

US Small Caps started outperforming: 10 charts why this may well continue for years!

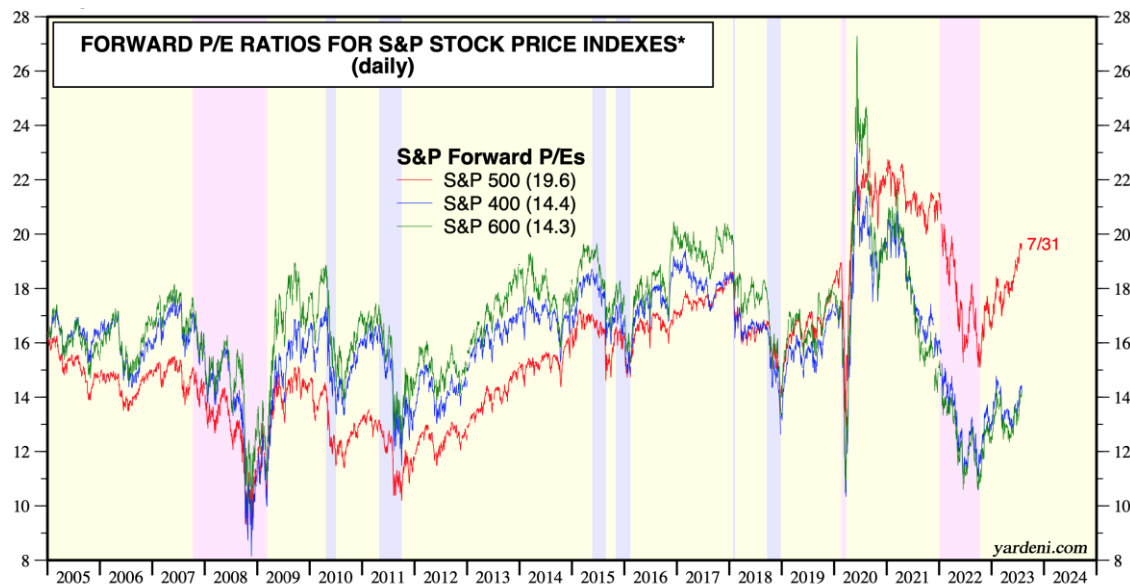
- 1) US Small Caps started outperforming in June and July (chart 1)
- 2) The forward P/E of US Small Caps is lower than US Large Caps (chart 2), historically this is the other way round
- 3) US Small Caps are valued below their own 20y average valuation (chart 3)
- 4) US Small Cap Value trades at a P/E of 8.5 or only, 57% of its own 20y average (chart 3)
- 5) The current P/E discount of US Small Caps compared to US Large Caps is extreme and last seen in the year 2000 (chart 4)
- 6) This is not a surprise as cumulative flows have poured into Large Caps only (chart 5)
- 7) Last time valuation difference got this extreme US Small Caps outperformed US Large Caps with 70% in the years that followed (chart 6)
- 8) The Earnings of US Small Caps have been adjusted to the downside already (chart 7)
- 9) US Small Caps tend to perform better in elevated inflation periods (chart 8 and 9)
- 10) There are tailwinds that should be beneficial for US Small Caps going forward (chart 10)

Chart 1: US Small Caps started outperforming during June and July



Blue: Russell 2000 (US Small Caps)
 Orange: Nasdaq
 Turquoise: S&P 500

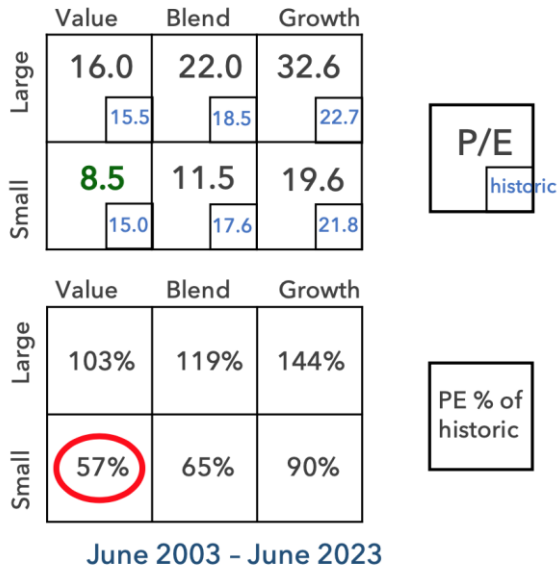
Chart 2: Many June and July's are needed to get back to the normal situation where US Small Caps (green) have a higher forward P/E than US Large Caps (red)



* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.
 Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%.
 Yellow areas are bull markets.
 Source: Standard & Poor's and I/B/E/S data by Refinitiv.

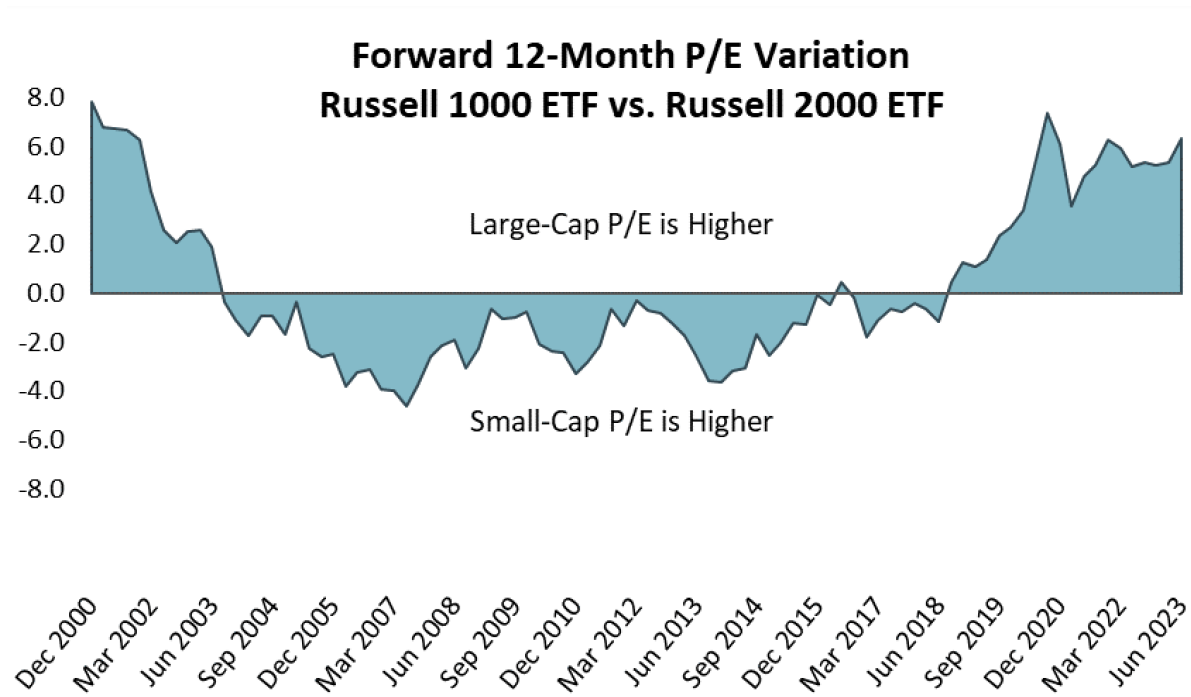
Chart 3: US Small Caps are trading below own long term average P/E

Current P/E (Top) vs Long Term Average (Bottom)



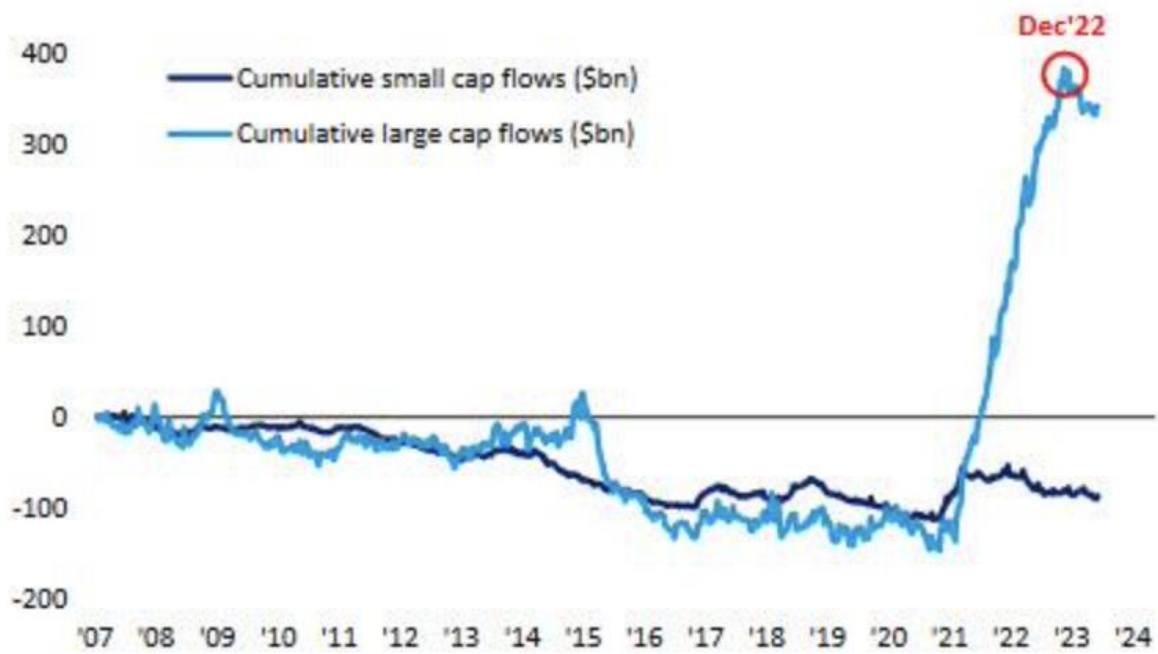
US Small Cap Value with a forward P/E of 8.5 is valued at only 57% of its own 20y average P/E

Chart 4: Forward P/E difference between Large and Small Caps is at extreme levels, not seen since the year 2000



Source: Factset, Quarterly Data

Chart 5: Not surprising when all money pours into Large Caps only!



Source: BofA Global Investment Strategy, EPFR

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Chart 6: This is what happened last time valuation difference between Large and Small Caps got this extreme >70% outperformance of Small over Large Caps

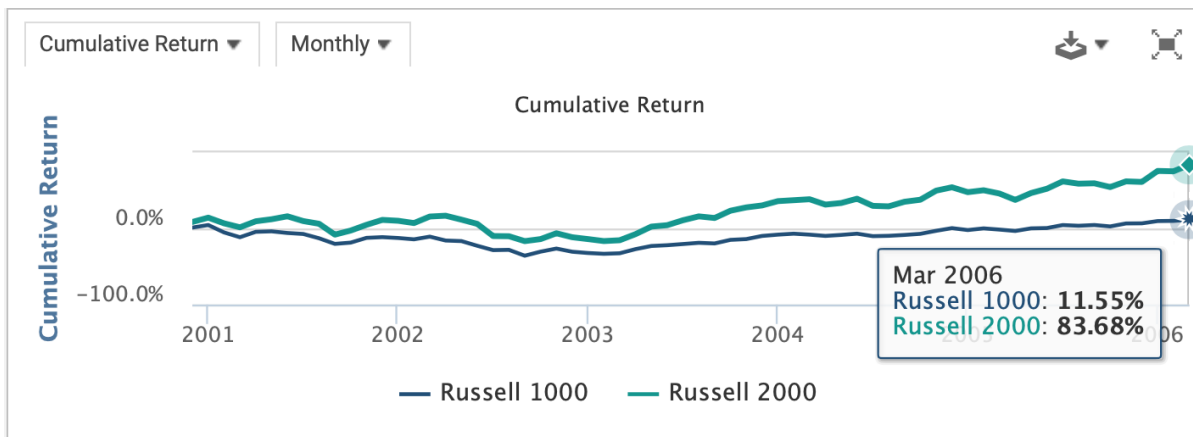


Chart 7: Earnings Growth Estimates are already adjusted! (June 26, 2023 vs September 30, 2022)

	Small Cap			Mid Cap			Large Cap		
	26-Jun	30-Sep	Change	26-Jun	30-Sep	Change	26-Jun	30-Sep	Change
Universe	-6.4	10.0	-16.4	-8.8	4.8	-13.6	-0.6	6.2	-6.8
Growth	-7.1	11.5	-18.6	-9.3	8.1	-17.4	4.2	9.8	-5.6
Value	-5.5	8.7	-14.2	-10.3	4.1	-14.4	-2.8	4.3	-7.1

Source: FactSet; Standard & Poor's; Jefferies

*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Chart 8: Small Caps tend to do well in elevated inflation environments

Performance across CPI environments

	Annual Return			3Y Returns Annualized			5Y Returns Annualized		
	Large	Mid	Small	Large	Mid	Small	Large	Mid	Small
CPI >3	8.5	10.2	10.4	9.0	11.4	11.6	10.3	12.7	13.0
CPI <3	16.1	17.5	19.0	13.7	14.2	14.9	12.0	12.6	13.1
CPI >3, Rising This Year	3.1	2.5	1.7	8.9	11.1	10.9	8.7	11.0	11.1
CPI >3, Declining This Year	19.1	25.9	28.5	8.5	11.3	12.5	12.4	15.3	16.3
CPI <3, Rising This Year	14.0	15.7	16.8	12.5	13.5	14.9	11.4	12.4	13.5
CPI <3, Declining This Year	17.7	18.8	20.7	14.6	14.7	14.8	12.5	12.7	12.7
Overall	12.7	14.3	15.2	11.6	12.9	13.4	11.2	12.6	13.0

Source: FactSet; FTSE Russell; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Chart 9: Returns last time inflation was high

1975	1976	1977	1978	1979
US small cap 53%	US small cap 57%	US small cap 25%	US small cap 23%	US small cap 43%

Chart 10: And there are tailwinds! Bringing manufacturing back to the US is one of them

"Bidenomics Is Working: The President's Plan Grows the Economy from the Middle Out and Bottom Up—Not the Top Down"

Chart 4: Reshoring

US construction spending on manufacturing (\$bn)



Source: BofA Global Investment Strategy, Bloomberg

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Our offering:

Candoris offers two daily liquid article 8 UCITS funds that invests in US Small Cap Equities. Both have >20 year track record in which they outperform their benchmark and most peers. Data shows that active management pays off and a combination of Growth and Value outperforms Core.

1) Next Century Growth US Small Cap Growth Equities

The Next Century Growth (NCG) US Small Cap Growth Strategy is a high conviction, high alpha generating strategy that seeks to invest in the fastest growing and highest quality small cap companies in America.

--> 7 Sept at 15.00 CET online update by Portfolio Manager, click to register: [NCG US Small Cap Growth Equity Update](#)

2) Orchard US Small Cap Value Equities

The Orchard US Small Cap Value strategy is a high conviction, high alpha generating strategy that identifies companies that trade at a significant discount to where they should trade at **and** have one or multiple catalyst to unleash this intrinsic value.

--> 30 Aug at 15.00 CET online update by Portfolio Manager, click to register: [Orchard US Small Cap Value Equity Update](#)

Meet the portfolio managers of the two strategies when they are in Europe, reply to set up a meeting:

Next Century Growth: US Small Cap Growth, Tom Press, founder and PM

11 September	Netherlands
12 September	Sweden
13 September	Finland
14 September	Austria
15 September	France

Orchard Capital Management: US Small Cap Value

Schedule of PM Joshua Fairbank

13 November	France
14 November	Sweden
15 November	Finland
16 November	Norway
17 November	Denmark

Schedule of CIO and PM Blake Harper

13 November	The Netherlands
14 November	Germany
15 November	Austria
16 November	Norway
17 November	United Kingdom

Next Century Growth US Small Cap Growth Equities

The Next Century Growth (NCG) US Small Cap Growth Strategy is a high conviction, high alpha generating strategy that seeks to invest in the fastest growing and highest quality small cap companies in America. A daily liquid Art. 8 UCITS fund with an AUM of 41 million is available. ISIN code: [IE000TY23GV5](#)

As per Q2, 2023 the Next Century Growth US Small Cap Growth Equity Strategy has an **annualised outperformance of 5.57%** over the Russell 2000 Growth index, outperforming 91% of peers according to eVestment since inception in 1999. Next Century Growth is an independent investment firm with a highly experienced investment team located in Minneapolis.

- [Asset Class & Strategy Summary](#)
- [Presentation](#)
- [Peer comparison](#)
- [Factsheet](#)
- [Standard RfP](#)
- [Morningstar](#)
- [ESG Policy](#)
- [Sustainability Related Disclosures](#)
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Chairman, CEO, Portfolio Manager and Partner Thomas Press



[Bio: Thomas Press of Next Century Growth Investors](#)

Orchard US Small Cap Value Equities

The Orchard US Small Cap Value strategy is a high conviction, high alpha generating strategy that identifies companies that trade at a significant discount to where they should trade at **and** have one or multiple catalyst to unleash this intrinsic value. A daily liquid Art. 8 UCITS fund with an AUM of 285 million USD (one of the largest in its category) is available. ISIN code: [IE00BL0L0092](#)

As per Q2, 2023 the Orchard US Small Cap Value Equity strategy has an **annualized outperformance of 2.44%** over the Russell 2000 Value index since inception in 2001. Orchard Capital Management is a research-driven value investment manager solely focused on small cap value investing. As an independent employee owned boutique based in Chicago they deliver superior returns through proprietary research and a disciplined process. Long term US small cap value is the best performing segment of US Equities.

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Founder and CIO Blake Harper



[Bio: Blake Harper of Orchard Capital Management](#)