

# Small Caps 2024: Poised to Catch Up

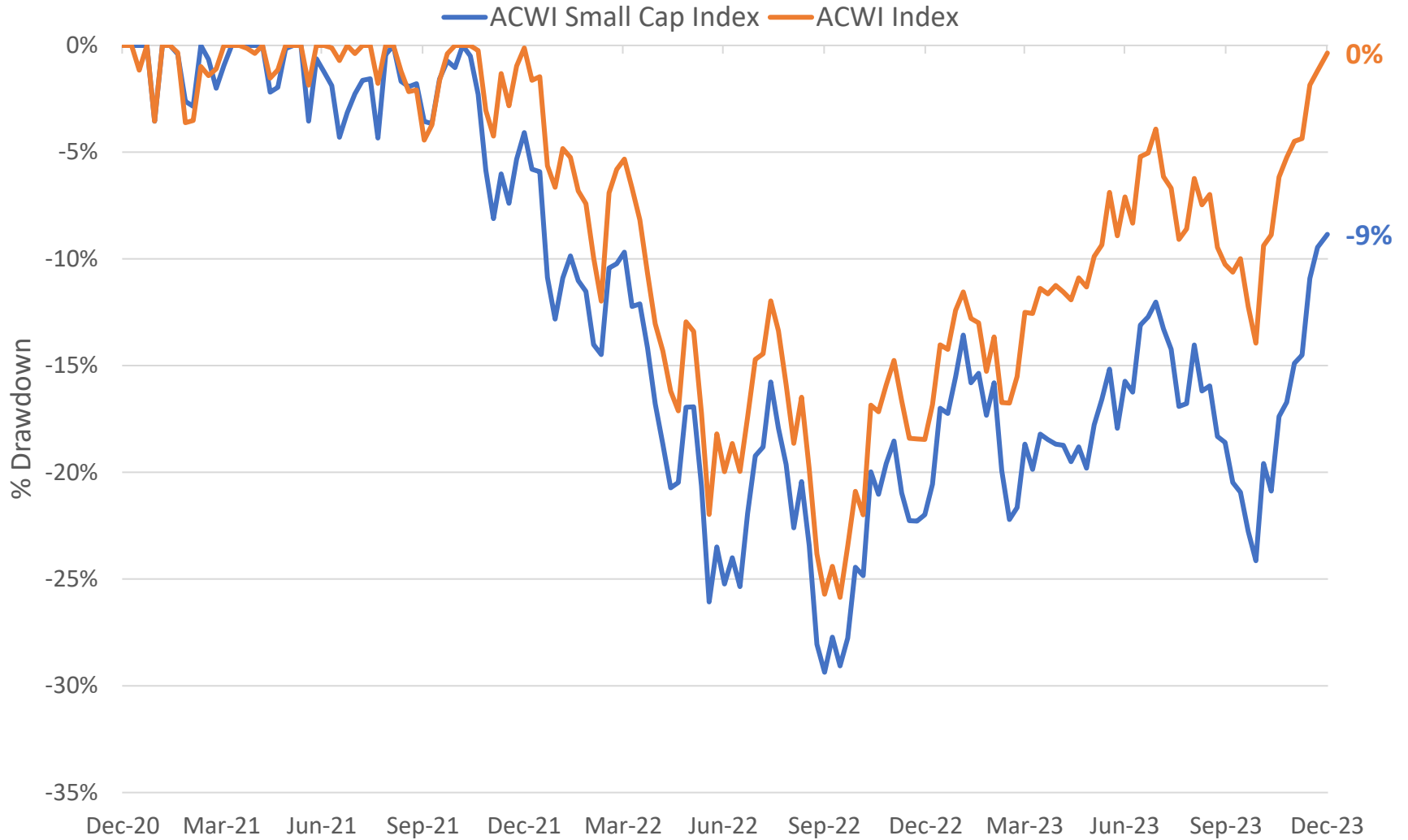
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## *Summary*

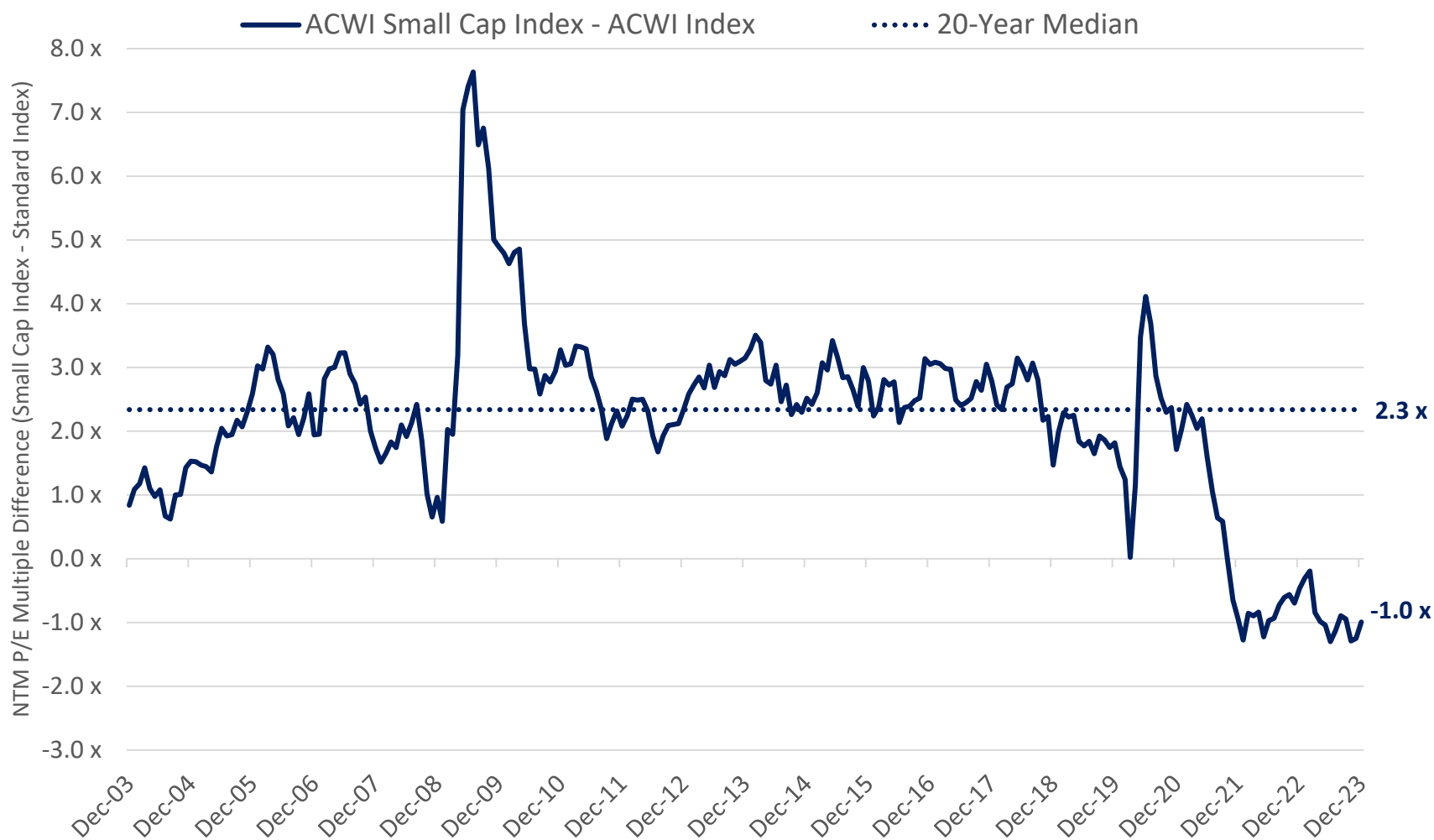
1. Large caps hitting fresh highs, small caps still in drawdown
2. Small caps trading below historical valuation premiums
3. Falling interest rates have previously led to small cap outperformance

## Despite their recent rally, global small caps remain 9% below previous peak



Note: Drawdowns calculated using cumulative weekly total returns from 12/31/2020 – 12/31/2023. Source: MSCI, FactSet.

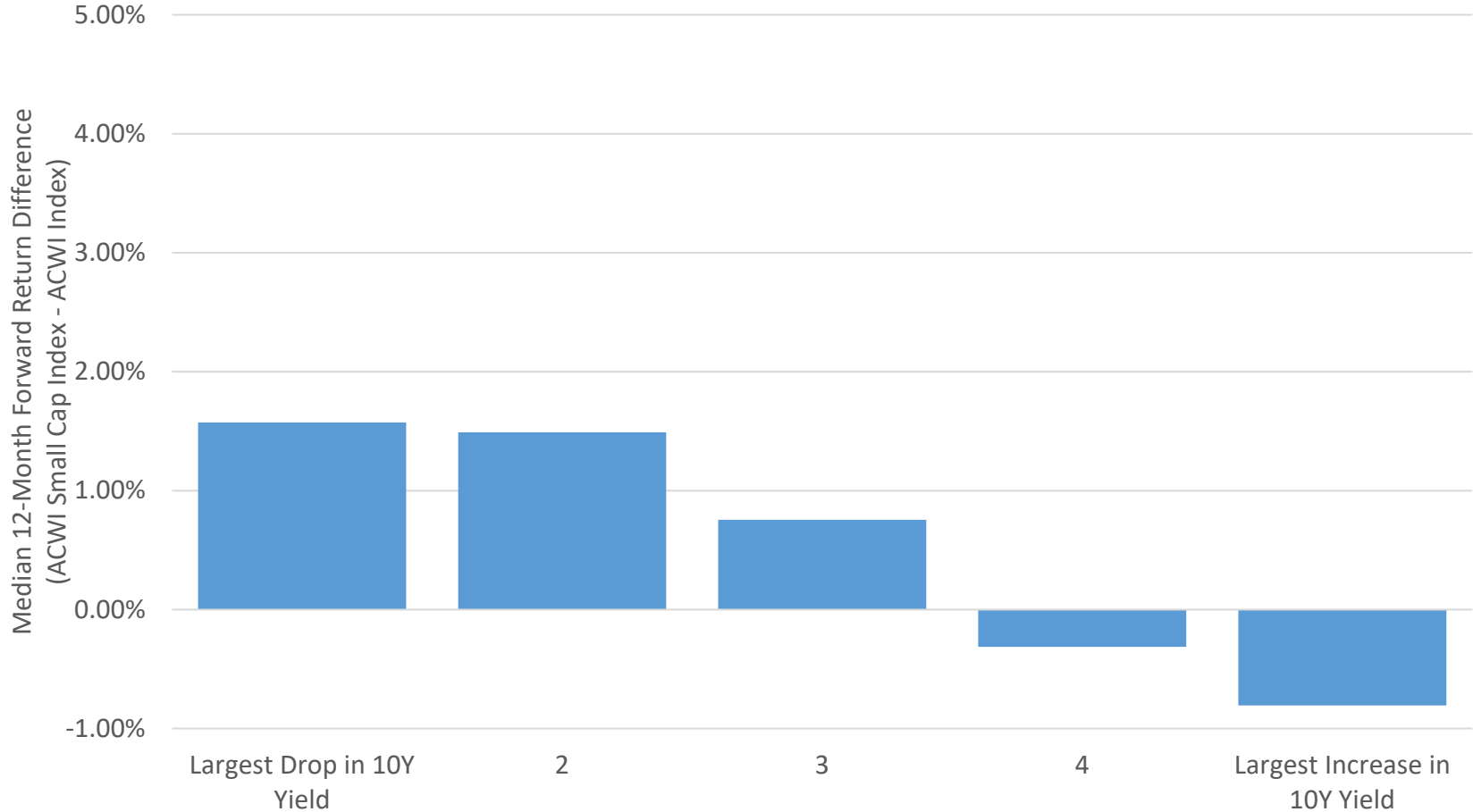
## Small caps trading well below their median valuation premiums



Note: "NTM P/E" of a stock is its price divided by the consensus EPS estimate for the next twelve months. Source: MSCI, FactSet.

# Falling interest rates have historically foreshadowed small cap outperformance

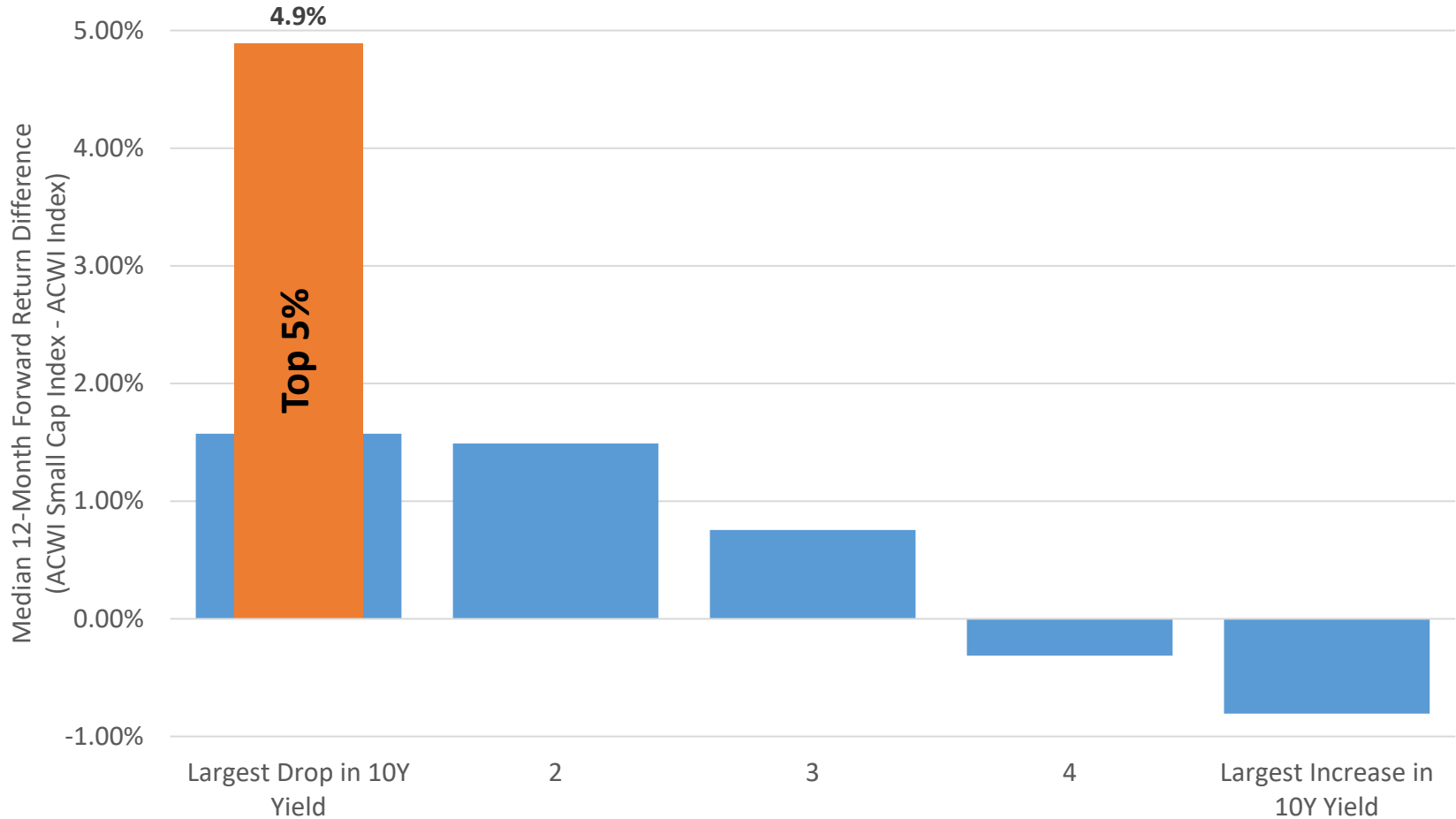
Small Cap Relative Performance Contingent on Monthly Change in US 10Y Yield (Last 20 Years)



Note: Monthly changes in the US 10-year yield from January 2003 – December 2022 are sorted into quintiles, and then the median subsequent next-12-month return difference is calculated between the MSCI ACWI Small Cap Index and the MSCI ACWI Index. Source: Causeway Analytics, MSCI, FactSet, Bloomberg.

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*The Causeway international small cap strategy uses quantitative factors that can be grouped into six categories: valuation, sentiment, technical indicators, competitive strength, macroeconomic, and country. The relative return attributed to a factor is the difference between the equally-weighted average return of the highest ranked quintile of companies in the strategy's universe based on that factor and that of the lowest ranked quintile of companies. "Alpha" is a measurement of performance return in excess of a benchmark index.*

*The MSCI ACWI Index captures large and mid cap representation across 23 Developed Markets countries and 24 Emerging Markets countries. With 2,935 constituents, the index covers approximately 85% of the global equity opportunity set. The MSCI ACWI Small Cap Index captures small cap representation across 23 developed markets and 24 emerging markets. With 6,246 constituents, the index covers approximately 14% of the global equity opportunity set. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 24 Emerging Markets countries. With 1,856 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. The MSCI ACWI ex USA Small Cap Index captures small cap representation across 22 of 23 developed markets (excluding the US) and 24 emerging markets. With 4,334 constituents, the index covers approximately 14% of the global equity opportunity set outside the US. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 625 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. The MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the US equity market. With 1,890 constituents, the index represents approximately 14% of the free float-adjusted market capitalization in the US.*

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