SUSTAINAMENTALS® Insight

February 2024

Economic upturn and Small Caps: A promising combination with performance potential

Highlights

- Positive sentiment and leading indicators point to future small cap outperformance
- Small cap drawdowns of over 20% are followed by an average 5-year return of 103%

Since the start of the year, CHOM CAPITAL's portfolio managers have already held more than **100 management meetings** at various conferences throughout Europe. The **mood** has been significantly more **constructive** than just a few months ago: be it with regard to an end to the destocking, a stabilization of demand volumes and even the first signs of an improvement in order books. These glimpses from the real economy once again clearly support the positive macroeconomic momentum, which we can now measure in relevant leading indicators.

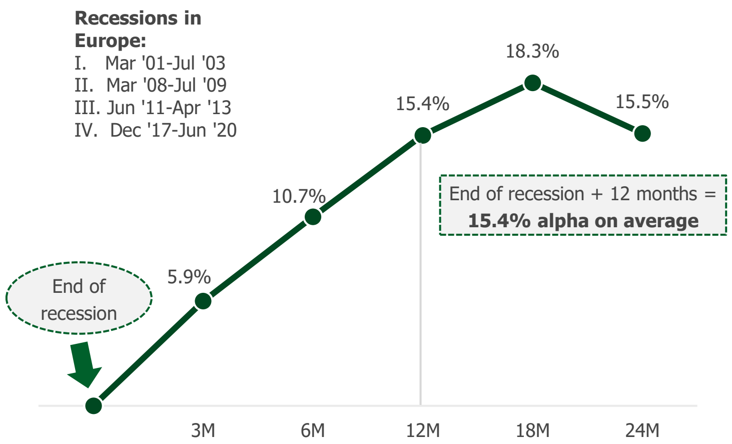
What does the current timing of the cycle mean for small caps? Also, in comparison to the larger companies that have recently performed significantly better? If you take the OECD recession indicator and measure the historical performance since 2000 following a cyclical low, small caps have always **performed noticeably better** than large caps over the following two years. On average just under 16% over 24 months.

Small caps therefore expect a noticeable tailwind in the coming years, supported by improving signals from the real economy. In addition to the cycle analysis, we have also analyzed the performance following a relative small cap underperformance and tried to quantify the value potential of a small cap investment.

Historically, a small cap drawdown of more than 20% over a 12-month period - which is currently the case - has always led to small caps outperforming large caps. Over a five-year period, the **average return** for small caps was **103%**, which corresponds to a doubling of the investment, compared to 27% for large caps. In the first two years, returns of over 20% and 25% were achieved respectively.

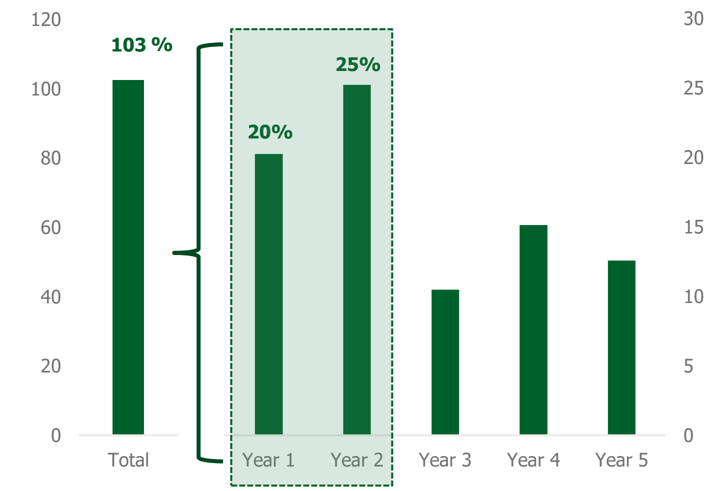
Investors should therefore currently have a highly attractive opportunity to enter this interesting asset class.

Outperformance of small caps after recessions



Source: FactSet, Bloomberg, Own Calculations

Average doubling of the investment



Source: FactSet, Own Calculations

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