

MARKET MINUTE

With McGAREL



Dave McGarel, CFA, CPA
Chief Investment Officer

September 2026

Past performance is no guarantee of future results.

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 MidCap 400 Index** is an unmanaged index of 400 companies used to measure mid-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. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Investors cannot invest directly in an index.

Forward price-to-earnings (P/E) is the price of a stock divided by estimated forward earnings.

There is no assurance any forecasts will be achieved.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. Nor does the document implicitly or explicitly recommend or suggest an investment strategy, reach conclusions in relation to an investment strategy for the reader or provide an opinion as to the present or future value or price of any fund. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial professionals must determine whether particular investments are appropriate for their clients.

FOR INFORMATIONAL USE ONLY. THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE AN INVITATION, OFFER, SOLICITATION OR RECOMMENDATION TO ENGAGE IN ANY INVESTMENT ACTIVITY.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

At the end of August, the S&P 500 Index was higher by 13% on the year. The S&P MidCap 400 Index was higher by 15% and the S&P SmallCap 600 Index was up 21%.

A great eight months across the board. In the January 2026 *Market Minute*, we wrote, “We believe mid- and small-cap stocks with double-digit earnings growth and low P/E multiples could be a good opportunity in the new year for investors looking for upside opportunity.”

The earnings growth has been dramatically better than expected for each of the above three indexes so far this year. Stocks truly followed earnings growth this year with only modest changes in multiples. And in our view, that’s where an opportunity still exists.

There are two reasons that we see small-caps outperforming year-to-date. First, valuation. The small-cap index started the year at a forward multiple of 14.5x versus 15.7x for mid-caps and 22.1x for the large-cap index. Investors saw good valuations and earnings growth showed up. Secondly, small-cap earnings growth is expected to increase by over 16% for the calendar year 2027. Investors are looking ahead and still expect excellent earnings growth for small-caps.

As of 31/8/26, the small-cap index traded at 16.6x 2026 earnings and 14.2x estimated 2027 earnings. Despite strong year-to-date performance, the forward P/E multiple is essentially unchanged from the start of the year due to strong earnings growth. Historically, small-cap stocks trade at a similar forward multiple to large-caps (see chart below) for the simple reason they have been able to grow earnings just as fast as large-caps. Yet even after outperforming their large-cap peers over the last 8 months, the small-cap index still trades at a 20% discount to the large-cap index despite expectations for significant earnings growth ahead. If the projected earnings growth materializes over the next 12 months, we believe small-caps have attractive upside potential as investors may re-rate the small-cap index closer to the forward multiple of the large-cap index.

S&P SmallCap 600 Index / S&P 500 Index Forward P/E



Source: Bloomberg. Data from 1/1/99 to 28/8/26. For illustrative purposes and does not represent any actual investment.