

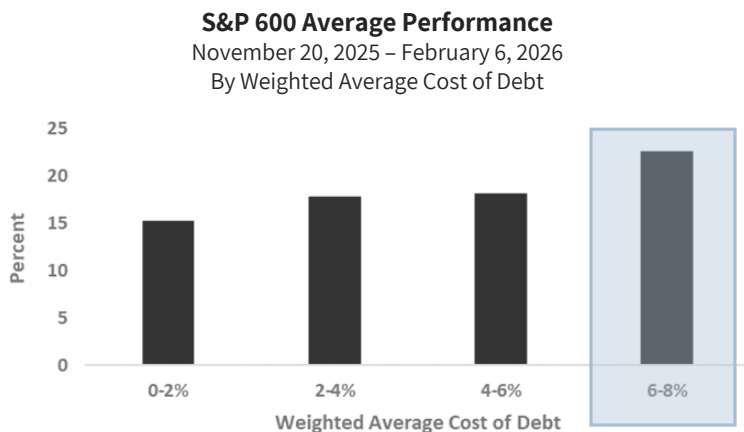
Small Caps: False Dawn or Turning Point?

We've seen this story before: market forecasters proclaim that small cap stocks are set to finally awaken from their multi-year slumber. After underperforming their larger cap counterparts by more than 10% each of the past three years, small caps tend to enter each new year looking relatively inexpensive and seemingly poised for a rebound.*

Perhaps this year really is different. Since late November, small cap stocks have rallied sharply, outperforming large cap peers by more than 11%. Did investors finally heed the forecasts, or did something more fundamental change? The evidence suggests the latter.**

After weeks of macro uncertainty driven by a government shutdown, investors began to confront signs that the labor market had weakened materially. Delayed payroll and unemployment reports released in November confirmed those concerns. It is therefore no surprise that the small cap rally gained momentum shortly after those reports signaled a softer job market—one likely to prompt the FOMC to lower short-term interest rates.

Expectations for rate cuts helped ignite the long-awaited small cap rally. Lower borrowing costs are particularly supportive for smaller companies, which tend to be more sensitive to financing conditions than their larger cap peers. Whether those expectations ultimately prove well-founded will play a critical role in determining whether the rally has staying power or becomes yet another false start.



* Performance of S&P 500 and S&P 600, calendar year total returns (2023, 2024, 2025).
** Performance of S&P 500 and S&P 600 from November 20, 2025 through February 9, 2026.
Chart source: Bloomberg, Goelzer Investment Management. Performance from constituents of iShares S&P 600 ETF, sorted by weighted average cost of debt.

Economy

Last Week	This Week
- ISM Manufacturing (Jan): 52.6 vs. 47.9 one month prior	- Retail Sales (Dec): 2/10
- ISM Services (Jan): 53.8 vs. 54.4 one month prior	- Payrolls & Unemployment (Jan): 2/11
- JOLTS (Dec): 6.5 mln openings vs. 7.1 mln openings one month prior	- Consumer Price Index (Jan): 2/13
- U. of Mich. Consumer Sentiment: 57.3 vs. 56.4 one month prior	- Real Avg Hourly Earnings (Jan): 2/13

Equities

Index	Level	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6965	-0.15	1.83	1.83	17.04	20.93	13.79
Russell 1000 Growth	4642	-1.34	-2.53	-2.53	13.63	25.92	13.59
Russell 1000 Value	2210	1.38	6.83	6.83	18.53	14.60	11.62
FTSE High Dividend Yield*	569	3.13	8.55	8.55	20.88	15.61	13.67
S&P Small and Mid Cap	20009	3.38	9.14	9.14	13.99	11.86	8.12
MSCI EAFE	3117	2.89	7.81	7.81	34.89	18.11	10.57
MSCI EM	1540	3.07	9.69	9.69	42.74	18.25	4.51

Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD	
				YTD (%)	1 Year
S&P 500	22.3	15.6	1.1	~18%	~17%
Russell 1000 Growth	27.6	18.1	0.5	~13%	~14%
Russell 1000 Value	18.3	13.6	1.8	~18%	~19%
FTSE High Dividend Yield*	15.5	13.1	3.5	~13%	~14%
S&P Small and Mid Cap	16.7	15.4	1.5	~13%	~14%
MSCI EAFE	16.9	13.5	2.6	~13%	~14%
MSCI EM	13.3	11.2	2.2	~13%	~14%

* Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income

Index	Yield	Returns (%)					
		1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.33	0.45	0.44	0.44	6.79	4.28	-0.11
U.S. Int. Gov/Credit	3.92	0.37	0.36	0.36	6.68	4.90	1.08
U.S. Corporates	4.82	0.38	0.49	0.49	7.31	5.51	0.27
High Yield	6.56	0.15	0.75	0.75	7.96	9.21	4.39
Municipals (1-10)	2.70	0.33	1.35	1.35	5.39	3.42	1.36

Key Rates	Last	Levels (%)					
		1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.49	3.57	3.48	3.48	4.29	4.48	0.11
10-yr Treasury	4.20	4.27	4.17	4.17	4.54	3.66	1.12
30-yr Treasury	4.86	4.90	4.85	4.85	4.75	3.73	1.91
SOFR	3.63	3.69	3.87	3.87	4.34	4.55	
6-mo. CD rate	3.67	3.75	3.62	3.62	4.40	5.05	0.16
Prime Rate	6.75	6.75	6.75	6.75	7.50	7.75	3.25
30-yr fixed mortgage	6.19	6.22	6.25	6.25	6.98	6.61	2.82

