

Investments - Flash

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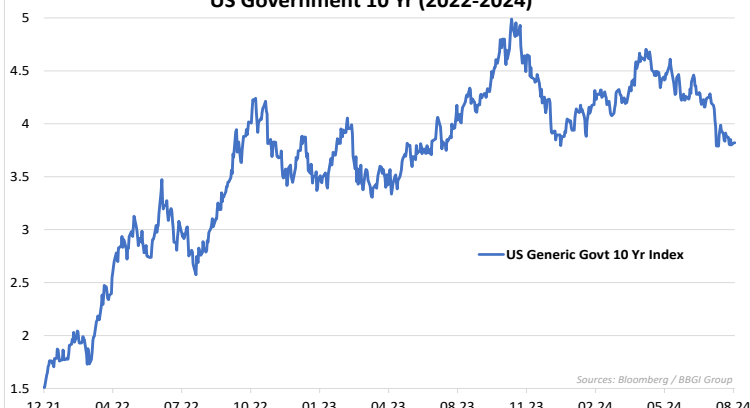
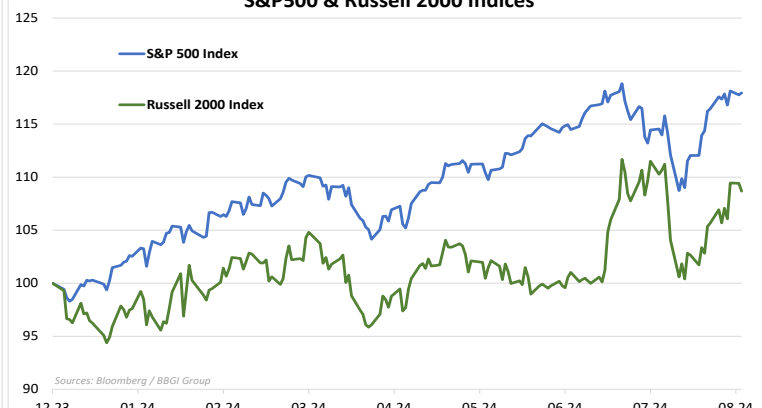
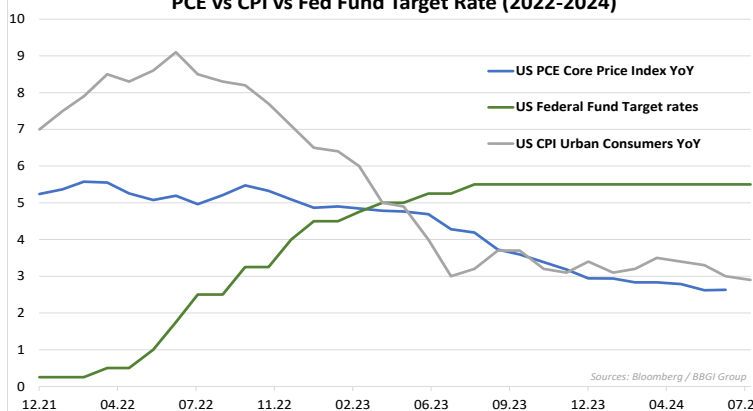
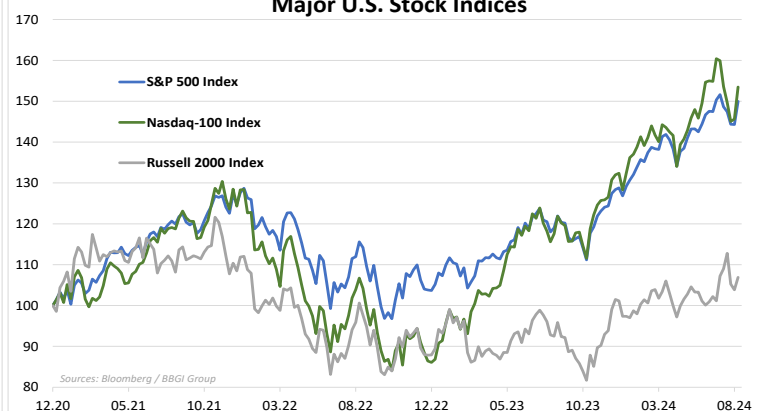


AMERICAN SMALL CAPS FINALLY MAKE A COMEBACK

A rotation favored by the Fed's first rate cut, expected on September 18

After the Fed Chairman's comments at Jackson Hole on Friday, which now suggest that it's time to lower rates, a rotation in favor of US small caps looks increasingly likely. The long-awaited lowering of key rates will mark a new stage in the profit evolution of smaller-cap companies, which could benefit from more favorable rates. A turnaround in the earnings cycle seems likely, given that the relative performance of small caps has been particularly negative in recent years of rising interest rates. Between 2020 and 2024, the S&P500 index rose by +58%, while the Russell 2000 index advanced by only +17.7%. The rise in the Russell 2000 was almost entirely achieved in 2024. The rise in long-term interest rates from 1% to 5% during this period was particularly penalizing for smaller US stocks, resulting in a clear

underperformance. Relative performance was still -15% at the end of June for the year 2024 alone, before investor interest revived to allow the first phase of positive relative performance for the Russell 2000 against the S&P500 over the last two months. However, credit spreads, which are generally correlated with relative performance between the two indices, have declined sharply from 6.5% to just 4% in recent quarters, with no effect on the relative performance of small caps. We believe that the easing of monetary conditions from September onwards will certainly trigger a more lasting return of investor interest in US small caps, supported by upward revisions to expected earnings.


US Government 10 Yr (2022-2024)

S&P500 & Russell 2000 Indices

PCE vs CPI vs Fed Fund Target Rate (2022-2024)

Major U.S. Stock Indices


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