

MARKET INSIGHTS

from Ziegler Capital Management



Historically, Small Caps Lead the Way

Following the past five drawdowns of over 30%, stocks have put up significant returns with small caps outperforming large caps.

The first quarter of 2020 will long be remembered as one of the sharpest, fastest stock market declines in history, with the S&P 500 and Russell 2000 falling 19.6% and 30.6%, respectively. For the Russell 2000, this was the largest quarterly loss in its over 40-year history.

There have been five drawdowns of 30% or greater since 1987 with the average maximum drawdown of -43.2%, similar to this most recent drawdown. From an all-time high exhibited on February 20 through its decline on March 18, the Russell 2000 fell 41.9%. These current results are somewhat similar to two of the last small cap bear markets – March 9, 2000 through October 9, 2002(-46.0%) and July 13, 2007 through March 9, 2009 (-59.9%). These past periods were also part of economic recessions. Economic data confirming we are in a recession is not yet available for the current time period, but we assume that we are very likely there again.

While the COVID-19 pandemic has raised havoc in the world, there has been a significant monetary and fiscal response from the U.S. government with the potential for more relief. Similar actions are taking place around the world. Unlike 2008, initial balance sheet health is better for both consumers and financial institutions. While we are still likely in for some volatility until the pandemic is fully contained, the future results that followed the past five 30%+ drawdowns are significant for stocks in general, *but particularly for small cap stocks and less for large caps.*

	Average		Variance
	Russell 2000	S&P 500	
Max Drawdown	-43.21%	-32.59%	-10.62%
1-Year Forward From Max Draw	+56.39%	+38.47%	+17.92%
2-Year Forward From Max Draw	+79.89%	+55.22%	+24.67%

Source: Bloomberg, Russell, Standard and Poor's

Historically, small cap stocks typically lead the way out of recessions (9 out of the past 10 recessions) and we expect that to be the case again. While small cap stocks have underperformed their large cap brethren recently, they are poised to outperform when the economy turns the corner, especially one with massive monetary and fiscal stimulus. While not discounting the past, we think it is important for investors to look to the future as well.

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