

Small Cap underperformance is not a reason for overall market concern.

Small Caps are underperforming. What does that mean for the broader market?

On Thursday of last week, Jurrien Timmer the Director of Global Macro at Fidelity Investments tweeted the following:



Is this true? Is underperformance in Small Caps a harbinger of more widespread weakness in stocks? A look at the last 10 years should give clients comfort. This statement certainly does not seem to carry weight historically.

The chart below shows SPY (benchmark S&P500 in blue) in the upper panel and the relative performance of Small Cap-Russell 2000 (IWM) versus SPY (in black) in the lower panel

There are long periods of underperformance for IWM in 2014, 2017, 2019, and 2021 when the S&P500 had huge rallies. Most of the highlighted periods below constitute at least 12 months of gains for the benchmark.

TOP: SPY. Bottom: IWM/SPY – 10 years.



The last 10 years does not show overwhelming evidence that the recent underperformance of small caps is a reason for overall market concern