INDEX INSIGHTS

iShares by BlackRock

A look into the June 2023 Russell Reconstitution

By iShares Global Research & Analytics and Product Consulting

It's important for investors to monitor index rebalances. Updates to index holdings, like additions, deletions, and weight changes, may have a corresponding impact on iShares ETFs.[1] In this edition of *Index Insights,* we explore what we expect to happen during the June 2023 Russell US Indexes Reconstitution, including:

- **Lower expected turnover in major Russell US Indexes.**[2] Estimated one-way turnover is expected to be lower for the Russell 1000®, Russell 2000®,and Russell 3000® Indexes compared with the June 2022 Russell US Indexes Constitution.

- **Notable expected industry weight changes in Russell 2000® Index.**[3] The Russell 2000® Index is expected to have weight increases in both the Technology and Energy Industries and weight reductions to the Consumer Staples and Consumer Discretionary Industries.

- **Large expected industry shifts in Russell US Style Indexes.**[4] Russell US Growth Styles Indexes are expected to see a large weight increase in the Technology Industry, while Russell US Value Styles Indexes are expected to see an increase in the weight of the Energy Industry.

Featured iShares ETFs

IWB iShares Russell 1000 ETF	**IWF** iShares Russell 1000 Growth ETF	**IWN** iShares Russell 2000 Value ETF
IWM iShares Russell 2000 ETF	**IWO** iShares Russell 2000 Growth ETF	
IWV iShares Russell 3000 ETF	**IWD** iShares Russell 1000 Value ETF	

Lower expected turnover in major Russell US Indexes

Russell US Indexes are commonly used reference benchmarks for active and index-tracking portfolios. Today, roughly $9 trillion of retail and institutional assets track Russell US Indexes. While nine major Russell US Indexes exist, the most commonly used are the Russell 1000® Index, which is comprised of mostly large cap securities, and the Russell 2000® Index, which is comprised of small-cap securities.[5]

The annual reconstitution features updates to the composition of these indexes to accurately reflect major changes in the US equity market over the course of the year.[6] Index turnover is a measure of weight changes resulting from the rebalancing of an index and is useful way to analyze the impact of reconstitution.[7] While turnover is expected to be lower across Russell US Indexes for the June 2023 Russell US Indexes Reconstitution, relative to 2022, there are expected to be numerous additions and deletions, particularly for the Russell 2000® Index **(Figure 1)**.

Figure 1: Notable expected one-way index turnover for major Russell US Indexes (%)[8]

Russell US Index	Adds	Deletes	Expected one-way turnover June 2023 reconstitution (%)	One-way turnover June 2022 reconstitution (%)	Impacted iShares ETFs
Russell 1000® Index	34	32	1.13	1.70	iShares Russell 1000 ETF
Russell 2000® Index	295	191	7.92	9.71	iShares Russell 2000 ETF
Russell 3000® Index	280	173	0.58	1.68	iShares Russell 3000 ETF

Table Description: Table showing the expected one-way turnover of Russell US Indexes using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Migrations between major Russell US Indexes

Expected index constituent migrations between the Russell 1000® and Russell 2000® Indexes can provide valuable information by reflecting changes to companies market capitalization between the annual reconstitutions. For example, an index constituent migrating from the Russell 1000® Index to the Russell 2000® Index may signal that it is no longer considered to be a large or mid-cap company **(Figure 2)**.

Figure 2: Notable expected migrations of Russell 1000® and Russell 2000® Indexes[9]

New Russell Index	Constituent	Event	New expected index weight (%)	Impacted iShares ETF
Russell 1000® Index	Shockwave Medical	Migration from Russell 2000® Index	0.03	iShares Russell 1000 ETF
Russell 1000® Index	Inspire Medical Systems	Migration from Russell 2000® Index	0.02	iShares Russell 1000 ETF
Russell 1000® Index	Apellis Pharmaceuticals	Migration from Russell 2000® Index	0.02	iShares Russell 1000 ETF
Russell 1000® Index	Karuna Therapeutics Inc	Migration from Russell 2000® Index	0.02	iShares Russell 1000 ETF
Russell 1000® Index	Emcor Group	Migration from Russell 2000® Index	0.02	iShares Russell 1000 ETF
Russell 2000® Index	Guardant Health	Migration from Russell 1000® Index	0.15	iShares Russell 2000 ETF
Russell 2000® Index	RXO Inc	Migration from Russell 1000® Index	0.11	iShares Russell 2000 ETF
Russell 2000® Index	JetBlue Airways Corp	Migration from Russell 1000® Index	0.10	iShares Russell 2000 ETF
Russell 2000® Index	Upstart Holdings	Migration from Russell 1000® Index	0.09	iShares Russell 2000 ETF
Russell 2000® Index	Douglas Emmett Inc	Migration from Russell 1000® Index	0.09	iShares Russell 2000 ETF

Table Description: Table showing the expected migrations of securities between the Russell 1000® and Russell 2000® Indexes using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Expected changes to industry composition of the Russell 2000® Index

Russell US Indexes use the Industry Classification Benchmark Methodology (ICB)[10] to categorize index constituents into distinct industry categories. Notable expected weight changes in the June 2023 Russell US Indexes Reconstitution to the industry composition of the Russell 2000® Index include: upweights to the Technology and Energy Industries and downweights to the Consumer Discretionary and Consumer Staples Industries **(Figure 3)**.

Figure 3: Expected Russell 2000® Index industry changes (bps)[11]

Expected industry weight changes (bps)

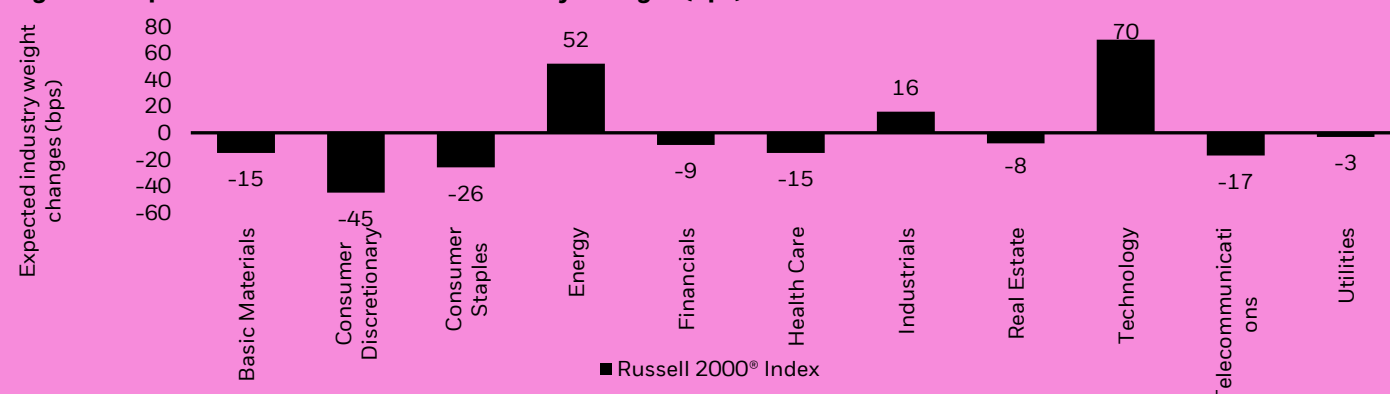| Basic Materials	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecommunications	Utilities
-15	-45	-26	52	-9	-15	16	-8	70	-17	-3

■ Russell 2000® Index

Table Description: Table showing the expected changes in ICB Industry weights of the Russell 2000® Index using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Expected changes to Russell US Style Indexes

The Russell US Style Indexes are built using three growth and value characteristics. Examples are the Russell 1000® Growth Index and the Russell 2000® Value Index, which include companies from their respective parent indexes (the Russell 1000® Index and the Russell 2000® Index) that meet their index criteria. Style indexes use one value characteristic, book–to–price ratio (B/P) and two growth characteristics, forecasted earnings growth rate based on two–year forecasts and sales–per–share growth rate based on five–year historical sales.[12]

Looking at the expected additions, deletions, and weight changes of index constituents within Russell US Style Indexes, alongside the expected changes in industry composition of the indexes, can be a useful representation of how changing economic conditions translate to value and growth style characteristics of companies within the Russell US Equity Universe.

For the Russell US Growth Style Indexes, notable expected upweights of companies within the Technology Industry and expected downweights to companies within the Energy Industry are likely to shift the composition of the indexes following the reconstitution. **(Figures 4–5)**

Figure 4: Largest expected changes in Russell 1000® and Russell 2000® Growth Indexes[13]

Constituent	ICB Industry	Event	Index	Expected weight change (%)	Impacted iShares ETF
Meta Platforms	Technology	Upweight	Russell 1000® Growth Index	2.29	iShares Russell 1000 Growth ETF
Home Depot Inc	Consumer Discretionary	Upweight	Russell 1000® Growth Index	0.61	iShares Russell 1000 Growth ETF
Salesforce Inc	Technology	Upweight	Russell 1000® Growth Index	0.53	iShares Russell 1000 Growth ETF
Proctor & Gamble	Consumer Staples	Downweight	Russell 1000® Growth Index	–0.39	iShares Russell 1000 Growth ETF
International Business Machine Co	Technology	Deletion	Russell 1000® Growth Index	–0.38	iShares Russell 1000 Growth ETF
United Parcel Services Inc Class B	Industrials	Downweight	Russell 1000® Growth Index	–0.37	iShares Russell 1000 Growth ETF
Selective Insurance Group	Financials	Addition	Russell 2000® Growth Index	0.51	iShares Russell 2000 Growth ETF
Ryman Hospitality Properties REIT	Real Estate	Addition	Russell 2000® Growth Index	0.46	iShares Russell 2000 Growth ETF
Academy Sports and Outdoors Inc	Consumer Discretionary	Addition	Russell 2000® Growth Index	0.33	iShares Russell 2000 Growth ETF
Shockwave Medical Inc	Health Care	Deletion	Russell 2000® Growth Index	–0.84	iShares Russell 2000 Growth ETF
Inspire Medical Systems Inc	Health Care	Deletion	Russell 2000® Growth Index	–0.72	iShares Russell 2000 Growth ETF
Apellis Pharmaceuticals	Health Care	Deletion	Russell 2000® Growth Index	–0.67	iShares Russell 2000 Growth ETF

Table Description: Table showing the expected largest changes of securities for the Russell 1000® and Russell 2000® Growth Indexes using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Figure 5: Expected Russell 1000® Growth Index and Russell 2000® Growth Index industry changes (bps)[14]
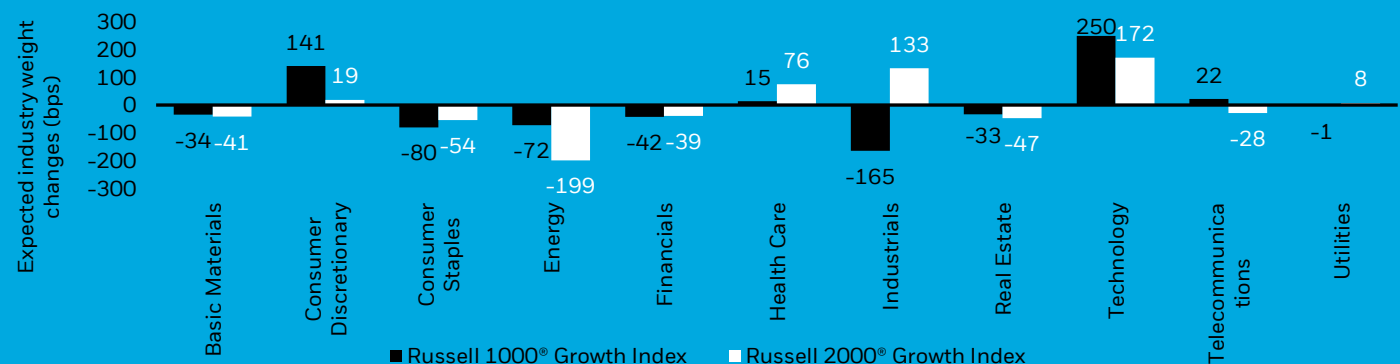

Table Description: Table showing the expected changes in ICB Industry weights of the Russell 1000® Growth and Russell 2000® Growth Index using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Expected changes to Russell US Style Indexes (cont.)

Typically, changes to industry compositions in the Russell US Style Indexes can have offsetting effects. For example, the expected upweight to the Technology Industry in the Russell US Growth Style Indexes is expected to result in a similar downweight in the Russell US Value Style Indexes, while the expected downweights in the Energy Industry in Russell US Growth Style Indexes is expected to result in a similar upweight in Russell US Value Style Indexes. **(Figures 6–7)**. These changes suggest that companies in the Technology Industry, particularly those included in the Russell 1000® Index, have exhibited more growth style characteristics and companies in the Energy Industry have exhibited more value style characteristics since the June 2022 Russell US Indexes Reconstitution.

Figure 6: Largest expected changes in the Russell 1000® and Russell 2000® Value Indexes[15]

Constituent	ICB Industry	Event	Index	Expected weight change (%)	Impacted iShares ETF
International Business Machine Co	Technology	Upweight	Russell 1000® Value Index	0.43	iShares Russell 1000 Value ETF
Proctor & Gamble	Consumer Staples	Upweight	Russell 1000® Value Index	0.41	iShares Russell 1000 Value ETF
United Parcel Services Inc Class B	Industrials	Upweight	Russell 1000® Value Index	0.40	iShares Russell 1000 Value ETF
Meta Platforms	Technology	Deletion	Russell 1000® Value Index	–2.60	iShares Russell 1000 Value ETF
Home Depot Inc	Consumer Discretionary	Deletion	Russell 1000® Value Index	–0.69	iShares Russell 1000 Value ETF
Salesforce Inc	Technology	Downweight	Russell 1000® Value Index	–0.61	iShares Russell 1000 Value ETF
Matador Resources	Energy	Addition	Russell 2000® Value Index	0.38	iShares Russell 2000 Value ETF
Brookfield Infrastructure Corp CLA	Utilities	Addition	Russell 2000® Value Index	0.36	iShares Russell 2000 Value ETF
Bellring Brands Inc	Consumer Staples	Addition	Russell 2000® Value Index	0.32	iShares Russell 2000 Value ETF
Stag Industrials REIT Inc	Real Estate	Deletion	Russell 2000® Value Index	–0.59	iShares Russell 2000 Value ETF
Selective Insurance Group Inc	Financials	Deletion	Russell 2000® Value Index	–0.54	iShares Russell 2000 Value ETF
Agree Realty REIT Corp	Real Estate	Deletion	Russell 2000® Value Index	–0.52	iShares Russell 2000 Value ETF

Table Description: Table showing the expected largest changes of securities for the Russell 1000® and Russell 2000® Value Indexes using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Figure 7: Expected Russell 1000® Value Index and Russell 2000® Value Index industry changes (bps)[16]
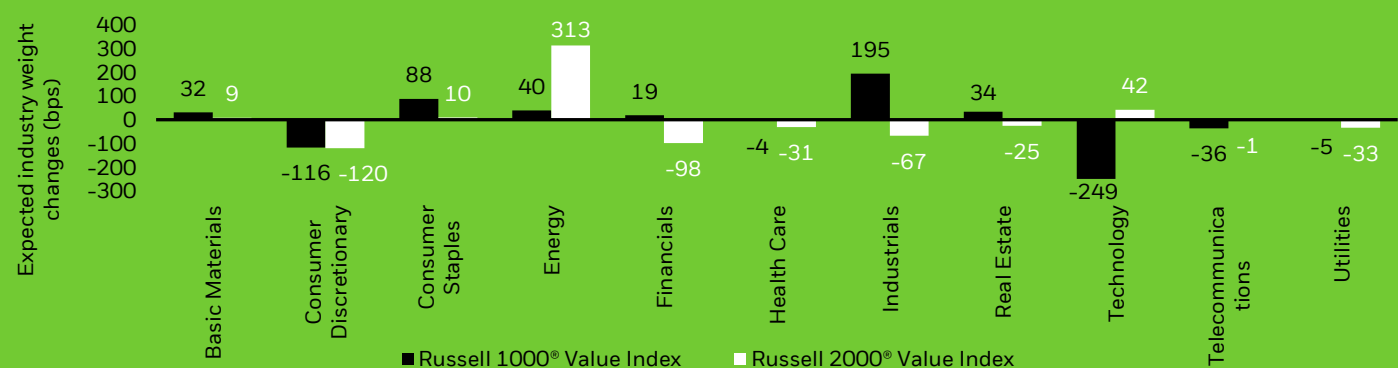

Table Description: Table showing the expected changes in ICB Industry weights of the Russell 1000® Value and Russell 2000® Value Index using pro-forma index data provided by FTSE Russell. Pro-forma index data is the projected new index composition following the June 2023 Russell US Indexes Reconstitution which is effective after market close on June 23, 2023.

Endnotes

1. For more information on managing equity index rebalances, see "Index Investing: Equity index rebalances."
2. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
3. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
4. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
5. The Russell 1000® and Russell 2000® Indexes are subsets of the Russell 3000® Index which tracks the performance of the 3,000 largest U.S.-traded stocks. The Russell 1000® Index tracks the largest 1,000 companies, while the Russell 2,000® Index tracks the next 2,000 companies. For more information on Russell US Indexes, see https://research.ftserussell.com/products/downloads/Russell-US-indexes.pdf.
6. For more information on the 2023 Russell Constitution timelines, see https://www.ftserussell.com/press/ftse-russell-announces-2023-russell-us-indexes-reconstitution-schedule.
7. Index turnover is a measure of weight changes to an index resulting from the rebalancing of the index. One-way turnover views turnover from the perspective of either buying or selling securities in an index. Two-way turnover reflects both the buying and selling of securities in an index.
8. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
9. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
10. For more information on the Industry Classification Benchmark methodology, see https://www.ftserussell.com/data/industry-classification-benchmark-icb.
11. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
12. Russell US Style Indexes are built using three highly representative growth and value characteristics. Style indexes use one value characteristic, book-to-price ratio (B/P) and two growth characteristics, medium-term forecast earnings growth rate based on I/B/E/S two-year forecasts and sales-per-share growth rate based on five-year historical sales. For more information, see https://www.ftserussell.com/products/indices/russell-us-style.
13. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
14. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
15. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.
16. Pre-reconstitution index data as of market close on June 2, 2023 and expected post-reconstitution index data is an estimate of expected values as of market close on June 23, 2023. Source: BlackRock, FTSE Russell.

iShares® by BlackRock