Looking back at equity factors in Q1 2026 with WisdomTree

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Key Takeaways

- Q1 2026 showed that the factor regime from late 2025 largely continued, with Value outperforming across all four regions while High Dividend and Minimum Volatility also moved higher as investors favoured resilience over narrative-driven Growth.
- Global equities struggled as geopolitical shocks, higher energy prices and a weaker rate-cut narrative weighed on sentiment, but Europe and Emerging Markets proved more resilient than the US.
- Looking ahead, the rest of 2026 may reward selective positioning, with Europe looking attractive for Value and High Dividend and the US favouring Quality as a more defensive way to stay invested.

Looking back at Q1 2026, global equities entered the year carrying much of the same optimism that had closed out 2025. Inflation was easing, central banks were expected to move gradually towards policy loosening, and investors remained willing to pay for earnings resilience and the structural growth story around artificial intelligence. As the quarter unfolded, markets were shaped by a series of geopolitical shocks, first in Greenland and then in Iran, which unsettled sentiment. Energy prices moved higher, expectations for rate cuts became less certain, and volatility picked up towards the end of the period. Even so, the broader message remained relatively constructive, as earnings expectations held firm, valuations came in, and equities proved more resilient than the headlines suggested.

This instalment of the WisdomTree Quarterly Equity Factor Review examines how a more fragile macro-economic backdrop reshaped factor leadership in the first quarter and what that may mean for portfolios as 2026 progresses.

Quarterly performance in focus: Value dominates, Growth falters

After a strong start to the quarter, equities reversed course as tensions around the Strait of Hormuz weighed on sentiment, clouding the outlook for the global economy and reviving memories of the 2022 inflation shock. Over the three months, the MSCI World Index fell 3.2% and US equities lost 4.6%.1 Europe and Emerging Markets proved more resilient, declining just 0.9% and 0.6%, respectively. Europe continues to benefit from substantial fiscal support, particularly through defence and infrastructure spending, as well as a strong shareholder-return culture focused on dividends and share buybacks.

On the factor front, Q1 looked less like a regime shift and more like a continuation of recent trends, albeit with one important change in tone:

- **Value outperformed again across all four regions**, returning 6.7% globally, 9.0% in the US and 10.6% in Emerging Markets.
- **High Dividend also performed strongly**, outperforming in all regions and outperforming Value in Developed markets, the US and Europe.
- As market leadership broadened and the grip of the Magnificent Seven continued to loosen, **Growth underperformed every other factor in every region**. Size, by contrast, performed strongly in the US.
- **Minimum Volatility moved sharply up the leaderboard**, particularly in the World, US and Europe, suggesting investors were looking for cash flow, valuation support and resilience rather than simply chasing duration or narrative.
- **The Q4 Quality revival did not materialise**, although the factor remained resilient in the US and Emerging Markets.

Figure 1: Equity factor outperformance in Q1 2026 across regions

	World Q1 2026: -3.6%	USA Q1 2026: -4.6%	Europe Q1 2026: -0.9%	Emerging Markets Q1 2026: -0.2%
High Dividend	7.7%	10.2%	6.3%	0.1%
Minimum Volatility	3.6%	3.3%	4.7%	-2.0%
Momentum	-0.8%	0.1%	-1.1%	0.0%
Quality	-0.1%	0.9%	-2.4%	0.5%
WisdomTree Quality	-1.4%	2.1%	-1.9%	2.0%
Size	4.9%	7.1%	-1.8%	-0.6%
Value	6.7%	9.0%	3.0%	10.6%
Growth	-4.9%	-5.3%	-3.1%	-4.6%

Source: WisdomTree, MSCI, Bloomberg L.P. 13 December 2025 to 31 March 2026. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. **Historical performance is not an indication of future performance and any investments may go down in value.**

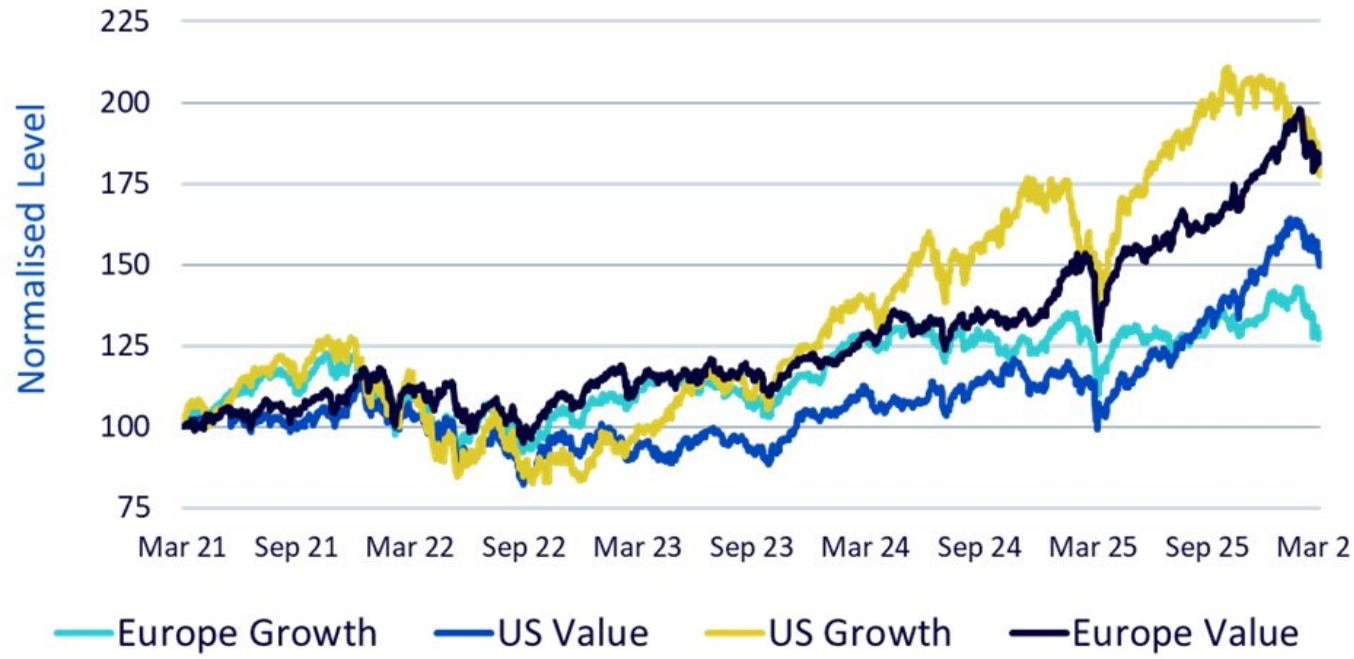
Europe Value regains momentum amid fiscal tailwinds

US growth stocks, led by the Magnificent Seven,2 have dominated headlines for years. This narrative has arguably overshadowed other important sources of equity performance. While it is widely recognised that US Growth has delivered an impressive 84% return over the past five years, fewer investors may realise that Europe Value has generated 83% over the same period.

More recently, momentum has clearly shifted towards Europe Value. European equities have outperformed US markets since early 2025, particularly when accounting for currency effects for euro-based investors, and Value has consistently led the factor scorecard in recent cycles.

This momentum has not emerged in isolation. Europe is increasingly supported by a domestic reflation story, driven by fiscal expansion and rising spending, particularly in defence, infrastructure and electrification. In this environment, value and dividend segments appear well-positioned, supported by stronger cash flows, greater pricing power and less reliance on falling interest rates.

Figure 2: Europe Value has caught up to US Growth



Source: WisdomTree, MSCI, Bloomberg L.P. 31 March 2021 to 31 March 2026. Europe indices are in EUR, US indices are in USD. **Historical performance is not an indication of future performance and any investments may go down in value.**

Positioning for a divergent second half

Looking ahead, the rest of 2026 is likely to reward selectivity more than broad market exposure. The macroeconomic backdrop remains uneven, with policy paths diverging across regions and markets still sensitive to inflation, energy and growth surprises. In that environment, Europe may be well positioned for Value and High Dividend, where valuations remain more supportive, and earnings leverage to industrial, defence and infrastructure themes is stronger. In the US, where valuations and concentration remain higher, Quality may offer a more defensive way to stay invested.

While factor trends can provide useful insights, they are subject to change and may not persist. Equity markets remain sensitive to macroeconomic developments, including inflation, interest rates and geopo-

litical risks. Investors may experience losses and should consider the risks associated with factor investing, including periods of underperformance.

1Source: WisdomTree, MSCI, Bloomberg L.P. 13 December 2025 to 31 March 2026.

2The Magnificent Seven stocks are a group of high-performing and influential companies in the US stock market: Alphabet, Amazon, Apple, Tesla, Meta Platforms, Microsoft, and Nvidia.

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