Market Commentary Blog

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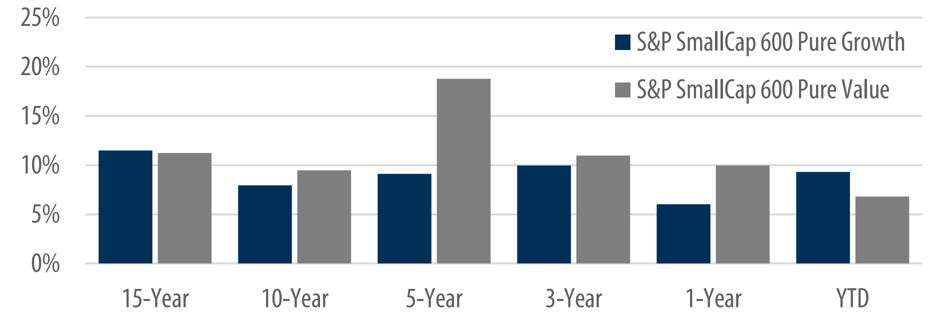
Growth vs. Value Investing (Small-Caps)

Growth vs. Value Investing (YTD, 1-Year and Average Annualized Total Returns thru 8/26/25)



Source: Bloomberg. **Past performance is no guarantee of future results.**

View from the Observation Deck

We update this post on small-capitalization (cap) stocks every now and then so that investors can see which of the two styles (growth or value) are delivering the better results. Click Here to view our last post on this topic.

A quick word before diving into today's observations.

Equity markets have been volatile this year, with the S&P 500 Index ("Index") plummeting by 18.90% (price only) between 2/19 and 4/8. The Index's price has surged since then (up 29.77% between 4/8 and 8/26), propelled higher by potential reductions to the Federal Reserve's ("Fed") policy rate and improving earnings estimates, in our opinion.

On 8/26/25, the S&P SmallCap 600 Pure Growth (Pure Growth Index) and S&P SmallCap 600 Pure Value Indices (Pure Value Index) sat -8.17% and -1.54%, respectively, below their all-time highs.

As mentioned above, equity market volatility has been widespread this year. From 12/31/24 to 4/8/25, the Pure Growth and Pure Value Indices saw price returns of -16.93% and -25.27%, respectively. Prices have soared since then, sending the Pure Growth and Pure Value Indices surging by 30.89% and 41.00% between 4/8 and 8/26 (compared to 29.77% for the S&P 500 Index).

The Pure Value Index outperformed the Pure Growth Index in four of the six time frames covered by today's chart.

The last time we posted on this topic this statistic was reversed. As we see it, these observations may unveil investors' preference towards value companies (those with comparatively mature balance sheets and stable cash flows) during periods of heightened market volatility. Tellingly, the 5-year and 3-year average annualized returns above span periods where pandemic-era policies remained in place, while the 1-year period includes periods of weakening economic data and an increasingly hostile geopolitical landscape.

The total returns in today's chart, through 8/26/25, were as follows (Pure Growth vs. Pure Value):

- 15-year average annualized (11.48% vs. 11.23%)
- 10-year average annualized (7.94% vs. 9.48%)
- 5-year average annualized (9.13% vs. 18.79%)
- 3-year average annualized (9.97% vs. 10.98%)
- 1-year (6.03% vs. 9.95%)
- YTD (9.32% vs. 6.80%)

Takeaway

Let's set aside the growth vs. value comparison for a moment and touch on Jerome Powell's dovish comments at his speech in Jackson Hole on Friday. Smaller companies saw greater gains than their peers in the wake of his commentary, in which he hinted that further interest rate cuts could be forthcoming in September. Case-in-point, the Russell 2000 Index increased by 3.72% (price-only) between 8/21/25 & 8/26/25, compared to 2.39% and 1.50% for the S&P MidCap 400 and S&P 500 Indices, respectively, over the same period. There are a myriad of potential explanations for this outperformance, but one of them strikes us as particularly intriguing. Small caps tend to hold a comparatively larger portion of variable debt in their capital structure – debt which could become cheaper to service as rates decline, freeing up cash flows for use in other, more profitable projects. Notably, the ratio of variable debt to total debt for the companies that comprise the Russell 2000 Index stood at 32.23% on 7/31/25, compared to just 8.40% for the S&P 500 Index.