

Rocket Fuel: The Potential Impacts of Major Index Changes This June

While recent financial news headlines have given a great deal of attention to the slate of expected U.S. mega-cap IPOs, a few relevant storylines may have slipped under investors' radar.

Despite geopolitical and economic uncertainty in the first five months of 2026, global stock market indexes have quietly posted solid results. The S&P 500® Index is up more than 11% on the year, while non-U.S. stocks (measured by the MSCI ACWI ex-USA IMI Index) are up more than 14%. That's likely to mean many investors may be pleasantly surprised by their portfolios thus far.

Another upcoming event to watch is the annual FTSE Russell index reconstitution, scheduled for the fourth Friday in June.¹ On that day, Russell will reclassify the holdings in its U.S. indexes for the first time since last June.

Stocks will be placed in the various indexes based on the underlying firm's characteristics, such as its market capitalization, the price multiple at which it trades relative to its book value, or changes in its earnings. **Figure 1** summarizes notable changes coming to commonly watched Russell U.S. indexes.

Figure 1 | June 2026 Russell Index Reconstitution Highlights

<p>Largest Large-Cap (as of 4/30) \$4.8T</p>	<p>Russell 1000</p> <p>+ 62 companies added</p> <p>– 37 companies deleted</p>	<p>Largest Changes for 1000 Value & Growth</p> <p>+ Apple and Microsoft Added to Russell 1000 Value (will be in growth and value indexes)</p> <p>– Alphabet and AMD Deleted from Russell 1000 Value (will be held only in the growth index)</p> <p>+ Micron and SanDisk Added to Russell 1000 Growth (will be in growth and value indexes)</p>
<p>Small-Cap Upper Limit \$5.7B</p> <p>Small-Cap Lower Limit \$146.4M</p>	<p>Russell 2000</p> <p>+ 237 companies added</p> <p>– 163 companies deleted</p>	<p>Largest Changes for 2000 Value & Growth</p> <p>– Lumen Deleted from Russell 2000 Growth (will be held only in value index)</p> <p>– Praxis Precision Meds Deleted from Russell 2000 Value (will be held only in growth index)</p>

Sources: Avantis Investors, FTSE Russell.

¹ Russell announced that the June 2026 reconstitution will be the final annual rebalance of its U.S. equity indexes. Going forward, the indexes will be reconstituted semi-annually (June and December) starting in December 2026.

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What may seem like routine index maintenance can have real implications for investors. When Russell reconstitutes its indexes, funds and investors attempting to track those indexes must place trades to:

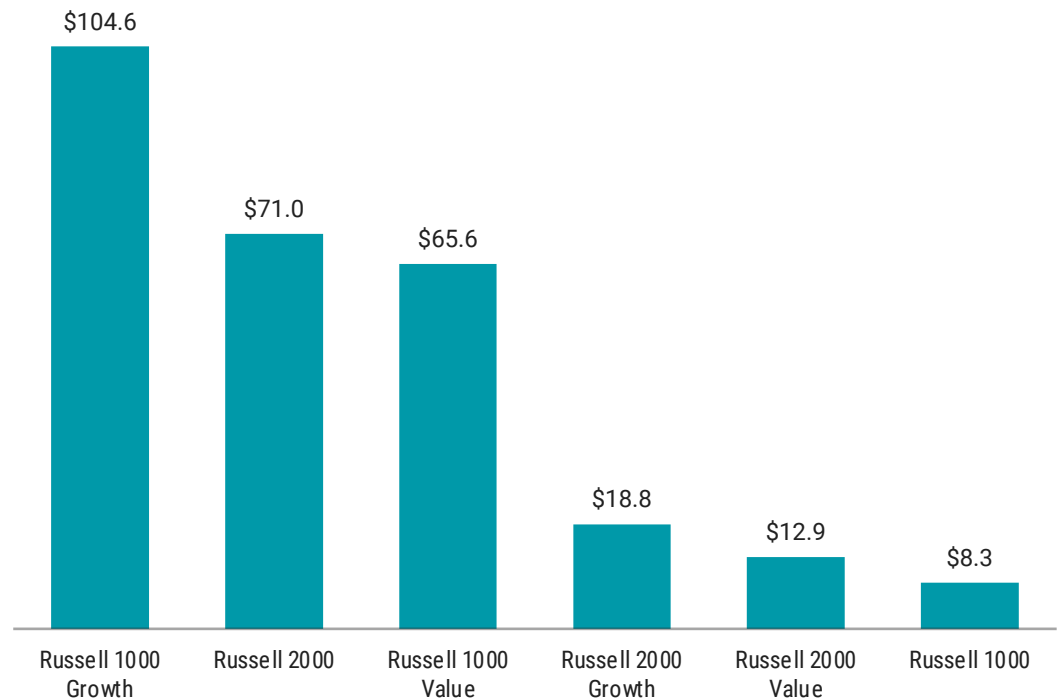
- Sell securities leaving each index.
- Buy securities joining each index.
- Buy or sell securities to adjust the old weights of securities staying in each index to their new weights.

Given the substantial assets in funds tracking Russell's U.S. market indexes (estimated at more than \$12 trillion as of June 2025), this annual event triggers significant single-day turnover for those funds and their investors.

As a result of the reconstitution, Jefferies anticipates about \$350 billion in trades at the end of the day on June 26, driven solely by index funds, up from about \$220 billion traded around the 2025 Russell reconstitution. **Figure 2** presents the expected dollar amount that index funds tracking various Russell indexes will trade.

Figure 2 | Huge Sums Will Trade Hands in June as Index Funds Aim to Stay in Line with Announced Russell Index Changes

Value of Expected Index Fund Trades on June 26 for a Selection of Russell Indexes (\$B)



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The considerable trading activity triggered by the Russell reconstitution makes this one of the highest aggregate trading volume days in the U.S. market each year. The impact on traded volume at the individual security level can also be significant, not just in small-caps, where average trading volumes tend to be lower.

As shown in **Figure 3**, many names moving between indexes or changing weights will need to trade at volumes hundreds or thousands of times higher than typical for these stocks.

Figure 3 | Too Much to Trade?

Highest Expected % of Average Daily Trading Volume among Largest Announced Buys and Sells during the June 2026 Reconstitution

Panel A | Russell 1000

Buys

COMPANY	SECTOR	ESTIMATED NET FLOW (\$M)	% AVG. DAILY VOLUME
Sunbelt Rental Holdings	Industrials	\$1,042	541%
Ascendis Pharma	Health Care	\$415	230%
Simon Property Group	Real Estate	\$589	212%

Sells

COMPANY	SECTOR	ESTIMATED NET FLOW (\$M)	% AVG. DAILY VOLUME
Dycom Industrials	Industrials	\$1,356	800%
Nextpower Inc	Industrials	\$2,278	706%
Coeur Mining	Materials	\$2,185	620%

Panel B | Russell 2000

Buys

COMPANY	SECTOR	ESTIMATED NET FLOW (\$M)	% AVG. DAILY VOLUME
Neptune Insurance Holdings	Financials	\$343	1,400%
Highwoods Properties	Real Estate	\$403	1,088%
Service Titan	Technology	\$671	995%

Sells

COMPANY	SECTOR	ESTIMATED NET FLOW (\$M)	% AVG. DAILY VOLUME
SB Financial Group	Financials	\$20	11,141%
Standard Bio Tools	Health Care	\$47	2,276%
Tootsie Roll Industries	Cons. Staples	\$116	2,258%

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The data prompts an important question: Does it really make sense to force all this trading into a single day? Most would agree that attempting to trade multiples of a security's typical volume should come at a cost.

If an index fund is required to buy or sell stocks in order to closely track its benchmark, what motivates the other side of the trade to participate? Price is often that incentive, and it typically means paying higher prices for the stocks that need to be acquired and lower prices for the stocks that need to be sold.

Several studies have sought to measure the impact of high liquidity demands around index rebalance events. For example, one study estimated that funds tracking the Russell 2000 Index lost between 1.30% and 1.84% per year as a result of the liquidity demands around its annual reconstitution and related investor arbitrage activity (i.e., investors buying securities known to be demanded by index funds to earn a profit from their need for immediacy at reconstitution).² While various studies on different samples may yield varying results, what's clear is that the unseen costs of infrequent index rebalancing can be meaningful.

Now, back to those [highly anticipated mega-cap IPOs painting headlines](#). This same liquidity-demanding dynamic is likely to be at play as index providers respond to the inclusion of these companies in market indexes. New IPO inclusion rule changes for Russell and other index providers may exacerbate the impact on index fund investors.

Russell recently announced plans to "fast-track" the inclusion of large IPOs such as SpaceX, Anthropic and OpenAI. Companies that meet the fast-track requirements (e.g., those within the size range of the 500 largest companies) will be eligible for inclusion after five trading days.

This fast-tracking approach has precedent. The Center for Research in Security Prices (CRSP) has fast-tracked larger IPOs (inclusion after five trading days) since 2017, providing a dataset for research into the potential impacts of index providers adopting a similar approach.

² Honghui Chen, Gregory Noronha, and Vijay Singal. "Index Changes and Unexpected Losses to Investors in S&P 500 and Russell 2000 Index Funds," March 2005. Available at SSRN.

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A 2025 study found that fast-tracked IPOs, on average, outperformed non-fast-tracked IPOs by more than 5% from the IPO close date through the index inclusion date (the 5th trading day). After being added to the indexes (and index funds tracking them), price gains quickly reverted on average.

Figure 4 summarizes the findings over the sample from 2017 through 2023. While a relatively small sample, the results suggest investors may buy up shares of popular IPOs, knowing that index fund managers will soon have strong demand to acquire them to keep their funds in line with the index they track.

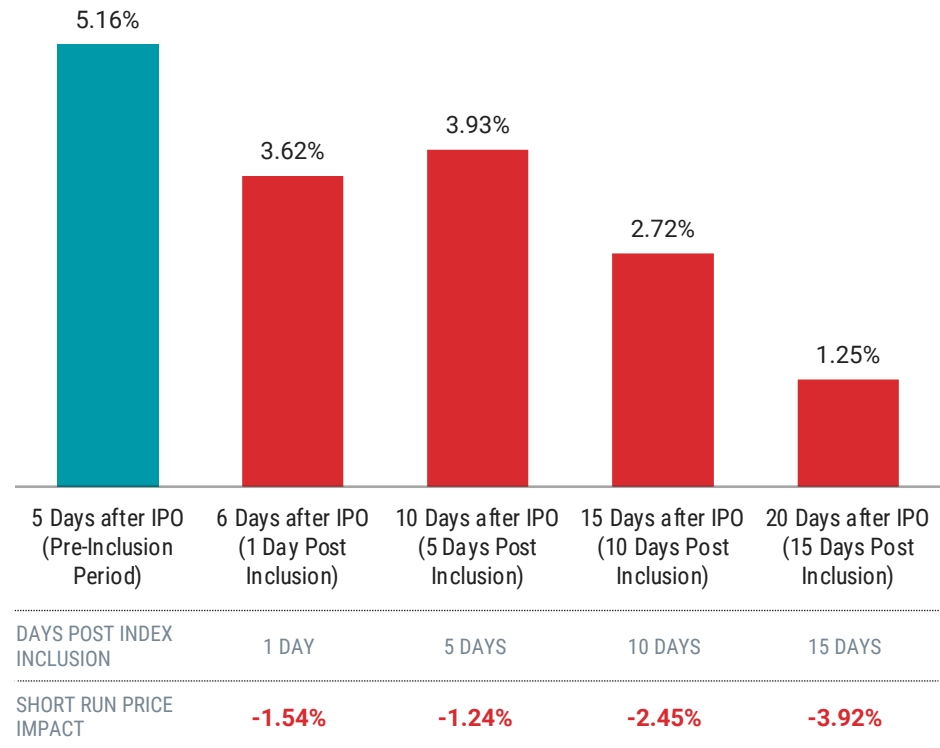
These hidden potential costs, whether from recurring index rebalancing events or new IPO inclusions, are often unknown to index fund investors, yet research shows they can be meaningful. Importantly, it's not the only option.

We believe investors can do better by avoiding purchases of companies around the time they're announced for addition to market indexes. This helps mitigate the risk of buying at elevated prices that often accompany high short-term demand for these securities.

Further, a process that allocates investor assets based on current (rather than stale) information to determine which securities to buy or sell and at what weights is expected to add value over time. This doesn't mean investors have to trade a lot each day, only what's necessary to keep the portfolio in the desired position. This method allows for consistent focus on the desired asset class rather than forced trades made only once or twice a year.

Figure 4 | CRSP Index Fast-Tracked IPOs Have, on Average, Cost Index-Tracking Funds

Performance of IPOs Fast-Tracked into CRSP Indexes vs. Other IPOs Included by CRSP (Pre- and Post-Inclusion), 2017-2023



Data from 2017 – 2023. Source: Chris Murray and Marco Sammon, "Primary Capital Market Transactions and Index Funds," July 2025. Available at SSRN. Short run price impact is the difference between the fast-track IPO return premium over the 5 days after IPO (pre-index inclusion) and the return premium from IPO through day 6/10/15/20 thereafter. The results show that the outperformance observed in the 5 days after IPO (prior to index inclusion) has on average dissipated materially in the weeks after index inclusion (after the first 5 days from IPO).