

# Cash Flow and Carey



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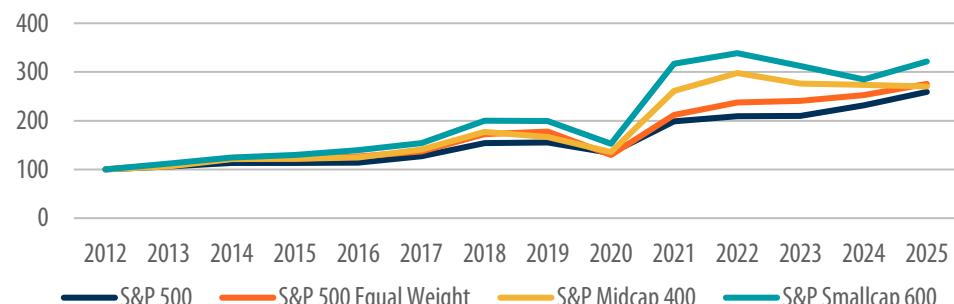


This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 1500 Index is a broad-based capitalization-weighted index of 1500 U.S. companies and is comprised of the S&P 500, S&P 400, and S&P 600 Indices. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The S&P Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The S&P Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500 Index.

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## SMID Earnings Persistence

### EPS Since 2012



Source: FactSet. Annual EPS data as of 1/28/26 normalized to a factor of "100".

### View from the Observation Deck

Today's chart offers a study on the annual earnings per share (EPS) of four prominent U.S. equity indices over the 13-year period ended December 2025. Our data set includes the S&P 500, S&P 500 Equal Weight ("Equal Weight Index"), S&P Midcap 400 ("Midcap Index"), and S&P Smallcap 600 ("Smallcap Index") Indices, with initial observations normalized to a factor of "100".

#### Since 2012, the S&P 500 Index's EPS growth has languished behind its peers.

This point is highly relevant, especially given the S&P 500 Index's performance advantage over the time frame. Constituents in the Smallcap Index saw the lowest average annual total returns, despite the largest increase in normalized EPS over the period. Below are the average annual total returns for these indices (December 2012 – December 2025):

- S&P 500 Index: 14.87%
- S&P 500 Equal Weight Index: 12.45%
- S&P Midcap 400 Index: 11.15%
- S&P Smallcap 600 Index: 10.61%

#### Resurgent earnings among SMID caps hint at potential opportunity ahead.

In 2022, EPS for the Midcap and Smallcap Indices peaked at 193.81 and 90.87, respectively, before declining in 2023 and 2024 (the Midcap Index declined again in 2025). Analyst estimates call for a dramatic turnaround in 2026, with EPS estimated to surge to record levels by year's-end. 2026 calendar year EPS estimates stood at 209.47 and 99.10 for the Midcap and Smallcap Indices, respectively, as of December 31, 2025, representing increases of 19.6% and 15.4% year-over-year. For comparison, earnings were estimated to increase by 14.9% for the S&P 500 Index and 10.4% for the Equal Weight Index as of the same date.

#### Persistent outperformance of the market-cap weighted S&P 500 Index would be unusual from a historical standpoint.

The leading indices from December 2000 to December 2025 (see below) are nearly the inverse of those above, with the S&P 500 Index coming in last while MID caps took the lead. Average annual returns over the period were as follows:

- S&P 500 Index: 8.81%
- S&P 500 Equal Weight Index: 8.95%
- S&P Midcap 400 Index: 9.25%
- S&P Smallcap 600 Index: 9.23%

### Takeaway

We recently wrote about the declining share of SMID cap stocks within the S&P 1500 Index ([click here to read our thoughts](#)). Today's discussion serves to build on that theme by highlighting SMID caps' persistent EPS growth over time. Notably, the S&P 500 Index has seen the highest total return over the period in today's chart, despite having the lowest normalized EPS growth. This is not to say that the total returns we've seen are not warranted. Most investors are well-aware of the many ways AI could forge new paradigms across numerous industries. That said, we remain steadfast in our belief that corporate earnings drive the direction of stock prices over time. Given the combination of record high earnings estimates and unusually weak relative performance, we believe investors could benefit by broadening their equity holdings to include SMID cap equities. Several notes of caution: earnings estimates are just that – estimates which can change at a moment's notice. Additionally, there is evidence that many small cap companies operate unprofitable businesses. Data from Capital IQ reveals that more than 20% of companies that comprise the Smallcap Index were unprofitable in 2025. While there are a myriad of ETFs and mutual funds focused on purchasing companies in these spaces, their constituent selection methodology could contribute meaningfully to returns, in our opinion.