Momentum stocks have delivered strong gains across developed markets, and leadership has become more speculative. Past momentum cycles help frame what similar environments have meant for value-oriented investors.

Stock price momentum[1] was the defining force across global equity markets in 2025, marking the second consecutive year of momentum leadership in the U.S. and a similarly strong outcome outside the U.S.

Three themes stand out:

- Momentum stocks have outperformed by roughly 17 percentage points in U.S. and 22 percentage points in non-U.S. developed markets.
- The stocks and valuation cohorts driving returns are broadly consistent with historical momentum cycles.
- Periods of pronounced momentum have historically created attractive long-term opportunities for value-oriented investors.

MOMENTUM AT AN EXTREME, BUT NOT EVERYWHERE

The past year has been dominated by momentum strategies across developed markets. That has been true both within and outside of the U.S., though the character of leadership has evolved over time. Momentum performance has been striking in both U.S. and non-U.S. developed markets (Exhibit 1).

The path has not been smooth. Momentum stocks declined sharply ahead of Trump's "Liberation Day", raising questions about whether leadership was finally breaking. That drawdown proved temporary, as momentum rebounded sharply throughout the remainder of the year.

Since Liberation Day, leadership has taken on a more speculative tone. Performance has increasingly been driven by sentiment rather than fundamentals.

Measured over the last twelve months, momentum's outperformance versus the market sits at historically extreme levels in both the U.S. and non-U.S. developed markets. At the global level, overall momentum outperformance appears elevated but less excessive due to the incorporation of emerging markets, where momentum has been less significant.

Exhibit 1: Momentum Has Significantly Outperformed

	2025 Momentum Outperformance	Percentile Among Rolling 12m Periods
U.S. Large Cap	+17.1%	93%
U.S. Small Cap	+10.9%	77%
Global	+11.5%	76%
EAFE	+22.4%	95%
Europe	+28.7%	99%
Emerging Markets	+7.5%	59%

Source: Empirical Research Partners, Pzena analysis
Momentum is defined as the best quintile of the universe, measured by the nine-month daily price trend. Outperformance is defined as the return of momentum minus the return of the universe. All data are equal-weighted, in US dollars, as of December 31, 2025.
US Large Cap = the largest ~750 US stocks. US Small Cap = US stocks ranked #751–#2,750 by market capitalization. Global = MSCI ACWI universe. EAFE = MSCI EAFE universe. Europe = MSCI Europe universe. EM = MSCI EM universe.
US Large Cap data start date = February 1, 1952. US Small Cap data start date = January 1, 1965. Global and non-U.S. data start date = January 1, 1992.
Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

These are elevated readings, but the sources of momentum matter.

MOMENTUM, SPECULATION, AND LONG-TERM EVIDENCE

Momentum and value are not opposites, nor are they inherently complementary. They can move together or diverge depending on market structure and investor behavior.

Over long horizons, both approaches have outperformed[2]. Strategies focused on value and those focused on momentum have each produced annualized returns of roughly 14 percent, despite

1. To define stock price momentum, we looked at the best performing quintile of stocks over the previous nine months, rebalanced monthly.

2. See Jegadeesh and Titman (1993) and Fama and French (1992)

following very different paths along the way[3]. The difference has always been timing.

Historically, the most challenging periods for value have tended to coincide with late-stage momentum, when returns become increasingly driven by speculative behavior rather than improving fundamentals. During the dot-com bubble, momentum leadership shifted decisively toward unprofitable and highly speculative companies, leaving many high-quality businesses behind. The current environment shows elements of that pattern, though history rarely repeats cleanly.

U.S. MARKETS AND VALUATION EXTREMES

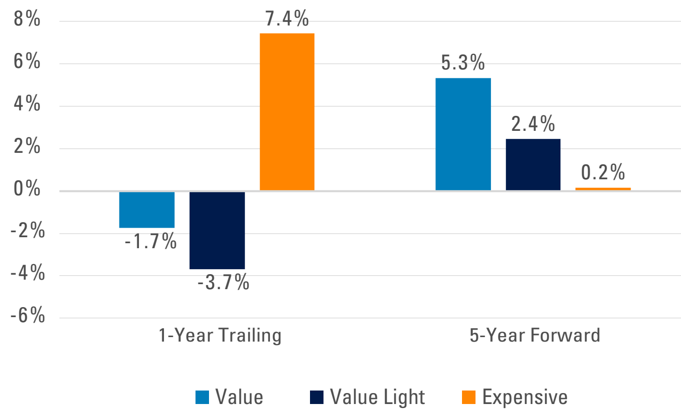
In the U.S., leadership over the past year has again been narrow. High-growth mega-cap stocks dominated earlier in the cycle, reinforcing trends that have been in place for several years.

Since Liberation Day, leadership has broadened in a less constructive way, as momentum leadership has taken on a more speculative character. Meme stocks, SPACs, highly shorted stocks, and unprofitable companies have been among the strongest performers, echoing past episodes where momentum became increasingly detached from fundamentals.

The U.S. alpha chart illustrates how valuation cohorts behave during high-momentum regimes (Exhibit 2). Q1 represents the cheapest stocks, Q2 represents value-light stocks, and Q5 represents the most expensive stocks.

Exhibit 2: U.S. Valuation Quintile Performance By Momentum Regime

Average Rolling Excess Returns in High Momentum Periods



Source: Empirical Research Partners, Sanford C. Bernstein & Co., Pzena analysis
High Momentum = top tercile of momentum excess-return periods, based on trailing 12-month relative returns vs. the universe. Momentum is defined as the best quintile of the universe, measured by the nine-month daily price trend.
Value = stocks within the cheapest quintile based on price/book of the 1000 largest US stocks (ranked by market cap). Value Light = 2nd cheapest quintile. Expensive = most expensive quintile. The quintiles are measured on an equally weighted basis. Excess return is calculated vs. the cap-weighted market (1000 largest US stocks).
Total return data are annualized, in US dollars, from January 1, 1960 to December 31, 2025.
Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

During high-momentum periods, cheap stocks have historically lagged, while expensive stocks have generated the highest alpha. This year's results are consistent with that history.

What also aligns with history is what has been left behind. High-quality, fundamentally strong companies have lagged as capital has flowed toward more speculative opportunities.

After periods of extreme and speculative momentum, forward returns have historically shifted considerably. Cheap stocks have gone on to outperform meaningfully over the subsequent five years, while expensive and speculative stocks have struggled as expectations reset.

NORMAL PERIODS FAVOR VALUE

Outside of extreme momentum regimes, valuation effects have asserted themselves more reliably.

3. Since 1960, the cheapest quintile (by price/book) of the 1000 largest US stocks have returned 14.2% (source: Sanford C. Bernstein & Co.), while the top quintile of the largest ~750 US stocks measured by nine-month daily price trend have returned 13.9% (source: Empirical Research Partners).

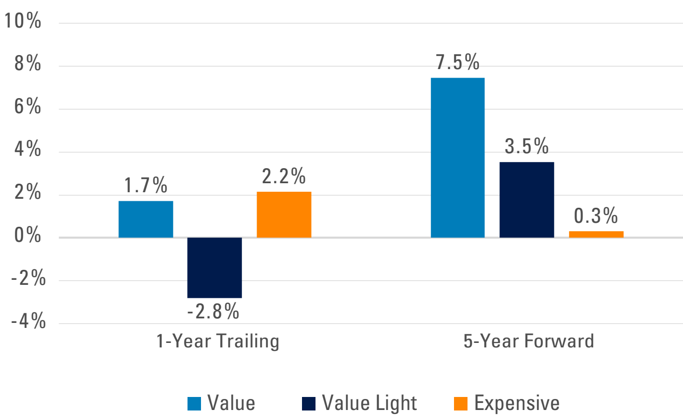
In normal periods, cheap stocks have tended to outperform over the trailing twelve months and continue to outperform over the following five years. Expensive stocks have shown a different pattern; they often lag initially, then recover modestly, but they still trail value-oriented cohorts over full cycles. Value-light stocks trailed value stocks by 200-300 basis points in all periods.

NON-U.S. DEVELOPED MARKETS LOOK DIFFERENT

While momentum was just as strong outside the U.S. in 2025, the most expensive stocks have not historically dominated high-momentum periods in the same way they have in the U.S. (Exhibit 3).

Exhibit 3: EAFE Valuation Quintile Performance By Momentum Regime

Average Rolling Excess Returns in High Momentum Periods



Source: Empirical Research Partners, Sanford C. Bernstein & Co., Pzena analysis
High Momentum = top tercile of momentum excess-return periods, based on trailing 12-month relative returns vs. the universe. Momentum is defined as the best quintile of the universe, measured by the nine-month daily price trend.
Value = stocks within the cheapest quintile based on price/book of the MSCI EAFE universe. Value Light = 2nd cheapest quintile. Expensive = most expensive quintile. The quintiles are measured on an equally weighted basis. Excess return is calculated vs. the cap-weighted MSCI EAFE universe.
Total return data are annualized, in US dollars, from January 1, 1992 to December 31, 2025.
Does not represent any specific Pzena product or service. Past performance is not indicative of future returns.

Leadership in non-U.S. developed markets has historically been broader, with value stocks participating more meaningfully even during momentum-led advances. Structural differences, including fewer large, narrative-driven growth companies, have limited the degree of speculative excess.

As a result, momentum and value have more often been coincident outside the U.S. Performance for the past year across valuation cohorts is consistent with the longer-term pattern.

EMERGING MARKETS REINFORCE THE PATTERN

Emerging markets provide an additional reference point. Momentum performance has been more moderate in emerging markets, in stark contrast to the more extreme outcomes seen in developed markets.

When momentum outperforms in emerging markets, leadership tends to resemble non-U.S. developed markets rather than the U.S. Historically, performance has been broader, and value-oriented stocks have remained competitive rather than being crowded out. This helps explain why global momentum outperformance appears less extreme than U.S.-only measures suggest.

AN OPPORTUNISTIC SETUP FOR VALUE

Momentum delivered exceptional returns in 2025, particularly in developed markets. At the same time, valuation spreads have widened, and many high-quality companies have been left behind.

History suggests that periods of extreme momentum have often set the stage for strong long-term outcomes for patient, research-driven value investors. This does not require a near-term reversal, but it has historically rewarded discipline, selectivity, and a focus on fundamentals.

CONCLUSION

Momentum has once again shaped market leadership across global equities, producing strong returns across regions. For value-oriented investors, the current backdrop reinforces the case for patience and selectivity, with an emphasis on fundamentals as dispersion creates opportunity.

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