RVK Insights

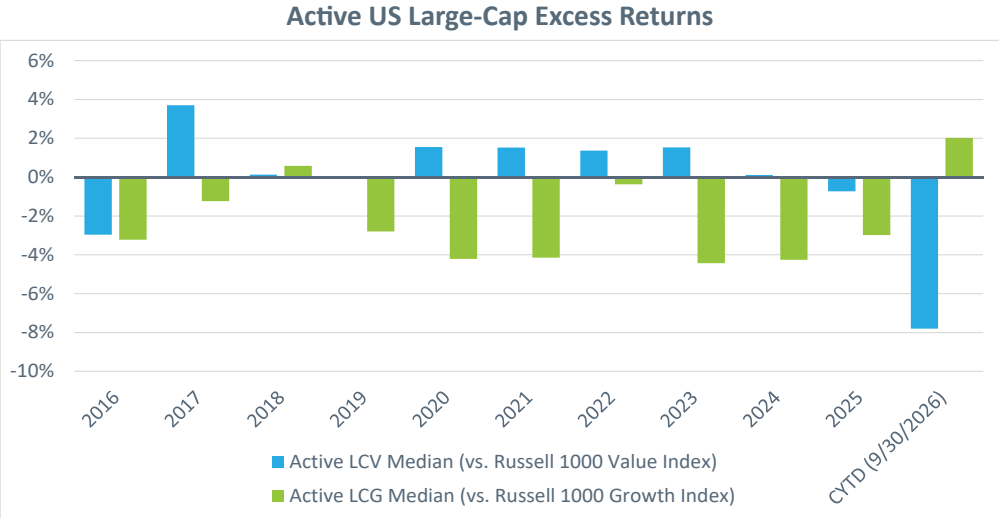
November 2026

Active US Large Cap Value in 2026: Semiconductors, the Russell Reconstitution, and Underperformance

Executive Summary

Active US large-cap value (LCV) managers typically seek to buy undervalued, cash-generative businesses while avoiding paying up for momentum-oriented or speculative stocks. Historically, this approach has been a recipe for success against the Russell 1000 Value Index, which can include heavier exposure to cyclical or lower-quality companies. Avoiding these companies and emphasizing higher-quality companies with robust cash flows has led to better excess returns for active LCV managers when compared to their growth counterpoints.

The environment in 2026, however, has proved particularly challenging for active LCV managers. The median LCV manager underperformed the Russell 1000 Value Index by 7.8%, net of fees, for the year-to-date period through September 30, 2026. Only approximately 10% of the eVestment US Large-Cap Value peer group has outperformed the benchmark thus far in 2026. While active LCV managers have experienced periods of aggregate underperformance in the past, the magnitude of year-to-date results exceeds the last occurrence in 2016. At the same time, excess returns for the active US large-cap growth (LCG) peer group have improved.



As of September 30, 2026. Performance is net of fees. Source: eVestment

Shifting Playing Field

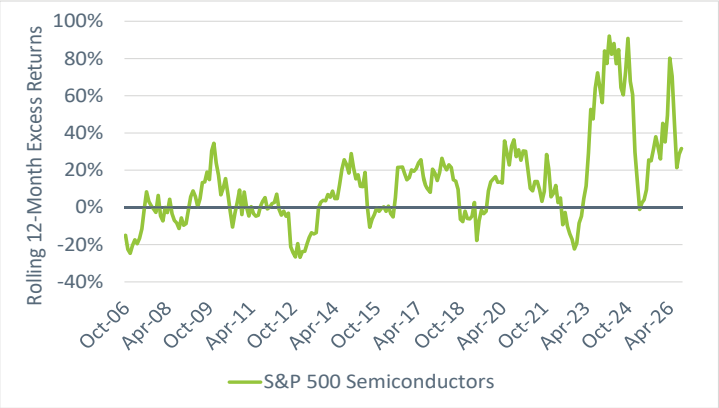
Active LCV managers faced multiple, meaningful changes to the composition of their benchmark during 2026. Russell has historically reassigned style classifications annually in June, with the 2026 changes taking effect after the market close on June 26. Going forward, Russell is moving to a semiannual reconstitution process, which could reduce the magnitude of chances occurring at any single point going forward.

Past performance is not indicative of future results.

Against this backdrop, three successive events were particularly consequential for active US LCV managers in 2026:

1. **First-half semiconductor strength:** Semiconductors posted record returns, with several companies, such as AMD and Micron, included in the value benchmark against which active managers were measured. Many active LCV managers were underweight, citing the cyclicality of earnings and suddenly unattractive valuations.

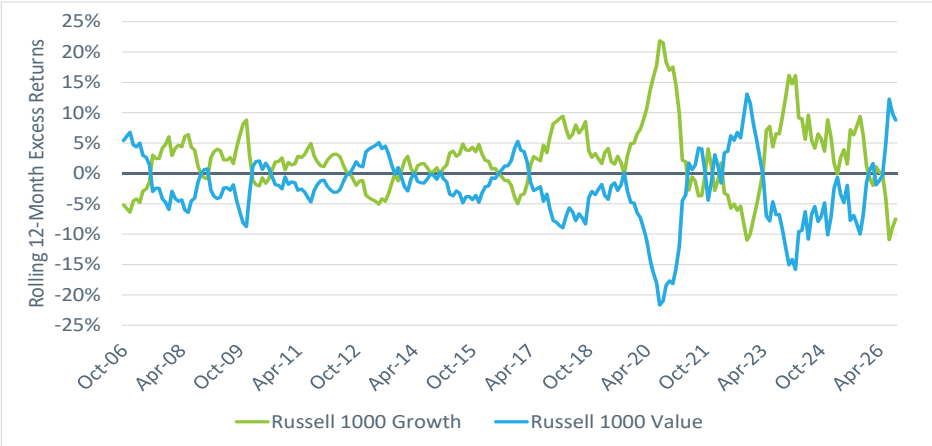
Semiconductors vs. S&P 500 Index



As of September 30, 2026. Source: S&P Dow Jones Indices

2. **June 26 reconstitution:** The Russell reconstitution resulted in several significant changes to the Russell 1000 Value Index, including the migration of Alphabet, AMD, and Micron from the Value Index to the Growth Index. For active LCV managers, the timing mattered. Semiconductors had already generated most of their first-half gains, while the subsequent July drawdown occurred after the affected companies had moved out of the Value Index. As a result, active LCV managers that were underweight these companies during their ascent did not receive the same relative benefit when the stocks subsequently declined.
3. **Post-reconstitution leadership:** The same reconstitution introduced or increased the benchmark weights of Apple, Microsoft and Amazon, which subsequently became meaningful contributors to Value Index performance. Many active LCV managers were not positioned to fully capture that performance. Following the reconstitution, Amazon (5.8%), Apple (5.3%), and Microsoft (3.9%) represented the three largest holdings in the Russell 1000 Value Index. By August 20, the index had returned approximately 29% over the trailing 12 months, compared with approximately 11% for the Russell 1000 Growth Index, resulting in the most significant outperformance by value stocks since 2022.

US Large-Cap Style Trends



As of September 30, 2026. Source: FTSE Russell

Conclusion

The magnitude of active LCV manager underperformance in 2026 is disappointing and warrants careful evaluation. Benchmark changes alone should not be used as an excuse; index reconstitutions are known and managers should maintain adequate risk management around these events. At the same time, the combination of strong semiconductor performance and substantial changes in benchmark composition provides important context when evaluating near-term results.

For investors seeking answers from their active managers, below are a few key questions we're emphasizing in our meetings with underperforming and outperforming LCV managers.

Questions for Underperforming LCV Managers:

- Was your underweight to Apple, Microsoft, Amazon, and the semiconductor names a deliberate valuation call, and what evidence would cause that view to change?
- Across the rest of the portfolio, how much of the shortfall came from those few positions versus stock selection?
- Where does the portfolio currently have exposure to AI-related earnings today (infrastructure, power, industrials, financials), and how is that exposure sized for the benchmark as it stands today?
- With the Magnificent Seven near 16% of the Russell 1000 Value Index, what active weight and tracking error are you willing to generate from an underweight to this group?

Questions for Outperforming LCV Managers:

- Did the result come from owning these names at or above benchmark weight, and was that consistent with your stated process, or did it reflect style drift?
- How sensitive is the excess return to a reversal in semiconductors and the Magnificent Seven performance?
- How concentrated is the portfolio in AI-linked earnings? Detail your approach to trimming activity for these stocks.

Perhaps the most difficult element of manager research and evaluation is separating past performance from the future expectations. There is no guarantee that an underperforming manager will rebound, just as recent outperformance does not necessarily indicate an enduring advantage. Evaluating whether portfolio decisions remained consistent with a manager's stated philosophy, understanding what drove recent results, and assessing how the manager is improving their process for new realities, can help investors determine whether long-term conviction remains warranted.

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