

US Small Caps, why now?

There are many reasons to look at US Small Caps especially now. To name a few:

- P/E's are low compared own long term history and Large Caps
- Small Caps tend to do well in and coming out of elevated inflation environments
- Small Caps typically start to outperform in recession periods

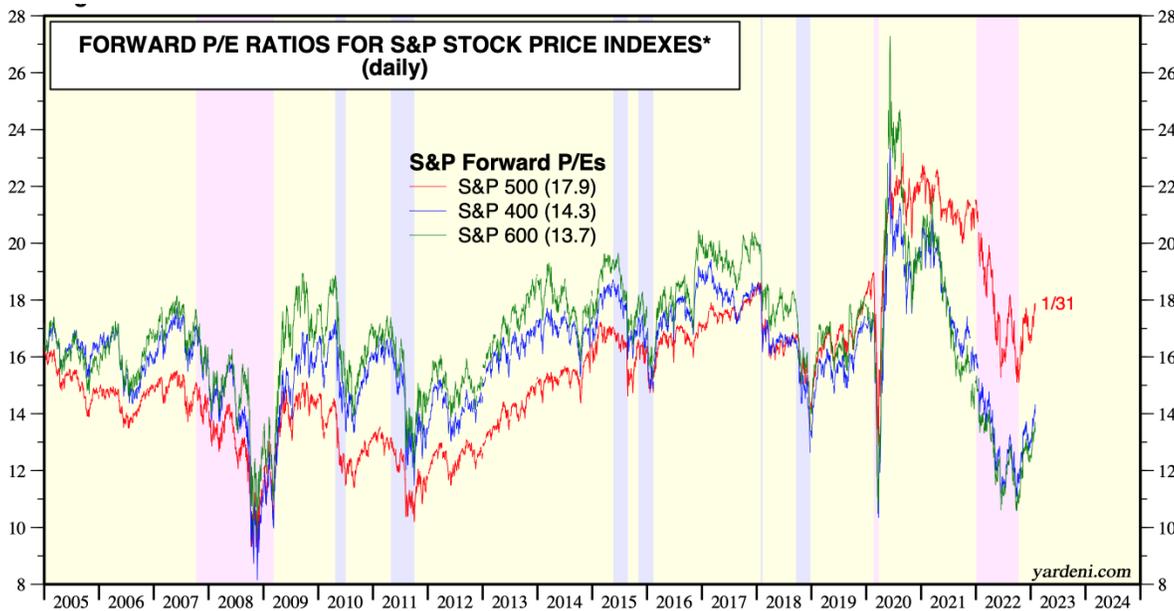
Current valuations vs 20 year average according to JPM as of January 30th 2023

Current P/E as % of 20-year avg. PE			
	Value	Blend	Growth
Large	107.9%	114.3%	121.9%
Mid	99.4%	100.8%	111.7%
Small	97.6%	96.8%	66.3%

Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
 All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from February 19, 2020 to January 30, 2023. Since Market Low represents period from March 23, 2020 to January 30, 2023. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices except for the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM) and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of January 30, 2023.

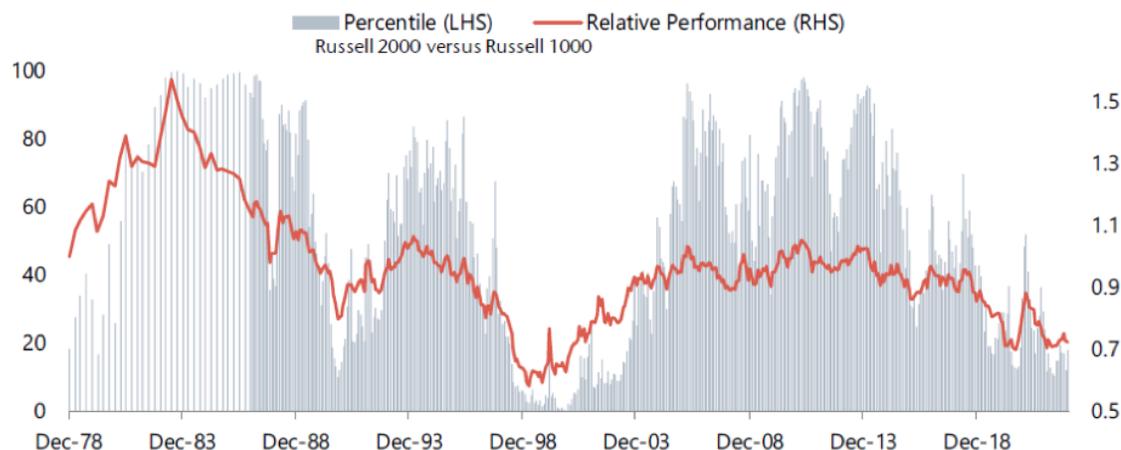
J.P.Morgan
 ASSET MANAGEMENT

US Small Caps (S&P 600) valuations well below long term average as of January 31st 2023



* 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.

Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000



Source: FactSet; FTSE Russell; Jefferies

Performance of the Russell 2000 Growth Index following historical negative return years

Year	R2 Growth	Next Year
2008	-38.5	34.5
2002	-30.3	48.5
2022	-26.4	?
2000	-22.4	-9.2
1990	-17.4	51.2
1984	-15.8	31.0
1987	-10.5	20.4
2018	-9.3	28.5
1981	-9.2	21.0
2001	-9.2	-30.3
2011	-2.9	14.6
Average	-17.5	21.0
Median	-15.8	24.7

Source: FactSet; FTSE Russell; Jefferies

**Past performance is not an indicator of future performance, and the value of your account may increase or decrease over time.*

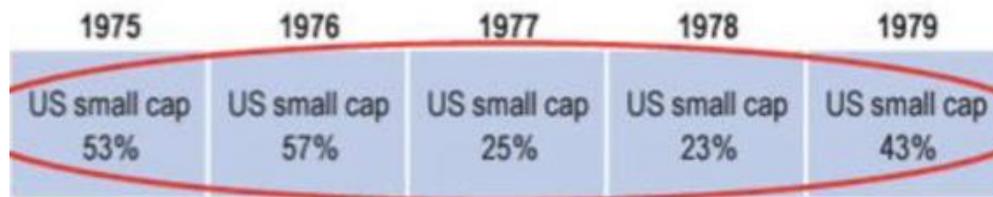
Performance across CPI environments

	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

Last time we were in a high inflation period



2023 Earnings Growth Estimates already adjusted more than Large Caps

	2023 Earnings Growth Estimates								
	Small Cap			Mid Cap			Large Cap		
	30-Dec	30-Sep	Change	30-Dec	30-Sep	Change	30-Dec	30-Sep	Change
Universe	3.7	10.0	-6.4	-2.6	4.8	-7.4	2.7	6.2	-3.5
Growth	2.4	11.5	-9.1	-0.5	8.1	-8.6	6.3	9.8	-3.5
Value	3.1	8.7	-5.6	-3.6	4.1	-7.7	1.0	4.3	-3.3

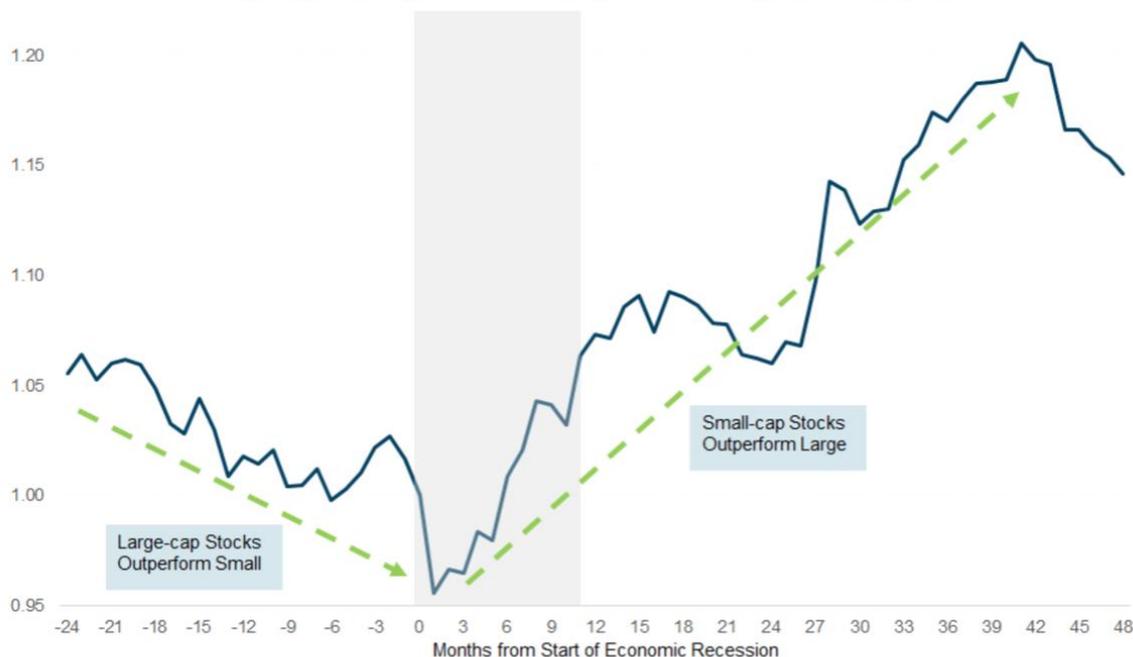
Source: FactSet; Standard & Poor's; Jefferies

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

US Small Caps historically outperform once a recession starts, which might be as soon as next quarter

Relative Performance of Russell 2000 TR vs S&P 500 TR Around Recessions

(Average relative performance for last 6 recessions starting from 1980 to 2022)



Source: Bloomberg, WilliamBlair Equity Research