

19 May 2022 15:04:32 ET | 16 pages

# US Equity Quant

## 2022 Russell Index Rebalance Preview

### CITI'S TAKE

FTSE Russell US indices are widely used by institutional investors as benchmarks. These indices are rebalanced at the end of June each year. For 2022, we expect to see significant changes in the Growth and Value indices as Healthcare (R1K) and Energy (R2K) are shifting more to growth, while Consumer Discretionary weights move more toward Value. Generally, turnover among the style indices is notable this year.

**What's New** — We use the fundamental information as of May 16<sup>th</sup> to project the upcoming Russell rebalance of their Growth and Value indices. The new indices will be implemented after the close of June 24<sup>th</sup>.

**R1000 Sector Changes** — Within the R1000, sector weight changes are minimal, but are led by a slight increase in Materials and decrease in Tech. Among styles, Healthcare moves more to growth, offset by Consumer Discretionary, Communication Services weight increases in value.

**R2000 Sector Changes** — In the R2000 core, the Energy weight is expected to fall, and is offset by a bump in Technology exposure, partly due to the migrations between Russell 1000 and 2000. Interestingly, Energy is projected to see its weight shift away from value and towards growth. Here, Consumer Discretionary, Healthcare, Financials and REITs all see their projected Value weights move higher.

**Turnover** — Russell 1000 turnover is projected at just under 2%. The R2000 turnover is higher, at 10%+, and they are slightly lower than last year. Similar to last year, style turnover is roughly 12% within the R1000 growth and value indexes, and 28% and 26% respectively for R2000 growth and value.

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# About This Report

The Russell U.S. equity indices are reconstituted annually. For 2022, the new indexes are scheduled to take effect on June 24th. While the Russell 1000 and 2000 index membership ranking date is May 6th, the fundamental input data used for Growth and Value style indices are based on the data as of the end of May. Preliminary membership lists for new indices will be published after the close of Friday, June 3.

Figure 1. 2021 Russell US Index reconstitution schedule	
Rank day for Russell US Cap indexes	May 6
Preliminary Russell US index membership lists	June 3
Lock down date	June 13
Reconstitution final date	June 24
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Source: Citi Research, FTSE Russell	

This report provides an overview of the properties for our projected 2022 Russell Indices using underlying data as of May 16, 2022. In addition, we highlight sector details for the projected Russell 1000, 2000, 3000, Midcap indices and their related Growth and Value indices.

# Russell Index Construction Methodology

## Composite Indices

The Russell Indices are reconstituted each year by ranking the stocks of firms incorporated in the U.S. and its territories based on their total equity capitalization.

About 3,000 companies with the largest total market capitalization then become members of the Russell 3000 Index. About 1,000 largest of these constitute the Russell 1000 Index, and the remaining smaller companies constitute the Russell 2000 Index. About 200 largest companies in the Russell 1000 become the members of the Russell Top 200 Index, and the remaining companies compose the Russell Midcap Index.

Beginning in 2007, a breakpoint by market capitalization was assigned to each index using the method stated above. If an existing member's market capitalization falls within 5% of the market capitalization breakpoint, it will remain in its current index rather than be moved to a different market capitalization based index. Thus, the actual number of constituents may vary slightly from the index descriptions.

After index membership is determined, a security's shares and weights are calculated with "free float" adjustment, i.e., only using those shares available to the public.

## Style Indices

Each of the Russell equity indices is divided into a growth index and a value index, and these are reconstituted at the same time as the composite indices. These style Index constituents are determined based on one value variable, price-to-book ratio, and two growth variables, I/B/E/S forecasted medium-term growth (FY2/FY0 growth) and 5-year historical sales per share growth. Approximately 30% of the constituents with intermediate values of these variables are considered mixed companies, and portions of their shares are assigned to both style indices. The overall share assignment is such that the market value of each style index is approximately 50% of the market value of the parent index. The process of assigning growth and value weights is applied separately to the Russell 1000 index and Russell 2000 index. These growth and value weight splits are also used for the other style indices (Russell 3000, Top 200 and Midcap).

There is no major methodology change this year. The exact methodology used by the FTSE Russell for constructing their indices is available from their website.

# Profile of the Projected Indices

## Market Capitalization

Figure 2 shows our estimates of the total capitalization of the smallest and largest companies in the reconstituted Russell Indices in billions of U.S. dollars, as well as the mean and median capitalizations. We also show the same statistics for the current indices.

**Figure 2. . Total Capitalization Range and Mean of the Current and Projected Russell Indices**

Index	Smallest		Largest		Mean		Median	
	Company(B\$)		Company(B\$)		Capitalization(B\$)		Capitalization(B\$)	
	Current	New	Current	New	Current	New	Current	New
Russell 1000	0.07	0.34	2545.61	2545.61	39.79	40.07	12.53	12.66
Russell 2000	0.02	0.04	14.39	6.37	1.41	1.46	0.90	1.03
Russell 3000	0.02	0.04	2545.61	2545.61	14.36	14.59	1.94	2.11
Russell Top 200	1.71	28.92	2545.61	2545.61	150.02	156.53	77.09	79.64
Russell MidCap	0.07	0.34	65.37	46.36	13.00	13.12	9.14	9.38

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Source: Citi Research, FTSE Russell

## Turnover Statistics

In Figure 3, we show the one-way percentage turnover for converting the current Russell Indices into their corresponding reconstituted indices. We measure the turnover by computing the difference between the weight of a stock in the new index and its weight in the old index, summing the absolute values of these differences, and dividing the result by two.

**Figure 3. Projected Turnover Rates for Russell Index Reconstitution**

	Composite	Growth	Value
Russell 1000	1.9%	12.3%	12.6%
Russell 2000	10.3%	28.4%	26.1%
Russell 3000	1.9%	13.1%	12.9%
Russell Top 200	2.8%	10.9%	14.8%
Russell MidCap	7.6%	23.1%	16.5%

Source: Citi Research, FTSE Russell

For the Composite indices, our study projects turnover rates of 1.9% for the Russell 1000 Composite Index and 10% for the Russell 2000 Composite Index, slightly lower than last year. The turnover rates for the Russell Growth and Value indices this year are similar to last year. The overall style index turnovers largely reflect the significant rotation from growth (Tech, for example) to value (Materials and Energy stocks) in last few months, and are helped by higher oil and commodities prices. (See [VIEWPOINT | US Quantitative Insights: The equity market is not pricing in a 3% 10-year yield](#)).

## Russell 1000 Index - Estimated Properties

Our study suggests that the Russell 1000 will include 1027 stocks. We expect 48 new members and 44 departures.

In Figure 4, we show the estimated number of stocks projected to enter and exit the Russell 1000 Composite Index. In addition, we show the total number of estimated migrations between the Russell 1000 Growth and Value Indices. Note that for our predicted migrations between a growth index and a value index, we include only those stocks that transfer 50% or more of their available capitalization from one style to the other.

**Figure 4. Estimated Number of Stocks to Enter and Exit the Russell 1000 index**

Stocks Projected to Enter R1000		Number of Stocks
Outside To R1000		26
R2000 To R1000		22
<b>Total Number Projected To Enter R1000</b>		<b>48</b>
Stocks Projected to Exit R1000		Number of Stocks
R1000 To Outside		3
R1000 To R2000		41
<b>Total Number Projected To Exit R1000</b>		<b>44</b>
Projected Movement From Growth/Value Indices		Number of Stocks
R1000 Growth To R1000 Value		64
R1000 Value To R1000 Growth		41

Source: Citi Research, FTSE Russell

In Figure 5, we show the GICS sector weights for the current and projected Russell 1000 Composite, Growth, and Value indices. For the composite index, higher weights for Materials, Consumer Discretionary and Energy are notable. They are offset by modestly lower weights in Info Tech, Fins, HC and Communication Services.

The largest increase for the Russell 1000 Growth Index is projected to occur in Healthcare, and is offset by a decline in the Communication Services, Technology and Consumer Discretionary weights.

For the R1000 Value index, the Health Care weight falls as an offset to Growth, with Communication Services and Consumer Discretionary weights moving higher.

**Figure 5. GICS Sector Weights of Current and Projected Russell 1000 Indices**

GICS Sector	Composite			Growth			Value		
	Current	Projected	Change	Current	Projected	Change	Current	Projected	Change
Energy	4.5%	4.6%	0.13%	0.6%	1.1%	0.5%	8.1%	8.0%	-0.1%
Materials	2.6%	3.0%	0.38%	1.1%	1.3%	0.3%	4.1%	4.6%	0.5%
Industrials	8.5%	8.5%	0.03%	6.4%	6.8%	0.4%	10.5%	10.2%	-0.3%
Consumer Discretionary	11.1%	11.2%	0.13%	17.5%	16.3%	-1.2%	5.0%	6.2%	1.2%
Consumer Staples	6.4%	6.5%	0.01%	4.8%	5.6%	0.8%	8.0%	7.2%	-0.7%
Healthcare	13.9%	13.8%	-0.12%	9.1%	11.6%	2.5%	18.4%	15.8%	-2.5%
Financials	11.4%	11.3%	-0.18%	2.5%	2.5%	0.0%	19.9%	19.9%	0.0%
Info. Technology	27.1%	26.8%	-0.31%	46.3%	45.0%	-1.3%	9.0%	9.0%	0.0%
Communication Services	8.3%	8.2%	-0.11%	10.0%	7.9%	-2.1%	6.7%	8.5%	1.7%
Utilities	2.9%	2.9%	-0.01%	0.0%	0.0%	0.0%	5.5%	5.7%	0.1%
Real Estate	3.4%	3.4%	0.04%	1.9%	1.9%	0.0%	4.8%	4.9%	0.1%

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Source: Citi Research, FTSE Russell

## Russell 2000 Index - Estimated Properties

We expect the Russell 2000 Index to include 1993 stocks this year. 303 are projected as new entries, while 316 are estimated to leave the index.

In Figure 6, we show the estimated number of stocks projected to enter and exit the Russell 2000 Composite Indices. In addition we show the total number of estimated migrations between the Growth and Value Indices. Note that for our predicted migrations between a growth index and a value index, we include only those stocks that transfer 50% or more of their available capitalization from one style to the other.

Figure 6. Estimated Number of Stocks to Enter and Exit the Russell 2000 index

Stocks Projected to Enter R2000		Number of Stocks
Outside To R2000		262
R1000 To R2000		41
<b>Total Number Projected To Enter R2000</b>		<b>303</b>
Stocks Projected to Exit R2000		Number of Stocks
R2000 To Outside		294
R2000 To R1000		22
<b>Total Number Projected To Exit R2000</b>		<b>316</b>
Projected Movement From Growth/Value Indices		Number of Stocks
R2000 Growth To R2000 Value		197
R2000 Value To R2000 Growth		159

Source: Citi Research, FTSE Russell

In Figure 7, we show the GICS sector weights for the current and projected Russell 2000 Composite, Growth, and Value indices.

In the R2000 composite index, the Tech weight increase is notable, as is the decline in the Energy weight.

However, the Energy sector provides a very interesting style picture. Note that the R2000 Growth index will see its Energy weight increase notably. This is offset by an abruptly lower weight in the Value index. In addition, the Consumer Discretionary weight shifts incrementally away from Growth and into Value. Value also picks up more Financials exposure. And, perhaps under the radar, Real Estate is projected to be the second largest sector weight in Value, as the Industrials weight falls.

Figure 7. GICS Sector Weights of Current and Projected Russell 2000 Indices

GICS Sector	Russell 2000								
	Composite			Growth			Value		
	Current	Projected	Change	Current	Projected	Change	Current	Projected	Change
Energy	7.6%	6.0%	-1.6%	3.9%	6.8%	2.9%	10.8%	5.3%	-5.5%
Materials	4.1%	4.3%	0.2%	3.6%	4.8%	1.2%	4.5%	3.8%	-0.7%
Industrials	15.8%	15.1%	-0.6%	16.5%	17.8%	1.3%	15.1%	12.5%	-2.7%
Consumer Discretionary	10.5%	10.7%	0.2%	14.4%	11.6%	-2.8%	7.1%	9.8%	2.6%
Consumer Staples	3.8%	3.4%	-0.4%	4.5%	3.9%	-0.5%	3.2%	2.9%	-0.4%
Healthcare	14.9%	15.4%	0.5%	23.0%	20.9%	-2.0%	8.0%	9.7%	1.7%
Financials	16.3%	16.7%	0.4%	5.5%	5.5%	0.1%	25.4%	28.0%	2.5%
Info. Technology	13.2%	14.4%	1.2%	22.4%	22.5%	0.1%	5.4%	6.2%	0.8%
Communication Services	2.9%	2.9%	0.1%	2.5%	2.2%	-0.3%	3.1%	3.7%	0.5%
Utilities	3.2%	3.2%	0.1%	0.4%	1.2%	0.8%	5.6%	5.4%	-0.2%
Real Estate	7.9%	7.7%	-0.1%	3.3%	2.7%	-0.6%	11.7%	12.9%	1.1%

## Russell 3000 Index - Estimated Properties

In Figure 8, we show the GICS sector weights for the projected and current Russell 3000 Composite, Growth, and Value indices.

We estimate the Russell 3000 Index to include a total of 3020 members.

The Technology and Materials sectors are estimated to experience the largest sector weight decrease and increase, respectively, for the Russell 3000 Composite Index.

For the Russell 3000 Growth and Value Index, the shift in Healthcare weight out of Value and into Growth stands out. Additionally, Communication Services and Consumer Discretionary move incrementally toward Value.

Figure 8. GICS Sector Weights of Current and Projected Russell 3000 Indices

GICS Sector	Russell 3000								
	Composite			Growth			Value		
	Current	Projected	Change	Current	Projected	Change	Current	Projected	Change
Energy	4.6%	4.7%	0.03%	0.8%	1.4%	0.7%	8.3%	7.8%	-0.4%
Materials	2.7%	3.1%	<b>0.37%</b>	1.2%	1.5%	0.3%	4.1%	4.5%	0.5%
Industrials	8.9%	8.9%	0.00%	6.9%	7.5%	0.5%	10.8%	10.4%	-0.4%
Consumer Discretionary	11.0%	11.2%	0.14%	17.3%	16.0%	-1.3%	5.2%	6.4%	1.3%
Consumer Staples	6.3%	6.3%	-0.01%	4.8%	5.5%	0.7%	7.7%	7.0%	-0.7%
Healthcare	13.9%	13.8%	-0.08%	9.9%	12.2%	<b>2.3%</b>	17.7%	15.5%	<b>-2.3%</b>
Financials	11.7%	11.6%	-0.14%	2.7%	2.7%	0.0%	20.2%	20.3%	0.1%
Info. Technology	26.3%	26.0%	<b>-0.23%</b>	44.9%	43.6%	-1.3%	8.8%	8.8%	0.0%
Communication Services	8.0%	7.9%	-0.10%	9.5%	7.6%	<b>-2.0%</b>	6.5%	8.2%	<b>1.7%</b>
Utilities	2.9%	2.9%	0.00%	0.0%	0.1%	0.0%	5.5%	5.6%	0.1%
Real Estate	3.6%	3.7%	0.04%	2.0%	1.9%	0.0%	5.2%	5.4%	0.2%

Source: Citi Research, FTSE Russell

## Russell Top 200 Index - Estimated Properties

We estimate the Russell Top 200 Index to include a total of 193 stocks.

In Figure 9, we show our estimated GICS sector weights for the projected Russell Top 200 Composite, Growth, and Value indices.

The Technology and Financials sectors are estimated to experience the largest sector weight decrease while Energy is expected to have the largest sector weight increase, for the Russell Top 200 Composite Index.

As similar to the Russell 1000 style indices, we expect the biggest weight changes to occur in Consumer Discretionary and Healthcare sectors for the Top200 Growth and Value indices.

Figure 9. GICS Sector Weights of Current and Projected Russell Top 200 Indices

GICS Sector	Russell Top 200								
	Composite			Growth			Value		
	Current	Projected	Change	Current	Projected	Change	Current	Projected	Change
Energy	3.6%	4.4%	<b>0.7%</b>	0.1%	0.5%	0.5%	8.0%	9.2%	1.2%
Materials	1.3%	1.7%	0.4%	0.8%	0.8%	0.0%	1.8%	2.8%	1.0%
Industrials	6.4%	6.4%	0.0%	4.5%	5.2%	0.7%	8.7%	8.0%	-0.8%
Consumer Discretionary	11.0%	11.0%	0.0%	17.9%	16.6%	-1.3%	2.8%	4.1%	1.3%
Consumer Staples	7.2%	7.4%	0.2%	5.3%	6.2%	0.9%	9.6%	8.9%	-0.6%
Healthcare	15.1%	14.9%	-0.1%	7.6%	10.4%	<b>2.8%</b>	24.1%	20.6%	<b>-3.5%</b>
Financials	11.0%	10.6%	<b>-0.4%</b>	1.9%	2.1%	0.2%	22.0%	21.2%	-0.8%
Info. Technology	30.8%	30.4%	<b>-0.4%</b>	48.8%	47.7%	-1.1%	9.1%	9.0%	-0.1%
Communication Services	10.0%	9.7%	-0.3%	11.3%	8.9%	<b>-2.5%</b>	8.3%	10.7%	<b>2.4%</b>
Utilities	1.9%	1.8%	-0.1%	0.0%	0.0%	0.0%	4.2%	4.1%	-0.1%
Real Estate	1.6%	1.6%	0.0%	1.8%	1.7%	0.0%	1.4%	1.4%	0.1%

Source: Citi Research, FTSE Russell



## Russell Midcap Index - Estimated Properties

We estimate the Russell Midcap Index to include a total of 834 members.

In Figure 10 we show the GICS sector weights for the current and projected Russell Midcap Composite, Growth, and Value indices.

The Consumer Discretionary and Energy sectors are estimated to experience the largest sector weight increase and decrease, respectively, for the Russell Midcap Composite index.

For the Midcap Value Index, the Financials (largest increase) and Energy (largest decrease) sectors are expected to experience the largest changes in sector weights.

However, for the Midcap Growth index, Materials is expected to have the largest increase while Technology to have the largest decrease in sector weights.

Figure 10. GICS Sector Weights of Current and Projected Russell Midcap Indices

GICS Sector	Russell Midcap								
	Composite			Growth			Value		
	Current	Projected	Change	Current	Projected	Change	Current	Projected	Change
Energy	6.8%	5.1%	<b>-1.6%</b>	3.2%	3.8%	0.6%	8.3%	5.8%	<b>-2.5%</b>
Materials	6.4%	6.6%	0.2%	2.3%	3.7%	<b>1.5%</b>	8.2%	8.0%	-0.2%
Industrials	14.4%	14.5%	0.1%	15.8%	14.5%	-1.3%	13.8%	14.5%	0.7%
Consumer Discretionary	11.2%	11.8%	<b>0.6%</b>	15.4%	14.9%	-0.5%	9.3%	10.3%	1.0%
Consumer Staples	4.2%	3.8%	-0.4%	2.4%	3.2%	0.8%	5.0%	4.0%	-0.9%
Healthcare	10.5%	10.4%	-0.1%	16.7%	17.5%	0.9%	7.7%	6.9%	-0.8%
Financials	12.7%	13.1%	0.4%	5.5%	4.6%	-0.9%	15.9%	17.3%	<b>1.4%</b>
Info. Technology	16.4%	16.4%	0.0%	33.2%	31.7%	<b>-1.5%</b>	8.9%	8.9%	0.0%
Communication Services	3.5%	3.9%	0.5%	2.9%	3.3%	0.5%	3.7%	4.2%	0.5%
Utilities	5.6%	5.7%	0.1%	0.2%	0.0%	-0.2%	8.0%	8.6%	0.5%
Real Estate	8.6%	8.6%	0.1%	2.6%	2.7%	0.1%	11.2%	11.6%	0.3%

Source: Citi Research, FTSE Russell

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% of companies in each rating category that are investment banking clients	43%	31%	26%			
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