MARKET MINUTE
With McGAREL

Dave McGarel, CFA, CPA
Chief Investment Officer

November 2024

In a family, the mantra goes, the middle child gets less attention than the oldest child or the baby of the family. That phenomenon may as well apply in the equity markets as well. Large cap stocks have gotten the most love over the last five years. They have also delivered superior returns. Given the performance of large caps in recent years it may surprise many to know mid cap stocks have actually produced better earnings per share growth than large caps over the last five years (see Chart 1). Large caps have outperformed due to multiple expansion. Small cap stocks, meanwhile, are currently being considered an attractive opportunity especially if the Federal Reserve continues to cut interest rates. And, stuck in the middle, mid cap stocks are rarely talked about.

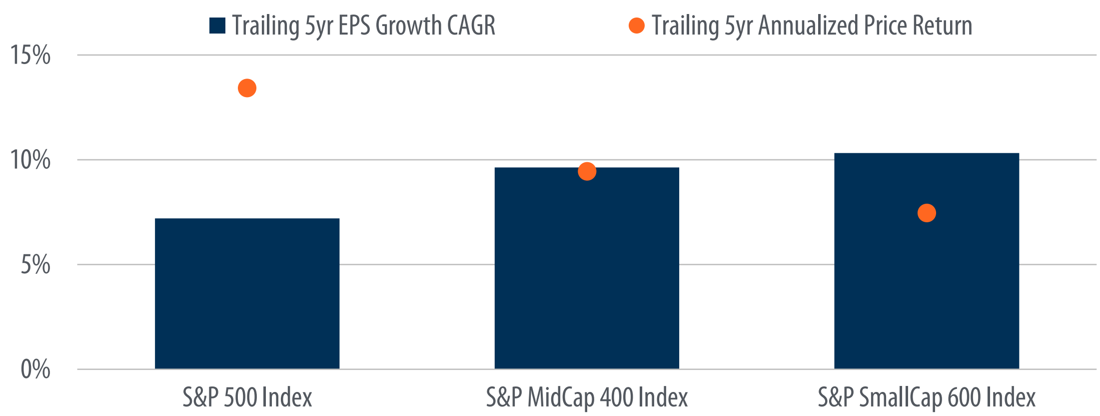
Yet they may be better positioned than both their large and small cap siblings.

Currently, the mid cap index trades at essentially the same forward P/E multiple (17x) as small cap stocks and at a significant discount to the large cap index (see Chart 2). Yet mid cap stocks, as measured by the S&P MidCap 400 Index, are expected to grow earnings faster than large cap stocks in the coming year. From a quality perspective, the mid cap index also has a superior median return on equity (ROE) profile versus the small cap index.

To sum up, mid cap stocks offer a cheaper alternative to large caps along with better forecasted earnings growth. Relative to their smaller cap peers they are more profitable, higher quality businesses, yet trade at a comparable valuation.

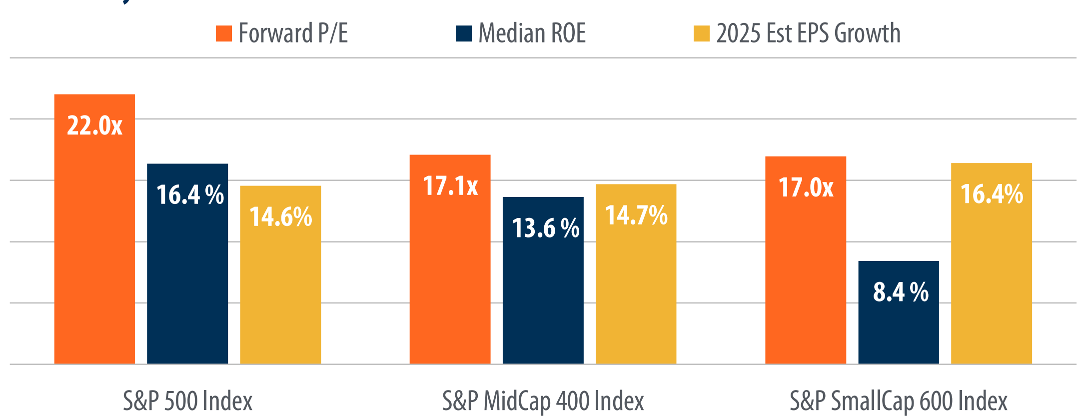
Maybe being "stuck in the middle" isn't so bad after all!

Chart 1: Trailing 5 Year Price Return and EPS Growth of S&P Indexes



Source: Capital IQ, S&P, Bloomberg. Data from 10/31/2019 - 10/31/24.

Chart 2: Key Stats for S&P Indexes



Source: Capital IQ, S&P, FactSet, Bloomberg. Data from 10/31/24.

Past performance is no guarantee of future results.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **S&P SmallCap 600 Index** is an unmanaged index of 600 stocks used to measure small-cap U.S. stock market performance. The **S&P MidCap 400 Index** is an unmanaged index of 400 companies used to measure mid-cap U.S. stock market performance. **Earnings per share (EPS)** is calculated as a company's profit divided by the outstanding shares of its common stock Investors cannot invest directly in an index. **Forward price-to-earnings** of a stock is the price divided by the estimated EPS for the next 4 quarters.

Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.