

MARKET INSIGHTS

from Ziegler Capital Management

June 2021 Russell Rebalancing

The annual June rebalancing of the Russell indices always generates attention, as over \$10 trillion in assets are affected by these benchmark changes. The date of the final rebalancing is usually the highest volume trading day of the year. This year, the rebalancing occurred after the close of trading on June 25th. There has been considerable attention on the rebalancing this year because of the outsized performance in some of the “meme” stocks whose behavior we wrote about in our piece [The Retail Stock Frenzy. What Does it ‘Meme’ for Your Small Cap Portfolio](#) in early June.

The changes in each index’s stocks were determined based on their respective market capitalization on May 7th, even through the rebalancing occurred on June 25th. Stocks with a market capitalization of \$7.3 billion or greater moved up to the Large Cap Russell 1000 Index (“Russell 1000”) from the Small Cap Russell 2000 Index (“Russell 2000”) based on their respective market capitalizations. GameStop (GME) had a \$11.2 billion market capitalization and has moved up to the Russell 1000. AMC Entertainment (AMC), with a May 7th capitalization of \$4.3 billion, remains in the Russell 2000. AMC, which has returned +500% since May 7th through June 25th, had a market capitalization of \$29 billion on June 25th and will be the largest holding in the newly reconstituted Russell 2000. As the Russell 2000 Value is a subset of the Russell 2000, these issues will also affect this index as well.

Before and After: The Rebalance Effect on the Russell Small Cap Indices

Russell 2000	Sector Weights			Weighted Average Market Cap		
	Before	After	Diff	Before	After	Diff
Before and After the June 2021 Rebalance						
Health Care	18.7%	20.9%	2.2%	4,037	3,462	-575
Energy	3.7%	4.5%	0.8%	5,267	3,117	-2150
Real Estate	6.2%	6.9%	0.7%	3,214	3,168	-47
Technology	11.8%	12.2%	0.5%	4,157	4,213	56
Telecommunications	1.6%	1.9%	0.3%	2,451	2,635	184
Consumer Staples	3.0%	3.0%	0.0%	4,293	2,860	-1433
Financials	14.9%	14.9%	0.0%	2,646	2,627	-18
- REIT	1.2%	1.2%	0.0%	2,136	2,143	7
- Non-REIT	13.7%	13.8%	0.0%	2,690	2,668	-21
Basic Materials	4.1%	3.6%	-0.5%	3,841	2,948	-893
Utilities	3.3%	2.7%	-0.6%	4,199	3,174	-1025
Industrials	15.1%	14.3%	-0.8%	3,393	3,011	-383
Consumer Discretionary	17.6%	15.0%	-2.6%	6,189	4,482	-1706
Total	100.0%	100.0%	NA	4,099	3,422	-677

Source: Bloomberg

WRITTEN: JUNE 30, 2021

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A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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Russell 2000 Value	Sector Weights			Weighted Average Market Cap		
	Before	After	Diff	Before	After	Diff
Before and After the June 2021 Rebalance						
Health Care	6.0%	11.1%	5.1%	3,565	2,661	-904
Real Estate	8.9%	11.5%	2.5%	2,816	2,849	33
Energy	5.8%	6.8%	1.0%	3,294	3,288	-7
Utilities	3.9%	4.6%	0.7%	3,583	3,269	-314
Telecommunications	1.3%	1.5%	0.2%	1,692	1,797	105
Financials	25.4%	25.1%	-0.4%	2,540	2,556	16
- REIT	2.2%	2.3%	0.0%	2,238	2,283	45
- Non-REIT	23.2%	22.8%	-0.4%	2,569	2,583	14
Consumer Staples	3.1%	2.6%	-0.5%	4,602	2,099	-2503
Technology	5.0%	4.2%	-0.8%	3,003	2,561	-442
Industrials	15.8%	14.7%	-1.1%	3,062	2,596	-466
Basic Materials	5.7%	4.3%	-1.4%	4,058	2,835	-1223
Consumer Discretionary	19.0%	13.6%	-5.4%	5,892	5,297	-595
Total	100.0%	100.0%	NA	3,592	3,053	-540

Russell 2000 Growth	Sector Weights			Weighted Average Market Cap		
	Before	After	Diff	Before	After	Diff
Before and After the June 2021 Rebalance						
Technology	18.5%	19.9%	1.4%	4,460	4,580	120
Energy	1.7%	2.6%	0.9%	12,692	3,086	-9605
Financials	3.9%	4.8%	0.9%	3,812	3,746	-66
- REIT	0.0%	0.0%	0.0%	173	2,060	1887
- Non-REIT	3.9%	4.8%	0.9%	3,831	3,756	-75
Basic Materials	2.3%	2.9%	0.6%	3,459	3,237	-222
Consumer Staples	2.9%	3.3%	0.5%	3,932	3,464	-469
Consumer Discretionary	16.0%	16.4%	0.4%	6,232	3,528	-2703
Telecommunications	2.0%	2.3%	0.3%	2,884	3,191	307
Industrials	14.5%	14.1%	-0.3%	3,847	3,482	-365
Real Estate	3.5%	2.8%	-0.7%	4,270	4,477	207
Utilities	2.6%	0.9%	-1.7%	5,142	2,823	-2319
Health Care	32.2%	29.9%	-2.3%	4,120	3,847	-274
Total	100.0%	100.0%	NA	4,600	3,827	-773

Source: Bloomberg

Some sectors such as Financials, Real Estate, Technology, and Telecommunications had very few changes. The moves of the "meme" stocks, among other things, resulted in large market capitalization changes in the Consumer Discretionary, Consumer Staples, and Energy sectors, as well as resulted in a materially reduced weight of the Consumer Discretionary sector in the Russell 2000 and Russell 2000 Value indices.

While the markets are constantly changing, the annual Russell rebalancing is one of the biggest events in the investment industry and affects trillions of dollars. We remind investors again to be aware of the changes in the respective benchmarks and, as we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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21-0249
Printed Internally

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