

MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. **S&P SmallCap 600 Index** is an unmanaged index of 600 stocks used to measure small cap U.S. stock market performance. **S&P MidCap 400® Index** is an unmanaged index of 400 stocks used to measure mid cap U.S. stock market performance. **MSCI ACWI ex USA Index** captures large and mid and cap representation across 22 of 23 Developed Markets countries, excluding the United States, and 24 Emerging Markets countries. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. **Forward price-to-earnings (P/E)** of a stock is the price divided by the estimated EPS for the next 4 quarters. **Earnings per share (EPS)** is the monetary value of earnings per outstanding share of common stock for a company during a defined period of time, often a year.

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Earnings everywhere?

In 2025, the S&P 500 Index (the “Index”) continued its march higher with a third consecutive double-digit return (17.9%) despite a massive correction in early April 2025 when the Index was lower by 15% (8 April 2025) for the year at one point. The headlines were all about tariffs, Liberation Day, and Artificial Intelligence but the real story was what always drives market returns. Earnings! And earnings for the Index in 2025 are expected to have grown almost 13% for the year after companies report their fourth quarter results later this quarter. More importantly, earnings projections for 2026 are expected to grow over 15% for the Index. Last year’s exceptional returns were the result of this profit growth and continued multiple expansion.

The cumulative return for the Index was 86% over the last 3 calendar years. Earnings growth during those years was dominated by large-cap stocks. In fact, it was hard to find it anywhere else. Earnings growth for the Index increased 20% from the end of 2022 through 2025 year-end. The S&P MidCap 400 Index saw earnings **decline** over 7% and the S&P SmallCap 600 Index earnings **declined** over 10% over those same 3 years. Returns for small- and mid-cap indices, along with international stocks, lagged the Index over those three years [Chart 1].

The opportunity for 2026, in our view, is that earnings growth is finally expected to show up in places other than large-cap stocks. Double-digit earnings growth is also expected in small, mid, and even international indices. While the profit growth story is intact for large caps as we start the new year, further multiple expansion is much less of a certainty as they are already highly valued historically. The more profitable opportunity for equity investors may well be those laggards over the last three years. And the multiple for those earnings is significantly discounted to the Index and historical valuations [Chart 2].

In our view, in lieu of chasing the companies with the best past returns and the narrowness of the last 3 years’ earnings growth, investors should seek to capture the earnings growth story expected in 2026. 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. Even international stocks look competitive in the earnings outlook for 2026.

Chart 1: 3-Year Index Returns (%)

Index	Price Change	Total Return	Annual Equivalent
S&P 500 Index	78.29	86.01	22.94
S&P MidCap 400 Index	35.99	42.48	12.50
S&P SmallCap 600 Index	26.80	33.50	10.09
MSCI ACWI ex USA Index	49.67	64.50	18.01

Source: Bloomberg. Data from 30/12/2022-31/12/2025.

Chart 2: Major Indices - Earnings (Year-Over-Year Growth %)

Index	2024	2025*	2026*	2027*	2026 Forward P/E*
S&P 500 Index	\$239.16	\$269.26 [12.6%]	\$310.35 [15.3%]	\$352.47 [13.6%]	22.1x
S&P MidCap 400 Index	\$178.30	\$179.40 [0.6%]	\$210.48 [17.3%]	\$235.77 [12.0%]	15.7x
S&P SmallCap 600 Index	\$80.47	\$86.99 [8.1%]	\$100.99 [16.1%]	\$117.46 [16.3%]	14.5x
MSCI ACWI ex USA Index	\$23.55	\$25.03 [6.2%]	\$28.00 [11.9%]	\$31.08 [11.0%]	15.0x

Source: Bloomberg. Data as of 31/12/2025. *Estimated. Estimates are based on calendar year 2025, 2026 and 2027 aggregate consensus. There is no assurance any forecasts will be achieved.