Flash Economics

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What is the case for investing in US small and mid-caps?

Since May 2026, the US small- and mid-cap index (as measured here by the Russell 2500) has outperformed the large-cap index (as measured by the S&P 500). This outperformance is readily explained and should persist. It stems from:

- doubts about technology companies, and in particular about the returns on the massive investment in artificial intelligence, while the technology sector carries a greater weight in large caps than in small and mid caps;
- the favourable outlook for the sectors that are heavily weighted in small- and mid-cap indices, in particular:
    - health care, supported by population ageing and medical advances, particularly in vaccines;
    - industrials, underpinned by buoyant industrial activity in the United States;
    - financials, which benefit from high interest rates, from rising US corporate profitability and from the strong growth in merger and acquisition (M&A) activity.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

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Since May 2026, the stock market outperformance of small and mid-caps

Since May 2026, small and mid-caps have outperformed large caps on the US equity market (Charts 1A, 1B and 1C).

Chart 1A
United States: Equity indices (01.01.2022 = 100)

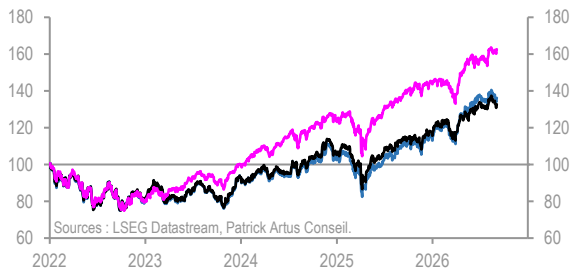


Chart 1B
United States: Equity indices (01.01.2025 = 100)

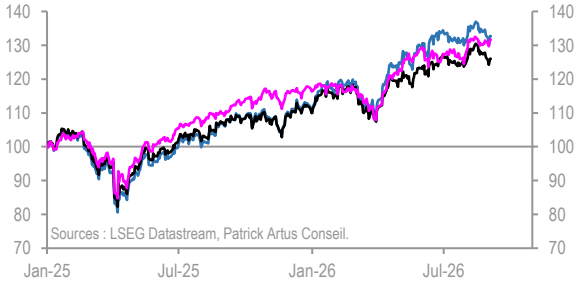


Chart 1C
United States: Equity indices (01.01.2026 = 100)

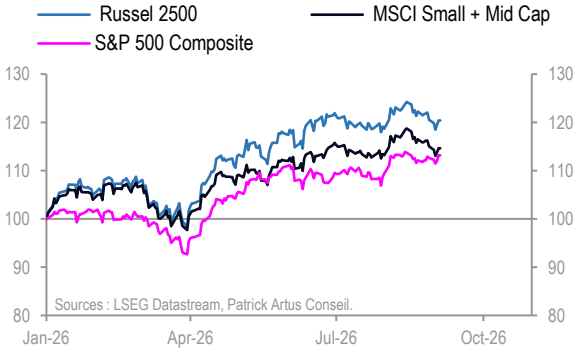
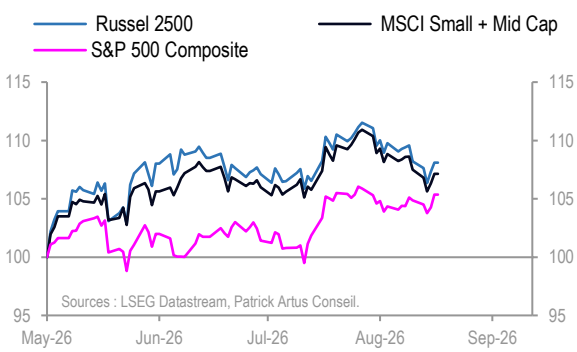


Chart 1D
United States: Equity indices (19.05.2026 = 100)



We examine the drivers of this outperformance below.

First explanation for the outperformance of US small and mid-caps: doubts about technology companies

Table 1: Sector weights in the market capitalisation of the MSCI USA All Cap and MSCI USA SMID Cap indices (as % of total index market capitalisation, as of 31 August 2026)

	MSCI USA All Cap Index	MSCI USA SMID Cap Index
Information Technology	35.47	17.61
Financials	12.54	15.22
Health Care	9.98	13.08
Industrials	9.41	17.83
Consumer Discretionary	9.3	8.52
Communication Services	8.93	3.11
Consumer Staples	4.34	4.75
Energy	3.71	4.08
Real Estate	2.19	5.94
Materials	2.13	5.05
Utilities	2	4.81
Total	**100.00**	**100.00**

Source : MSCI

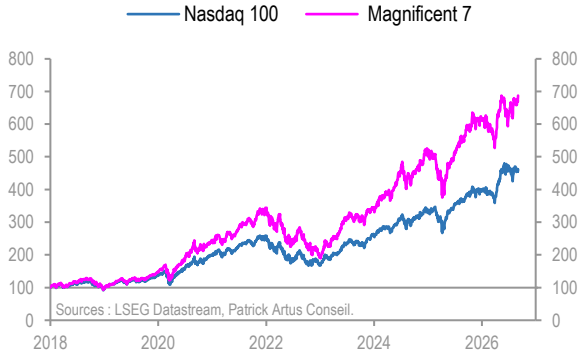
Table 2: Sector weights in the market capitalisation of the Russell 2500 index (as % of total index market capitalisation, as of 31 July 2026)

Economic sector	Russell 2500 Index
Industrials	20.43
Financials	16.1
Health Care	14.64
Consumer Discretionary	12.4
Technology	12.05
Real Estate	7.24
Energy	4.68
Basic materials	4.68
Utilities	3.29
Consumer Staples	2.96
Telecommunications	1.53
Total	100.00

Source : FTSE Russell

The technology sector (Information Technology and Communication Services, as defined by the GICS sector classification) carries appreciably less weight in small and mid-caps than in large caps. At the same time, US technology share prices have weakened since June 2026 (Chart 2). This development accounts for part of the outperformance of small and mid-caps.

Chart 2
United States: Equity indices (01.01.2018 = 100)

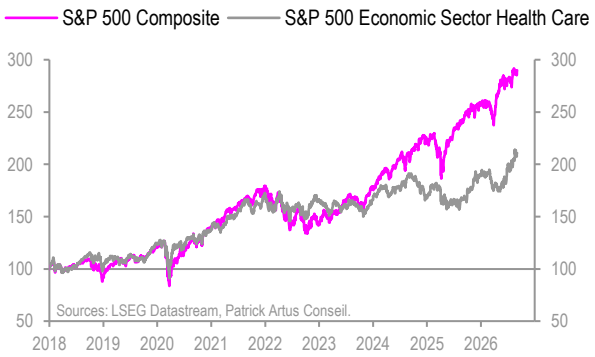


Second explanation for the outperformance of US small and mid caps: the buoyancy of the sectors heavily weighted in these indices

1- Health care

The health care sector accounts for a substantial share of small and mid-caps (Table 1). Population ageing and medical advances, particularly in vaccines, should support the sector's growth and profits. After lagging the overall index, the health care equity index has been recovering strongly since May 2026 (Chart 3).

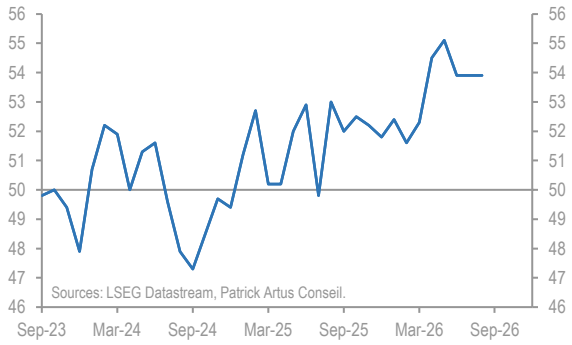
Chart 3
United States: Equity indices (01.01.2018 = 100)



2- *Industrials*

The high level of the latest manufacturing PMIs points to strong growth in US manufacturing (**Chart 4**). With the industrials sector carrying a greater weight in small- and mid-cap indices than in large-cap indices (**Table 1**), buoyant industrial activity should contribute to this outperformance.

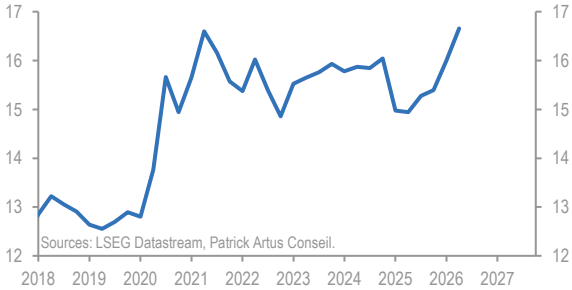
Chart 4
United States: Manufacturing PMI (indices)



3- *The financial sector*

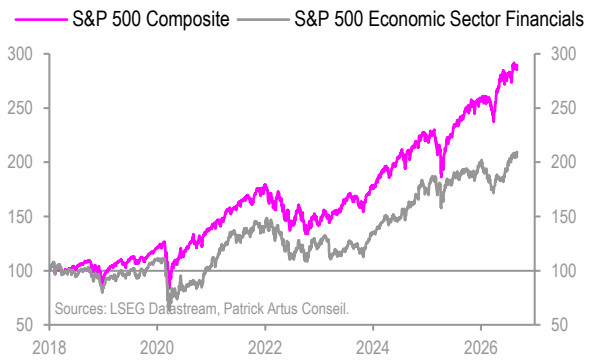
Financial companies likewise carry a greater weight in the small- and mid-cap index than in the overall index or in the large-cap index (**Table 1**). Financials benefit from high interest rates, from high US corporate profitability (**Chart 5**) and from the strong growth in M&A activity: in the second quarter of 2026, the value of completed transactions was up 58% year on year, according to EY.

Chart 5
United States: Profits after tax and interest, before depreciation, of non-financial corporations (as % of GDP)



The marked rise in financial companies' share prices since early March 2026 (Chart 6) should therefore continue.

Chart 6
United States: Equity indices (01.01.2018 = 100)



Summary: it makes sense to invest in US small and mid caps

Relative to large caps, US small and mid-caps benefit from:

- a smaller weighting in the technology sector, which is affected by doubts about the returns on investment in artificial intelligence;
- a greater weighting in:
    - health care, which should benefit from population ageing and medical advances;
    - industrials, where activity and growth are strong;
    - the financial sector, which benefits from high interest rates, high US corporate profitability and the strong growth in M&A activity.

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