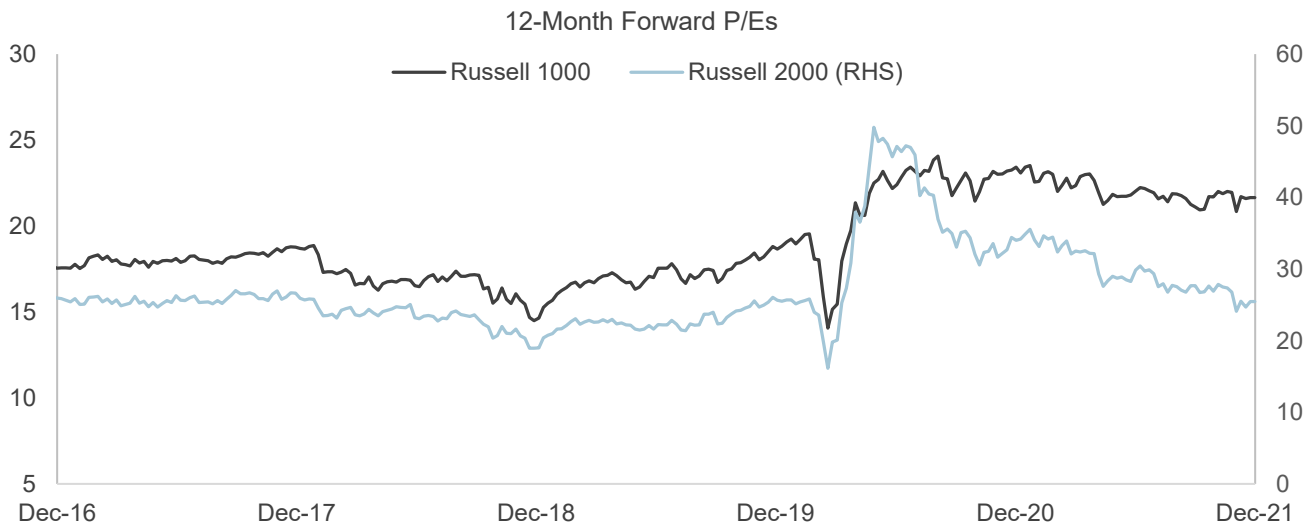
Forward P/Es tightened across the Russell US indexes last year from their peaks the year earlier, as earnings growth (and expectations) have normalized. The contractions have been most pronounced for the Russell 2000 and its Growth offshoot. However, forward multiples for all four remain at or near five-years highs.

The Russell 2000 forward P/E currently stands at 25.5 times, roughly half its mid-2020 high, while that of the Russell 1000 has narrowed more modestly, to around 21.7 times (Chart 1). The valuation gap between the two indexes narrowed significantly last year, reflecting the stark divergence in their 2021 performances.

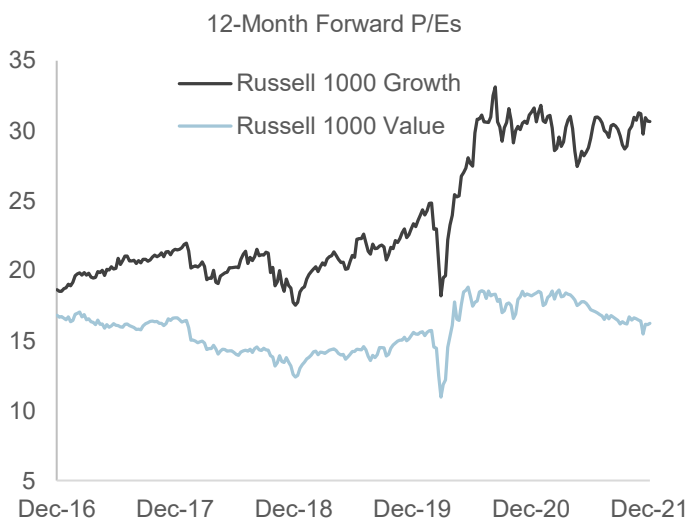
Though Growth typically trades at a premium to Value, the gap remains unusually wide between both large- and small-cap Russell Growth and Value style indexes (Charts 2 and 3). This is largely the result of the far stronger re-ratings of both the large- and small-cap Growth indexes off of their 2020 pandemic lows. That premium is particularly extreme for the large-cap Growth index, which enjoyed a much stronger re-rating from its crisis depths and continued to outperform its Value peer in 2021.

Last year's reopening rally kept forward P/Es for both Value style indexes relatively steady, despite the downtrend in forward EPS forecast revisions.

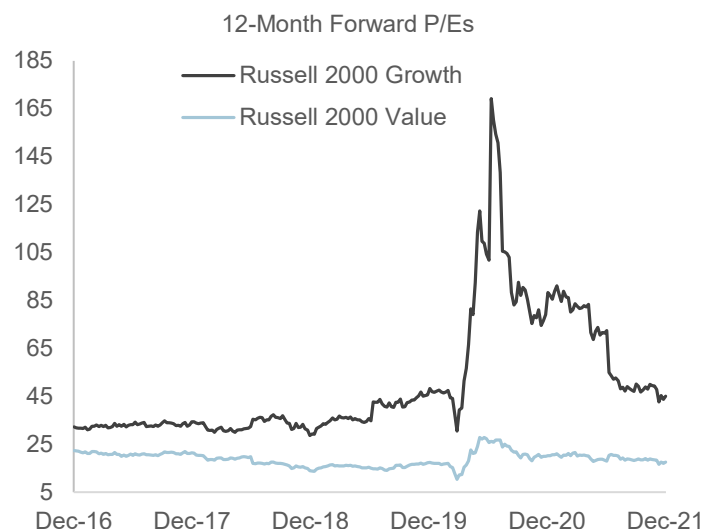
**Chart 1: Forward P/Es for both the R1000 and R2000 have contracted from their post-crisis peaks, though significantly more so for the small-cap index, which has halved from its peak of 49.8 times on depressed earnings in mid-2020.**



**Chart 2: R1 Growth holds a huge premium to R1 Value, an upshot of its far stronger re-rating from pandemic lows.**



**Chart 3: R2000 Growth also retains a hefty premium to small-cap Value, despite its much steeper contraction.**

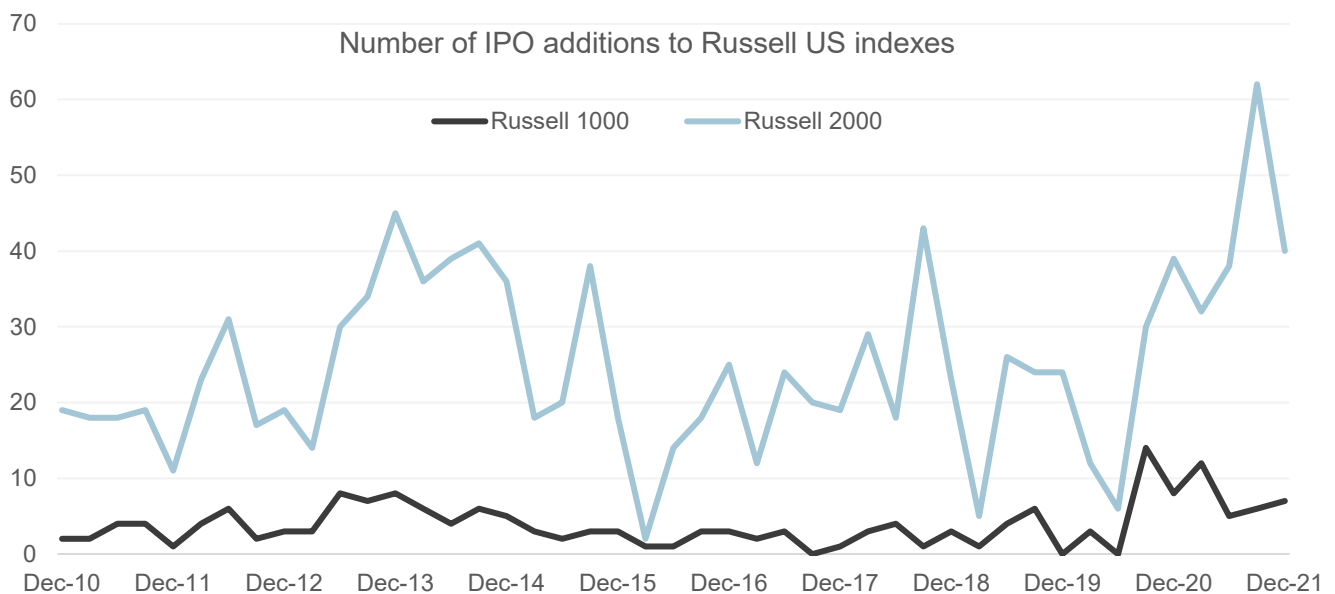


## Quarterly IPO Additions to Russell US Indexes

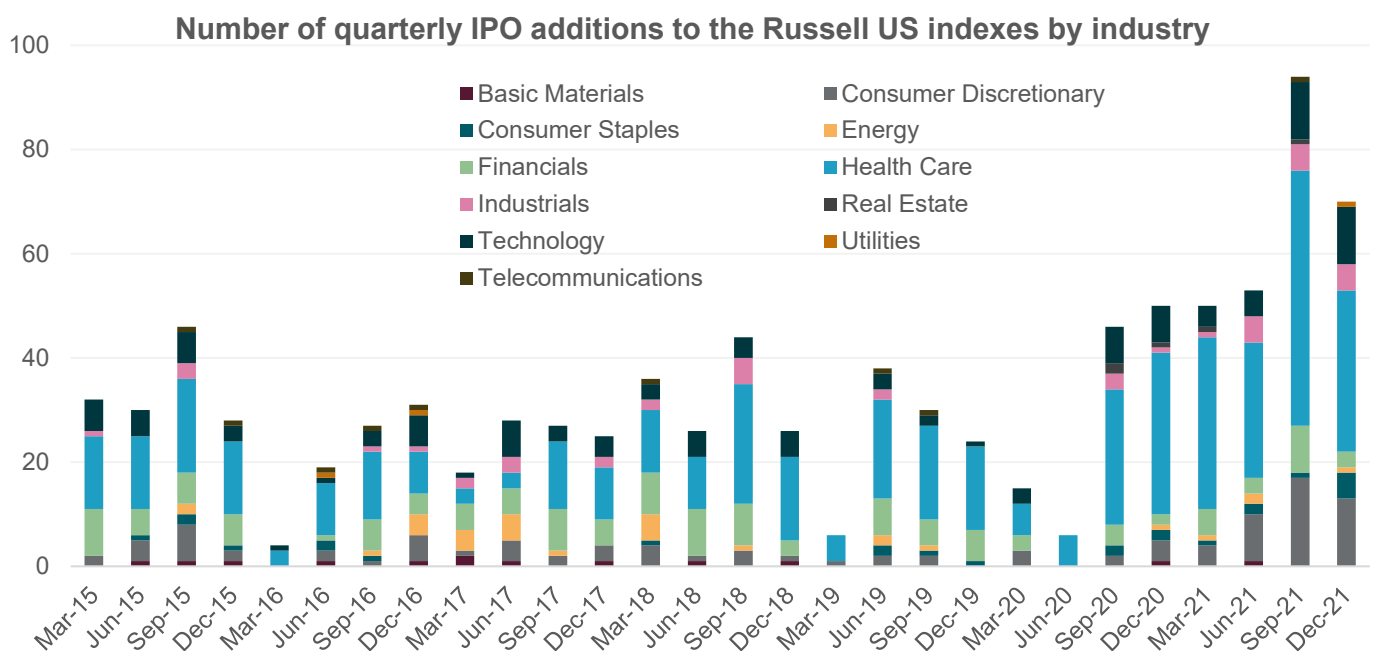
FTSE Russell adds eligible initial public offerings (IPOs) to its Russell US Indexes on a quarterly basis, ensuring that the indexes are always an accurate reflection of the markets they are designed to represent. Last year's additions — and their industry composition — offer us insight into IPO activity in the pandemic era.

In Q3 2021, 94 IPOs were integrated into the Russell US Indexes, the highest number in a decade, followed by another 70 in Q4. In both periods, nearly half of these newly minted publicly traded companies were in Health Care (49 and 31, respectively), with the Q3 number representing the biggest increase to that industry since 1980 (and 40 of those were Biotech firms). As Chart 2 shows, the dominance of Health Care IPOs has been a long-standing trend. Over the past 10 years, there have been more than 1,500 IPOs added to the Russell US indexes, with the small-cap Index accounting for the biggest share.

**Chart 1: More than 1,500 IPOs have been folded into the Russell US indexes over the past decade, with additions to the Russell 2000 far outpacing those of the large-cap index. Newcomers to the Russell 2000 hit a decade high of 62 in Q3.**



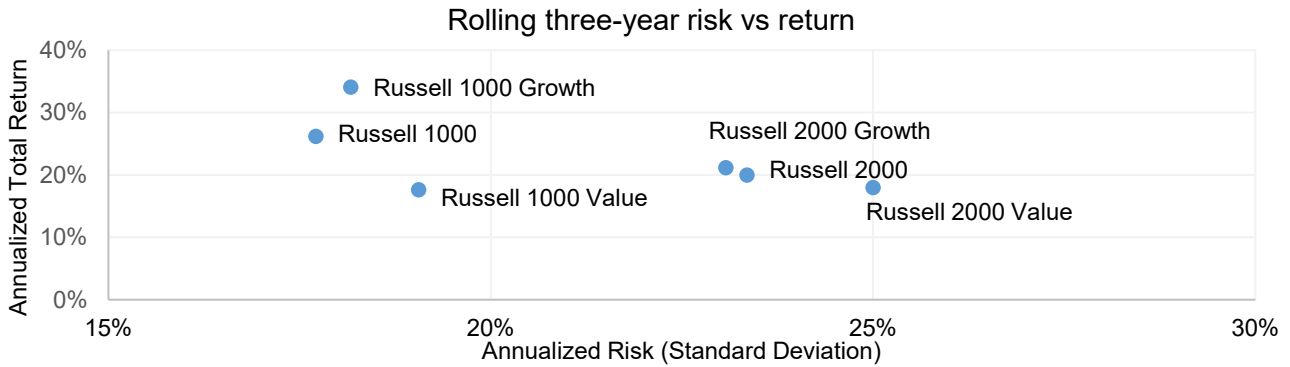
**Chart 2: In long-running trend, Health Care companies dominated the IPO additions to the Russell US indexes in 2021, followed by Discretionary and Technology firms. Health Care IPOs hit their highest level since 1980 in Q3.**



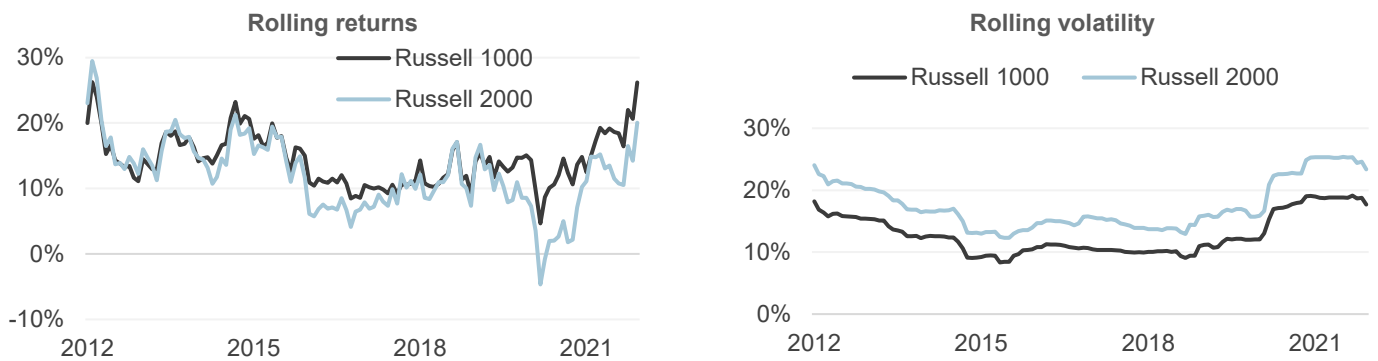
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# Return & Risk – Rolling Three-Year Patterns

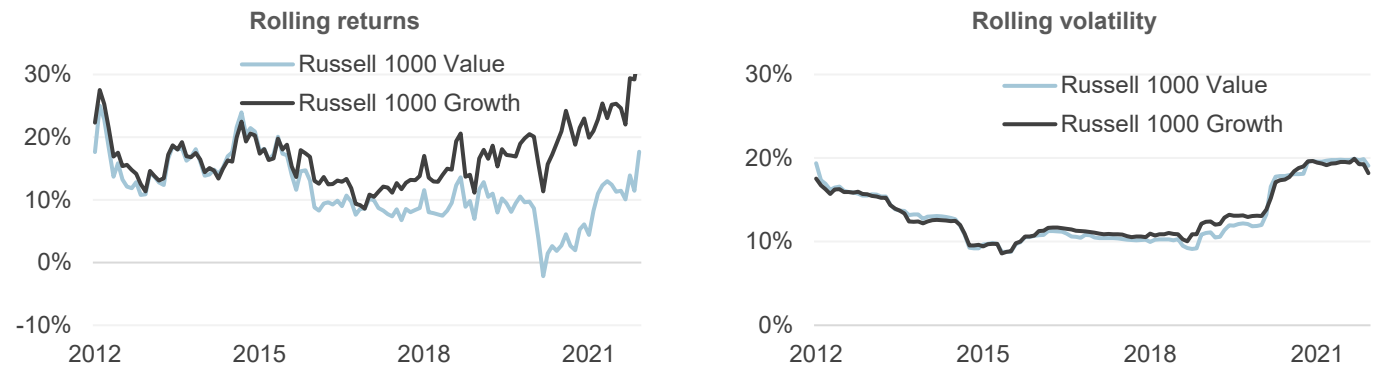
In the most recent three-year period, the Russell 1000 outpaced the Russell 2000 with far less volatility, as have the large- and small-cap Growth indexes. The rolling 3-yr charts below show return and volatility patterns over time.



**R1000 has outperformed R2000 recently, while volatility has risen for both since the pandemic outbreak in 2020.**



**R1000 Growth significantly expanded its outperformance versus R1000 Value over the pandemic era, with similar volatility.**



**R2000 Value has caught up to R2000 Growth since the pandemic began, finishing with slightly higher volatility.**



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