

# SMALL CAPS SURGE WHAT NOW IN 2021

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One of the market implications of the COVID-19 pandemic has been the remarkable performance of large-cap growth and technology names, particularly those impacted by the work-from-home trend and cloud computing, and the underperformance of small-cap stocks that were more or less shut down during the economic lockdowns.

Positive vaccine news boosted hopes for an economic reopening in 2021, which flipped market signals, and small caps and value stocks rallied strongly in November. The Russell 2000 Index, a gauge of U.S. small-cap equity performance, delivered some of the strongest gains in its history.

Ben Carlson, author of the blog “A Wealth of Common Sense,” has evaluated what happened in the aftermath of past small-cap surges, like the one we saw in November.

- The forward returns over one-, three- and five-year intervals were, on average, quite compelling, especially for the five years following the small-cap surges that Carlson studied. The average five-year cumulative return was almost 80%. Notably, the minimum return was 17.7%, following the peak of the market in February 2000.
- The shorter time periods had more risk of negative subsequent returns. But even in the three-year analysis, only two periods had negative returns: around the 1999–2000 peak and into 2002–2003 market trough.
- The average one-year return of 15% is quite positive for a forward-looking one-year interval.

While the future is always uncertain, the data makes a strong case that we had an inflection point for small-cap stocks—and that while investors will inevitably feel they ‘missed’ this large turn, this past analysis indicates there’s reason to believe more is to come.

Figure 1: Small Caps Have a Compelling Track Record after Rallies

insert chart

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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