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Richard de Chazal, CFA  
rdechazal@williamblair.com  
+44 20 7868 4489

# Economics Weekly

## Restating the Case for Smidcaps



For those of us who have believed that a rotation into the smidcap stocks is coming, the performance over the last year and through the first quarter has been disappointing; however, the return following the first quarter seems to offer a glimmer of hope. Since the end of March, the S&P 500 has increased by 13.3% and is neck and neck with the Russell 2000, which has risen 13.5% (and is up 5.0% in July, compared to the S&P 500's 2.5%). Meanwhile, the S&P MidCap 400 is up 10.2%, and the S&P SmallCap 600 rose 9.0%. Notably, the index that has lagged all of these is the equally weighted S&P 500, which is up 8.1%. **In this *Economics Weekly*, we once again make the case for why investors should shift their focus toward the long overlooked and under-owned smidcap stock.**

## What Is Driving the Large-Cap Rotation?

Throughout our career in finance, it has almost always been taken as a fact that small-cap stocks outperform large caps over time; and it is this outperformance that balances out the extra risk involved when investing in more-volatile smaller-cap stocks. Yet, looking at the current CAGR from 1978 (as far back as we have comparable data) to today, the S&P 500 total return index has increased by 9.37% annually, compared to an increase of 8.96% for the Russell 2000 total return index (exhibit 1).

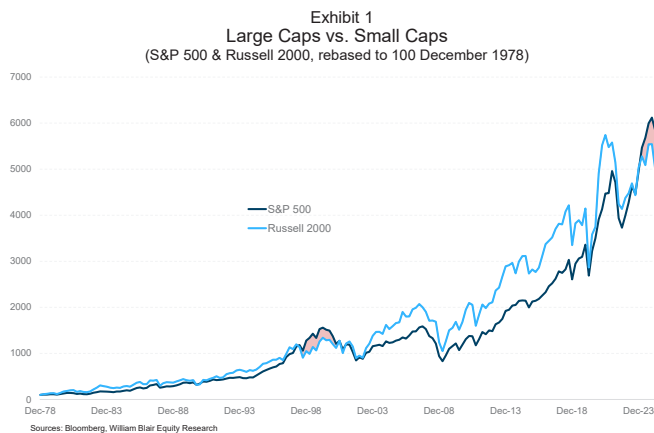


Exhibit 1 also shows that large caps have pulled ahead of small caps on only two instances. The first was in the late 1990s during the internet bubble period, and the second has been over the last year until today. Exhibit 2, however, shows that, at least since 1999, earnings growth for the small- and midcap indices continues to be well ahead of the large; hence, much of the heavy lifting has been done via multiple expansion, as opposed to earnings growth.



While we are not suggesting that today's large-cap surge is a bubble akin to that of the late 1990s, we question how much longer large caps' pace of growth can continue. For example, it is somewhat astounding that the market cap of just one stock, Nvidia, is already over \$4 trillion, or 1.2x greater than the market cap of the entire S&P 400 midcap index and 2.7x the combined value of all 600 stocks in the S&P's small-cap index.

There are a number of reasons the larger-cap stocks have performed so well in recent years. These include:

- strong business models with proven returns;
- more globalized reach in what was an increasingly globalized and brand-driven world, with powerful network effects reinforced by the growth in social media;
- large regulatory moats and regulatory capture;
- the growth in passive investment and large flows into the largest and most liquid names that are able to absorb such flows; and
- the growth of private equity, which has kept what might have been a much more dynamic smaller-cap public equity market from acting as the traditional incubator for future larger-caps stocks.

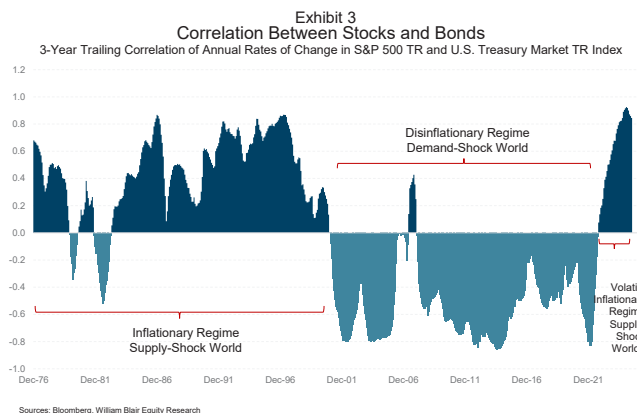
Yet, many of the drivers for this large-cap rotation are now starting to lose steam, if not reverse entirely. This is opening up the playing field for investors to explore a broad swath of the market, including small- and midcap stocks.

## Six Reasons to Look at Smidcaps Today

We think there are at least six reasons investors should pay attention to smidcap stocks today.

### 1. Diversification and 2. Valuation

The first two relate to the fact that the stock-to-bond correlation has turned positive once again (exhibit 3). This is highly significant because it means that bonds no longer provide investors with the same amount of downside return protection that they did when the correlation was negative.



When this correlation was negative, it allowed investors to run very concentrated portfolios and feel safe in the knowledge that by also investing in U.S. Treasuries, they were receiving downside protection. The positive correlation today means this is no longer the case. As a result, investors will need to work a little harder to actively self-insure their portfolios.

We think there are two main ways to achieve this: diversification and valuation.

Diversification necessitates seeking greater protection via exposure to a broader range of equities and assets. This includes sectors that might previously have been ignored (e.g., financials or industrials) as well as a shift toward smaller- and midcap stocks.

The second way these stocks can help provide protection is through attractive valuations.

Over the last few years, valuation as an investment factor has been largely ignored. The growth in passive investment—which by definition is valuation-agnostic—has meant that increasingly more investment flows have been funneled into stocks with the greatest momentum

and positive earnings revisions. Today, without the support from the bond market, investors will need to pay more attention to valuation as a necessary factor in building an adequate risk premium.

From this perspective, both small- and midcap stocks look very attractive. The current 12-month forward P/E on the S&P 500 is 22.2x (24.8x trailing), which compares to a 16.1x (17.8x trailing) multiple for the S&P 400 and a 15.5x (17.2x trailing) P/E ratio for the S&P 600.

As exhibit 4 shows, the relative valuation is still outside its historical range and has only ever been as low as it is today back in the late 1990s. This is indicative of a significant margin of safety, where plenty of bad news has already been priced into smidcaps, giving them less downside risk. Other valuation metrics such as price-to-book value (exhibit 5) and price-to-sales look similarly attractive (exhibit 6).

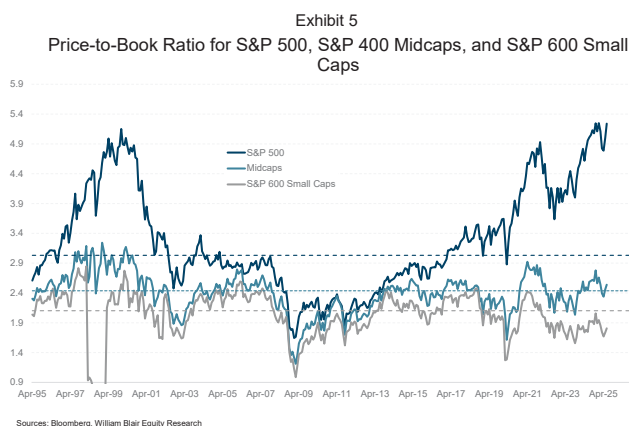
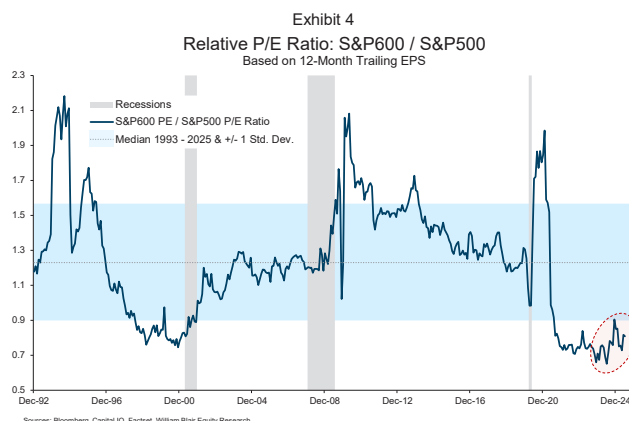


Exhibit 6

Price-to-Sales Ratio for S&P 500, S&P 400 Midcaps, and S&P 600 Small Caps



### 3. Interest Rate Cycle

A second feature helping make the smidcaps once again look more appealing is the likelihood of further Fed easing in the coming months. The market is currently pricing in easing of 50 basis points through the end of 2025 and a further 75 basis points in 2026, with the fed funds rate eventually settling down close to 3%.

Notably, despite the views of the president, the Fed is in sync with the economic cycle. These cuts are intended to remove unnecessary monetary policy restrictiveness and return the fed funds rate to a more neutral setting. Rate cuts are not being undertaken to reignite an economy that has plunged into recession.

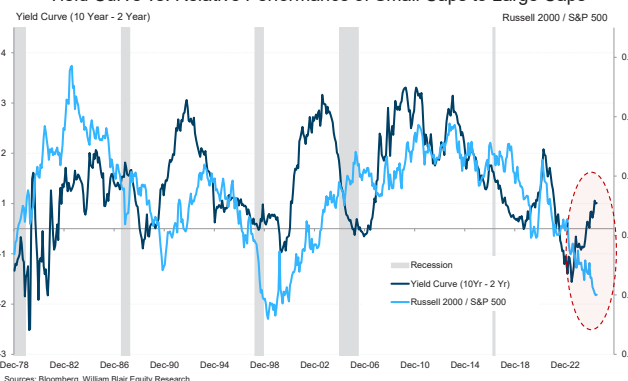
For the yield curve as a whole, the impact is likely to be more of a bull steepener event (short rates falling faster than long rates). It is also possible that the rapidly growing adoption of stablecoins helps to further steepen the yield curve in the coming years, given the necessity of matching token issuance 1:1 with T-bills.

Such a bull steepener is likely to benefit the smaller- and midcap stocks more than the large caps, given that they are far more dependent on short-term floating rate debt and bank loans than are the large-cap stocks. Hence, smidcap stocks are much more sensitive to developments in the domestic credit market than the larger-cap stocks, which can both issue longer-term debt and borrow across foreign capital markets.

Exhibit 7 shows that the recent steepening of the yield curve has so far not been supportive for the smidcaps relative to the large caps, which is unusual and could, therefore, start to change in the coming months.

Exhibit 7

Yield Curve vs. Relative Performance of Small Caps to Large Caps

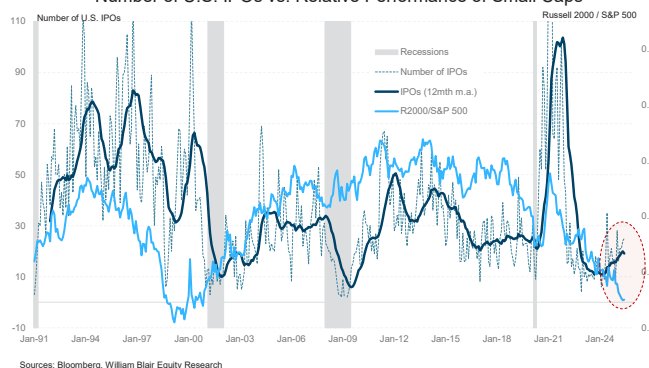


### 4. Capital Markets

It is always tough to predict the capital market environment, but investing in smidcap stocks is often synonymous with a strong market for initial public offerings (exhibit 8). Both are indicative of investors' willingness and ability to take risk, and both are also often dependent on the fiscal and monetary policy environment.

Exhibit 8

Number of U.S. IPOs vs. Relative Performance of Small Caps



Over the last few quarters, we have begun to see what looks to be a thawing in the market for IPOs, following the pandemic-related surge. Investors have begun to get a little more clarity into the economic policies of the Trump administration and do not share the same level of concern that was apparent during the first quarter of the year. The return of the Fed easing cycle will also be supportive.

Success also breeds success, and the recent launches of companies such as Coreweave and Circle have been reassuring to bankers and investors of improved market liquidity. This could encourage more private equity funds

to bring portfolio assets to the market as they too increasingly look for exit routes.

Meanwhile, the corporate sector is in good shape (high cash levels and historically low debt ratios). Along with some improvement in consumer and corporate sentiment, this should help to encourage more M&A, which in the past has similarly been associated with a strong environment for small- and midcap stocks.

## 5. Trump Policies

The goal of all the policies being taken by the Trump administration is to boost domestic economic growth. As small- and midcap stocks are often more domestically oriented, these policies should prove to be supportive for them—to the extent that they work.

One of the most powerful of these factors is deregulation, which is a central tenet of the Trump platform. Regulation has been a very effective moat for larger companies, which have had the capacity to more efficiently navigate compliance. Reducing the regulatory burden, therefore, should disproportionately help the smaller companies that have been suffocated by it.

The impact from tariffs is as of yet unclear; however, their goal is to make domestic suppliers more competitive relative to global ones. The policy penalizes many of the larger, more internationally focused companies that sell their products abroad and source input materials internationally. Once again, these changes could help tilt the needle in the direction of smaller- and midcap stocks, compared to the large.

The One Big Beautiful Bill Act also adds some support to domestic economic growth, by increasing the 100% bonus depreciation allowance and making permanent several other corporate income tax allowances, such as the 20% pass-through deduction and the section 179 expensing limit increase (to \$2.5 million from \$1 million). These will importantly help reduce the domestic tax burden for many smaller companies, which are typically less well equipped to avoid these taxes than the large companies that are often more adept at tax mitigation.

## 6. AI and Blockchain

Lastly, we are cautiously optimistic on the role that AI can play in helping to level the playing field for small- and midcap companies.

Previously, there was a wide moat in the form of larger-cap companies' ability to recruit and retain computer programmers to enhance their operations; today, much of this work is increasingly being achieved by AI, without the need for a football field full of coders. This provides smaller companies a greater ability to compete.

Similarly, there may be less need to hire more talent for various low-productivity tasks, which can now be achieved through AI, including: customer service, repetitive report writing, accounting work, and some forms of marketing, which may also not require the deep databases that some of the largest companies have.

The blockchain and the emergence of stablecoins might also help to significantly reduce costs for smaller companies, as they offer ways to conduct financial transactions faster, cheaper, and in a more secure manner with reduced regulatory hurdles, compared to companies previously working with more traditional banks.

## Conclusion

The tectonic plates are shifting across the economy and financial markets. There are many reasons these changes should also bring with them opportunities for small- and midcap companies. These include:

- a greater need for equity portfolio diversification;
- more attention being paid to valuation where these companies are very attractively valued;
- declining interest rates and a steeper yield curve;
- improving capital markets activity; and
- more domestically oriented policy choices coming out of Washington, including tax reduction policies.

In addition, AI and the emergence of stablecoins could be a game changer here. They could help to disproportionately reduce many costs to the midcap companies relative to the large. In short, the case for midcaps continues to build.

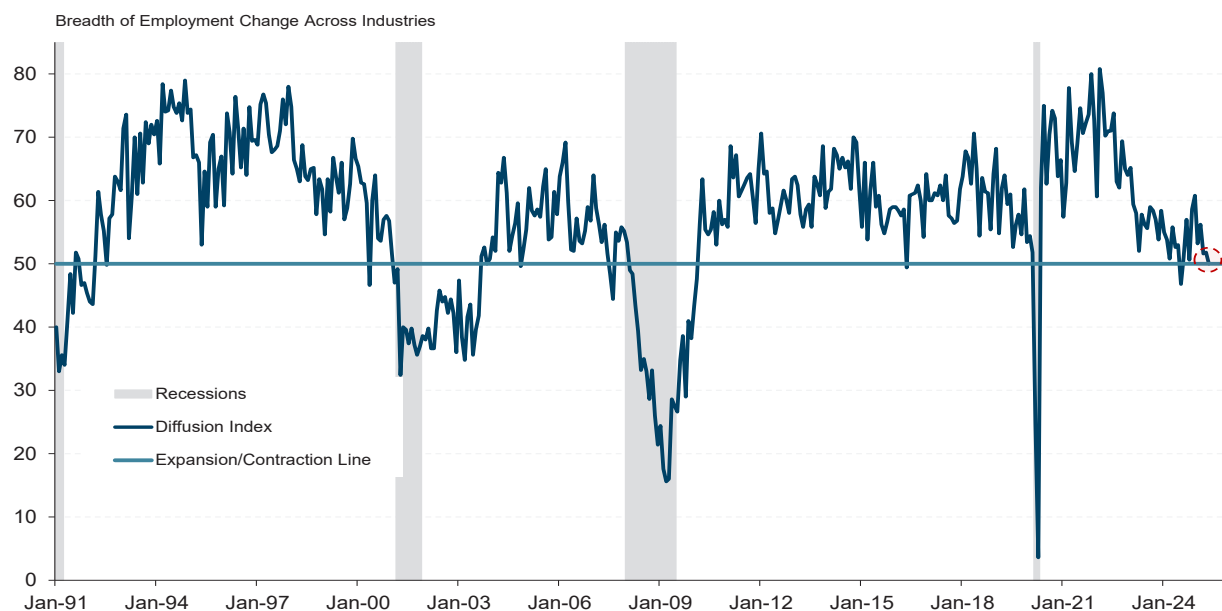
## Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
29 Jul	8:30 a.m.	Advance Trade Balance (June)	-\$96.4bn	-\$98.0bn	NA	
29 Jul	8:30 a.m.	JOLTS Report (June)	7769K	NA	NA	
29 Jul	10:00 a.m.	Consumer Confidence (July)	93.0	95.9	94.8	
30 Jul	8:30 a.m.	GDP Second Quarter (Advance)	-0.5%	2.5%	2.7%	
30 Jul	2:00 p.m.	FOMC Meeting (Upper Band)	4.5%	4.5%	4.5%	
31 Jul	8:30 a.m.	Personal Income (June)	-0.4%	0.3%	0.3%	
		Personal Spending	-0.1%	0.4%	0.5%	
31 July	8:30 a.m.	Employment Cost Index (Q2)	0.9%	0.8%	0.8%	
1 August	8:30 a.m.	Nonfarm Payrolls (July)	147K	118K	95K	
		Unemployment Rate	4.1%	4.2%	4.2%	
		Average Hourly Earnings	0.2%	0.3%	0.3%	
1 August	10:00 a.m.	ISM Manufacturing (July)	49.0	49.8	49.0	

Sources: Bloomberg, William Blair Equity Research

## Indicator of the Week: Employment Situation

### How Diverse Have Job Gains Been Across Private Industries? Employment Diffusion Index (1-Mth Span)



Figures are the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.  
Sources: BLS, William Blair Equity Research



## Economic Scorecard

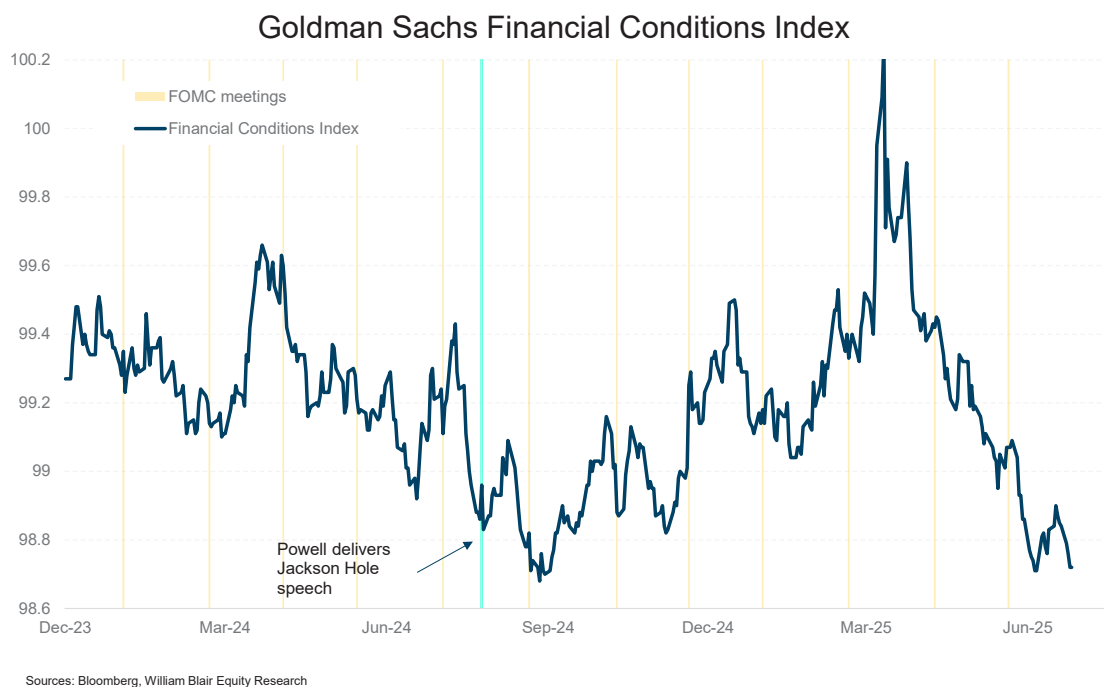
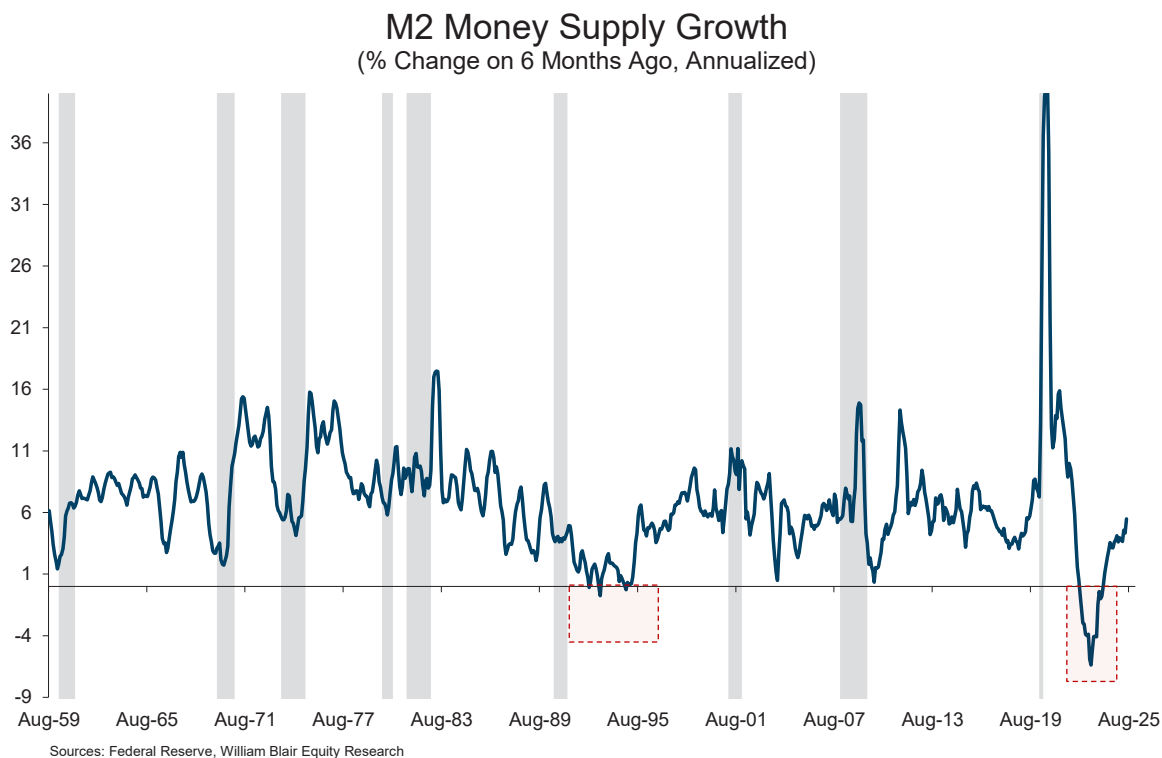
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
<b>Growth</b>																			
US Leading Indicators	-7.0	-6.5	-5.5	-5.4	-5.0	-4.5	-4.7	-4.6	-4.3	-3.7	-3.0	-3.0	-2.7	-3.0	-3.5	-4.3	-3.9		
US Coincident Indicators	1.6	2.0	2.1	1.7	1.9	2.1	1.7	1.7	1.6	1.6	1.3	1.7	1.5	1.5	1.9	2.0	1.6		
US Lagging Indicators	1.2	1.2	1.2	1.4	1.2	1.1	1.0	0.8	0.3	0.1	0.0	0.1	-0.1	0.1	-0.1	0.0	0.8		
<b>Consumer</b>																			
Total Retail Sales	0	2	3.4	2.6	2.8	2.3	3	1.9	2	3.1	3.9	4.6	4.6	3.9	5.1	5.0	3.3	3.9	
Personal Income	6	5.9	5.9	5.7	5.5	5.4	5.3	5	4.8	5.2	5.1	5.2	4.3	4.6	4.7	5.3	4.5		
Real Disposable Personal Income	3.7	3.3	3.1	2.8	2.8	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.3	1.5	1.9	2.7	1.7		
Real Personal Consumption	1.9	2.1	2.7	2.4	2.8	2.9	2.9	2.9	3.2	3.1	3.1	3.1	2.9	2.5	2.8	2.9	2.2		
Personal Saving Rate (%)	5.5	5.4	5.2	5.1	4.9	4.8	4.3	4.2	3.8	4.1	3.9	3.5	4.2	4.4	4.4	4.9	4.5		
Consumer Confidence (Conference Board)**	110.9	104.8	103.1	97.5	101.3	97.8	101.9	105.6	99.2	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	93	
<b>Employment</b>																			
Employment Growth	1.5	1.4	1.5	1.5	1.4	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.2	1.1	1.1	1.1	1.2	
ASA Temporary Staffing Index	-12.2	-9.4	-8.2	-9.3	-10.2	-9.9	-12.5	-12.2	-12.0	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	-5.3	
ISM Employment Index Manufacturing*	47.2	46.1	47.5	48.2	50.4	48.4	43.6	45.8	44.6	44.8	48.1	45.4	50.3	47.6	44.7	46.5	46.8	45	
ISM Employment Index Services*	50.2	48	48.5	46.6	47.5	46.7	51	49.6	48.2	52.2	50.9	51.3	52.3	53.9	46.2	49	50.7	47.2	
Unemployment Rate, %	3.7	3.9	3.9	3.9	4	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4	4.1	4.2	4.2	4.2	4.1	
Average Hourly Earnings	4.3	4.2	4.2	4	4.1	3.9	3.6	4	3.9	4.1	4.2	4	3.9	3.9	3.9	3.8	3.8	3.7	
Initial Jobless Claims (avg. wkly. chg. '000s)	210	211	216	210	222	237	237	230	225	236	219	222	218	227	223	226	235	241	
Job Openings	-18.5	-14.2	-15.5	-23.7	-15.1	-19.4	-12.8	-17.6	-23.5	-10.9	-7.3	-12.5	-8.3	-11.4	-11.0	-2.9	-1.7	4.8	
Layoff Announcements	-20	8.8	0.7	-3.3	-20.3	19.8	9.2	1	53.4	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	-1.6	
<b>Housing Market</b>																			
Housing Starts	1.5	10.9	-4.7	2.3	-16.9	-6.6	-13.4	5.6	-1	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.9	-4	-0.5	
New Home Sales	4.8	3.5	6.3	8.1	-10	-0.4	1.1	7.4	5.3	-8.8	10.7	11.7	-2.8	-2.4	-4.8	0.4	-6.3		
Existing Home Sales	-2.0	-3.4	-3.3	-2.6	-3.1	-5.1	-2.5	-3.7	-3.0	3.1	6.7	9.7	2.3	-0.9	-2.4	-2.0	-0.5	0.0	
Median House Price (Existing Homes)	5.4	-2.9	-0.6	-0.5	-1.6	-0.9	-1.6	-8	-1.2	2.1	-7.4	1.1	-0.2	-1.4	-7.5	-0.9	3	3	
Existing Homes Inventory (Mths' supply)	3.5	3.3	3.5	3.5	3.5	3.8	3.7	3.9	4	3.9	3.8	3.7	3.9	3.8	4.2	4.3	4.3	4.4	
New Homes Inventory (Mths' supply)	8.1	8.4	8.1	7.7	8.5	8.4	7.9	8.2	7.9	9.3	8.7	8.2	9	9.3	9.2	8.3	9.8		
NAHB Homebuilder Sentiment*	44	48	51	51	45	43	41	39	41	43	46	46	47	42	39	40	34	32	33
<b>Inflation</b>																			
Consumer Price Index	3.1	3.2	3.5	3.4	3.3	3	2.9	2.5	2.4	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7	
CPI Less-food & energy	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	
Producer Price Index	1.0	1.6	2	2.3	2.5	2.9	2.4	2.1	2.1	2.8	2.9	3.5	3.8	3.4	3.2	2.5	2.7	2.3	
PPI Less-food & energy	2.0	2.1	2.3	2.5	2.7	3.3	2.6	2.8	3.3	3.6	3.4	3.7	3.9	3.7	3.9	3.1	3.2	2.6	
PCE Price Index	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.6	2.7	2.3	2.2	2.3	2.3	
PCE Prices Less-food & energy	3.1	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.7	2.9	2.7	2.6	2.7	2.7	
<b>Business Activity - US</b>																			
Industrial Production	-1.2	-0.1	-0.3	-0.8	0.0	0.9	-0.5	-0.1	-0.7	-0.4	-0.9	0.4	1.4	1.2	1.1	1.3	0.7		
New Cap Gds Orders less-aircraft & parts	-2.5	2.2	-1.5	2.1	-2.8	-4	-0.6	-1.8	0.5	0.2	-1.1	1.9	3.3	-0.9	2.2	0.5	2.1		
Business Inventories	-0.1	-0.2	0.3	0.2	0.6	1.2	1.5	2.1	2.1	1.9	2.2	2.6	1.9	2.5	2.3	2.5	2.2	1.7	
ISM Manufacturing PMI*	48.9	47.6	49.8	48.8	48.5	48.3	47	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49	48.7	48.5	49	
Markit US Manufacturing PMI*	50.7	52.2	51.9	50	51.3	51.6	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	52.9	
ISM Services Index*	53.2	52.2	51.3	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54	52.8	53.5	50.8	51.6	49.9	50.8	
Markit US Services PMI*	52.5	52.3	51.7	51.3	54.8	55.3	55	55.7	55.2	55	56.1	56.8	52.9	51	54.4	50.8	53.7	52.9	
<b>Business Activity - International</b>																			
Germany Manufacturing PMI Markit/BME*	45.5	42.5	41.9	42.5	45.4	43.5	43.2	42.4	40.6	43	43	42.5	45	46.5	48.3	48.4	48.3	49	
Japan Manufacturing PMI Jibun Bank*	48	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50.1	
Caixin China Manufacturing PMI*	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	
China Manufacturing PMI*	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	
UK Manufacturing PMI Markit/CIPS*	47	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48	47	48.3	46.9	44.9	45.4	46.4	47.7	
France Manufacturing PMI Markit*	43.1	47.1	46.2	45.3	46.4	45.4	44	43.9	44.6	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	48.1	
<b>Currencies***</b>																			
Euro (EUR/USD)	-0.4	2.2	-0.5	-3.2	1.5	-1.8	-1.6	1.9	5.3	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	10.0	
Renminbi (USD/CNY)	6.1	3.6	5.1	4.7	1.9	0.2	1.2	-2.3	-3.8	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	-1.4	
Yen (USD/Yen)	12.9	10.1	13.9	15.8	12.9	11.5	5.4	0.4	-3.8	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	-10.5	
Sterling (GBP/USD)	3.0	5.0	2.3	-0.6	2.4	-0.5	0.2	3.6	9.6	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	8.6	
Canadian \$ (USD/CAD)	1.0	-0.5	0.2	1.7	0.4	3.3	4.7	-0.1	-0.4	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	-0.5	
Mexican Peso (USD/MXN)	-8.6	-6.8	-8.2	-4.8	-3.8	7.0	11.2	15.8	13.0	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	2.3	
<b>US Equities</b>																			
S&P 500	18.9	28.4	27.9	20.8	26.3	22.7	20.3	25.3	34.4	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	13.6	
S&P 400 Midcap	3.0	11.1	21.3	14.9	23.9	11.7	13.5	16.9	24.8	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	5.9	
S&P 600 Smallcap	-0.1	4.5	13.8	10.4	18.1	6.6	12.0	15.1	23.5	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	2.8	
Russell 2000	0.8	8.3	17.9	11.6	18.3	8.4	12.5	16.7	24.9	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	6.2	

\* Diffusion Index, \*\*1985=100, \*\*\*Currencies - green/red = strengthening/weakening foreign currency vs dollar

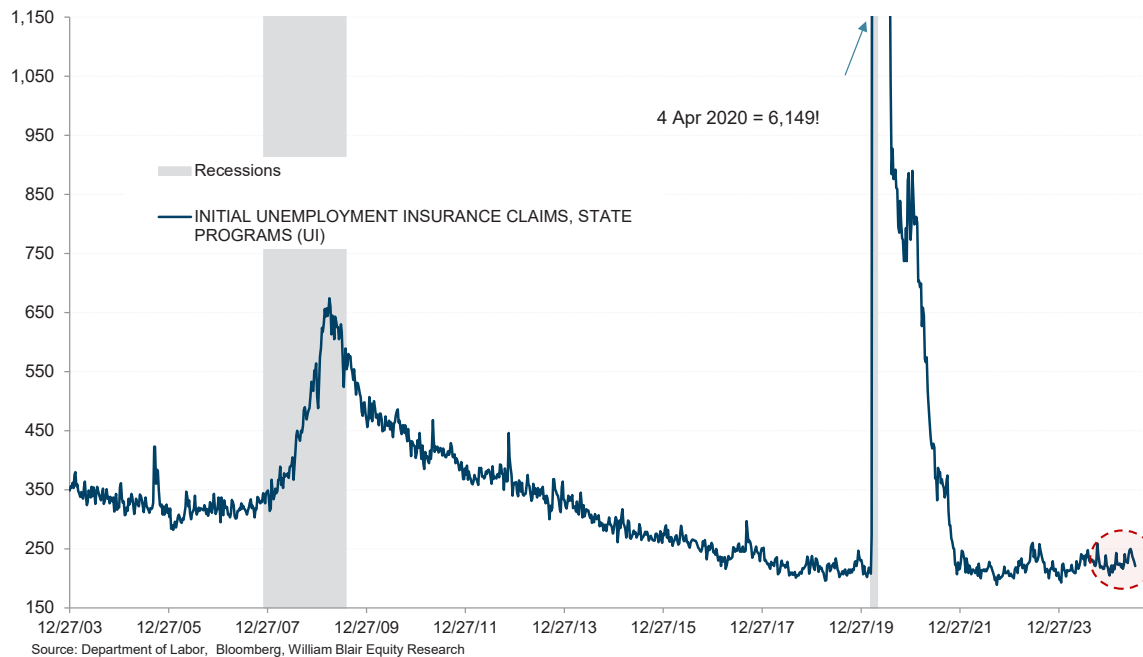
Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

## Other Economic Indicators

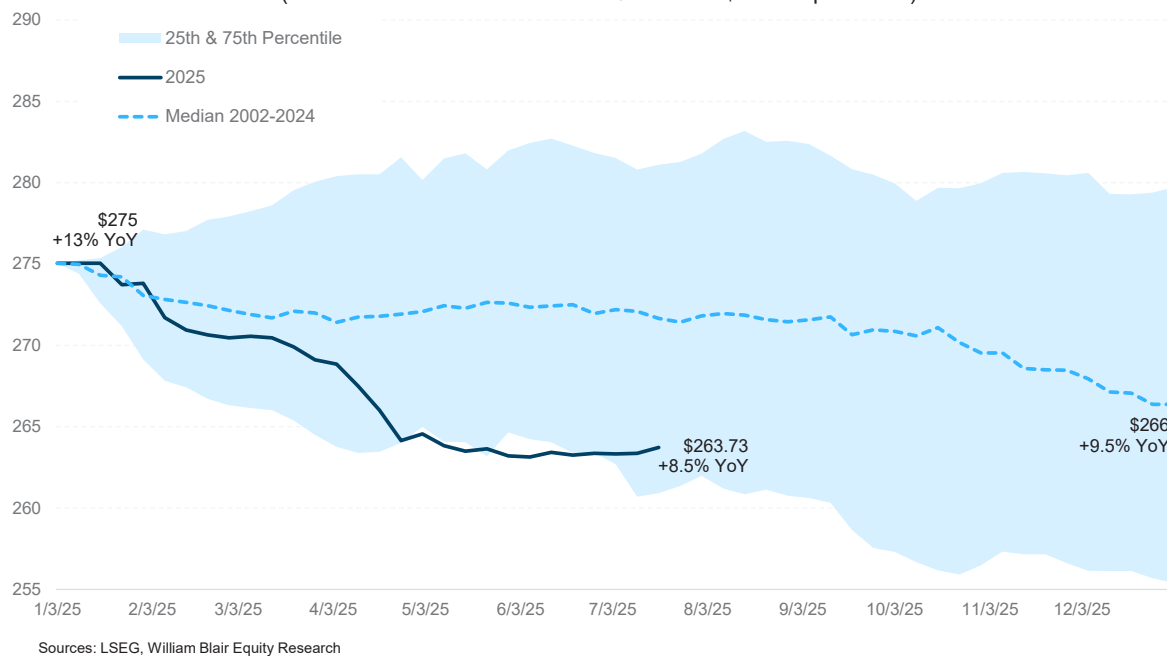




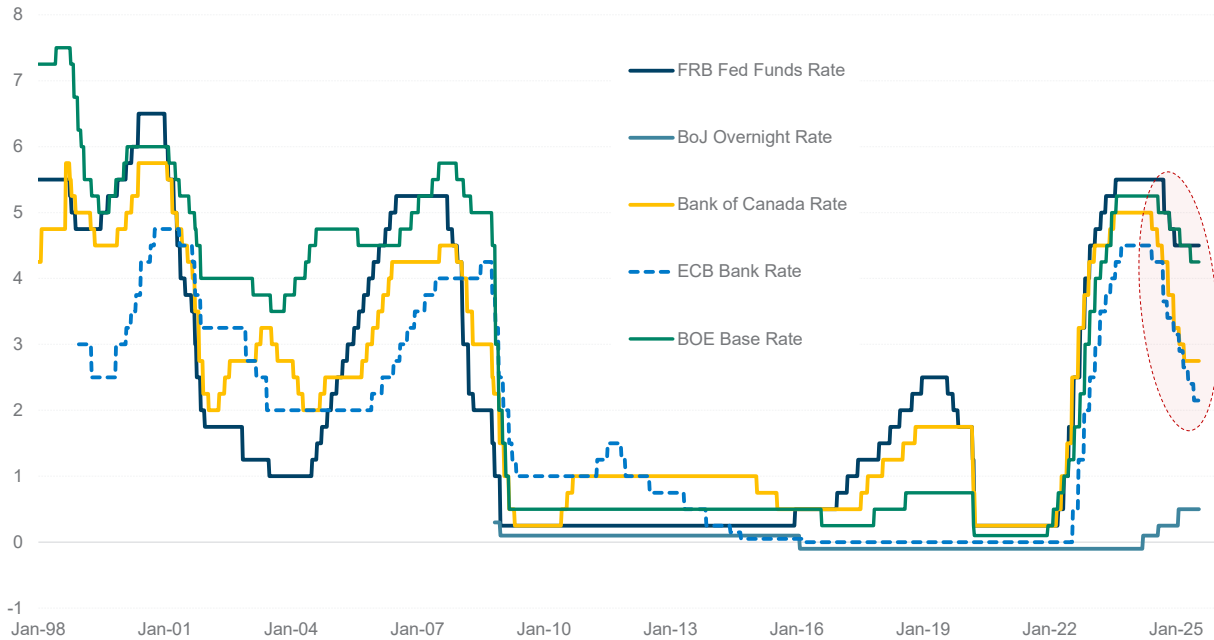
### Initial Jobless Claims (‘000s, Seasonally Adjusted)



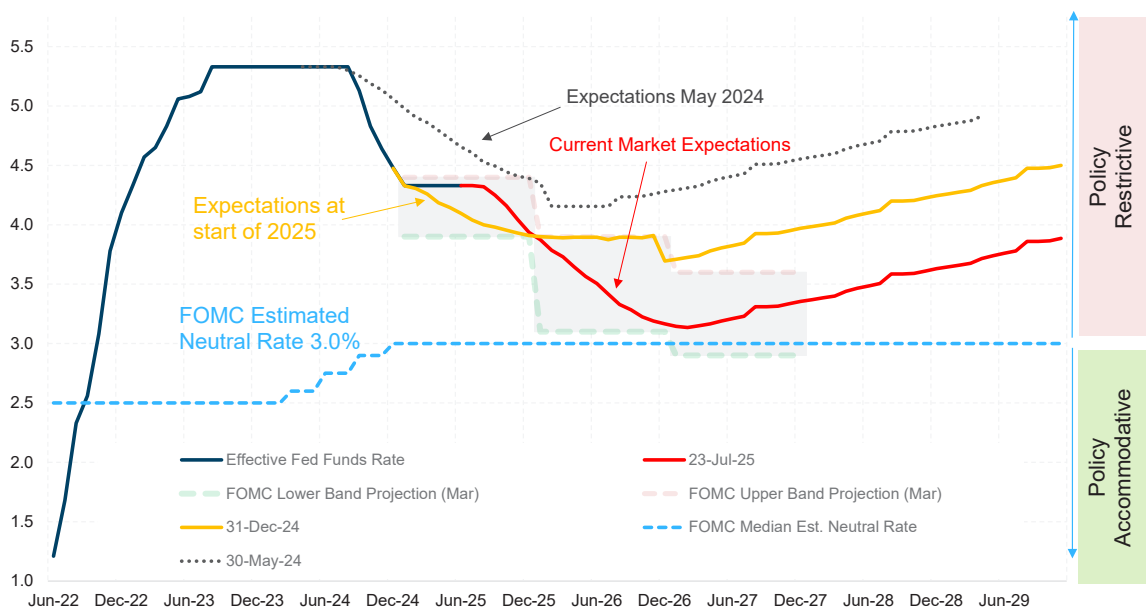
### Progression of S&P 500 2025 EPS Estimates, 2025 vs Median 2002-2024 (Rebased to Estimate at End of Q4 2024 of \$275.05 per share)



## Central Bank Target Short-Term Interest Rates, %



## Fed Funds Rate Futures Market Expectations & FOMC Projections, %



## S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 24-Jul-25	Week Ago 17-Jul-25	Month Ago 24-Jun-25	Qtr-to-Date 30-Jun-25	Year-to-Date 31-Dec-24
<b>S&amp;P 500 Index</b>	<b>100.00</b>	<b>1.05</b>	<b>4.45</b>	<b>2.55</b>	<b>8.19</b>
<b>S&amp;P 400 MidCap Index</b>		<b>0.50</b>	<b>3.59</b>	<b>2.79</b>	<b>2.19</b>
<b>S&amp;P 600 SmallCap Index</b>		<b>-0.44</b>	<b>3.27</b>	<b>2.69</b>	<b>-2.74</b>
<b>Dow Jones Industrials</b>		<b>0.47</b>	<b>3.72</b>	<b>1.36</b>	<b>5.05</b>
<b>Nasdaq Composite</b>		<b>0.83</b>	<b>5.75</b>	<b>3.38</b>	<b>9.05</b>
<b>Communication Services</b>	<b>10.05</b>	<b>2.18</b>	<b>5.04</b>	<b>0.79</b>	<b>11.49</b>
Advertising	0.11	6.10	3.71	4.53	-11.10
Broadcasting	0.06	0.59	2.92	1.03	18.09
Cable & Satellite	0.33	1.30	-0.97	-2.29	-2.62
Integrated Telecommunication Services	0.69	4.27	-0.18	-2.09	15.06
Interactive Home Entertainment	0.14	-1.01	-5.36	-5.81	12.69
Interactive Media & Services	6.73	3.44	8.26	3.38	9.48
Movies & Entertainment	1.45	-4.66	-3.65	-7.86	24.28
Publishing & Printing	0.03	-2.95	0.22	-1.49	7.48
Wireless Telecommunication Svcs	0.50	9.02	7.70	3.88	12.13
<b>Consumer Discretionary</b>	<b>10.96</b>	<b>1.43</b>	<b>3.84</b>	<b>2.84</b>	<b>-1.50</b>
Apparel Retail	0.33	3.64	2.49	3.34	0.66
Apparel & Accessories & Luxury Goods	0.11	0.09	6.72	5.48	-9.90
Auto Parts & Equipment	0.03	0.27	2.94	3.28	11.69
Automobile Manufacturers	1.95	-4.03	-8.94	-3.07	-22.06
Automobile Retail	0.28	5.72	7.31	5.33	17.76
Broadline Retail	4.52	3.79	9.18	5.93	6.24
Casinos & Gaming	0.11	0.37	13.34	12.33	3.61
Computer & Electronics Retail	0.03	-0.56	-2.25	0.24	-21.57
Consumer Electronics	0.08	2.80	12.99	11.02	12.34
Distributors	0.07	2.37	2.91	4.28	1.10
Footwear	0.19	3.39	19.24	5.48	-12.60
Home Furnishings	0.01	4.27	11.63	10.65	-2.63
Home Improvement Retail	0.90	3.73	3.27	1.73	-5.28
Homebuilding	0.21	6.51	7.87	8.01	-0.37
Hotels, Resorts & Cruise Lines	0.99	0.12	8.10	2.87	14.03
Leisure Products	0.02	-2.77	3.40	1.67	34.23
Restaurants	1.00	-2.17	-0.99	-2.26	2.44
Other Specialty Retail	0.10	4.57	10.75	11.30	14.36
<b>Consumer Staples</b>	<b>5.97</b>	<b>-0.50</b>	<b>-1.52</b>	<b>-1.01</b>	<b>4.03</b>
Agricultural Products	0.08	4.07	0.93	2.37	6.60
Brewers	0.02	1.05	5.50	5.78	-11.25
Distillers & Vintners	0.07	3.22	8.65	9.25	-20.09
Drug Retail	0.02	0.70	2.12	0.96	24.22
Food Distributors	0.07	2.50	5.26	5.44	4.45
Food Retail	0.09	0.22	-1.42	0.91	18.37
Household Products	0.95	1.69	-0.50	-0.36	-5.30
Packaged Foods & Meats	0.53	1.75	1.82	3.20	-1.16
Personal Products	0.11	2.08	8.16	7.47	8.50
Soft Drinks	1.08	-1.20	2.18	1.78	4.39
Tobacco	0.63	-6.75	-9.52	-8.14	27.44
<b>Energy</b>	<b>3.03</b>	<b>0.83</b>	<b>2.97</b>	<b>3.08</b>	<b>2.11</b>
Integrated Oil & Gas	1.52	0.62	4.45	4.92	3.94
Oil & Gas Equipment & Services	0.21	7.40	11.06	10.59	-3.41
Oil & Gas Exploration & Production	0.64	0.44	0.34	1.54	-1.13
Oil & Gas Refining & Marketing & Transportation	0.27	-1.73	3.69	3.88	15.35
Oil & Gas Storage & Transportation	0.40	0.46	-2.13	-4.67	-3.79

<b>Financials</b>	<b>13.72</b>	<b>1.01</b>	<b>2.76</b>	<b>1.18</b>	<b>9.67</b>
Asset Management & Custody Banks	1.19	1.75	13.46	9.70	8.00
Consumer Finance	0.68	-2.22	1.77	-1.46	10.57
Diversified Banks	3.31	2.69	6.57	3.72	18.44
Financial Exchanges & Data	1.25	0.02	3.31	1.89	15.43
Insurance Brokers	0.58	-0.73	-3.77	-3.05	1.06
Investment Banking & Brokerage	1.19	2.29	7.41	2.95	21.84
Life & Health Insurance	0.31	1.19	-0.87	-2.03	-3.37
Multi-Sector Holdings	1.16	1.52	-2.61	-1.06	6.03
Property & Casualty Insurance	1.03	-0.50	-4.47	-5.13	2.42
Regional Banks	0.29	1.02	8.28	4.92	6.05
Reinsurance	0.03	-0.64	-2.62	-2.35	-8.43
Transaction & Payment Processing	2.54	0.20	-0.32	-1.07	3.42
<b>Health Care</b>	<b>9.24</b>	<b>2.28</b>	<b>1.32</b>	<b>0.53</b>	<b>-1.49</b>
Biotechnology	1.57	1.80	5.76	5.17	9.05
Health Care Distributors	0.35	-0.32	-1.79	-3.55	26.50
Health Care Equipment	2.10	1.44	-1.09	-2.46	6.60
Health Care Facilities	0.16	-6.25	-10.08	-11.31	9.35
Health Care Services	0.37	-2.31	-8.07	-10.32	15.70
Health Care Supplies	0.08	2.09	4.00	3.03	-7.11
Life Sciences Tools & Services	0.88	9.12	10.32	10.20	-9.30
Managed Health Care	0.66	-4.34	-15.75	-17.57	-40.89
Pharmaceuticals	3.08	4.26	5.41	5.64	1.10
<b>Industrials</b>	<b>8.69</b>	<b>1.08</b>	<b>5.69</b>	<b>3.94</b>	<b>16.37</b>
Aerospace & Defense	2.21	0.88	7.53	4.07	31.42
Agricultural & Farm Machinery	0.25	3.11	0.11	1.21	21.47
Air Freight & Logistics	0.29	3.30	2.89	2.91	-14.48
Building Products	0.57	3.05	8.81	7.34	20.45
Cargo Ground Transportation	0.09	1.90	3.81	3.63	-7.02
Construction & Engineering	0.11	2.34	9.39	7.71	28.85
Construction Machinery & Heavy Trucks	0.61	2.89	11.58	8.45	11.23
Data Processing & Outsourced Services	0.05	6.66	4.63	4.10	11.90
Diversified Support Svcs	0.24	0.57	-1.84	-2.05	3.56
Electrical Components & Equipment	0.63	0.96	10.09	7.15	13.91
Environmental & Facilities Services	0.40	2.03	-0.88	0.79	15.11
Heavy Electrical Equipment	0.31	9.44	22.14	17.92	89.70
Human Resource & Employment Services	0.36	1.90	-1.82	0.20	3.77
Industrial Conglomerates	0.40	-5.93	-0.17	-3.01	4.65
Industrial Machinery	0.70	-1.22	3.64	2.35	2.62
Passenger Airlines	0.15	-3.87	10.04	9.63	-6.88
Passenger Ground Transportation	0.34	0.41	-0.85	-2.60	50.65
Railroads	0.47	-0.53	1.94	1.45	4.15
Research & Consulting Svcs	0.20	-2.15	-0.87	-1.63	5.15
Trading Companies & Distributors	0.29	4.96	11.72	10.69	18.55
<b>Information Technology</b>	<b>33.37</b>	<b>0.35</b>	<b>7.29</b>	<b>4.20</b>	<b>12.23</b>
Application Software	2.69	2.10	3.40	3.02	10.26
Communications Equipment	0.91	0.59	5.16	1.92	8.29
Electronic Components	0.31	2.54	8.87	5.83	40.36
Electronic Equipment & Instruments	0.16	0.78	8.29	6.15	6.25
Electronic Manufacturing Services	0.15	10.28	17.05	14.96	46.02
Internet Software & Services	0.11	1.02	-2.74	-3.29	-0.18
IT Consulting & Services	0.89	-3.93	-8.68	-8.76	-3.88
Semiconductor Equipment	0.75	-2.90	2.71	1.33	23.61
Semiconductors	12.13	-0.06	12.62	7.05	25.38
Systems Software	9.09	-0.14	4.27	2.58	21.13
Technology Distributors	0.04	0.46	0.55	1.25	3.90
Technology Hardware, Storage & Peripherals	6.13	1.77	6.88	4.19	-13.30
<b>Materials</b>	<b>1.88</b>	<b>1.52</b>	<b>3.60</b>	<b>3.17</b>	<b>8.30</b>
Commodity Chemicals	0.07	-8.42	-3.28	-0.79	-29.75
Construction Materials	0.13	4.14	3.91	4.97	8.91
Copper	0.12	0.27	6.12	2.84	17.07
Fertilizers & Agricultural Chemicals	0.14	1.21	0.36	-0.56	24.88

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Gold	0.12	6.07	5.89	5.58	65.26
Industrial Gases	0.52	1.99	2.68	1.57	10.15
Metal & Glass Containers	0.03	1.52	3.46	5.10	6.93
Paper Packaging	0.20	3.60	9.51	9.96	-4.60
Specialty Chemicals	0.46	0.54	2.42	2.41	0.88
Steel	0.09	-0.87	6.05	5.43	17.50
<b>Real Estate</b>	<b>2.05</b>	<b>2.58</b>	<b>1.05</b>	<b>3.15</b>	<b>4.91</b>
Data Center REITs	0.25	1.82	-7.38	0.91	-9.53
Health Care REITs	0.29	2.61	5.48	6.07	16.40
Hotel & Resort REITs	0.02	2.30	4.85	6.97	-6.22
Industrial REITs	0.18	3.09	1.46	4.37	3.80
Multi-Family Residential REITs	0.00	0.09	-0.51	0.42	-4.56
Office REITs	0.02	2.48	0.57	4.85	-4.87
Other Specialized REITs	0.12	0.98	-1.94	-0.41	4.16
Real Estate Service	0.15	6.64	8.86	8.81	18.73
Retail REITs	0.26	1.96	1.39	1.73	-0.66
Self-Storage REITs	0.15	1.68	-1.13	-0.40	-2.18
Single-Family Residential REITs	0.15	1.68	-1.13	-0.40	-2.18
Telecom Tower REITs	0.33	4.74	4.53	5.58	24.32
Timber REITs	0.03	0.00	-3.64	-0.03	-8.77
<b>Utilities</b>	<b>2.34</b>	<b>2.36</b>	<b>3.27</b>	<b>3.18</b>	<b>11.18</b>
Electric Utilities	1.50	1.62	2.68	2.77	10.45
Gas Utilities	0.05	1.57	0.81	2.33	13.24
Independent Power Producers & Energy Traders	0.14	7.40	8.19	4.31	36.62
Water Utilities	0.05	-1.19	-1.17	1.01	12.87
Multi-Utilities	0.61	3.43	4.24	4.17	8.06

\*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 44693.90

S&P 500: 6363.35

NASDAQ: 21058.00

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Market Perform (Hold)	28	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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