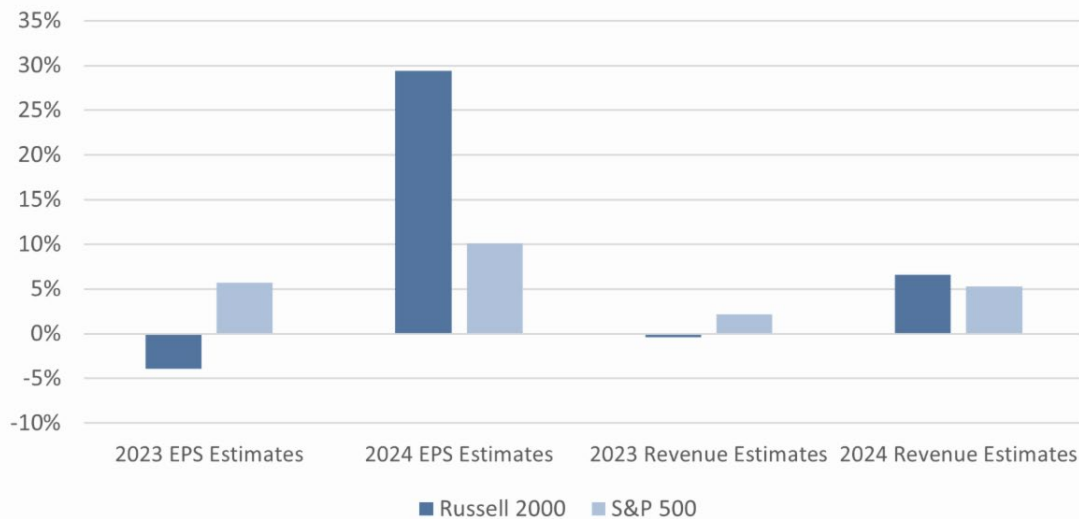


MARKET COMMENTARY

Fig 1: Investors buying 2024 small-cap improvements today

Russell 2000 v. S&P 500: Fundamental Outlook



Source: Furey Research Partners, FactSet, Mill Creek.

As we have previously written, small-cap valuations are attractive relative to their history and relative to large-cap stocks. Still, investors have flocked back to mega-cap technology stocks in 2023, widening that valuation differential. Attractive valuations in isolation are not a good timing tool, but they are a pre-condition for improved small-cap performance in both relative and absolute terms. We believe future relative outperformance will be predicated upon faster earnings growth and the lagging performance of mega-cap stocks.

Small-cap earnings have collapsed in 2023 as bank earnings rolled over during the March failures, but this potentially sets up a period of easy comparisons in 2024. As economic data has continued to come in better than expected, growth continues albeit at a slower pace. It seems investors may already be looking through the slowdown and buying the improved outlook for 2024. Technical factors suggest investor sentiment may shift as the Russell 2000 has traded through its 200-day moving average.

Mega-cap stocks have accounted for virtually all of the broad market's performance in 2023, and this has once again become a crowded trade driven by AI excitement and recession worries. These stocks are not cheap, and their period of exceptional growth may be behind them, making them vulnerable to a shift in investor sentiment. Historically large cap cycles have peaked when mega-caps become crowded. According to Furey Research, April 1973 and March 2000 marked inflection points in the relative performance of small-cap stocks versus large-cap stocks as crowding peaked. After over a decade of underperformance, we believe the setup

Our values appreciate yours

for small-cap stocks is compelling and therefore continue to recommend an allocation within a globally diversified equity portfolio.

QUICK LINKS

- [June Update: A Pause on the Horizon](#)
- [Concentration Conundrum](#)
- [Relative Strength of the Tech Sector May Wane as the Year Continues](#)

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