

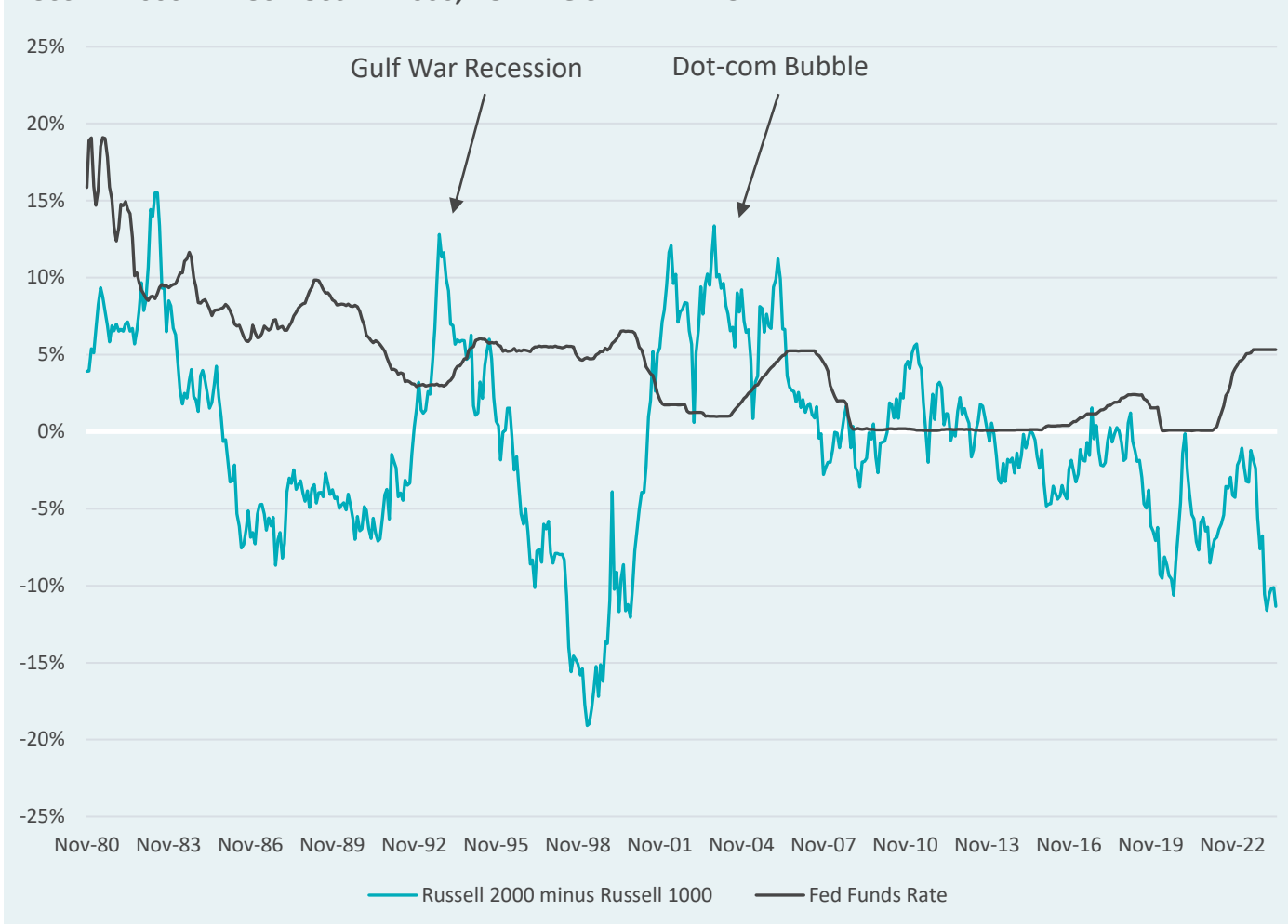
# Verus Market Note

## Observing periods of small cap outperformance

Earlier this month, we saw historic movements for domestic small cap equities, which gained over 10% within just four trading days. In recent months, small cap equities have primarily moved in response to changing expectations of interest rate cuts. While the small cap premium has been relatively absent over the past several decades, many investors are wondering if this is the beginning of a longer run for small cap equities.

In this week's market note, we observe historical periods where small cap has shown sustained outperformance over large cap equities. The current market environment contains echoes of the mid 1990's, where a *soft landing* took place—meaning the Fed increased interest rates, without a recession following. While interest rate cuts have provided a tailwind to small cap stocks in prior periods, previous instances of three-year outperformance has not only followed cutting cycles, but cutting cycles that have been in response to a recession.

RUSSELL 2000 MINUS RUSSELL 1000, ROLLING 3 YEAR RETURN



Source: Bloomberg, as of 6/30/24