# Looking back at equity factors in Q4 2025 with WisdomTree

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**Pierre Debru**
Head of Research, Europe

## Key Takeaways

- Europe and emerging markets led 2025 equity performance, beating US returns as dollar weakness and controlled valuations supported ex-US rerating.
- Value was the clear factor winner, especially in Europe and emerging markets, driven by banks, cyclicals, defence, industrials and dividend-rich stocks.
- In Q4, Value stayed on top while Quality showed signs of life, suggesting leadership has broadened beyond pure artificial intelligence (AI) growth.

Looking back to 2025, equities proved tougher than the headlines. After an early-year tariff shock and a sharp April drawdown, a powerful 'everything rally' took hold as central banks eased and the US dollar weakened. Artificial Intelligence (AI) remained the defining growth engine, but leadership broadened beyond the mega-caps. Emerging markets and Europe ultimately outshone the US, even though US equities delivered strong double-digit gains. In Q4, markets wobbled: November's risk rally slowed as AI spending and US Federal Reserve easing narratives were stress-tested, yet equities recovered into December with rate-cut expectations firming.

From a factor perspective, Value stocks maintained their leadership, particularly within the European and Emerging Markets. Quality stocks also showed some renewed strength in Q4.

This instalment of the WisdomTree Quarterly Equity Factor Review examines how equity factors behaved during the fourth quarter and the potential impact on investors' portfolios.

## Performance in focus: Value keeps the lead

Equity markets rebounded at the end of Q4 after a very sluggish start. The MSCI World outperformed US Equities (+3.1% versus +2.3%), thanks to strong performance in Europe (+6.3%) and Emerging Markets (+4.7%). This Q4 split echoed the broader 2025 rotation: developed ex-US markets did the heavy lifting, with Europe extending a multi-quarter run of outperformance. Emerging markets also advanced, supported by a weaker dollar and improving global growth.

Value continued to dominate in Q4:

- Value posted the strongest returns in all regions (US, Developed World, Europe and Emerging Markets).
- Minimum Volatility and Momentum suffered across all regions this quarter.
- After a difficult first three quarters of the year, Quality is showing some strength in the US and Developed Markets. High-quality, dividend-growing stocks did particularly well in Europe and Emerging Markets.
- Growth underperformed across regions except the US, where it managed to outperform.

## Figure 1: Equity factor outperformance in Q4 2025 across regions

| | World<br>Q4 2025: 3.1% | USA<br>Q4 2025: 2.3% | Europe<br>Q4 2025: 6.3% | Emerging Markets<br>Q4 2025: 4.7% |
|---|---|---|---|---|
| High Dividend | 0.7% | -1.3% | 0.3% | 0.6% |
| Minimum Volatility | -3.6% | -3.0% | -3.0% | -2.3% |
| Momentum | -2.3% | -3.8% | -1.3% | -3.5% |
| Quality | 0.9% | 1.7% | -0.9% | -1.5% |
| WisdomTree Quality | 0.8% | -0.4% | 2.1% | 5.1% |
| Size | -0.3% | 0.1% | -2.8% | -3.1% |
| Value | 6.4% | 7.4% | 4.8% | 11.1% |
| Growth | -0.3% | 0.6% | -3.1% | -3.1% |

Source: WisdomTree, Bloomberg, MSCI. 30 September 2025 to 31 December 2025. 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.**

## 2025 in review: a Value-led year beyond the US

2025 ultimately delivered for equity investors. The MSCI World gained 21.1% in advance of US Equities (+17.3%). For the first time in some years, European and emerging market equities outperformed the US over the full year. That outperformance was largely driven by foreign exchange and valuation effects. A weaker US dollar and still-stretched US valuations meant ex-US equities had greater scope for multiple expansion as rates eased.

Factor-wise, Value definitely won in 2025:

- Value outperformed by double digits in all four regions in 2025, with +15.3% in Europe and +21.6% in Emerging Markets.
- Minimum Volatility, Size and Quality stood out from the other end of the spectrum in 2025 with underperformance across all regions despite a Quality revival in Q4.
- Growth's performance was very mixed, with outperformance in the US but double-digit underperformance in Europe and Emerging Markets.
- In Europe, Momentum performed strongly, posting the second-best returns after Value.

## Figure 2: Equity factor outperformance in 2025 across regions

| | World<br>2025: 21.1% | USA<br>2025: 17.3% | Europe<br>2025: 19.4% | Emerging Markets<br>2025: 33.6% |
|---|---|---|---|---|
| High Dividend | -2.5% | -6.3% | -0.8% | -8.9% |
| Minimum Volatility | -10.6% | -10.0% | -7.8% | -20.2% |
| Momentum | 0.2% | 0.0% | 7.5% | -4.6% |
| Quality | -4.6% | -1.4% | -10.8% | -19.5% |
| WisdomTree Quality | -4.5% | -4.2% | -5.7% | -6.5% |
| Size | -1.2% | -5.7% | -3.0% | -15.0% |
| Value | 18.3% | 14.5% | 15.3% | 21.6% |
| Growth | 0.0% | 3.6% | -10.5% | -21.6% |

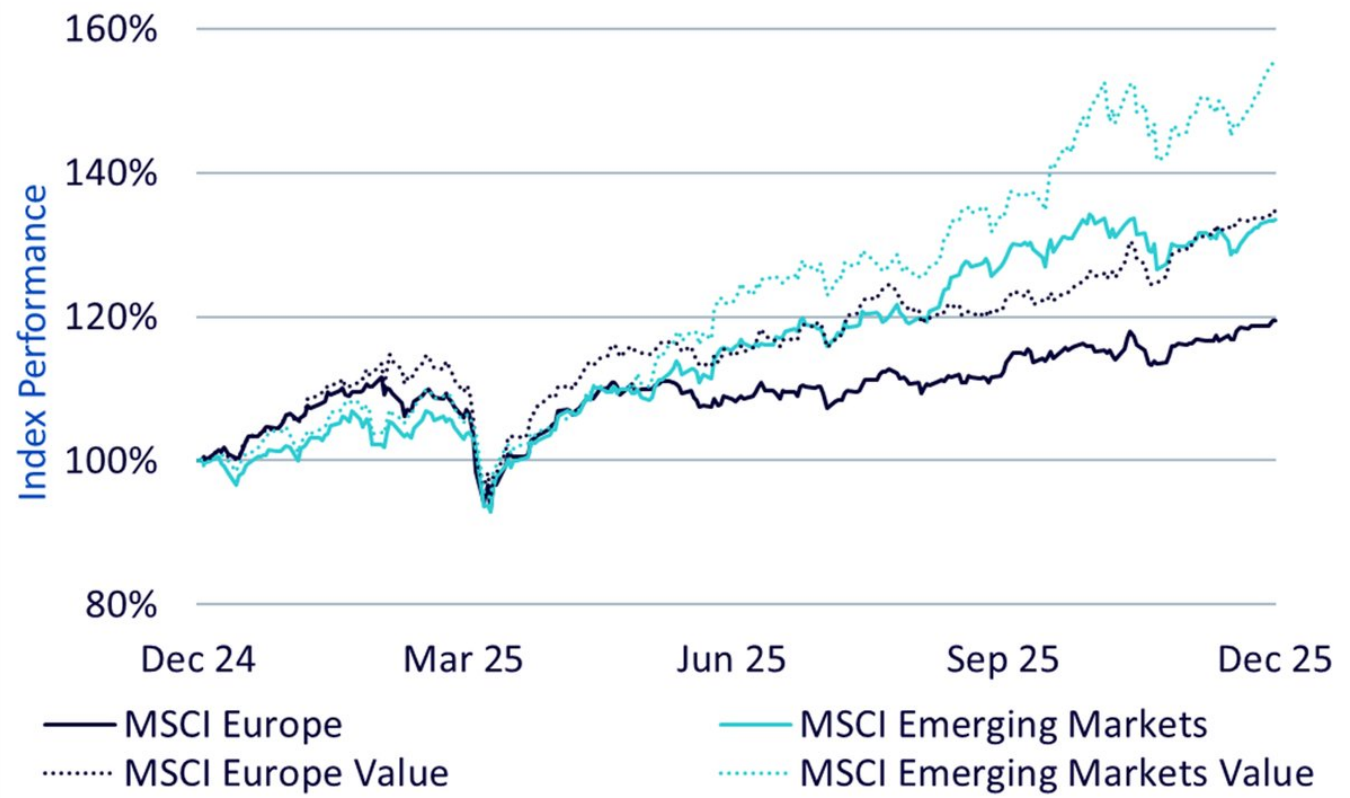
Source: WisdomTree, Bloomberg, MSCI. 31 December 2024 to 31 December 2025. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. **Historical performance is not an indication of future performance and any investments may go down in value.**

## Europe and Emerging Markets powered a Value-led year

In Europe, Value's leadership in 2025 was driven by a classic mix of policy support, earnings resilience and compelling valuations. Investors' attention turned to cash-generative names and away from the narrow US AI trade. Banks were notable winners, benefiting from a re-steepening yield curve. Defence and industrial stocks benefited from higher order books tied to re-armament and upgrades buoyed by Germany's multi-year infrastructure and defence push. 2025 was a year that rewarded balance-sheet strength, dividend durability and operational leverage, attributes that are concentrated in Europe's value cohort.

Emerging markets also benefited from the weaker US dollar and cheaper starting valuations. The rally was quite broad-based, but value-heavy pockets did best where currency tailwinds and policy support were strongest.

## Figure 3: Value outperformed in Europe and Emerging Markets in 2025




Source: WisdomTree, Bloomberg, MSCI. 31 December 2024 to 31 December 2025. Calculated in US Dollars for all regions except Europe, where calculations are in EUR. **You can not invest in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

## Looking forward to 2026

Looking to 2026, existing trends remain in place:

- The US is benefiting from the rate easing cycle, fiscal tax cuts and an improved growth outlook, but still suffering from high valuation and ultra-high concentration around the AI narrative. Investors may benefit from a more resilient allocation to US equities by investing in high-quality, dividend-growth stocks.
- Strong stability of rates and continued government stimulus around Defence and Infrastructure in Europe that should continue to push European Value names.
- Earning improvements, a weak US dollar and improved domestic demand is leading to a positive environment for emerging market equities.

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