Looking back at equity factors in Q2 2026 with WisdomTree

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Key Takeaways

- Momentum ran the show. It posted one of its strongest quarters since the dot-com era, outperforming by over 30% in the US and more than 40% in Emerging Markets.
- "Value", for some implementation, performed strongly but was a semiconductor bet in disguise. Very high weights in Micron, SK Hynix and Samsung allowed some value portfolios to ride memory names.
- Quality's lag may be its opportunity. The most consistent factor historically has underperformed for three years, yet history shows that after a bull-market lag like this one, Quality has bounced back over the next three years in the vast majority of cases.

Global equities staged a decisive rebound in Q2 2026 after a bruising first quarter. As tensions surrounding the Iran conflict eased, oil prices retreated from their April peak of more than $100 a barrel, reducing concerns that the energy shock would reignite inflation. As geopolitical fears mitigated, the artificial intelligence (AI) capital expenditure story reasserted itself, with hyperscalers lifting 2026 guidance further and drawing investors firmly back into the technology trade. Risk sentiment turned decisively positive, and, by quarter-end, many indices were back near record highs. Even a Federal Reserve (Fed) that looked more hawkish under new Chair Kevin Warsh, and inflation running hotter than hoped, could not derail equities in the quarter.

From a factor perspective, Q2 looked very different to Q1:

- Momentum surged ahead of every other factor in all regions but Europe, posting one of its strongest quarters since the dot.com era.
- Value continued to outperform across regions, posting double digit outperformance in the US and emerging markets (EM) although the headline results require some interpretation, as we discuss below.
- High Dividend and Minimum Volatility mean reverted after their strong first quarter.
- Growth returned to favour as technology leadership reasserted itself.
- Size continued to perform well in the US and global developed markets but remained weak in Europe and EMs.

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

Quarterly performance in focus: Momentum led decisively

As markets increasingly looked through the Iran conflict and the reopening of the Strait of Hormuz became more likely, global equities recovered strongly. The MSCI World returned 13.8% over the quarter, while US equities gained 15.2%. EMs stood out, rising 24.1%, driven largely by strong performance from semiconductor heavyweights: SK Hynix, TSMC and Samsung.

From a factor perspective, Momentum dominated:

- **Momentum was the clear winner**. It delivered one its strongest quarter since the dot.com era, outperforming by 31.4% in the US and an extraordinary 40.7% in EMs. However, the gap between Momentum winners and losers is now very wide by historical standards, increasing the risk of a sharp reversal.
- **Value outperformed again across all four regions**, posting double digit outperformance in all but Europe (+16.1% globally, 26.3% in the US and +22.9% in EMs). Although the result says as much about index construction as it does about the factor itself. The MSCI USA Enhanced Value Index has a large allocation to Micron, while the MSCI EM Enhanced Value Index is heavily overweight SK Hynix and Samsung. Those overweight in semiconductors and memory in particular, resulted in this strong outperformance, which can't be found in other Value benchmarks.
- **Growth rebounded across developed markets** even if performance started to shift later in the quarter as investors started to worry about some of their extended positions.
- **High Dividend and Min Volatility gave back much of the ground** they had gained during Q1 as investors rotated away from defensive positioning. They also dropped in EMs, but they had not performed well in Q1.
- **Quality continued to lag**, with investors favouring lower quality, less profitable companies during the market rally.
- **Small Caps also continued to outperform in the US and Global markets**, extending the trend established during Q1.

Overall, it's worth noting that Value, Growth and Momentum all benefited from the rally in semiconductors and memory names and so multi-factor diversification provided less protection than usual.

Figure 1: Equity factor outperformance in Q2 2026 across regions

	World Q2 2026: 13.8%	USA Q2 2026: 15.2%	Europe Q2 2026: 11.8%	Emerging Markets Q2 2026: 24.1%
High Dividend	-9.3%	-10.0%	-8.5%	-9.4%
Minimum Volatility	-12.8%	-10.9%	-8.8%	-4.5%
Momentum	20.5%	31.4%	0.8%	40.7%
Quality	-0.2%	-0.4%	-0.3%	-1.4%
WisdomTree Quality	-2.4%	-5.8%	-1.4%	2.1%
Size	1.3%	4.3%	-3.4%	-10.3%
Value	16.1%	26.3%	1.1%	22.9%
Growth	5.1%	6.2%	3.1%	-4.7%

Source: WisdomTree, MSCI, Bloomberg L.P., 31 March 2026 to 30 June 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.**

Year-to-date factor performance in focus: Momentum dominates

The first half of 2026 tested investors with a new Fed chair in Kevin Warsh, renewed conflict in Iran, sharp swings in oil prices, sticky inflation and elevated bond yields. Despite those headwinds, most major indices ended the period close to record highs. The MSCI World returned 9.7% year to date (YTD), the US gained 9.9% and Europe rose 10.7%, while emerging markets was the clear standout performer with a +23.8% gain.

From a factor perspective, Momentum remained the dominant factor after its exceptional second quarter, while Value continued to outperform.

- **Momentum remained the strongest-performing factor**, with Europe the only notable exception, where performance was broadly flat (-0.5%). The unusually large gap between Momentum winners and losers continues to suggest elevated reversal risk.
- **Value outperformed strongly across most regions**, returning 24.2% globally and 38.4% in EMs, while Europe was more subdued at 4.5%. As discussed above, much of this strength reflects benchmark construction rather than broad-based Value leadership.
- **Growth finished the first half weaker than its mid-quarter rebound suggested**. Growth ended the half underperforming across every region as market leadership broadened and the grip of the Magnificent Seven[1] loosened.
- **High Dividend and Minimum Volatility surrendered their early-year gains**. Both defensive factors outperformed during Q1's risk-off stretch but faded as risk appetite returned.
- **Quality continued to disappoint**, remaining broadly flat to negative everywhere (-0.3% globally, -3.0% in Europe), as lower-quality, less profitable names kept doing well in a risk-seeking regime.
- **Size continued to work well** in the US (+12.7%) and globally (+6.9%).

Figure 2: Equity factor outperformance YTD 2026 across regions

	World 2026: 9.7%	USA 2026: 9.9%	Europe 2026: 10.7%	Emerging Markets 2026: 23.8%
High Dividend	-0.8%	1.2%	-1.9%	-9.3%
Minimum Volatility	-8.7%	-7.0%	-3.8%	-6.9%
Momentum	18.6%	30.1%	-0.5%	40.6%
Quality	-0.3%	0.7%	-3.0%	-0.8%
WisdomTree Qualit	-3.9%	-3.2%	-3.5%	4.7%
Size	6.9%	12.7%	-5.3%	-11.0%
Value	24.2%	37.9%	4.5%	38.4%
Growth	-0.9%	-0.5%	-0.6%	-10.2%

Source: WisdomTree, MSCI, Bloomberg L.P. 31 December 2025 to 30 June 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.**

What history tells us about Quality

Since the 1960s, academic research has consistently shown that portfolios of high-quality companies (those with stronger profitability) would have outperformed both the broader market and portfolios of low-quality companies[2]. Quality is not unique in delivering a long-term premium; Value, Momentum and High Dividend stocks have also historically outperformed. However, Quality has also been the most consistent, outperforming in 89% of all the rolling 10-year periods since 1963[3].

The pattern remains impressive over short horizons as well. Across all rolling three-year periods since 1963, Quality has outperformed the market 74% of the time (see Figure 3).

Figure 3: How consistently have equity factors outperformed the market over rolling three-year periods?

	Small Cap	Value	Low Volatility	High Dividend	Quality
Percentage of outperforming periods	48%	63%	63%	57%	74%

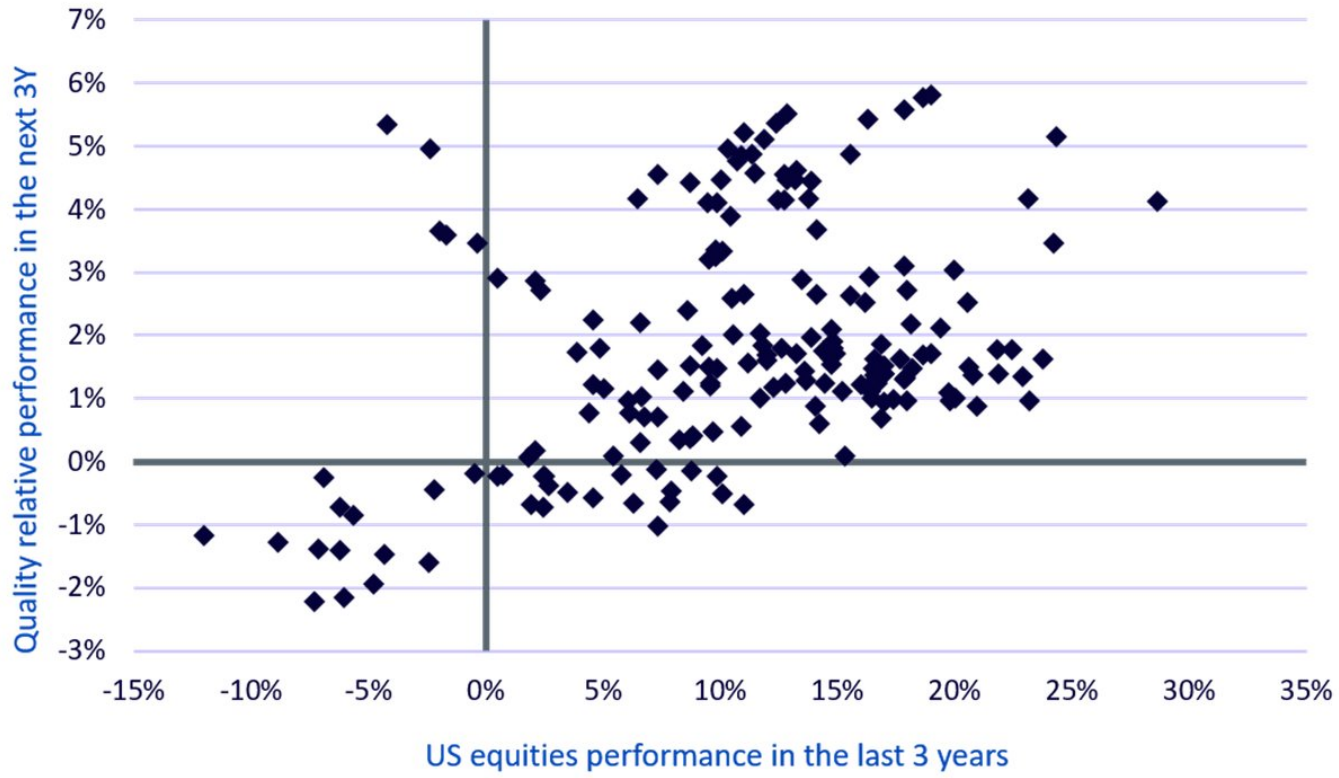
Sources: WisdomTree, Ken French. From June 1963 to May 2026 and represents the latest date of available data. Value: High 30% Book to Price portfolio. Size: Low 30% portfolio. Quality: High 30% portfolio. Low Vol: Low 20% portfolio. High Div: High 30 portfolio. "&"Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

Quality has underperformed in the last three years, making it worth asking what history tells us about the next three years. In Figure 4, we focus only on periods when quality has underperformed over the last three years, and we plot the last three years' performance of US equities on the x-axis and the relative performance of Quality (vs the market) over the next three years on the y-axis. What we note is that:

- In 82% of the cases, Quality went on to outperform the market in the following three years. In other words, only 18% of cases show Quality underperformance for two successive three year periods.
- Roughly half of those recoveries followed bear markets, while the remainder came after periods of only modest market gains.
- Importantly, when Quality lagged during strong bull markets (which was the case over the past three years), it typically outperformed over the subsequent three-year period.

While history is never a guarantee of future performance, today's environment is not inconsistent with previous periods that were followed by a recovery in Quality leadership.

Figure 4: What did Quality do historically after underperforming for three years



Sources: WisdomTree, Ken French. From June 1963 to May 2026 and represents the latest date of available data. Value: High 30% Book to Price portfolio. Size: Low 30% portfolio. Quality: High 30% portfolio. Low Vol: Low 20% portfolio. High Div: High 30% portfolio. "&"Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

Positioning for H2 2026

Looking ahead, we remain constructive on equities, although the second half could be bumpier. Earnings breadth is improving and recession risk remains low, yet stretched valuations, a hawkish Warsh-led Fed and stretched momentum dispersion leave little room for error.

Against that backdrop, broader factor diversification and greater valuation discipline look increasingly important. If market leadership continues to broaden beyond the AI mega caps, EM Growth stocks could benefit. Meanwhile, the recent reset in defensive factors may create renewed opportunities in dividend-paying companies with resilient cash flows, while the prolonged underperformance of Quality leaves scope for the factor to recover if investors begin favouring profitability over speculative growth.

World is proxied by MSCI World net TR Index. US is proxied by MSCI USA net TR Index. Europe is proxied by MSCI Europe net TR Index. Emerging Markets is proxied by MSCI Emerging Markets net TR Index. Minimum volatility is proxied by the relevant MSCI Min Volatility net total return index. Quality is proxied by the relevant MSCI Quality net total return index.

Momentum is proxied by the relevant MSCI Momentum net total return index. High Dividend is proxied by the relevant MSCI High Dividend net total return index. Size is proxied by the relevant MSCI Small Cap net total return index. Value is proxied by the relevant MSCI Enhanced Value net total return index. WisdomTree Quality is proxied by the relevant WisdomTree Quality Dividend Growth Index.

[1] Magnificent Seven is a group of mega cap stocks: Apple, Alphabet, Microsoft, Amazon.com, Meta Platforms, Tesla and Nvidia.
[2] Kenneth French data library. Data is at a monthly frequency from June 1963 to May 2026. Stocks are selected as above the median market cap, with “high” representing the top 30% by operating profitability and “low” representing the bottom 30% by operating profitability. The market represents the portfolio of all available publicly listed stocks in the US. All returns are in USD. Operating profitability for year t is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year end in t-1. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**
[3] WisdomTree, Ken French. From June 1963 to May 2026 and represents the latest date of available data. Value: High 30% Book to Price portfolio. Size: Low 30% portfolio. Quality: High 30% portfolio. Low Vol: Low 20% portfolio. High Div: High 30 portfolio. "&"Market: all CRSP firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. **You cannot invest directly in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

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