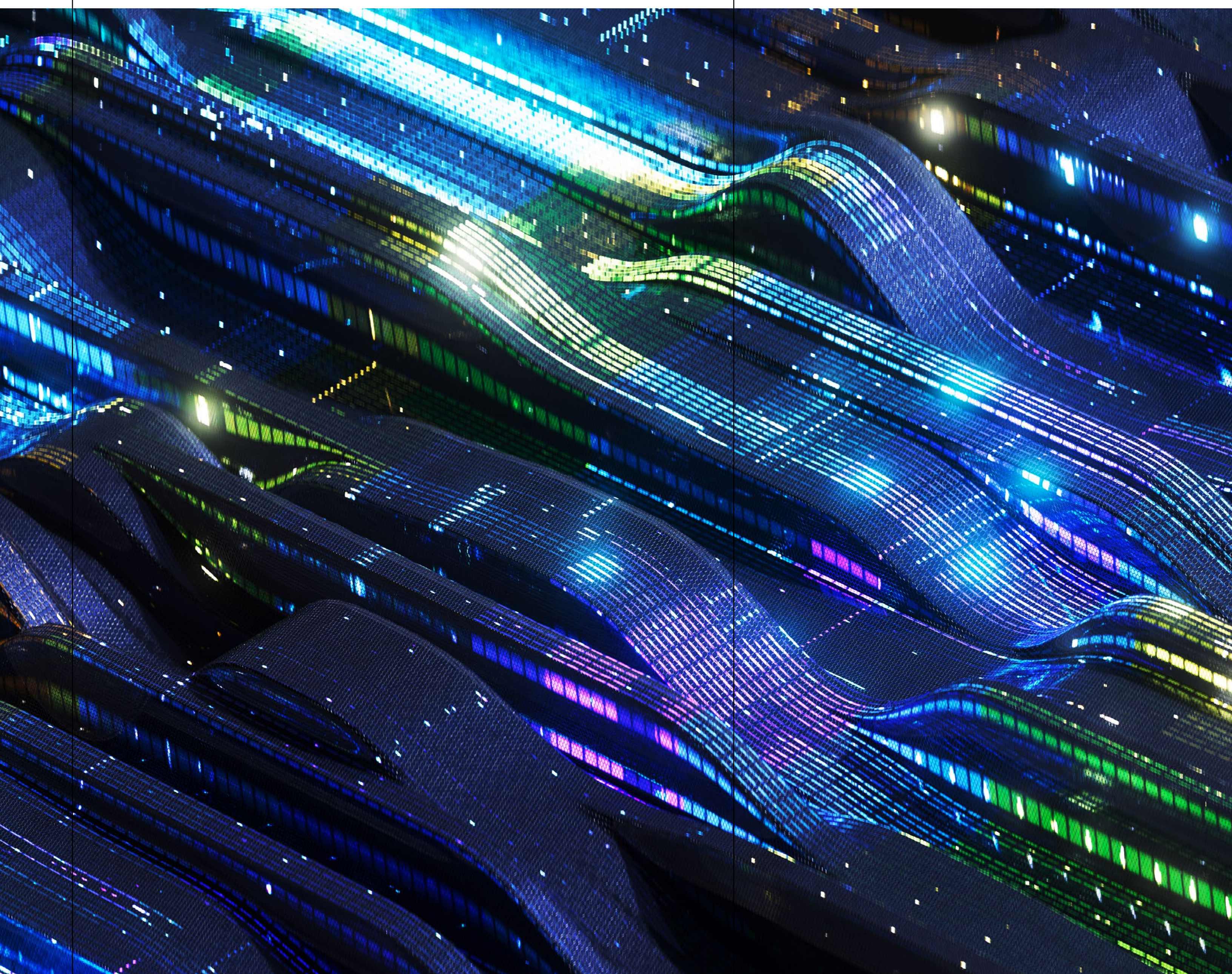
William Blair

Investment Management

Author:
U.S. Growth and Core Equity Portfolio Specialist Team

August 2026

U.S. Small-Cap Equities
Why Now May Be the Moment to Lean In



Despite delivering solid absolute returns in recent years, U.S. small-cap equities have consistently trailed their large-cap peers. Although relative valuations have remained compelling for some time, the asset class lacked the fundamental catalysts needed to drive durable earnings growth.

Today, however, those long-awaited catalysts appear to be taking hold—pro-business domestic policy, an easing regulatory environment, and massive capital deployment into AI infrastructure—and we believe small-cap leadership has begun to emerge.

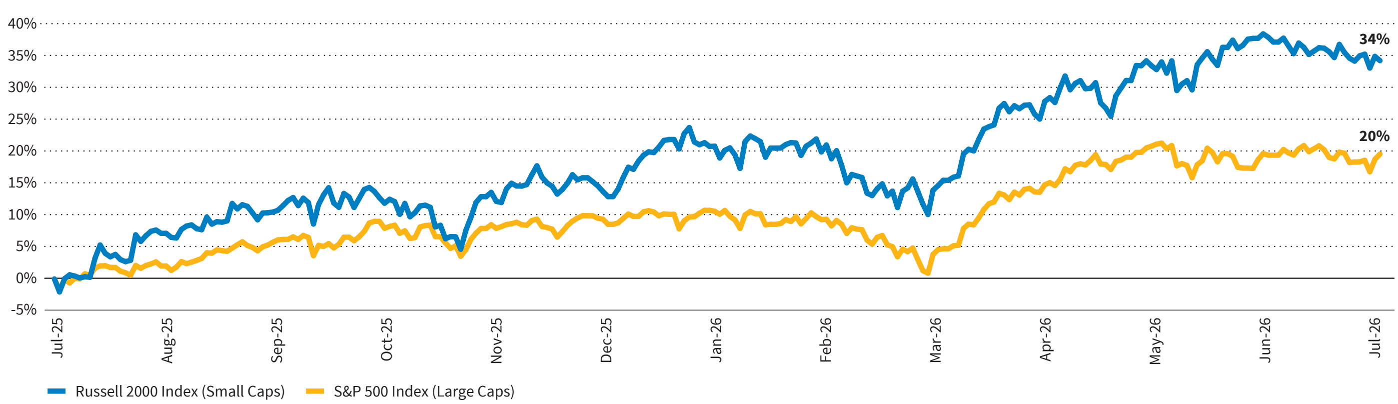
We believe the case for U.S. small-cap equities rests on five pillars:

1. Relative Valuations Near Historic Lows
2. Earnings Acceleration Unfolding
3. AI Infrastructure Powering a Durable Supply Chain
4. Higher Domestic Exposure Anchoring Macro Stability
5. Diversification Away From Mega-Cap Concentration

EXHIBIT 1

A Year of Small-Cap Leadership

Over the past trailing one-year period ended July 31, 2026, small caps delivered both strong absolute and relative performance, outperforming large caps by 1400 basis points.



Sources: FactSet and William Blair, as of July 31, 2026. Past performance is not indicative of future returns. A direct investment in an unmanaged index is not possible. See back page for index definitions.

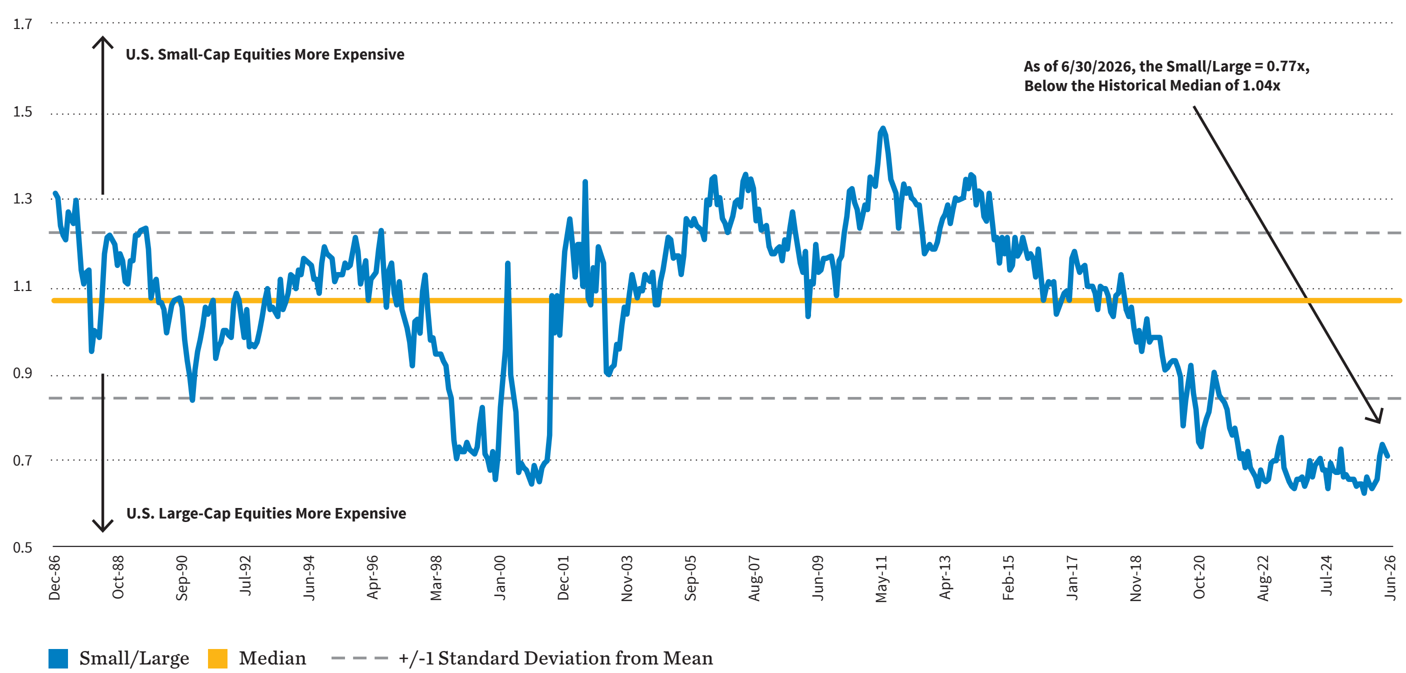
Theme 1: Relative Valuations Near Historic Lows

- Small-cap stocks have historically commanded a slight premium over large-cap stocks, reflecting the higher growth and return potential typically associated with investing in smaller companies.
- As of 6/30/2026, small caps trade at a forward price-to-earnings (P/E) ratio of 0.77x relative to large caps, well below the historical median of 1.04x and outside the one standard deviation band.
- Over the past decade, the relative decline in small-cap valuations compared to large-cap valuations can be attributed to several factors, such as subdued economic growth and slower earnings growth for small caps compared to large caps in recent years.
- In contrast, the strong performance of large-cap indices has been significantly influenced by a small number of digitally oriented mega-cap stocks that have shown substantial acceleration in earnings and free-cash-flow growth, thereby boosting their valuations.
- Historically, periods of similarly wide small-cap discounts have preceded periods of small-cap outperformance, suggesting today's gap may represent a mean-reversion opportunity rather than a permanent repricing.
- With valuations depressed and ownership light, any inflection in small-cap earnings growth could serve as a catalyst for a sustainable re-rating.

EXHIBIT 2

Relative Forward P/E Ratio: Small Caps vs. Large Caps

Small caps are trading at one of their steepest relative valuation discounts to large caps in decades, far below their long-run historical relationship, suggesting the market is pricing in limited growth expectations for smaller companies, leaving room for re-rating if that view shifts.



Sources: Bank of America Merrill Lynch and William Blair, as of June 30, 2026. Valuation methodology excludes unprofitable companies. Small-cap equities are represented by the Russell 2000 Index; large-cap equities are represented by the Russell Top 200 Index. **Past performance is not indicative of future returns.** See back page for index definitions. A direct investment in an unmanaged index is not possible.

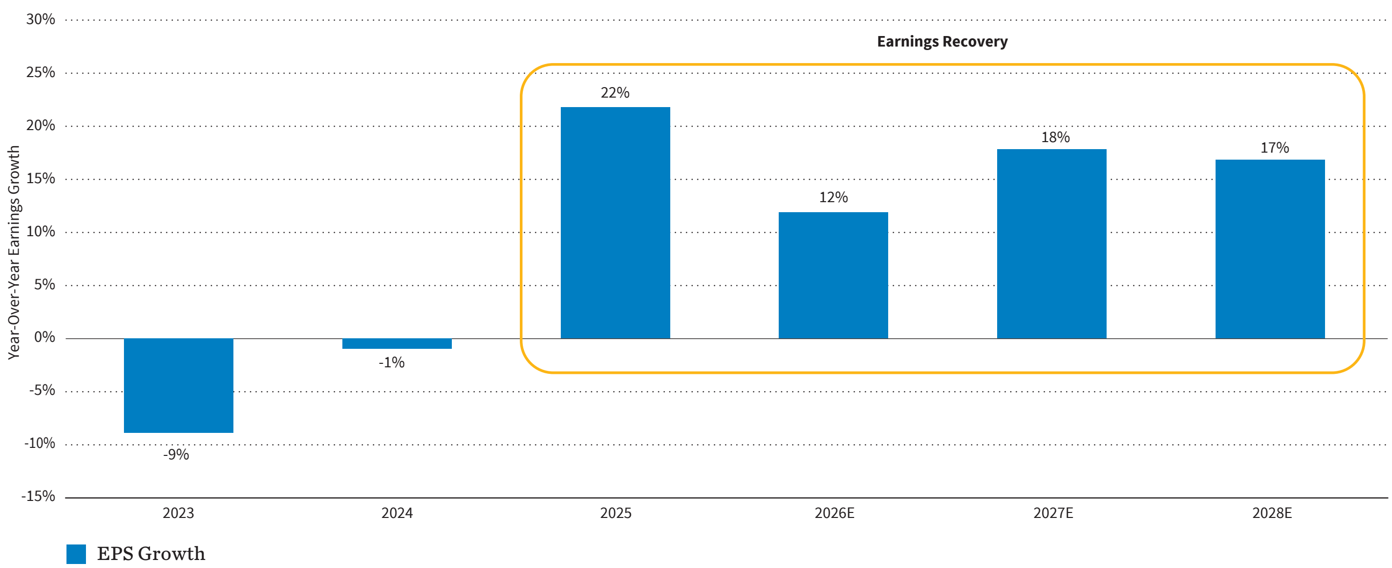
Theme 2: Earnings Acceleration Unfolding

- Small caps experienced an earnings recession between 2023 and 2024, driven in part by their heavier exposure to floating-rate debt and higher financing costs in a higher-rate environment.
- Earnings growth has recently turned positive, marking an inflection with consensus estimates projecting low-to-mid teens growth over the next three years.
- This earnings growth acceleration appears broad-based, spanning industrials, materials, and other cyclically oriented sectors tied to the AI infrastructure buildout and domestic manufacturing reshoring (rather than concentrated in a single narrow catalyst), which speaks to the durability of the recovery.
- With earnings growth accelerating and valuations still at a meaningful discount to large caps, we believe small caps offer an entry point with an attractive risk/reward profile.

EXHIBIT 3

Small Caps Poised for Robust Earnings Growth

Small-cap earnings growth turned sharply positive in 2025 and is expected to remain robust through 2028, with consensus estimates projecting double-digit growth each year.



Sources: FactSet and William Blair, as of June 17, 2026. Small-cap equities are represented by the S&P 600 Index. See last page for index definitions. A direct investment in an unmanaged index is not possible. E refers to estimated.

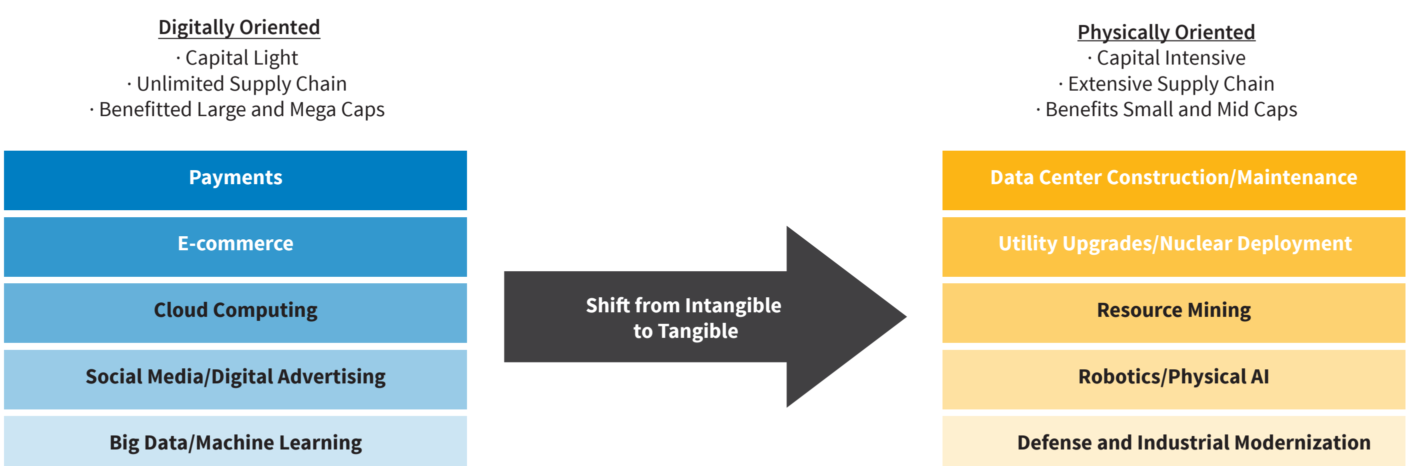
Theme 3: AI Infrastructure Powering a Durable Supply Chain

- We believe smaller-cap companies are well positioned to benefit from the substantial capital that several mega-cap technology firms have invested in building infrastructure related to AI.
- For example, capital expenditures (capex) from major tech firms (such as Microsoft, Amazon, Alphabet, Meta, and Oracle) are projected to cross $700 billion and $1 trillion over the next two years, respectively.
- Sustained capex from these major hyperscalers could forge durable revenue streams for many smaller-cap companies, marking a departure from the capital-light, digitally oriented trends of the last 15 years.
- While large- and mega-cap companies benefitted from past secular trends such as e-commerce, cloud software, and digital payments through IP-based technology, the AI infrastructure buildout is powering a pervasive supply chain that disproportionately rewards smaller companies involved in verticals such as utility upgrades, resource mining, and data center construction and maintenance.
- Many of the companies in our portfolio potentially have exposure to these growing end-markets and represent the "picks and shovels" of this secular movement.
- Moreover, the adoption of rapidly evolving AI tools should bolster productivity, allowing smaller firms to scale their capabilities and expand their margin profiles.

EXHIBIT 4

Small Caps Investing in the Physical Buildout

The AI infrastructure buildout marks a shift to physically oriented, capital-intensive growth, spanning data centers, utilities, mining, and robotics, which tend to favor small and mid caps.



Source: William Blair, as of February 28, 2026.

Theme 4: Higher Domestic Exposure Anchoring Macro Stability

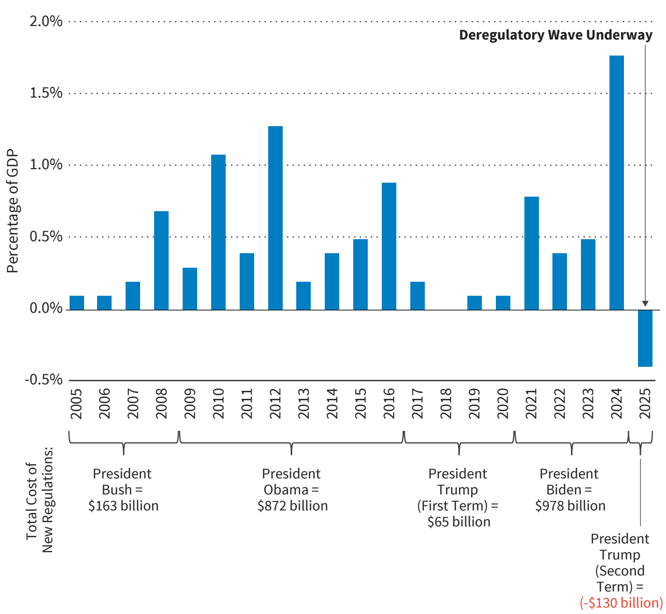
- Between 2021 and 2024, regulations weighed heavily on growth, but the current U.S. administration has been rolling back rules, creating a more business-friendly regulatory backdrop.
- Reduced regulatory burden, lower corporate tax rates, and new domestic manufacturing incentives (paired with favorable capex write-offs) are driving innovation and sustained U.S. growth.
- We believe this is likely a tailwind for U.S. business expansion, with small caps positioned as prime beneficiaries.
- In addition, a less onerous regulatory environment has induced more favorable conditions for merger and acquisition (M&A) activity.
- Years of regulatory constraints have fueled a significant backlog of deal-making demand. Attractively valued, quality-oriented small-cap firms are potentially prime targets for large-cap leaders looking to deploy strong balance sheets into their next phase of growth.
- Moreover, small caps tend to offer purer domestic growth exposure and reduced sensitivity to currency and tariff/trade-policy swings that more heavily affect large-cap multinationals.

EXHIBIT 5

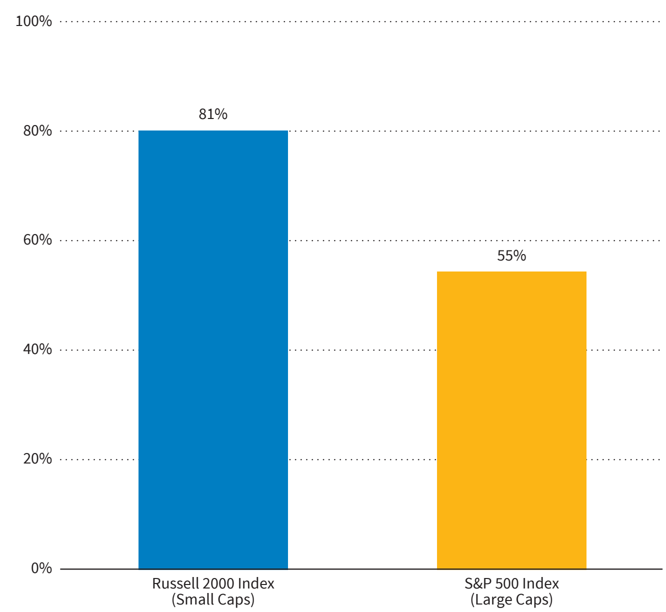
The Deregulatory Wave Meets a Domestic Revenue Advantage

2025 marked the first net reduction in regulatory costs in over two decades, reversing a multiyear buildup. We believe small caps stand to disproportionately benefit compared to large caps.

Total Cost of New Regulations by Year



Percentage of Revenue from Domestic (U.S.) Sources



Sources: For left-hand chart, Piper Sandler, Doug Holtz-Eakin, American Action Forum, and William Blair, as of December 31, 2025. Estimated cost/savings values are based on proposed and final rules published in the Federal Register that include a quantified economic impact or paperwork burden estimate. For right-hand chart, FactSet GeoRev and Willaim Blair, as of December 31, 2025. Domestic revenue represents U.S.-derived revenue as a percentage of total revenue. GDP refers to gross domestic product. See back page for index information.

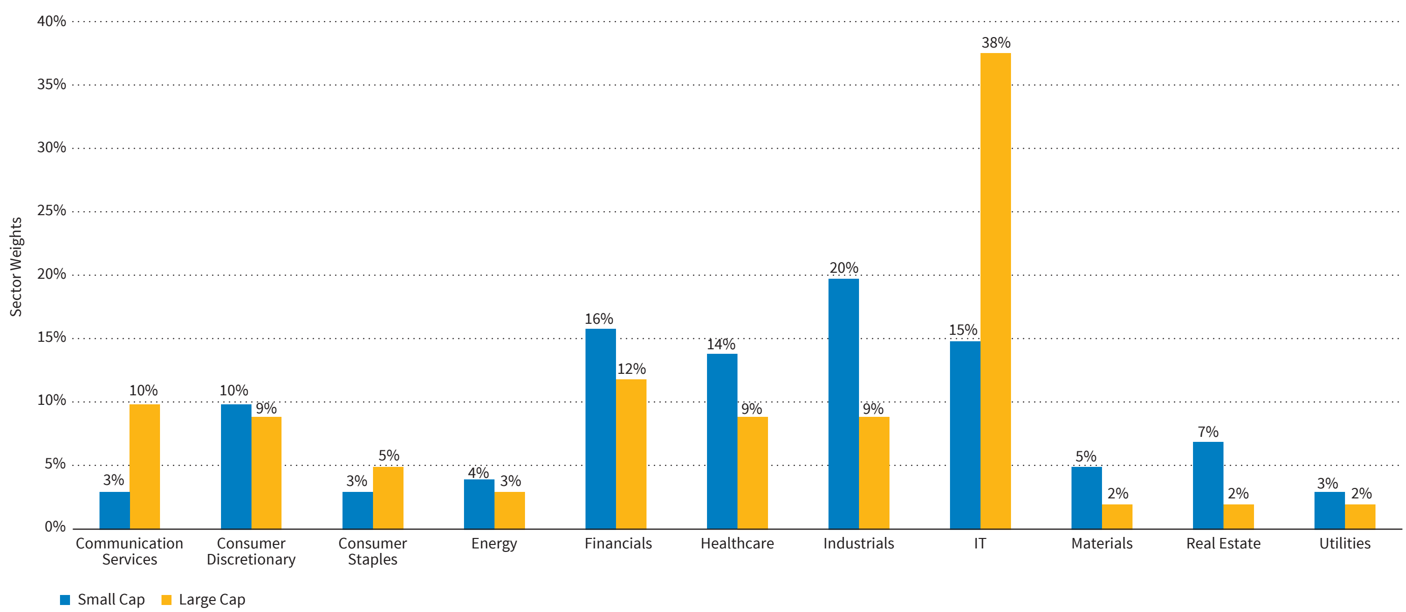
Theme 5: Diversification Away From Mega-Cap Concentration

- Concentration in large-cap indices has reached historic extremes, with the top names now representing 38% of the S&P 500 Index's market cap.
- This means large-cap index returns are increasingly tied to the performance of a handful of tech-oriented companies rather than broad-based earnings growth.
- Small caps are weighted more toward financials, industrials, and healthcare, sectors that are underrepresented in large cap indices dominated by mega-cap tech.
- We believe small caps may offer a return stream less correlated to these mega-cap names, providing a genuine diversification benefit rather than simply a different flavor of the same concentrated exposure.
- Adding small caps can help reduce single-name and single-sector concentration risk at the total portfolio level.
- Historically, periods of extreme index concentration [e.g., the dot-com era] have preceded periods of broader market participation.

EXHIBIT 6

Small Caps Offer a Meaningfully Different Sector Mix

Small-cap indices carry heavier weights in financials, healthcare, and industrials. By contrast, large caps skew heavily toward technology, especially when factoring in the mega-cap tech giants housed within the communication services and consumer discretionary sectors.



Sources: FactSet and William Blair, as of June 30, 2026. Small caps are represented by the Russell 2000 Index. Large caps are represented by the S&P 500 Index. Diversification does not ensure against loss. See back page for index information.

We Believe the Case for Small Caps is Clear

With small-cap equities delivering 34% returns over the past trailing one-year period ended July 31, 2026, fundamental catalysts—such as robust AI supply-chain capex, broad-based earnings improvements, a more friendly domestic regulatory landscape, and near-historic valuation discounts—are gaining traction.

In our view, adding small-cap exposure not only helps mitigate extreme top-heavy market concentration but positions portfolios to potentially capture the next leg of broad-based U.S. economic growth. We believe current relative valuations and macro tailwinds support a favorable environment for small-cap equities. This may be the moment to lean in.

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