
Weekly Global Market Commentary

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Sizing Up Small Caps

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Small-cap stocks are regaining investor attention after a prolonged period of underperformance relative to their large-cap counterparts, especially the mega cap tech giants that have lately driven index returns. With a compelling combination of attractive valuations, stable economic conditions, and renewed growth potential, the small-cap segment appears well-positioned for a meaningful rebound.

Valuation is one of the most persuasive arguments in favor of small caps today. These stocks are trading at historically low price-to-earnings (P/E) ratios relative to large caps, with the valuation gap nearing a two-decade extreme. This divergence presents a rare opportunity for value-focused investors to access equities at significant discounts, particularly as large-cap valuations have been inflated by AI-driven momentum and a market preference for perceived stability.

From a diversification standpoint, small and mid-cap stocks offer timely exposure beyond the narrow concentration in mega-cap names. Small caps, typically defined as companies with market capitalizations between \$300 million and \$2 billion, often operate in niche or high-growth segments of the economy. Mid-caps range from \$2 billion to \$10 billion. While these companies can be more volatile and sensitive to macroeconomic shifts, they also offer strong long-term return potential, especially when entered at attractive valuations.

Importantly, small-cap companies tend to be more domestically oriented, making them particularly responsive to U.S. economic trends and less vulnerable to global trade tensions. With consumer demand remaining resilient and the labor market showing signs of stability, the current macro environment supports a potential resurgence. If interest rates begin to decline later this year, as markets increasingly anticipate, lower borrowing costs could further spur business investment and earnings growth across the small-cap space.

Mergers and acquisitions may also serve as a catalyst. Larger firms seeking innovation and specialization are actively targeting smaller companies, often at premium valuations, while institutional investors and asset managers are starting to reallocate capital toward this underappreciated segment. This renewed attention could create a virtuous cycle of improved liquidity and performance.

While small and mid-cap stocks have lagged in recent years, the landscape appears to be shifting. With supportive fundamentals, historically attractive valuations, and a revival in investor interest, small caps warrant renewed consideration, particularly for long-term investors seeking growth and diversification within a moderately risk-tolerant portfolio.