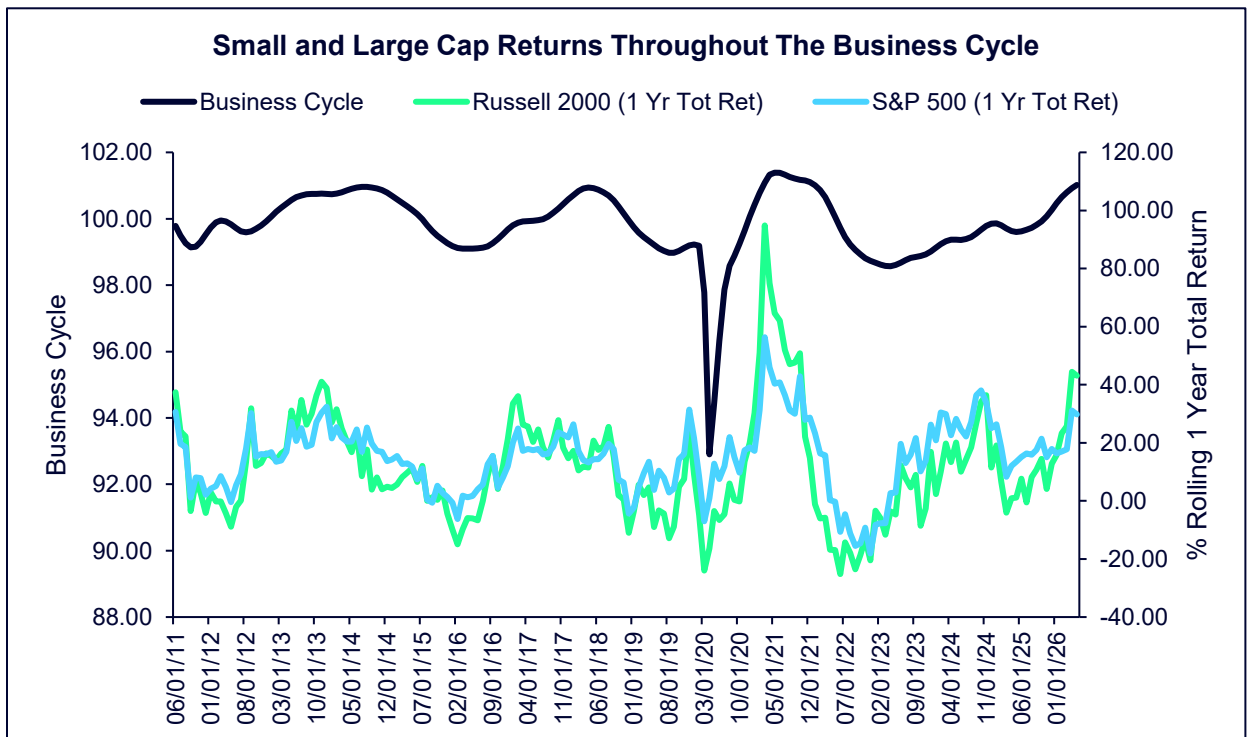


COMMENTARY

June 25, 2026

Mind on the Market

Chart of the Week



Source: Fred, FactSet, Russell, S&P. Data as of 5/29/2026 in USD. Business Cycle measured as the Composite Leading Indicator: Amplitude Adjusted (Fred ID: USALOLITOOAASTSAM). Russell 2000 and S&P 500 uses a 1 year rolling return.

Resilient U.S. growth is supporting recent small-cap outperformance, consistent with historical patterns of cyclical leadership. The chart illustrates the relationship between the business cycle and one-year rolling returns. The Russell 2000 returns have exhibited greater amplitude than the S&P 500, with higher highs during expansions and deeper drawdowns during slowdowns, reinforcing the view that small caps remain more sensitive to changes in economic momentum.

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Weekly Highlights

IT Sector Weight in
Russell 2000

18.6%

Source: FactSet, Russell. Data as of
June 19, 2026.

IT Sector Weight in
S&P 500

38.2%

Source: FactSet, S&P. Data as of
June 19, 2026.

of Times US Small
Caps have outperformed
Large Caps in the last 10
calendar years

2

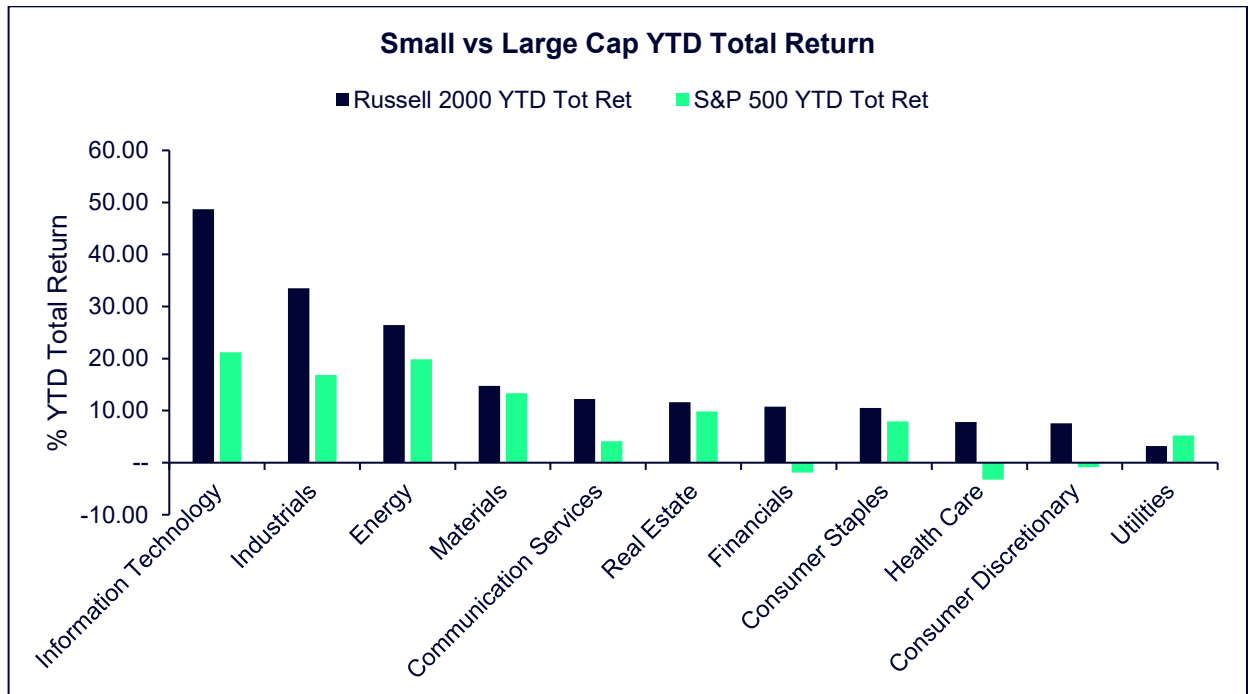
Source: FactSet, Russell, S&P. Data
as of June 19, 2026.

Small-Cap Outperformance in a Resilient Growth Environment

The recent rotation in U.S. equity markets has brought renewed attention to small-cap performance, with the Russell 2000 materially outperforming large-cap benchmarks year-to-date. At the time of writing, small caps have delivered returns of approximately 21%, compared with roughly 10% for the S&P 500, marking a notable shift in leadership following a prolonged period of large-cap dominance. This development is particularly relevant for multi-asset investors, as changes in equity leadership often coincide with broader shifts in macro conditions, sector dynamics, and valuation regimes.

Historically, small caps have exhibited greater sensitivity to economic cycles with returns amplified by both expansions and slowdowns. In the current environment, U.S. economic growth has remained relatively resilient at a projected 2.2% for CY 26, while labor market unemployment resides around 4.4%, together providing a supportive backdrop. In this context, the stronger performance of small caps appears consistent with their historical tendencies.

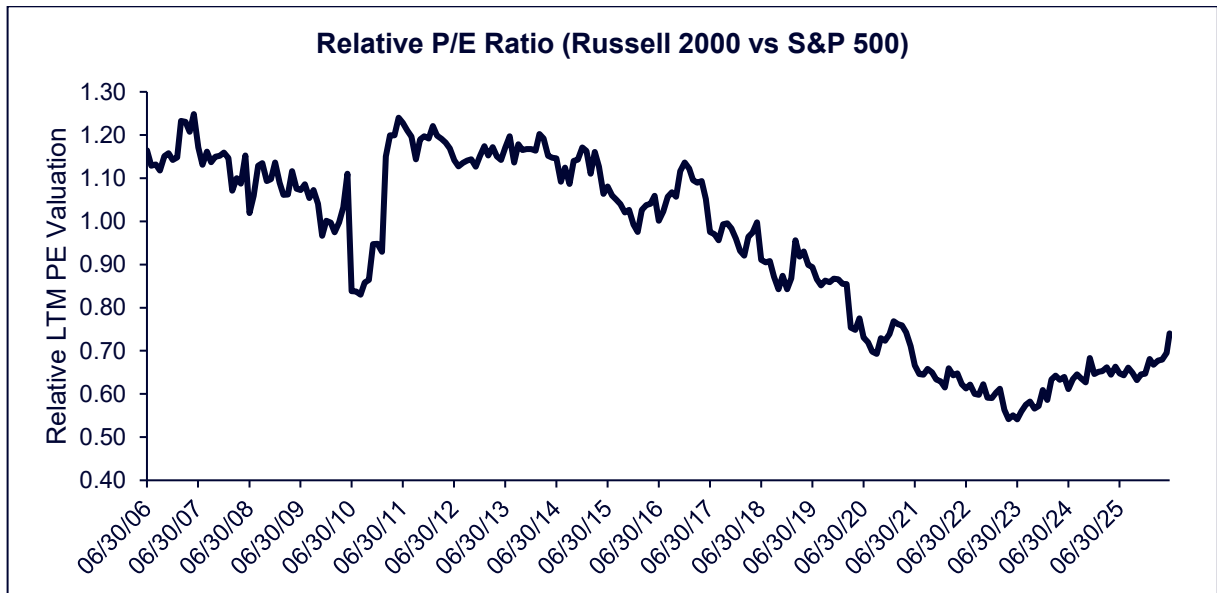
What stands out in the current cycle, however, is that small-cap outperformance has occurred despite rising interest rates. The 5-year U.S. Treasury yield has increased by approximately 50 bps year-to-date, rising from 3.73% on December 30, 2025, to 4.23% as of June 19, 2026, reflecting both firm economic activity and evolving expectations for policy and inflation. This is notable because smaller companies are typically more sensitive to borrowing costs, given their higher reliance on external financing and shorter-duration liabilities. Performance has remained constructive because sector composition and investment dynamics have outweighed this headwind.



Source: Russell, S&P, FactSet. As of 6/19/2026 in USD.

Sector performance provides an important lens through which to interpret recent trends. Within the Russell 2000, leadership has been concentrated in investment-linked sectors, including industrials and information technology, with energy also contributing amid elevated oil prices related to the US/Iran conflict. This pattern points to a market environment where capital expenditures and infrastructure-related activity are playing a central role in shaping returns.

A useful framing for this dynamic is the distinction between consumption-driven and investment-driven growth. While consumer-facing sectors have realized continued pressure from inflation and cost sensitivities, such as a larger portion of discretionary spending going to gasoline and other energy goods, investment-related activity, particularly tied to technology and infrastructure, has remained robust. The ongoing buildout of artificial intelligence infrastructure is driving a substantial increase in capital spending, with estimates pointing to hundreds of billions of dollars in annual investment this year and trillions over the coming years. The physical and industrial nature of this investment, ranging from data centers to electrical equipment and connectivity infrastructure, creates a transmission channel through which smaller companies may participate in the broader theme. Notably, several of the stronger performers within these groups have experienced significant share price appreciation, with rising market capitalizations that may, over time, lead to inclusion in larger-cap indices, reinforcing the link between investment-driven growth and evolving market structure.



Source: Russell, S&P, FactSet. As of 6/22/2026. Price to last twelve months realized earnings per share.

Valuation dynamics provide an additional layer of support. Over the past several years, small caps have experienced a significant de-rating relative to large caps. While current valuation levels for the Russell 2000 have increased alongside recent performance, longer-term comparisons indicate that small caps still trade at the lower end relative to large caps for realized earnings. At the same time, the S&P 500 continues to trade at elevated multiples relative to its historical average, highlighting the persistence of valuation dispersion across the market. In this context, the relative valuation case for small caps may remain constructive, even after the recent rebound.

Looking ahead, the durability of small-cap outperformance will likely depend on the trajectory of inflation, interest rates, and the sustainability of the current investment cycle. Moderating inflation could allow for more stable or lower yields over time, which may be supportive given the higher rate sensitivity of small-cap balance sheets. At the same time, continued strength in AI-related capital expenditures and broader industrial activity could reinforce current sector leadership.

The recent outperformance of U.S. small caps reflects a combination of economic sensitivity, sector positioning, and evolving valuation dynamics. Entering the year, we held a constructive view on small caps, supported by expectations of resilient economic growth and the potential for lower rates. While rate declines have yet to materialize, with the Fed holding policy at 3.5-3.75%, the current environment has remained supportive. We continue to view small caps constructively, particularly if investment trends persist alongside stable economic momentum. However, this strength must be balanced against ongoing uncertainties related to rates, earnings durability, and the trajectory of capital expenditures.

Source: FactSet, MSCI, S&P, Russell. Data as of 6/19/2026 unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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* This figure is presented as of March 31, 2026 and includes ETF AUM of \$1,940.32 billion USD of which approximately \$184.18 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.