

Quick Take: Junk Rallies, Not Built to Last

August 2025

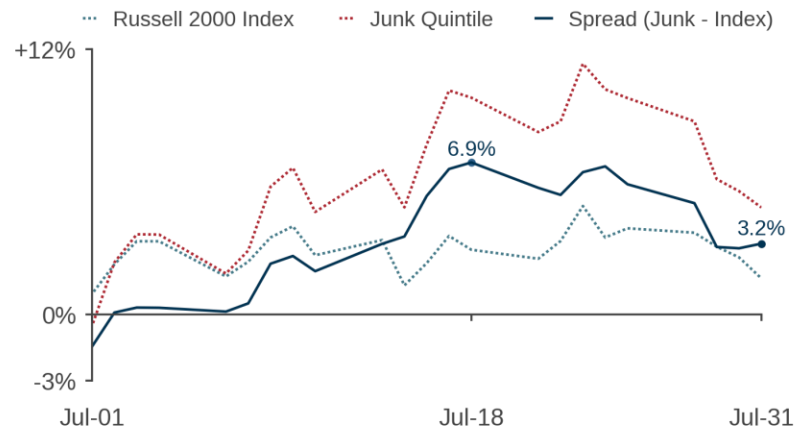
Reflecting on July's U.S. junk rally

- Stocks of high-quality companies (i.e., profitable firms with consistent cash flows) have typically rewarded investors, but the first part of July was a conspicuous exception.
- The *lowest*-quality stocks in the Russell 2000 outgained the Index by nearly 7% through mid-month (top chart), putting July on track to be one of the strongest "junk rallies" within U.S. small caps over the past 20 years. While low-quality stocks subsequently gave back some of the gains, they still beat the index by 3.2% for the month.
- The junk rally in U.S. small caps was broad, but it was pronounced in speculative technology, pharmaceutical, EV-related, and resource stocks.

History teaches us that junk rallies don't last

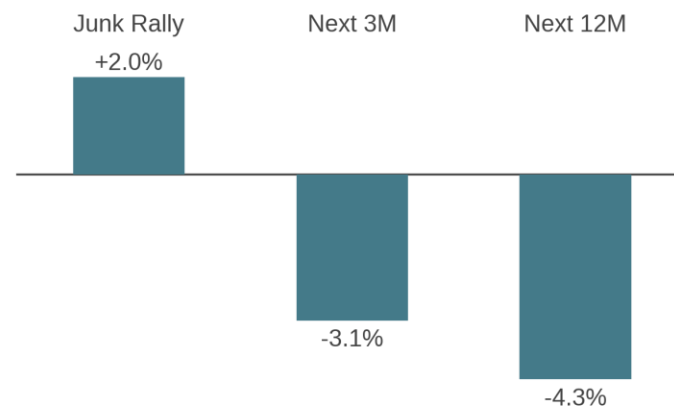
- Junk rallies are typically short lived, and while they can be unsettling, disciplined investors have benefitted from sticking with higher-quality positioning.
- For example, the bottom chart shows that following the largest junk rallies of the past 20 years, lower-quality stocks have resumed their more typical underperformance over the next quarter and year.
- Acadian's research demonstrates that high quality, in conjunction with other stock characteristics, forecasts superior long-term investment results, despite the occasional surge in low-quality firms.

The July Junk Rally – Cumulative Returns in U.S. Small Caps



Cumulative Average Active Returns

Three largest Junk rallies in U.S. Small Caps since 2006



Top chart: Junk Quintile formed by sorting companies into five cap-weighted quintiles by quality risk factor from a commercially available risk model.
 Bottom chart: Junk rallies are identified based on the largest three rolling quarters of index-relative outperformance of the bottom quality quintile since Jan 2006 (Jan 2021, Dec 2019, Sep 2009).
 Source: Acadian based on unpublished index data from FTSE Russell. For illustrative purposes only. Charts do not reflect trading, borrow costs, and other implementation frictions, and they are not representative of returns to investable portfolios. It is not possible to invest directly in any index. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns.



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