

May 2026 small cap commentary for Candoris

US small cap growth market summary

Small Cap Growth Performance

- Small cap growth stocks, measured by the Russell 2000 Growth Index, were up 5.8% in May and are up 18.0% YTD in 2026.

Strong positive earnings growth expected for small caps in 2026

- The positive inflection in small cap earnings growth from 2025 has continued into 2026 and could potentially accelerate in the quarters ahead. *See Exhibit 1 and 2*

Small cap performance relative to large cap

- In May, the Russell 2000 Index was up 4.4% and slightly underperformed the Russell 1000 Index, which was up 5.1%. YTD the Russell 2000 Index is up 18.2% and is outperforming the Russell 1000 Index, which is up 10.9%.
- The rolling 10-year annualized relative return by small vs large is still in the 3rd percentile historically (zero being the worst relative performance and 100 being the best). *See Exhibit 3 for the Rolling 10-year Relative Performance of Small vs Large*
- Valuation of the small cap sector relative to large caps is in the 34th percentile historically (zero being the least expensive relatively and 100 being the most expensive). *See Exhibit 4*

Notable sector performance for the Russell 2000 Growth Index[^]

- The best performing sectors in the Russell 2000 Growth Index in May were Technology and Industrials, up 15.6% and 7.0%, respectively.
- The worst performing sectors in the Russell 2000 Growth Index in May were Energy and Consumer Staples, down 6.9% and 1.7%, respectively.

[^]Source Jeffries

Notable factor performance for the Russell 2000 Growth Index

- Similar to April, there was strong performance from companies in the top two quintiles of revenue growth in the Russell 2000 Growth Index in May, with the top quintile up 11.6% and the 2nd best quintile up 6.4% in the month.

Fed outlook

- Small cap stocks have historically experienced strong performance during Fed rate cut cycles. *See Exhibit 5*
- After cutting rates by 25bps at the September, October, and December meetings, the Fed has paused and held rates steady in 2026.
- As of early June, the market is expecting no additional cuts, and potentially one hike, in 2026, partly due to recent fears around inflation given the rise in energy prices due to geopolitical conflict.
- We believe small cap companies will continue to benefit from the easing done over the past couple years.

Small Cap Performance (%) (ending May 29, 2026)

	MTD	QTD	YTD	1-year	3-year	5-year
Russell 2000	4.4	17.1	18.2	43.1	20.3	6.6
Russell 2000 Growth	5.8	21.4	18.0	41.9	20.2	5.8
Russell 2000 Value	2.8	12.7	18.3	44.4	20.2	7.3

Source: Factset; 1, 3, 5-year performance annualized

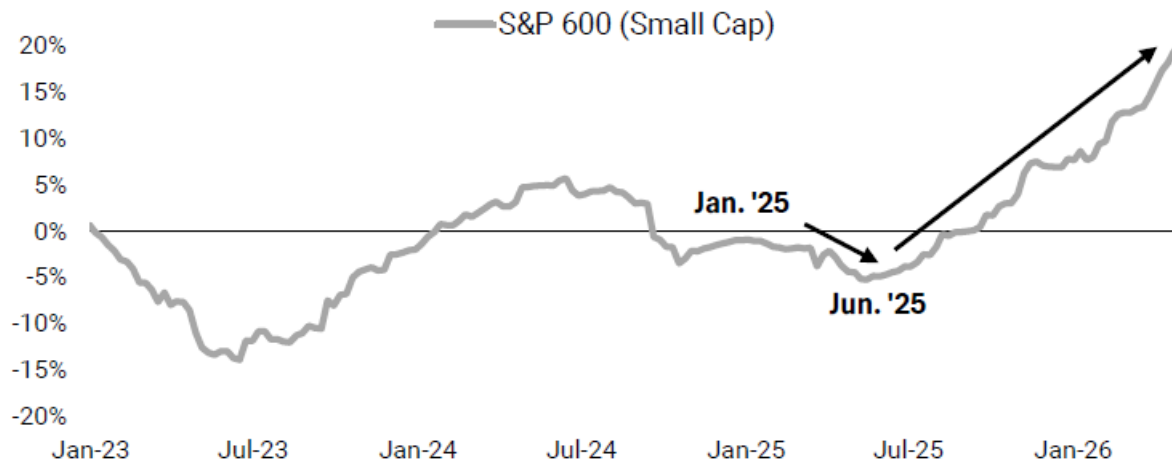
Exhibit 1. 2025 and 2026 Earnings Growth Estimates (as of 5/29/2026)

Earnings Growth (%)			
Quarter/Year	Small	Mid	Large
1Q25A	-4.9	-2.9	14.5
2Q25A	6.2	2.8	12.0
3Q25A	13.9	9.2	13.8
4Q25A	8.9	5.0	13.2
2025A	4.3	5.1	13.1
1Q26P	12.1	10.8	27.5
2Q26P	5.3	9.9	17.9
3Q26P	12.0	14.3	21.9
4Q26P	19.5	18.0	18.6
2026P	12.8	15.1	21.3

Source: FactSet; Standard & Poor's; Jefferies

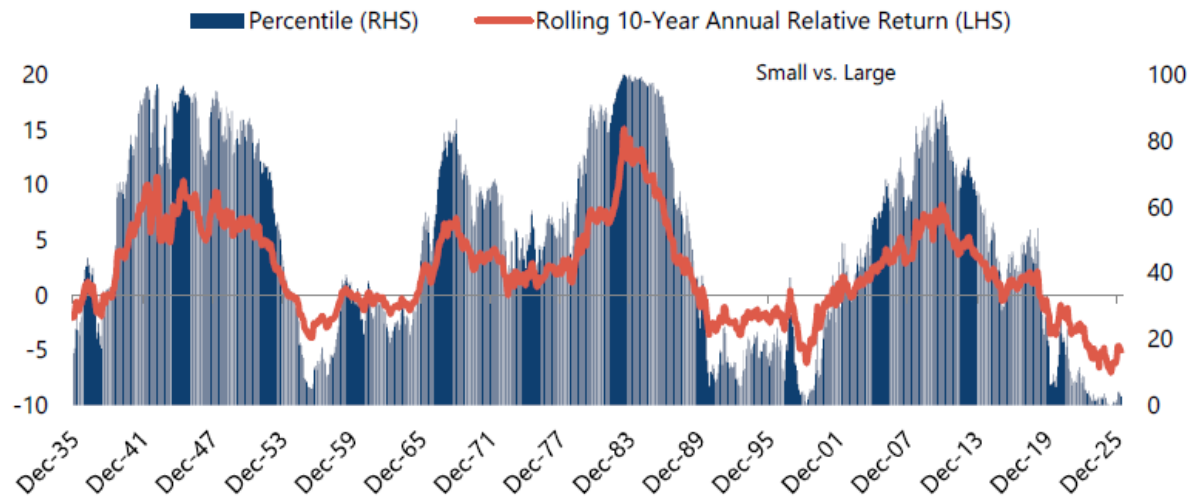
*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Exhibit 2: NTM Earnings Growth for S&P 600 Index



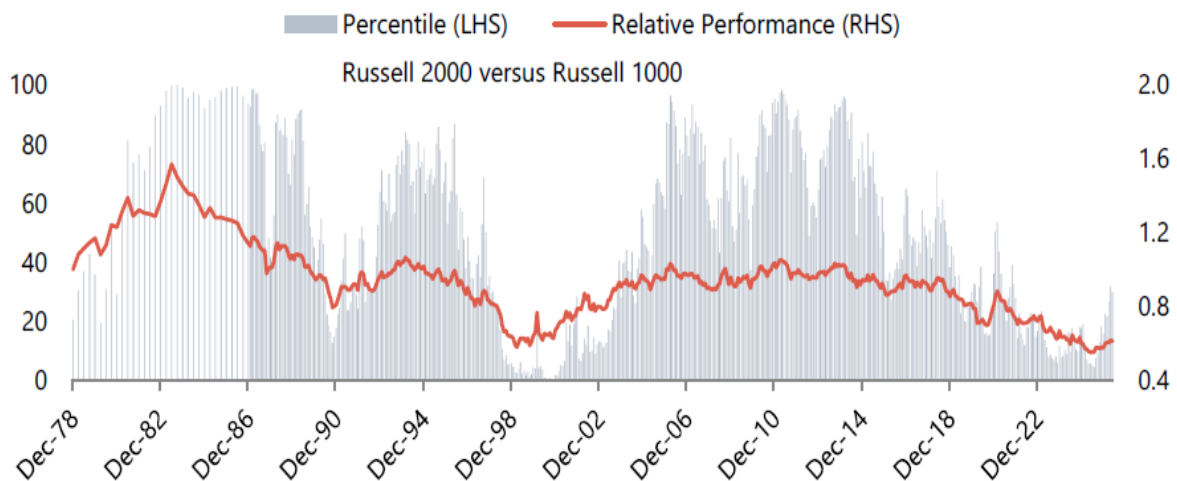
Source: FactSet, Morgan Stanley Research.

Exhibit 3. Rolling 10-year Relative Performance of Small Cap Stocks vs Large Cap Stocks



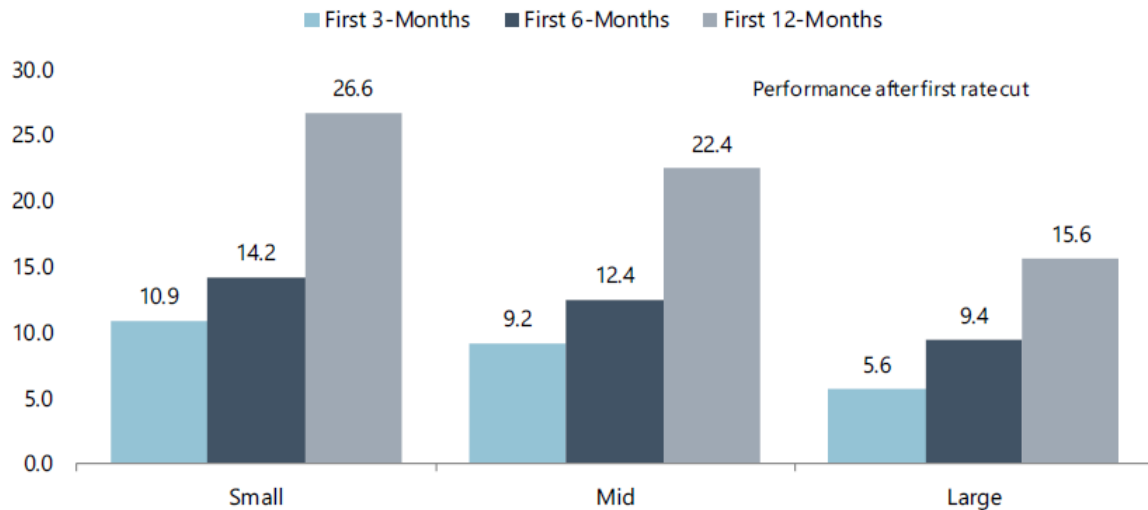
Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

Exhibit 4. Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000



Source: FactSet; FTSE Russell; Jefferies

Exhibit 5. Performance after first Fed interest rate cut



Note: Used Fed Funds from 1954 until 1963, then used the Discount rate from 1963 until 1994 and Fed Funds rate after that.

Source: Federal Reserve Board; Haver Analytics; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

†Past performance is not an indicator of future performance. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The Russell 1000 Index is a U.S. stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index.

Next Century Growth small cap summary

NCG Small Cap Performance update

- The NCG US Small Cap Growth Fund was up 12.7% in May (gross of fees) and YTD is up 31.7% (gross of fees).

Portfolio Positioning – Source: Factset		
Sector	Relative Weight	Industry Exposure
Basic Materials	Overweight	Aerospace, general industrial, rare/critical minerals
Consumer	Underweight	Education, restaurants, off-price retail, consumer goods
Financials	Underweight	Currently no exposure
Health Care	Underweight	Medical device, diagnostics, pharma, managed care, health care services
Industrials	Overweight	Aerospace & defense, infrastructure construction, industrial manufacturing, transportation logistics
Technology	Overweight	Semiconductors, semicap equipment, AI infrastructure, software, IT services

Small Cap Outperforming YTD

- We continue to be encouraged by signs suggesting that the market is broadening out as well as the YTD outperformance from small cap stocks.
- We continue to believe conditions remain favorable for continued market broadening and small cap stock performance. First, small cap earnings growth turned positive during 2025 and growth is expected to stay positive and potentially accelerate in 2026. This continues to be the case as of early June. Secondly, there has been significant easing from the Fed over the past year and small caps have historically been a prime beneficiary during rate-cutting cycles. We expect easier financial conditions to translate into improving business fundamentals as we go through the year. Finally, small cap stocks continue to trade at attractive valuations relative to large cap stocks. Combined with an improving fundamental backdrop, we believe this presents further opportunities in small caps.

Investment Philosophy

- As a reminder, we seek to invest in the fastest growing and highest quality companies in America.
- We believe a portfolio consisting of high-quality growth companies, combined with a strong sell discipline, will lead to both compounding of portfolio value and better performance over the unmanaged index over the long-run.