

2022 has been a challenging year for growth equity performance. Tightening financial conditions combined with continued supply chain issues and elevated commodity prices have increased recession fears and led to the worst performance across markets in over a decade. While headwinds remain, we find smaller caps attractive.

- Lower caps tend to lead out of drawdowns
- Asset valuations look attractive relative to large caps
- Smaller companies are well-positioned to weather the current environment

Lower caps tend to lead larger caps out of significant market drawdowns.

S&P500 Drawdowns

12 Month Forward Returns from Max Drawdown

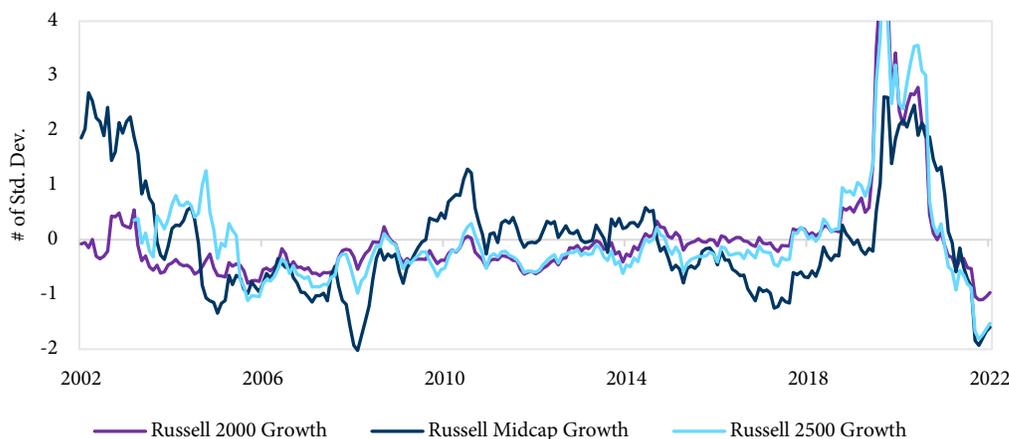
- Since 1995, the S&P has experienced 5 drawdowns greater than 10% (excluding the current).
- After the market bottoms, smaller cap indices have outperformed their larger counterparts over the next 12 months by over 1000bps on average.

Dates	Max Drawdown	Russell 2000 Growth	Russell Midcap Growth	Russell 2500 Growth	Russell 1000 Growth	S&P 500
6/30/1998 - 11/30/1998	-15.4%	43.2%	48.9%	51.2%	48.3%	39.8%
9/30/2000 - 10/31/2006	-44.7%	41.7%	38.9%	41.6%	25.9%	24.4%
11/30/2007 - 3/31/2012	-50.9%	61.7%	67.0%	66.2%	54.1%	53.6%
10/31/2018 - 4/30/2019	-13.5%	28.4%	35.5%	32.7%	36.4%	31.5%
1/31/2020 - 7/31/2020	-19.6%	90.2%	68.6%	87.5%	62.7%	56.3%
Average	-28.8%	53.1%	51.8%	55.8%	45.5%	41.1%

Asset valuations in smaller cap indices look attractive relative to large cap.

The 12-month forward P/E of the Russell 2000 Growth, Russell 2500 Growth, and Russell Midcap Growth have fallen significantly since the beginning of the year, down approximately 40%.

Forward P/E Relative To Russell 1000 Growth



- Relative to the Russell 1000 Growth, the forward P/E of the Russell 2000 Growth trades at a 31% discount to its longer-term average, the Russell Midcap Growth at a 13% discount, and the Russell 2500 Growth at a 25% discount.
- The Russell Midcap Growth and Russell 2500 Growth are more than one standard deviation below their average, and the Russell 2000 Growth is just under one standard deviation.

Russell 2000 Growth and Russell Midcap Growth standard deviations based on 11/30/2002 – 10/31/2022. Russell 2500 Growth standard deviation is based on 12/31/2003 – 10/31/2022

Smaller companies are well-positioned to weather the current environment.

- Smaller caps tend to be more domestic focused and have lower international exposure. The US economy is faring better than the EU and emerging markets, which are slowing at a faster pace. The dollar strength also impacts revenues and earnings of larger multinationals, while smaller companies typically don't face the same currency headwinds.

At Congress Asset Management we think lower cap stocks present an attractive opportunity. However, not all companies are created equal, and we believe a focus on high-quality, profitable companies with established growth profiles remains key in this environment.

Sources: Congress Asset Management, Bloomberg as of 10/31/2022

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