Report

Confluence® Style Analytics®

Q2 2026
Factor Performance Analysis

Factor rotation and quarterly recovery

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Market background

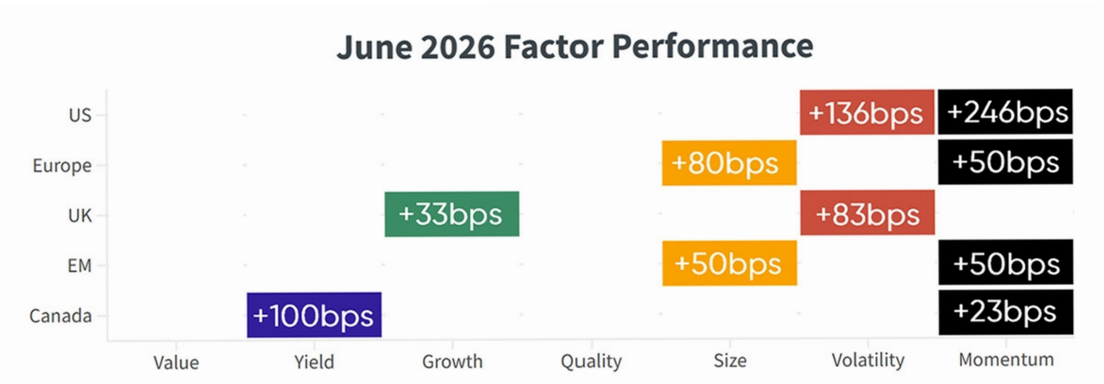
Global equity markets delivered a strong recovery in Q2 2026, with most major regions posting positive returns following a more challenging first quarter. Improving investor sentiment was supported by moderating inflation, resilient labor markets, and growing expectations that major central banks would begin easing monetary policy later in the year. The rebound was broad-based, with particularly strong performances from Emerging Markets and the Eurozone, while the U.S., UK, and Canada also recorded solid gains despite some moderation in June.

Market leadership also evolved over the quarter as investor positioning shifted away from the defensive Value and Yield factors that characterized much of Q1 towards more cyclical and growth-oriented exposures. Growth, Momentum, and Volatility generally outperformed across most regions, reflecting increased confidence in the economic outlook and a greater willingness to take on risk. Nevertheless, market performance remained uneven towards the end of the quarter, with June seeing more muted returns in several regions as investors reassessed valuations and remained attentive to inflation trends, central bank policy expectations, and geopolitical developments.

Crude oil prices declined by the end of the month of June, reaching $69 per barrel. Meanwhile, gold prices dropped to $4,016 per ounce at month end.

Factor summary – Q2

- **US equities:** Volatility and Momentum outperformed.
- **European equities:** Volatility and Momentum outperformed.
- **UK equities:** Value and Momentum outperformed.
- **Emerging markets equities:** Growth and Volatility outperformed.
- **Canadian equities:** Yield and Momentum outperformed.



US equities

Factor leadership shifted noticeably this quarter compared with the previous quarter. While value factors broadly outperformed in the prior quarter, they generally underperformed during the current period. Although U.S. equity market returns remained negative overall, regional performance improved relative to the previous quarter.

The quarter was largely driven by the continued strength of technology and AI-related companies, with momentum and volatility factors contributing most significantly to the improvement in market performance. These factors were the primary drivers of relative returns across the region.

June's factor performance largely mirrored the trends observed over the quarter. Relative to the previous month, momentum and yield factors strengthened modestly, while the overall pattern of factor performance remained broadly consistent with the quarterly results.

Momentum performance improved in June as the market rally broadened and leadership among the strongest-performing stocks persisted. Technology and AI-related companies continued to deliver strong returns, allowing stocks with positive price trends to maintain their leadership. As momentum strategies systematically tilt towards securities with recent outperformance, the continued strength of these market leaders supported improved momentum returns over the month.

Annual inflation in the U.S. rose to 4.2% in May 2026, its highest level since April 2023. Meanwhile, the unemployment rate declined to 4.2% in June, down from 4.3% in May. U.S. manufacturing output remained flat in May, falling short of market expectations for a 0.3% increase.

Stocks with high momentum 12-1 which contributed to the performance of U.S. equities in Q2, and the month of June include info tech company Micron Technology, Inc (241% in Q2), info tech company Advanced Micro Devices (15% in Q1) and industrials company Caterpillar Inc. (185% in Q2). Additionally, companies with 1Y volatility that contributed to the region's performance in June and Q2 include consumer discretionary company Tesla Inc (13% in Q1) and health care company Ely Lilly and Comp (30% in April).

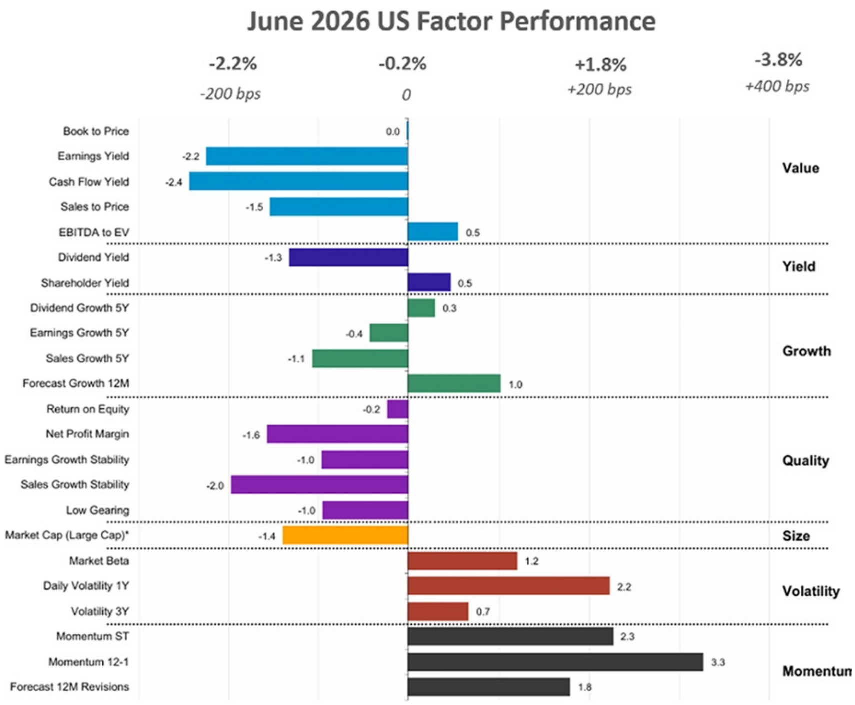


Figure 1: *June 2026 US Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

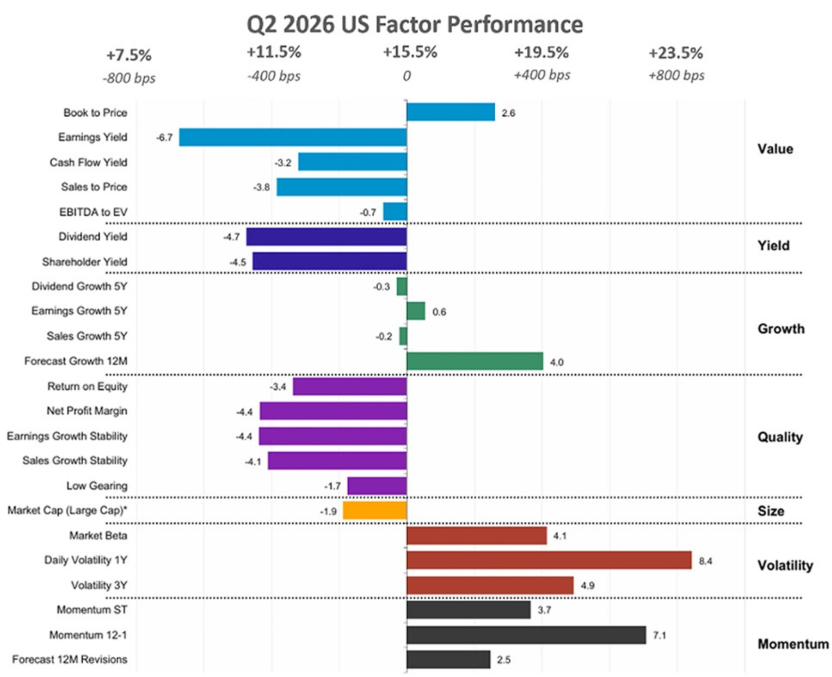


Figure 2: *Q2 2026 US Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

European equities

Similar to the U.S. region, the Eurozone experienced a significant improvement in performance during Q2, rebounding from -3.2% in Q1 to 10.4% in Q2. The strong quarterly recovery was primarily driven by robust returns in April and May, while June delivered a more modest gain of 0.1%. Factor leadership also shifted notably from the previous quarter. Whereas Value and Yield outperformed in Q1, Growth and Volatility emerged as the leading factors in Q2, reflecting a meaningful change in investor positioning.

The rotation towards Growth and Volatility was likely driven by improving macroeconomic conditions across the Eurozone during the quarter. Easing concerns surrounding trade and policy uncertainty, together with growing expectations for monetary policy easing and improving corporate earnings prospects, supported a stronger appetite for growth-oriented companies. In addition, the outperformance of the Volatility factor suggests investors became more willing to increase exposure to higher-beta, cyclical stocks as market confidence recovered, signaling a broader shift towards risk-on positioning following the weaker performance observed in Q1.

Eurozone inflation continued to moderate during the quarter, with annual consumer price inflation easing to 2.8% in June 2026, down from 3.2% in May and below market expectations of 3.0%. Meanwhile, labor market conditions remained resilient, with the seasonally adjusted unemployment rate holding at 6.2% in May 2026. Economic activity also showed signs of stabilization, as industrial production increased by 0.1% month on month in April, following an upwardly revised 0.4% expansion in March.

Key European stocks with strong momentum 12-1 that outperformed in the second quarter of 2026 include French industrials companies Schneider Electric SE (+26% in Q2) and Safran (24% in Q2). Leading the market through a market beta performance in the month of June and Q2 include Dutch industrials company Siemens AG (36% in Q2) and Spanish financials company Banco Santander (28% in Q2).

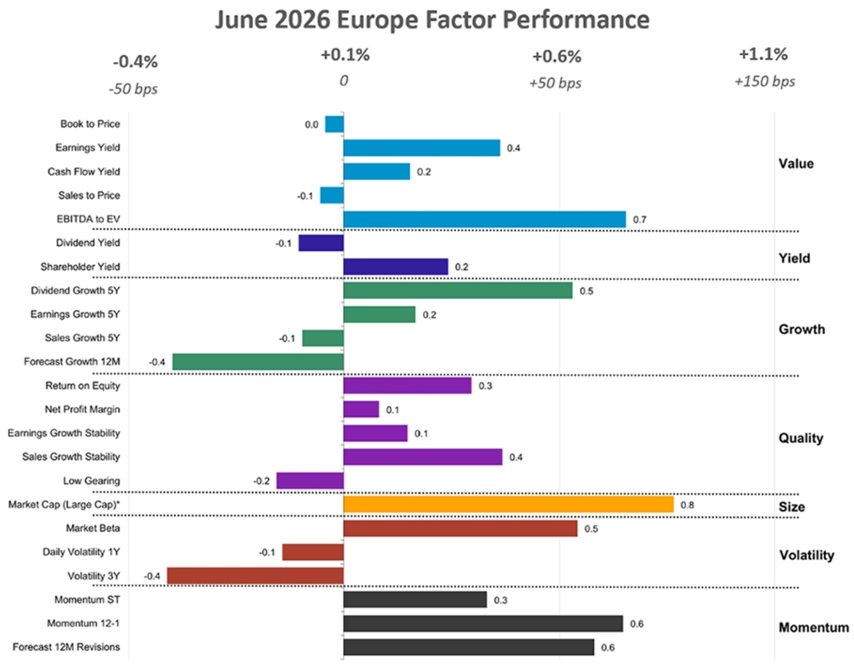


Figure 3: *June 2026 Europe Factor Performance (country and sector adjusted)*
Source: Confluence Style Analytics

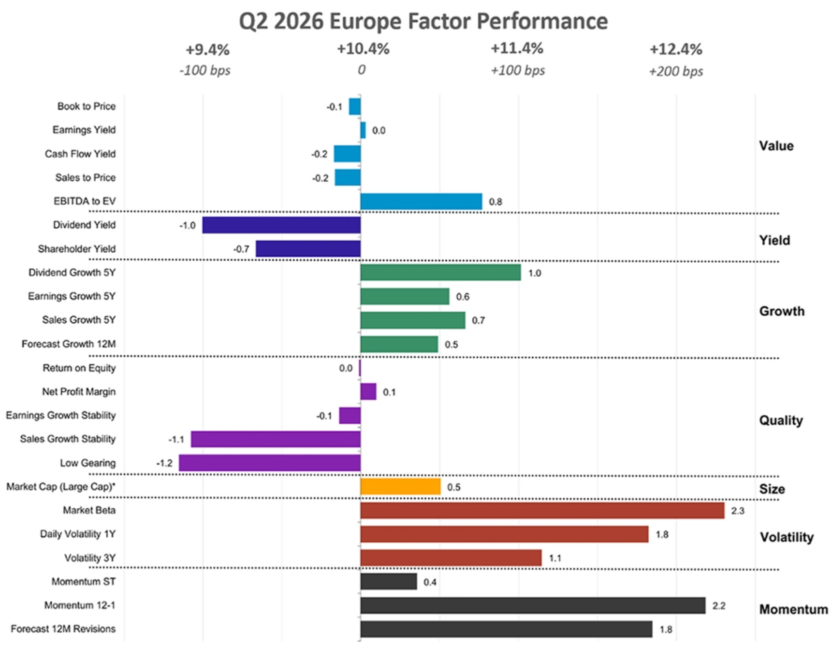


Figure 4: *Q2 2026 Europe Factor Performance (country and sector adjusted)*
Source: Confluence Style Analytics

UK equities

The UK equity market also delivered an improved performance in Q2, although the recovery was more modest than that of the Eurozone and Emerging Markets. Despite a slight pullback in June compared with the previous month, the region recorded a notable improvement relative to Q1, reflecting stronger market sentiment over the quarter.

Factor leadership shifted in line with the broader European market, rotating away from the defensive Value and Yield factors that outperformed in the previous quarter towards Growth and Volatility in Q2. This transition suggests investors became more willing to increase exposure to higher-growth and higher-beta companies as confidence in the economic outlook improved. While Growth and Quality remained the dominant factors through June, the Value factor also began to recover during the month, providing additional support to the quarter's overall performance. Performance among large-cap stocks also strengthened in June, contributing positively to the region's market returns.

UK inflation remained stable during the quarter, with the annual consumer price inflation rate holding at 2.8% in May 2026, unchanged from April. Labor market conditions showed modest improvement, as the unemployment rate declined to 4.9% in the three months to April 2026. Meanwhile, manufacturing activity continued to expand, with production increasing by 0.4% MoM in April.

British stock with volatility 3Y that outperformed this month and this quarter include industrials company Rolls Royce Holdings Plc (+29% in Q2). Stocks that led the region's market beta factor's outperformance in Q2 include financials companies like Barclays Plc (31% in Q2) and Lloyds Banking Group (24% in Q2).

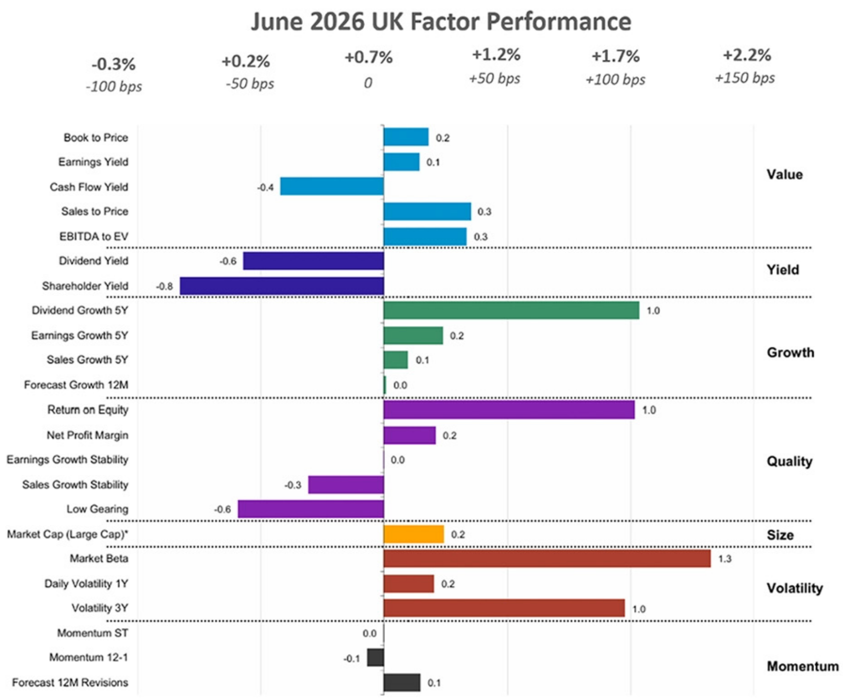


Figure 5: *June 2026 UK Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

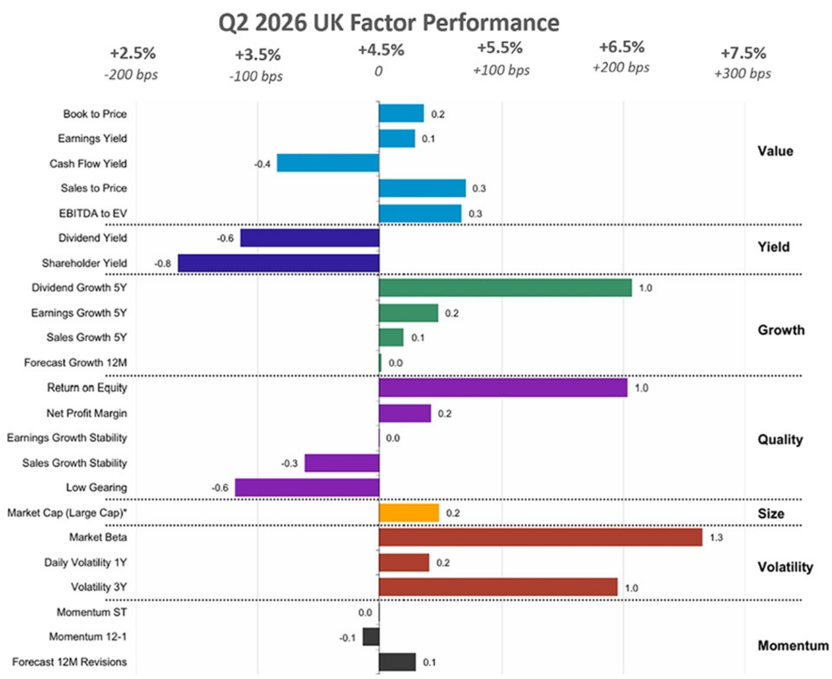


Figure 6: *Q2 2026 UK Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

Emerging markets equities

Emerging Markets delivered the strongest regional performance in Q2, generating an impressive 26.7% return for the quarter. Despite a weaker June, during which the region declined 0.8%, overall performance was underpinned by robust gains recorded in April and May. The softer June outcome was largely attributable to weaker performance from the Value and Quality factors, which weighed on overall regional returns.

Factor leadership shifted markedly from the previous quarter, with Momentum and Volatility emerging as the strongest-performing factors in Q2. This reflects investors' increasing preference for companies with strong price momentum and higher-beta characteristics as risk appetite improved and capital flowed back into emerging markets. Expectations of a more supportive global monetary policy environment, a weaker U.S. dollar, and improving growth prospects across several emerging economies encouraged investors to rotate towards sectors and stocks exhibiting stronger earnings and price momentum. Although the Volatility factor underperformed in June as markets became more cautious, its strong gains earlier in the quarter contributed meaningfully to the region's exceptional Q2 performance.

Across key Emerging Market economies, inflation remained relatively stable during the quarter. China's annual inflation eased to 1.0% in June 2026, accompanied by a slight improvement in the labor market as the urban unemployment rate declined to 5.1% in May. In Taiwan, inflation accelerated to 2.6% while unemployment edged lower to 3.32%, reflecting continued economic resilience. Meanwhile, South Korea's annual inflation increased to 3.2% in June, with the unemployment rate remaining steady at 2.8% in May.

Emerging Markets equities that outperformed in Q1, captured by the momentum 12-1 factor include a Taiwanese info tech companies Mediatek Incorp (185% in Q2); and Chinese info tech company Zhongji Innolight Co Ltd (127% in Q1). Companies with progressing volatility 1Y include Chinese info tech companies Cambricon Technologies Corp Ltd (+146% in Q2) and Hygon Information Tech co ltd (79% in Q2).

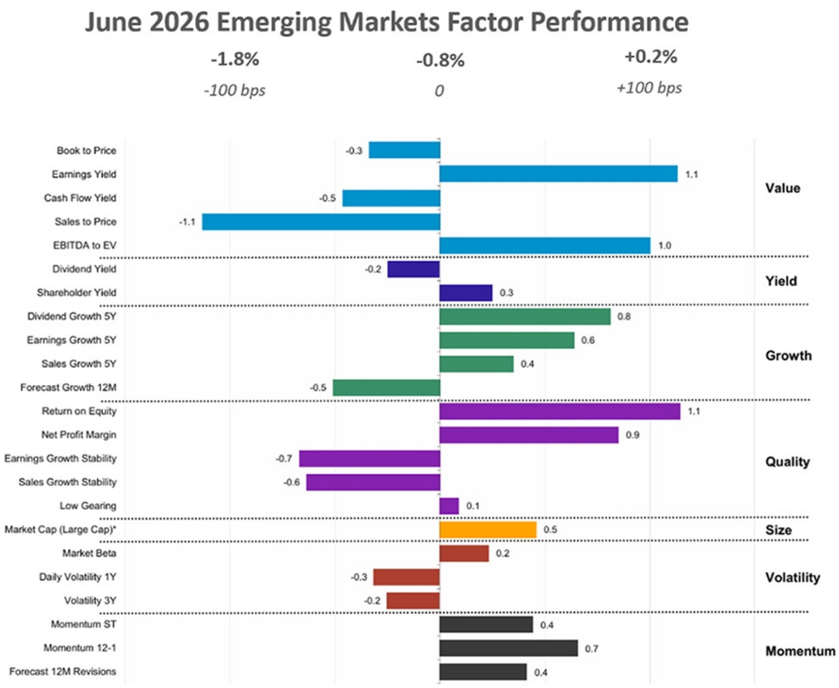


Figure 7: *June 2026 Emerging Factor Performance (country and sector adjusted)*
Source: Confluence Style Analytics

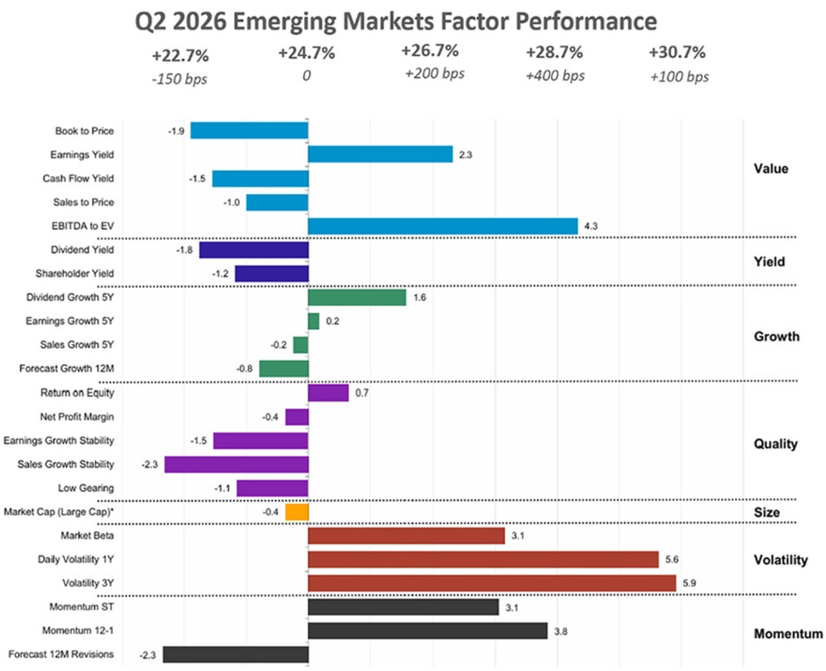


Figure 8: *Q2 2026 Emerging Factor Performance (country and sector adjusted)*
Source: Confluence Style Analytics

Canadian equities

The Canadian equity market delivered a 4.7% return in Q2, improving from 1.8% in Q1 despite a weaker finish to the quarter. Monthly performance declined from a 1.4% gain in May to a 3.1% loss in June, although the strong returns recorded earlier in the quarter were sufficient to produce a solid quarterly outcome.

Factor leadership also shifted from the previous quarter. While Value and Quality were the primary drivers of performance in Q1, Quality weakened in Q2 and Value generated mixed returns. Instead, Momentum and Yield emerged as the strongest-performing factors. The outperformance of Momentum reflects investors' preference for stocks with sustained earnings and price strength amid improving market sentiment, while Yield benefited from continued demand for companies with stable cash flows and attractive dividend income. This combination suggests investors balanced participation in the market's recovery with a continued preference for income-generating businesses in an environment of moderating inflation and evolving interest rate expectations.

Canada's annual inflation rate increased to 3.2% in May 2026, up from 2.8% in April, indicating a modest acceleration in price pressures. Labor market conditions improved slightly, with the unemployment rate easing to 6.5% in June from 6.6% in the previous month. Meanwhile, manufacturing activity remained subdued, with production declining 1.8% year-on-year in April 2026.

Stocks with strong momentum 12-1 in the region include financials companies Toronto-Dominion Bank (+32 % in Q2) and Bank of Montreal (+32% in Q2). High shareholder yield that contributed to the region's performance include financials companies Royal Bank of Scotland (29% in Q2) and Bank of Nova Scotia (27% in Q2).

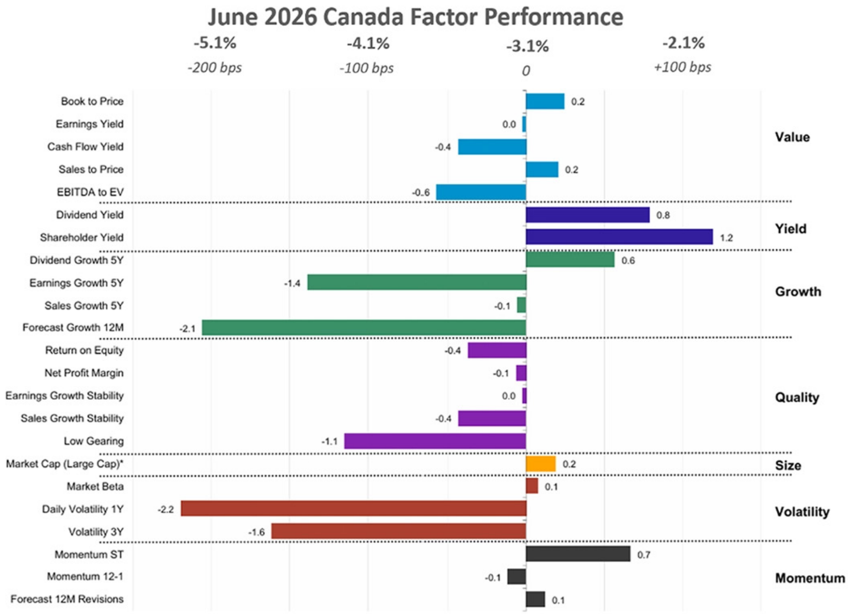


Figure 9: *June 2026 Canada Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

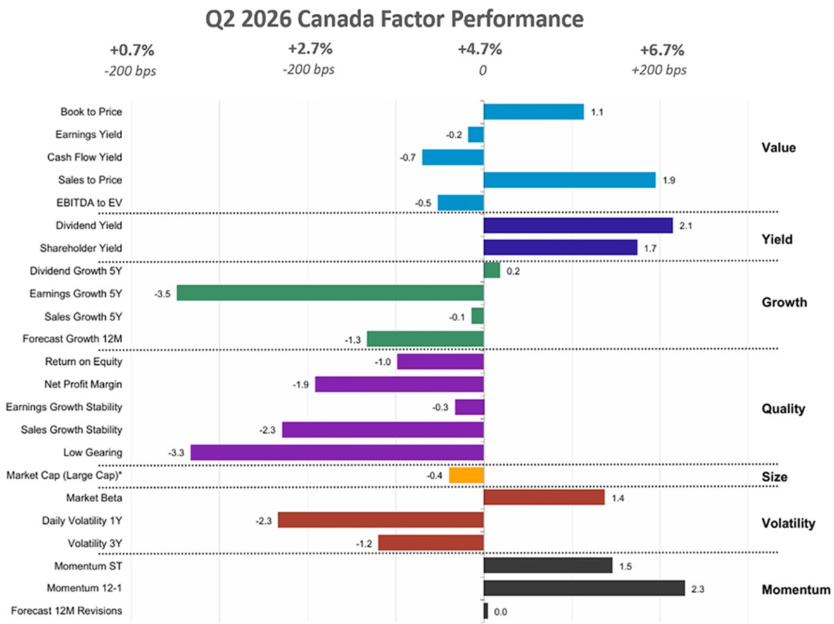


Figure 10: *Q2 2026 Canada Factor Performance (sector adjusted)*
Source: Confluence Style Analytics

Appendix: How to read the charts

Each factor's performance is based on the relative performance of its top 50% of stocks by market cap, compared to the overall market. The Size factor uses the top 70% of stocks, as the only exception.

For example, for the book-to-price factor, we determine the period's performance of the basket of stocks with the highest book-to-price values, relative to the total market. Each factor is analyzed independently, market and fundamental data are adjusted to enable sector-average (within each country) relative data to be used, and the performance measurement isolates the factor's contribution to return.

Disclaimer

About Confluence® Technologies

Confluence is a global leader in enterprise data and software solutions for regulatory, analytics, and investor communications. Our best-of-breed solutions make it easy and fast to create, share, and operationalize mission-critical reporting and actionable insights essential to the investment management industry. Trusted for over 30 years by the largest asset service providers, asset managers, asset owners, and investment consultants worldwide, our global team of regulatory and analytics experts delivers forward-looking innovations and market-leading solutions, adding efficiency, speed, and accuracy to everything we do. Headquartered in Pittsburgh, PA, with ~700+ employees across North America, the United Kingdom, Europe, South Africa, Asia and Australia, Confluence services over 1,000 clients in more than 40 countries.

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