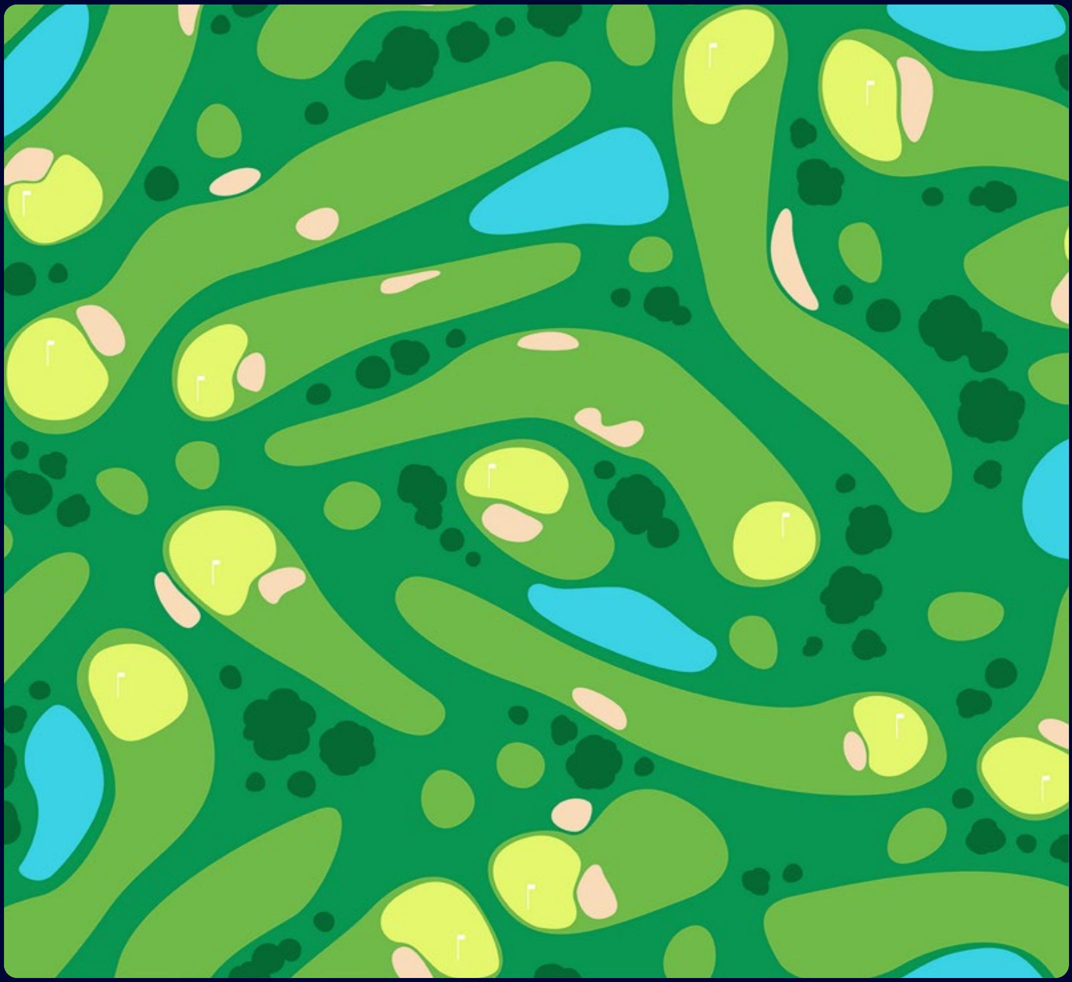
White Paper

Finding the fairway

9 reasons mid caps belong in every investor's bag



STATE STREET INVESTMENT MANAGEMENT

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Matthew J Bartolini, CFA, CAIA
Global Head of Research Strategists

When most investors think about building an equity portfolio, they tend to focus on the extremes—going the distance with large caps or gaining the competitive edge with small caps. But just like in golf, no game is complete without the middle of the bag.

A golfer's irons and hybrid clubs are never the flashiest ones in the bag. But often, they are the most versatile. Unlike drivers, woods, wedges, and putters, irons are the ones that help you navigate the course, manage in-game risks, and set yourself up for long-term success.

The same can be said for mid caps. They may not dominate the headlines, but they consistently help portfolios stay on course. And that's because mid caps are an ideal balance of risk and reward.

They're nimble and offer the potential for high growth without the volatility associated with startups and other early-stage companies. But they also boast the track records and managerial maturity that so often define large- and mega-cap companies. And in this paper, I'll share the data that proves it.

So, what do you say? Let's play a 9-hole round to explore why mid caps can be a valuable addition to your strategic allocation plan and how they can help give portfolios a competitive edge with a powerful combination of resilience, quality, and market opportunity.

Hole 1

Eyes on exceptionalism

Direct exposure to the strength of the US economy

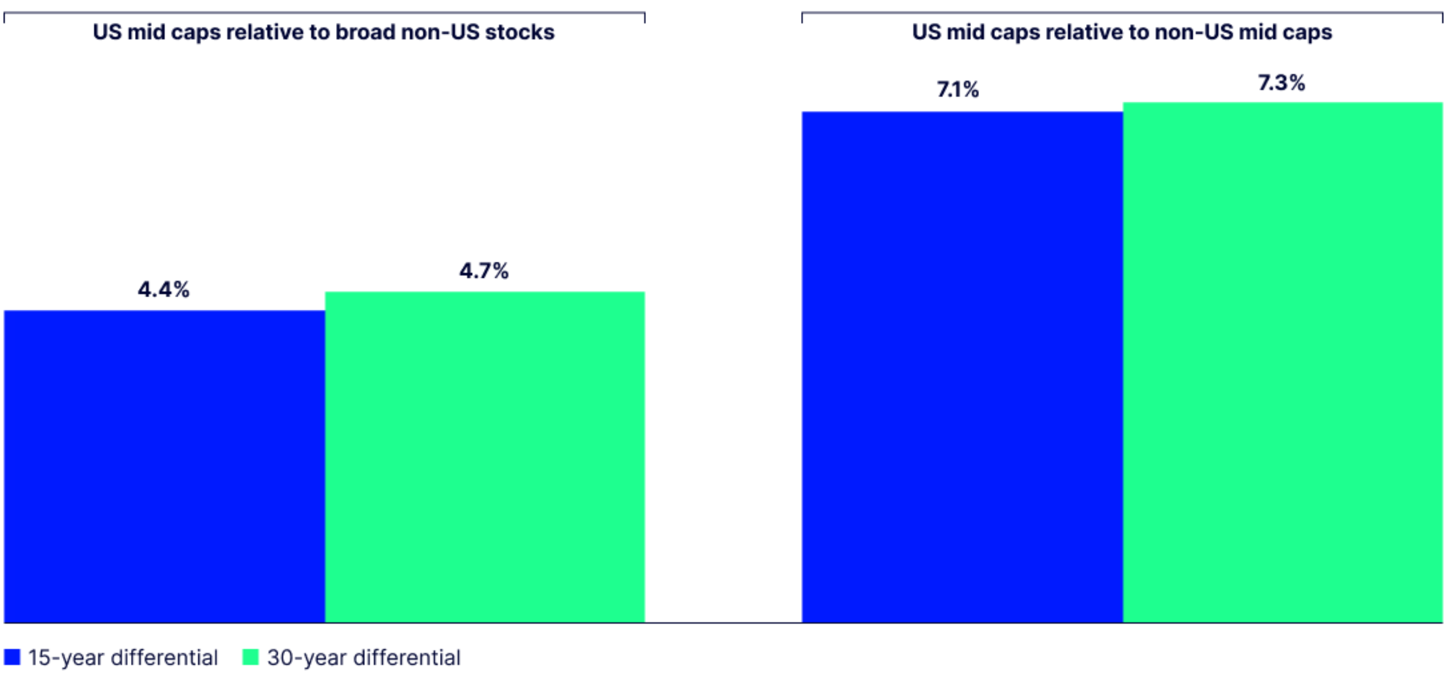
For more than a decade, broad US equities have dominated global markets—outperforming non-US equities in 11 of the past 15 calendar years.[1] But it's not just mega-cap tech giants powering this performance.

US mid caps have quietly matched that outperformance, beating broad non-US equities in 12 of those same 15 years,[2] with an average annual edge of 4.4% over the past 15 years and 4.7% over the past 30.[3]

US mid caps have even outpaced their peers abroad, outperforming non-US mid caps by 7.1% annually over the past 15 years and 7.3% over the past 30.[4]

Mid caps give investors a direct line to US economic strength, beyond the "usual suspects."

Figure 1: US mid-cap excess returns have outpaced non-US equities and mid caps
Annualized return difference



Source: Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P MidCap 400 Index, MSCI World ex-USA Index, and the MSCI World ex-USA Mid Cap Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.**

Hole 2

The value play

US exceptionalism without the large-cap costs

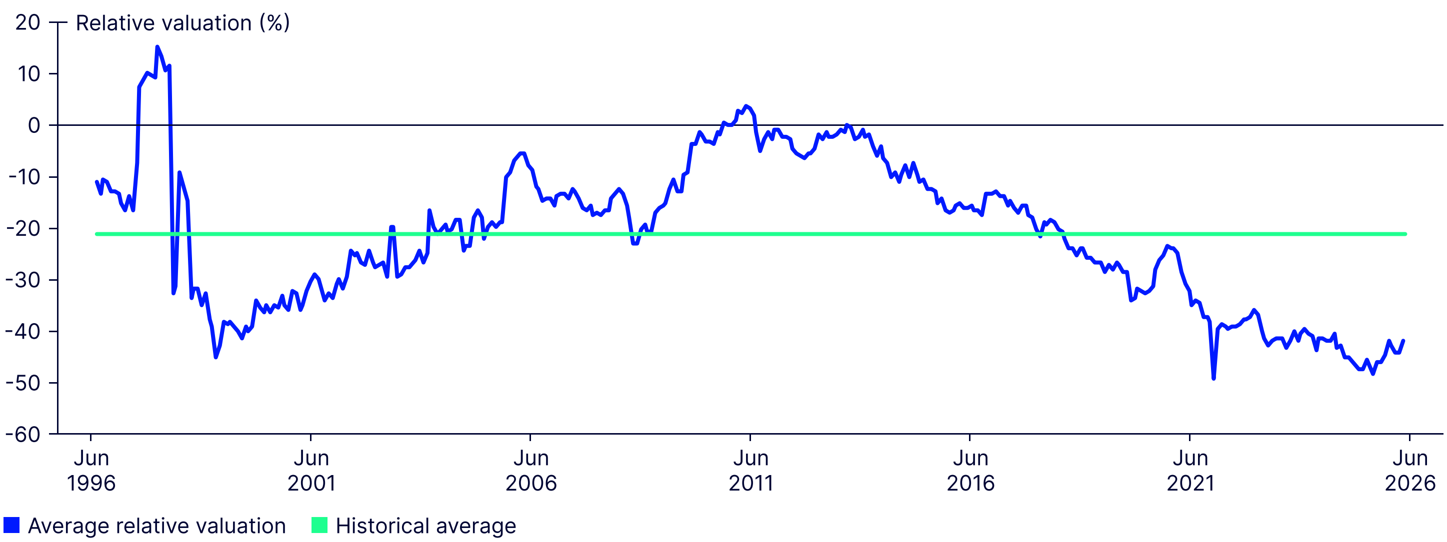
US equities may lead the world—but leadership often comes with a price. Today, US mid caps trade at a 42% discount relative to US large caps.[5]

US mid caps have long offered a valuation advantage relative to large caps. Over the past 30 years, they've traded an average discount of roughly 21%.

And over the past eight years, that discount has widened beyond the average, now standing at 42%—wider than the even more recent trailing 10-year gap of 30%.[6]

Mid caps offer access to the strength of the US economy—without the sticker shock associated with large caps. For investors, that means a more affordable entry point into American exceptionalism.

Figure 2: US mid caps trade at a discount to large caps



Source: Bloomberg Finance, L.P., as of June 30, 2026 for the period June 30, 1996 through June 30, 2026. Based on the S&P MidCap 400 Index P/E ratio, price-to-sales ratio, price-to-book ratio, and EV/sales ratio relative to that of the S&P 500 Index ratios.

Hole 3

Avoiding the crowds

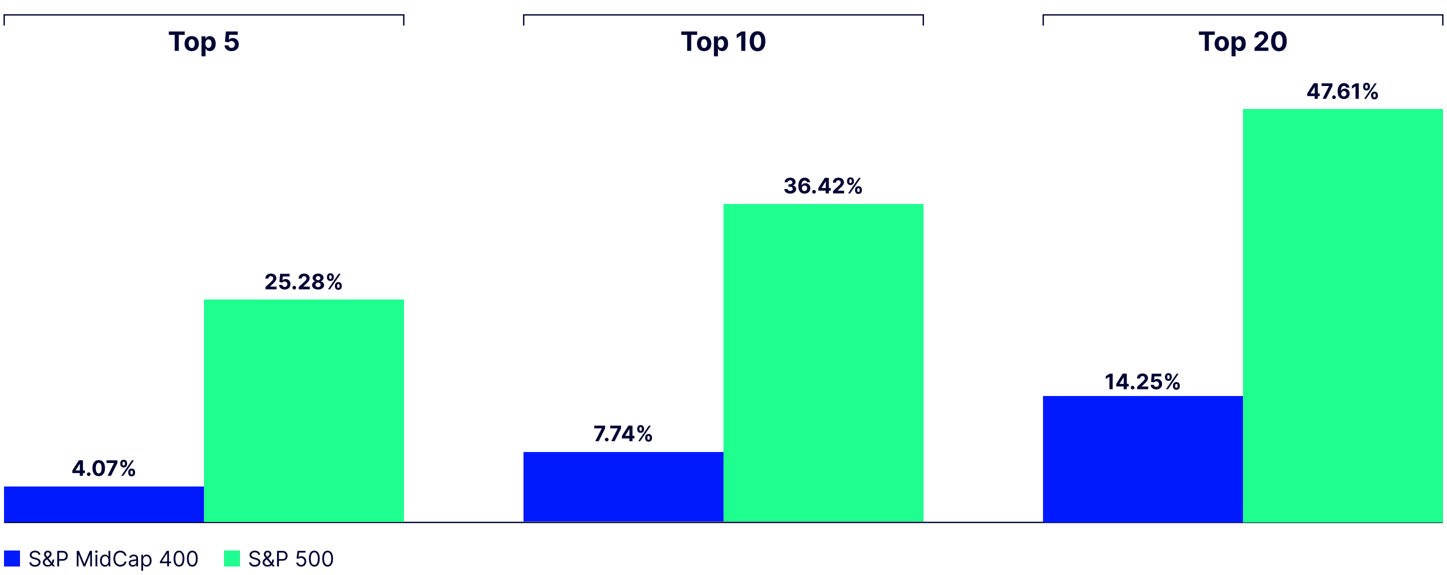
Same US exposure, less concentration risk

US large caps may offer broad market exposure, but increasingly, that exposure comes with a heavy tilt. Just 10 companies make up 36% of the large-cap index; 20 companies make up nearly half (47%) of the total market weight.[7] Add to that an industry skew—46% of the exposure is concentrated in just five industries.[8]

Mid caps offer a road less traveled. The top 10 holdings represent just 8% of the index; the top 20 equal just 14%; and the top five industries only make up 26% of total market capitalization among mid caps.[9]

That means investors get access to US strength—without piling into the same crowded trades.

Figure 3: Mid caps offer greater diversification among top holdings than large caps
Holding weight



Source: Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P MidCap 400 Index and the S&P 500 Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.**

Hole 4

The weight of the middle

Less concentration, more potential

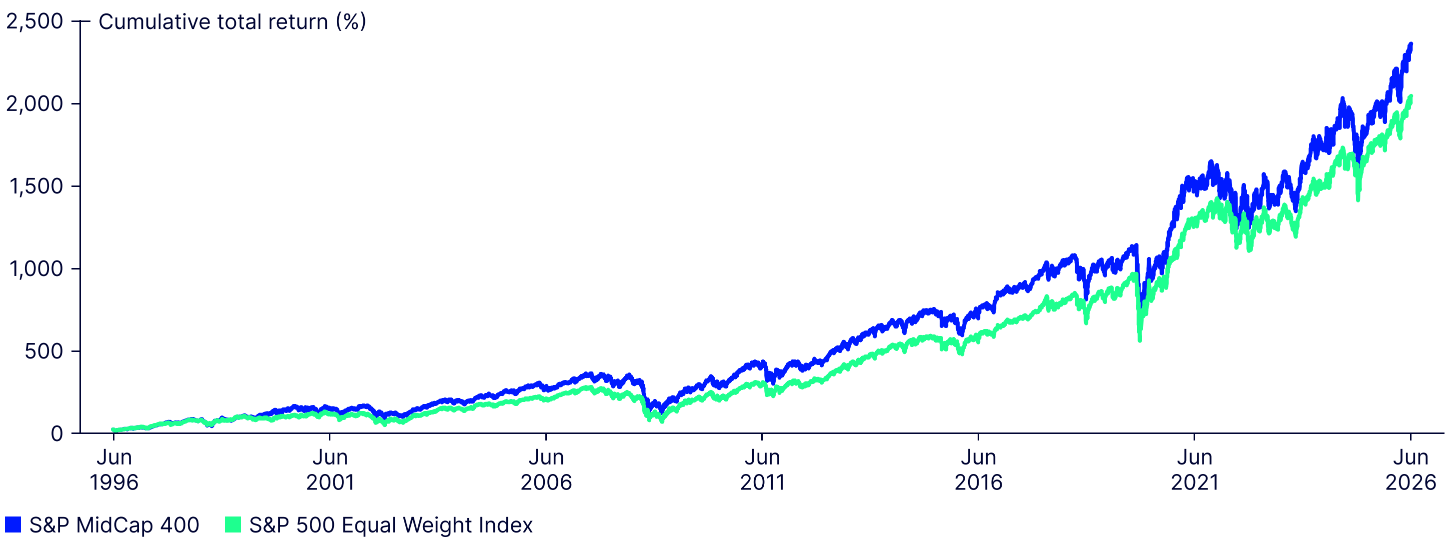
Many investors looking to reduce their reliance on a handful of mega-cap stocks have turned to the S&P 500 Equal Weight Index. But mid caps may offer an even more compelling alternative.

Compared with equal-weighted large caps, mid caps are expected to deliver stronger earnings in 2026 (22.7% compared to 17.3%).[10]

And historically, mid caps have rewarded investors as well. Over the past 30 years, the S&P MidCap 400 Index delivered a cumulative total return of 2,396%, compared to the S&P 500 Equal Weight Index's 2,055%.[11]

The result? A diversified portfolio of US stocks that can help reduce concentration risk—without sacrificing growth potential.

Figure 4: Mid caps outperform the S&P 500 Equal Weight Index over the long term



Source: Bloomberg Finance, L.P., as of June 30, 2026 for the period June 30, 1996 through June 30, 2026. Based on the S&P MidCap 400 Index and the S&P 500 Equal Weight Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain/loss, and the reinvestment of dividends and other income as applicable. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.**

Hole 5

Home turf advantage

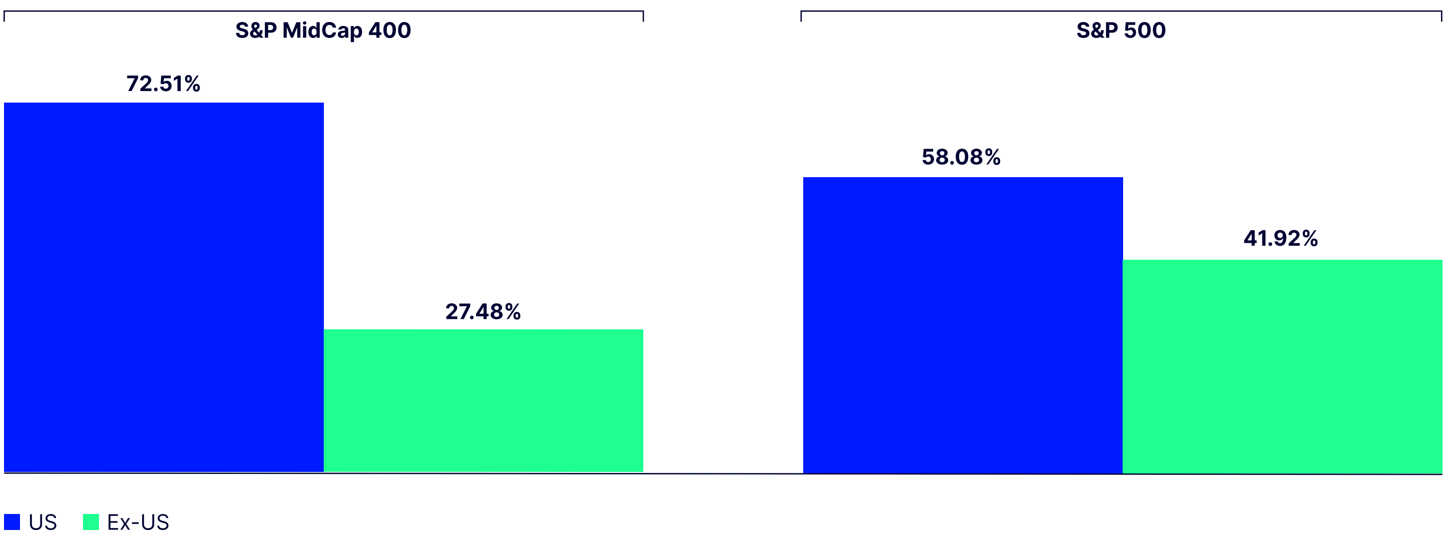
Built on US demand, not global dependence

If you want to own the US economy, it helps to hold companies that actually operate here. US mid caps generate 72% of their revenue domestically, compared to just 58% for large caps.[12]

As a result, mid caps are more closely tied to American consumers, businesses, and economic momentum—making them a truer reflection of US economic strength.

That means less global exposure and more homegrown opportunity.

Figure 5: Mid caps are more directly tied to the US economy than large caps
Revenue exposure



Source: Morningstar, as of June 30, 2026. Based on the S&P MidCap 400 Index and the S&P 500 Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.**

Hole 6

The growth engine

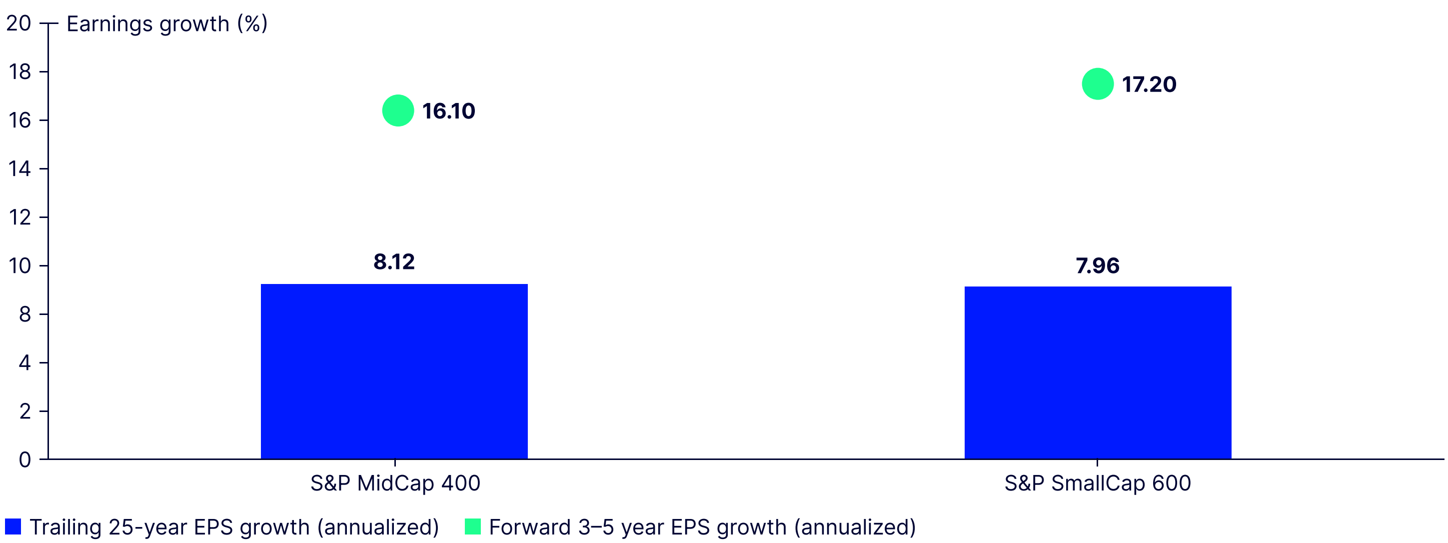
Stronger, more robust domestic growth than small caps

While US small caps generate a similar share of revenue domestically—about 80%—their growth historically hasn't consistently outpaced mid caps.[13]

Over the past 25 years, US mid caps have grown earnings per share by 8.12% annually, edging out US small caps at 7.98%.[14] And while small caps are forecast to deliver slightly higher earnings growth over the next three to five years (17% versus 16% for mid caps), mid-cap growth is still expected to remain well above historical averages.[15]

Mid caps combine robust growth with a solid US focus—powering the engine behind long-term returns for today's investors.

Figure 6: Mid-cap historical growth exceeds small caps—and estimated growth is expected to keep pace



Source: Bloomberg Finance, L.P., and FactSet, as of June 30, 2026. Based on the compounded annual growth rate of income statement earnings per share for the period June 30, 2001 through June 30, 2026 and the 3–5 year EPS growth expectations of the S&P MidCap 400 Index and the S&P SmallCap 600 Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.**

Hole 7

Risk rewarded

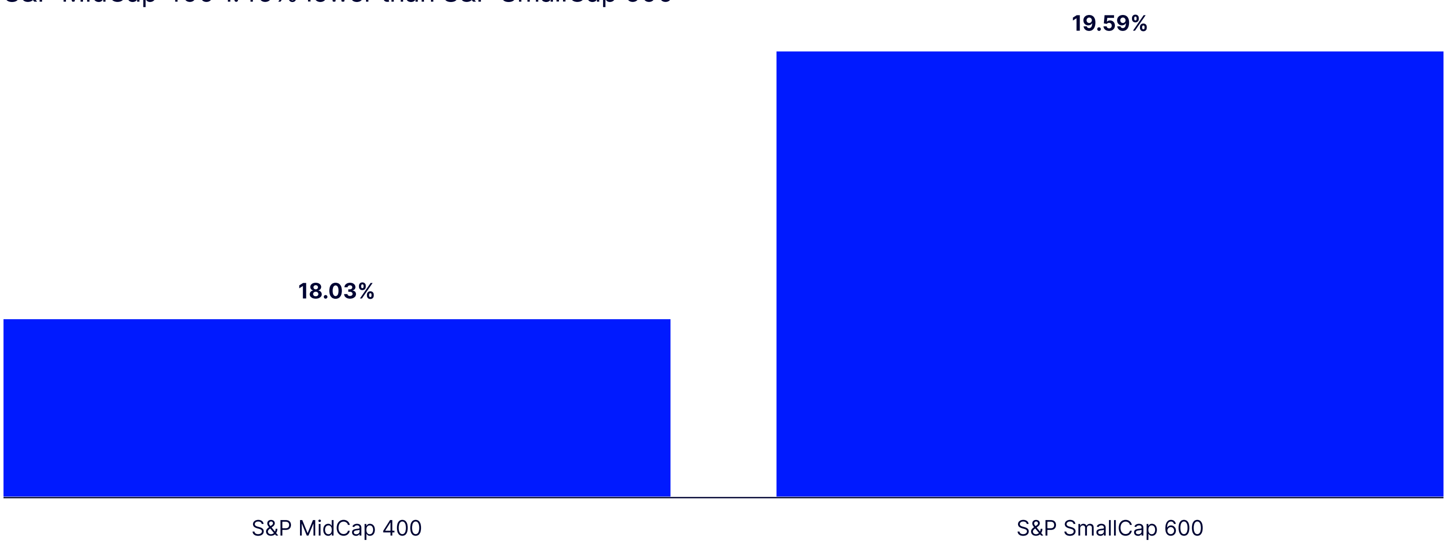
Stronger returns and less risk than small caps

When it comes to small caps, investors often expect more reward—and more risk. But mid caps have delivered a better balance.

Over the past 30 years, US mid caps have outperformed US small caps by 0.97% annually,[16] with less volatility along the way. In fact, their standard deviation of returns was 1.56 percentage points lower than that of small caps (18.03% versus 19.59%).[17]

More return, less noise. That's a better balance of risk and reward.

Figure 7: Comparing annualized standard deviation* of returns
S&P MidCap 400 1.46% lower than S&P SmallCap 600



Source: Bloomberg Finance, L.P., as of June 30, 2026 for the period June 30, 1996 through June 30, 2026.. Based on the S&P MidCap 400 Index and the S&P SmallCap 600 Index. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.**

* Standard deviation is a statistical measure of volatility that quantifies the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past. As an example, for a normally distributed return series, about two-thirds of the time returns will be within 1 standard deviation of the average return.

Hole 8

Quiet outperformers

Consistently outpacing large caps, without all the spotlight

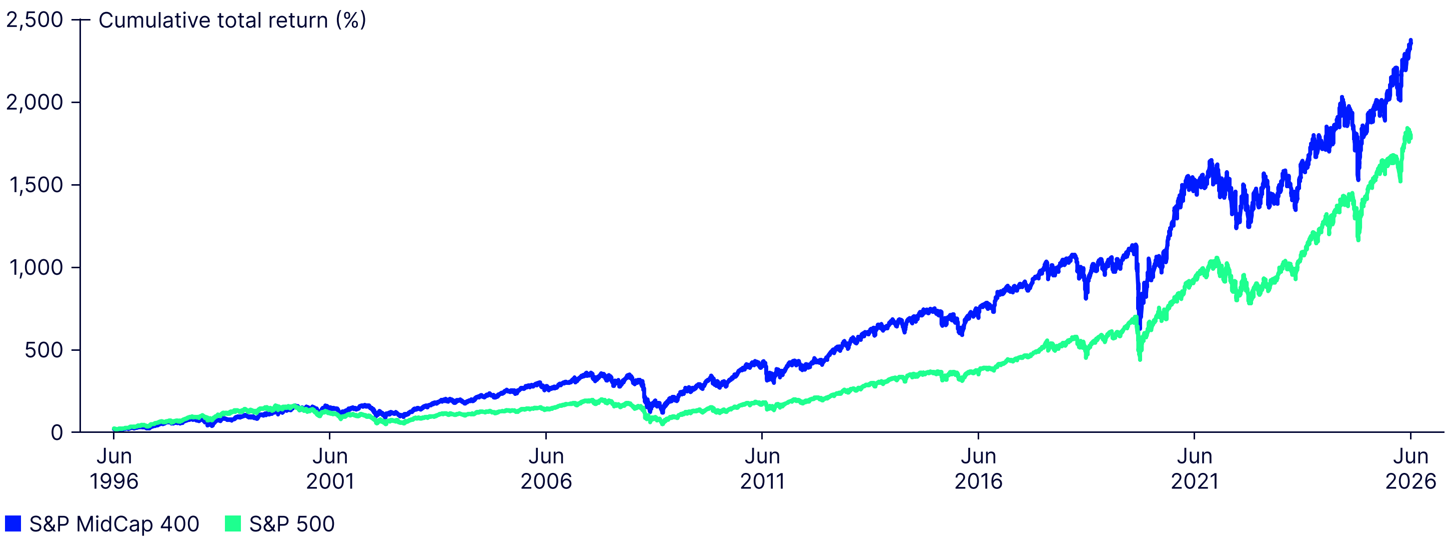
While they don't make the headlines like large and mega caps, US mid caps have outperformed large caps by 0.96% annually over the past 30 years.[18]

Over the past 30 years, the S&P MidCap 400 Index has delivered a total return of 2,396%, outpacing the S&P 500's 1,823%.

Yes, the higher return comes with slightly higher volatility—an 18.03% standard deviation (versus 15.41% for large caps[19])—but the long-term payoff speaks for itself.

Don't overlook mid-cap leadership.

Figure 8: Mid caps outpace large caps in long-term growth
Total returns, June 1996–June 2026



Source: Bloomberg Finance, L.P., as of June 30, 2026. **Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain/loss, and the reinvestment of dividends and other income as applicable. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.**

Hole 9

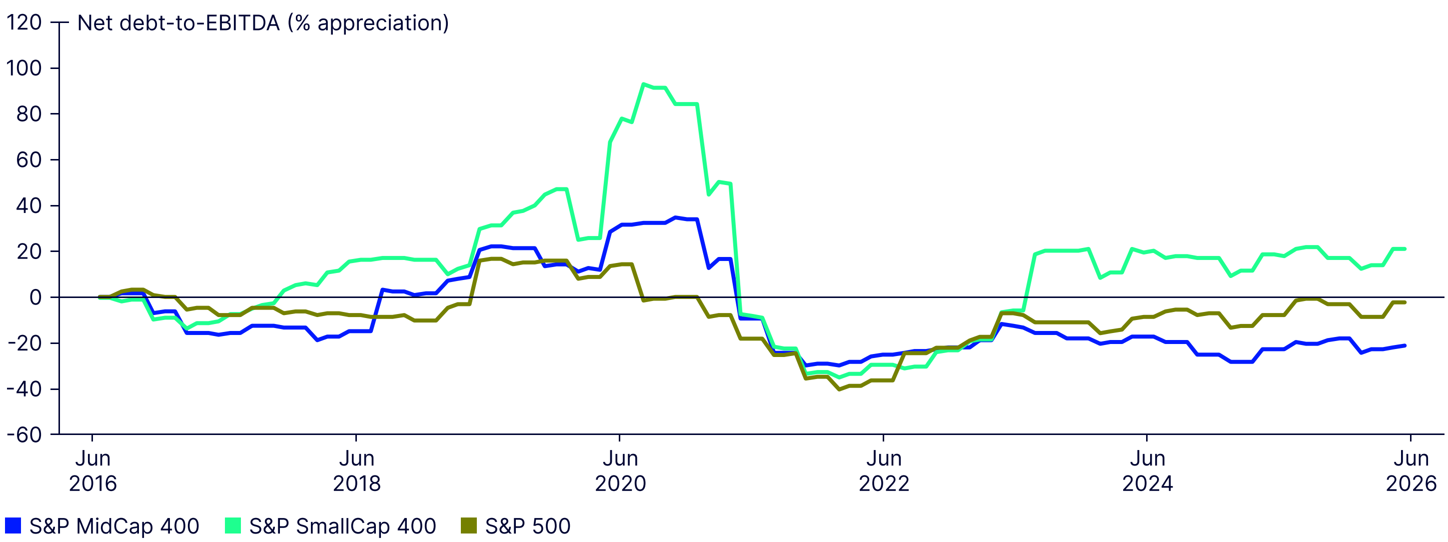
Quality at the core

Strong fundamentals and healthy balance sheets

At the end of the day, a company is only as strong as its balance sheet—and mid caps bring strength where it counts.

They've traded with a higher average return on equity, lower total debt-to-equity, and higher profit margins than small caps. And when it comes to leverage (total-debt-to-equity), they've also been more disciplined than large caps—posting lower total-debt-to-equity and lower net debt-to-EBITDA.*[,21]

Figure 9: Mid caps have posted lower net debt-to-EBITDA than small and large caps



Source: Bloomberg Finance, L.P., as of June 30, 2026 for the period June 30, 2016 through June 30, 2026 using monthly frequency.

* Metric to showcase leverage and balance sheet quality by evaluating the company's operating performance based on a number of core business functions. Stands for earnings before interest, taxes, depreciation, and amortization.

Resources to support your long game

Mid caps offer a unique blend of growth potential and stability—providing exposure to promising opportunities without taking on outsized risk. Positioned between large and small caps, they bring a balanced approach that can enhance portfolio resilience and help investors potentially capture meaningful market upside.

And just like the middle of your golf bag, mid caps can provide a strategic edge that can help you go the distance—no matter your investment goals.

Explore mid-cap performance

Historically, there has been a positive impact when investors increase a portfolio's mid-cap allocation. See the impact by using our interactive tool.

Don't miss out on a mid-cap allocation

Which State Street mid-cap ETF is right for you? Explore the holdings of our mid-cap blend, value, and growth ETFs.

Get in touch with us

For more insights and investment strategies, connect with your State Street Investment Management representative.

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As the creator of many of the world's first ETFs, one of the world's largest asset managers, and the company that brought Fearless Girl to Wall Street, we feel a unique responsibility to help anyone with a goal or dream get started.

$6.28T

Assets under management[22]

1st

US's first, and world's most traded, ETF[23]

48 yrs

Managing investments

9 yrs

Of Fearless Girl standing tall on Wall Street

Endnotes

1 Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P 1500 and the MSCI World ex-USA Index.

2 Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P MidCap 400 Index and the MSCI World ex-USA Index.

3 Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P MidCap 400 Index and the MSCI World ex-USA Index.

4 Bloomberg Finance, L.P., as of June 30, 2026. Based on the S&P MidCap 400 Index and the MSCI World ex-USA MidCap Index.

5 Bloomberg Finance, L.P., as of June 30, 2026. Based on average relative discounts for price/book, price/sales, PE ratio, and EV/sales relative to the S&P 500.

6 Bloomberg Finance, L.P., as of June 30, 2026. Based on average relative discounts for price/book, price/sales, PE ratio, and EV/sales relative to the S&P 500.

7 Bloomberg Finance, L.P., as of June 30, 2026.

8 Bloomberg Finance, L.P., as of June 30, 2026 based on GICS Industry weights.

9 Bloomberg Finance, L.P., as of June 30, 2026.

10 Factset, as of July 10, 2026. Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

11 Bloomberg Finance, L.P., as of June 30, 2026 for the period June 30, 1996 through June 30, 2026. Based on the S&P MidCap 400 Index and the S&P 500 Equal Weight Index. **Performance data quoted represents past performance and is no guarantee of future results.** Current performance may be lower or higher than the performance data quoted. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain/loss, and the reinvestment of dividends and other income as applicable. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.

12 Morningstar as of June 30, 2026. Based on geographic revenue exposure of the underlying index constituents.

13 Bloomberg Finance, L.P., as of June 30, 2026. Based on historical income statement EPS growth.

14 Bloomberg Finance, L.P., as of June 30, 2026. Based on historical income statement EPS growth.

15 Factset, as of June 30, 2026. Based on 3–5 expected earnings growth.

16 Bloomberg Finance, L.P., as of June 30, 2026. Based on annualized returns for the S&P MidCap 400 Index and S&P SmallCap 600 Index from June 30, 1996 through June 30, 2026.

17 Bloomberg Finance, L.P., as of June 30, 2026. Based on standard deviation of monthly returns for the S&P MidCap 400 Index and S&P SmallCap 600 Index from June 30, 1996 through June 30, 2026.

18 Bloomberg Finance, L.P., as of June 30, 2026. Based on annualized returns for the S&P MidCap 400 Index and S&P 500 Index from June 30, 1996 through June 30, 2026.

19 Bloomberg Finance, L.P., as of June 30, 2026. Based on standard deviation of monthly returns for the S&P MidCap 400 Index and S&P 500 Index from June 30, 1996 through June 30, 2026.

20 Bloomberg Finance, L.P., as of June 30, 2026, based on the S&P MidCap 400 and S&P SmallCap 600 Index.

21 Bloomberg Finance, L.P., as of June 30, 2026, based on the S&P MidCap 400 and S&P SmallCap 600 Index.

22 This figure is presented as of June 30, 2026 and includes ETF AUM of $2,203.98 billion USD of which approximately $156.81 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.

23 Bloomberg Finance, L.P., and Americas ETF Research as of March 31, 2026. Average 30-day notional dollar trading volume used to determine liquidity.

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