A CLOSER LOOK AT THE MARKET: STYLE, SIZE, AND REGIONS

Understanding how stock sizes and styles have performed can help investors maintain balance, and offers a useful lens on what's happening beneath the surface of the broad market indices.

Investors often use major indices like the S&P 500, Nasdaq Composite, and Dow Jones Industrial Average as a way to understand how financial markets are performing. While helpful as a starting point, the market is actually made up of many thousands of companies, each affected by economic and market trends in unique ways.

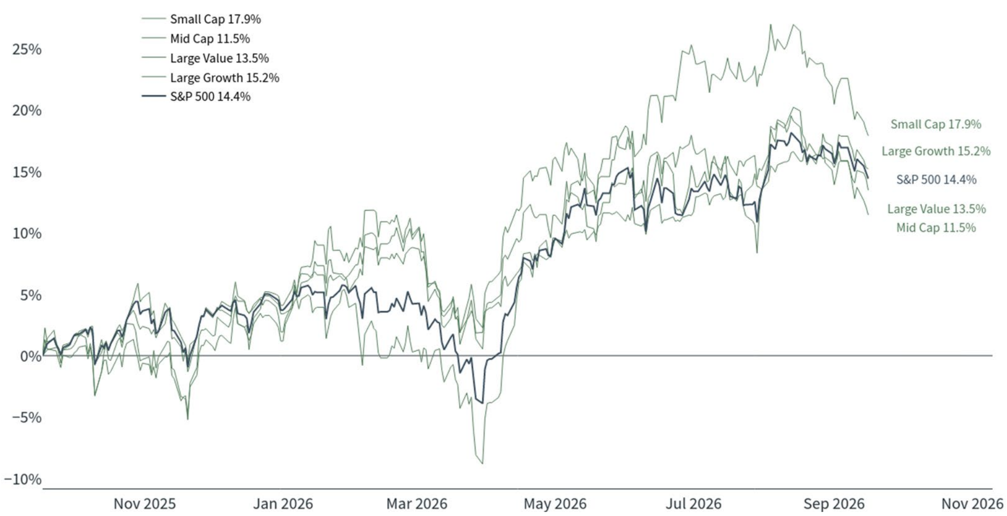
Headlines about the S&P 500 reaching new highs or the Nasdaq being driven by artificial intelligence can make it seem as though all stocks are moving together, but there is often much more happening beneath the surface. This is especially relevant today, since drivers like AI, oil prices, interest rates, and tariffs affect all parts of the market, not just large-cap stocks.

Different sizes and styles are affected by market conditions in unique ways

While the overall market has posted double-digit returns this year, two important trends are unfolding beneath the surface. First, value stocks have outperformed, reversing the growth-led trend since 2022 that was driven by technology and AI investment.

Size and Style Returns - Year over Year

Large, mid and small caps are the S&P 500, S&P 600 and S&P 400, respectively



Sources: Clearnomics, LSEG, Standard & Poor's. Latest data point is Sep 16, 2026.

Value stocks are typically defined by attractive valuation ratios relative to earnings or sales, while growth stocks carry higher valuations reflecting expected future earnings, whether dot-com stocks in the 1990s or AI stocks today. Value has outperformed this year partly due to interest-rate uncertainty and strength in the Energy sector amid high oil prices. Rates near multi-decade highs weigh more heavily on growth stocks, since their valuations depend on future cash flows that are worth less when discounted at higher rates.

Second, small caps have outperformed large caps this year, reversing an underperformance streak dating back to 2020. Much of this reflects the same AI-driven demand: while AI is often seen as a large-cap story, many smaller industrial and technology firms supply the equipment and services behind data centers and other infrastructure, driving healthy revenue and earnings growth. Small caps remain more sensitive to interest rates, since they typically have less access to financing than large-cap companies, creating some uncertainty as long-term rates stay elevated and the odds of Fed rate hikes increase. Still, history offers a counterpoint: two of the strongest periods for small-cap relative performance, the late 1970s and the mid-2000s, both featured higher rates and inflation, in part because smaller businesses can more easily raise prices, boosting margins.

Valuations matter for long-term investing

Beyond past returns, valuations matter for today's market too. Lower valuations have historically supported stronger forward returns, making it worth considering all parts of the market, not just the largest names.

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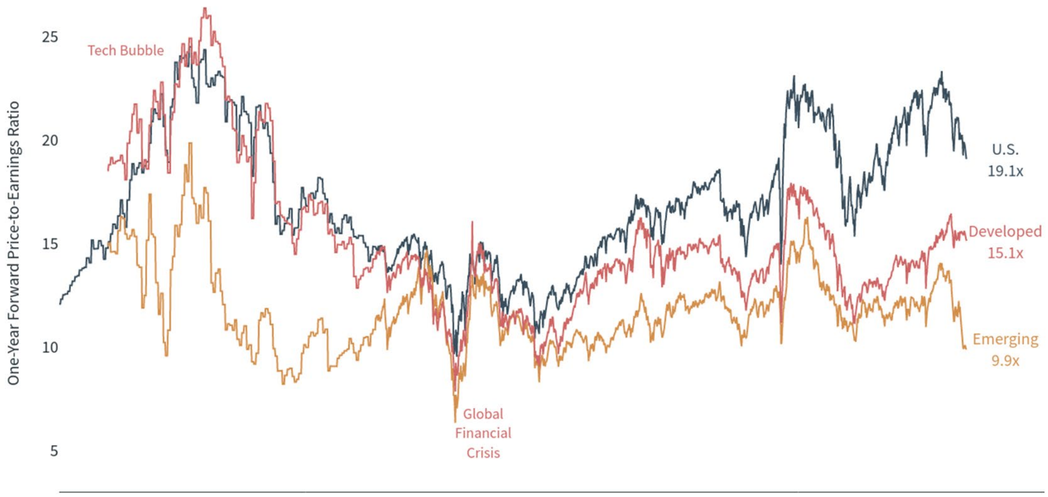
The stock market is often said to move through "regimes," or periods when certain styles outperform, which can last months, years, or even decades. Perhaps the most studied example is value's dominance for much of the 20th century, before growth took over during the dot-com era.

Comparing price-to-book ratios today, growth stocks, particularly the largest technology companies, are hovering near historically high valuations, while value stocks and smaller companies are more attractively priced.

Global Equity Valuations

Forward P/E Ratios for the S&P 500, MSCI EAFE and MSCI EM since 1995



Sources: Clearnomics, Standard & Poor's, MSCI, LSEG. Latest data point is Sep 15, 2026.

Past performance doesn't guarantee future results, so these differences don't ensure that value or small caps will keep outperforming, but they do help explain why market leadership has shifted, and why the right approach isn't to time these shifts but to hold an appropriate balance across styles and sizes rather than chasing what has recently worked.

International markets are another source of diversification

The same logic applies across geographies as it does across size and style: different markets respond differently to economic conditions, making international diversification valuable for long-term investors.

Emerging market stocks have performed well this year as earnings expectations improved and valuations stayed attractive, and valuations for both emerging and developed international markets remain well below U.S. levels across many measures. U.S. stocks led for much of the past decade, but returns since last year show leadership can shift.

International investing carries its own risks, including geopolitical, currency, and regulatory considerations, which is precisely why international stocks behave differently than U.S. stocks over time. That said, many U.S. multinationals also have high international revenues, offering a degree of geographic diversification that, combined with domestic holdings, can improve a portfolio's balance. Ultimately, which parts of the market fit into a portfolio depends on each investor's specific needs, goals, and risk tolerance. The point isn't to predict whether small caps or value stocks will keep leading, but to recognize that the stock market is far broader than the handful of companies dominating the headlines.

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