

MARKET MINUTE

With McGAREL



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The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **S&P SmallCap 600 Index** is an unmanaged index of 600 stocks used to measure small-cap U.S. stock market performance. The **S&P MidCap 400 Index** is an unmanaged index of 400 companies used to measure mid-cap U.S. stock market performance. **Earnings per share (EPS)** is calculated as a company's profit divided by the outstanding shares of its common stock. Investors cannot invest directly in an index. **Forward price-to-earnings** of a stock is the price divided by the estimated EPS for the next 4 quarters.

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In a family, the mantra goes, the middle child gets less attention than the oldest child or the baby of the family. That phenomenon may as well apply in the equity markets as well. Large cap stocks have gotten the most love over the last five years. They have also delivered superior returns. Given the performance of large caps in recent years it may surprise many to know mid cap stocks have actually produced better earnings per share growth than large caps over the last five years (see Chart 1). Large caps have outperformed due to multiple expansion. Small cap stocks, meanwhile, are currently being considered an attractive opportunity especially if the Federal Reserve continues to cut interest rates. And, stuck in the middle, mid cap stocks are rarely talked about.

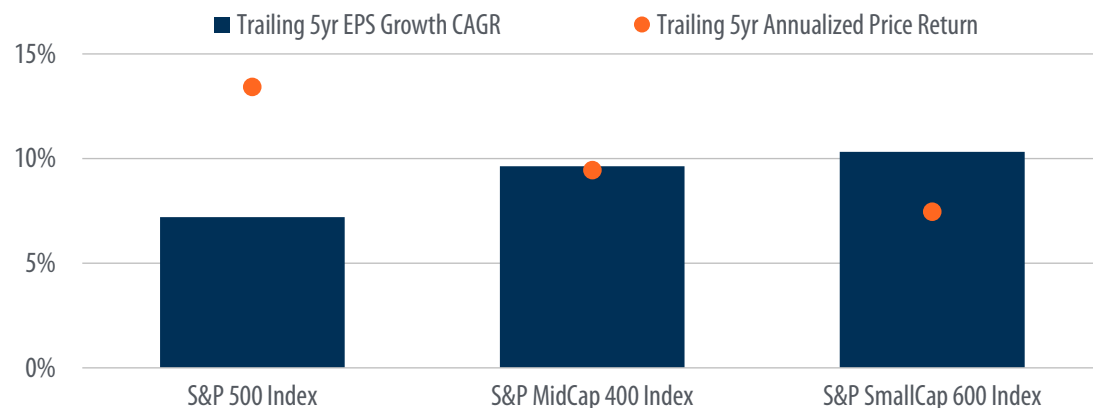
Yet they may be better positioned than both their large and small cap siblings.

Currently, the mid cap index trades at essentially the same forward P/E multiple (17x) as small cap stocks and at a significant discount to the large cap index (see Chart 2). Yet mid cap stocks, as measured by the S&P MidCap 400 Index, are expected to grow earnings faster than large cap stocks in the coming year. From a quality perspective, the mid cap index also has a superior median return on equity (ROE) profile versus the small cap index.

To sum up, mid cap stocks offer a cheaper alternative to large caps along with better forecasted earnings growth. Relative to their smaller cap peers they are more profitable, higher quality businesses, yet trade at a comparable valuation.

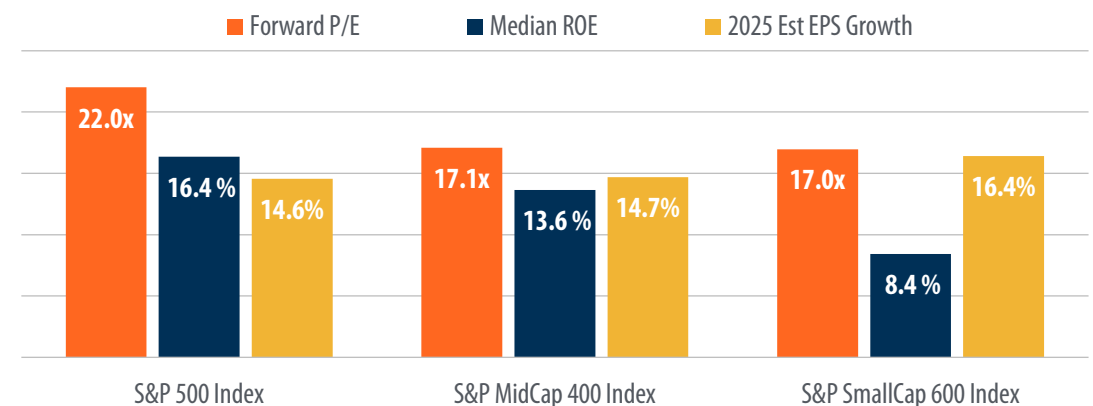
Maybe being “stuck in the middle” isn’t so bad after all!

Chart 1: Trailing 5 Year Price Return and EPS Growth of S&P Indexes



Source: Capital IQ, S&P, Bloomberg. Data from 31/10/2019 - 31/10/24.

Chart 2: Key Stats for S&P Indexes



Source: Capital IQ, S&P, FactSet, Bloomberg. Data from 31/10/24.