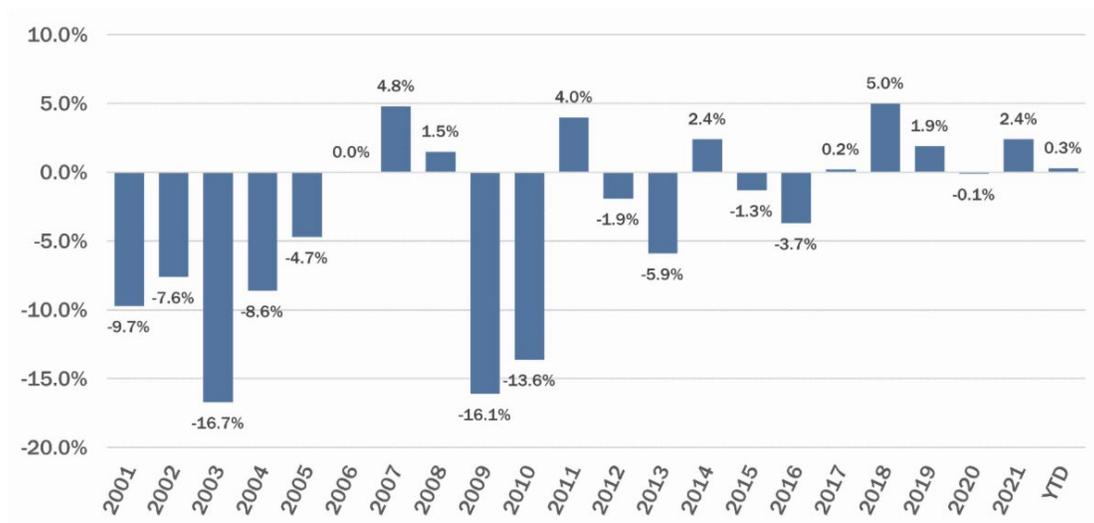


Market Commentary

Fig. 1: Relative performance of global large-cap stocks versus global small-cap stocks



Sources: Morningstar, MSCI, Bloomberg, Mill Creek.

For long-term equity investors, there is an attractive opportunity emerging in global small-cap (MSCI ACWI Small) stocks which have underperformed their large-cap (MSCI ACWI) counterparts by almost 2% per year for the last five years. Prior to that, global small-cap stocks had outperformed by nearly 5% per year dating back to 2000. While it may be overly optimistic to think that small-cap outperformance can return to previous levels, we remain steadfast in our belief that an actively managed portfolio of high-quality, small-cap stocks should outperform over time and compensate investors for taking on the additional risks of owning smaller companies. Our equity portfolios are overweight small-cap stocks and underweight large-cap stocks relative to the global equity benchmark.

Even with the recent price action, large-cap stocks, particularly US stocks, remain expensive on a relative and absolute basis. The forward price-earnings (P/E) ratio on the global large-cap index is around 15.1x, while the US market trades around 17.2x. Meanwhile, the global small-cap index trades around 14.2x forward earnings. High-quality stocks have been sold relentlessly during the recent market turmoil, particularly in the small-cap space. A significant portion of the global small-cap universe does not make money, so we would advocate for active managers that can sift through and select the earners versus the non-earners. When non-earners are eliminated from the calculation, the P/E ratio for the global small-cap index is approximately 11.5x, which seems particularly attractive to us on both a relative and absolute basis.¹

¹Source: Bloomberg; the index used is MSCI ACWI Small.

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