

Big Reasons to Think Small: Volume II

In December 2023, Bahl & Gaynor published “Big Reasons to Think Small” which took an initial look at opportunities in the small and mid (smid) capitalization equity space. We revisit the smid opportunity, as it is often an overlooked component of investor portfolio allocations.

Bahl & Gaynor has been operating strategies in this space via our fundamental dividend growth philosophy for over a decade. We highlight, in our view, three compelling characteristics of smid equity exposure today: valuation, diversification, and potential earnings inflection.

1. Valuation

PERSPECTIVE

Large cap and growth style categories currently possess the highest valuation levels, as measured by next 12-month (NTM) P/E ratio, relative to the 20-year average (pictured to the right). Conversely, the small and mid-cap range of both the blend and value style categories are much closer to their 20-year average valuation levels.

KEY TAKEAWAY

Investors seeking unassuming valuations may find allocation opportunities in the smid cap range of portfolios exhibiting both blend and value style categories.

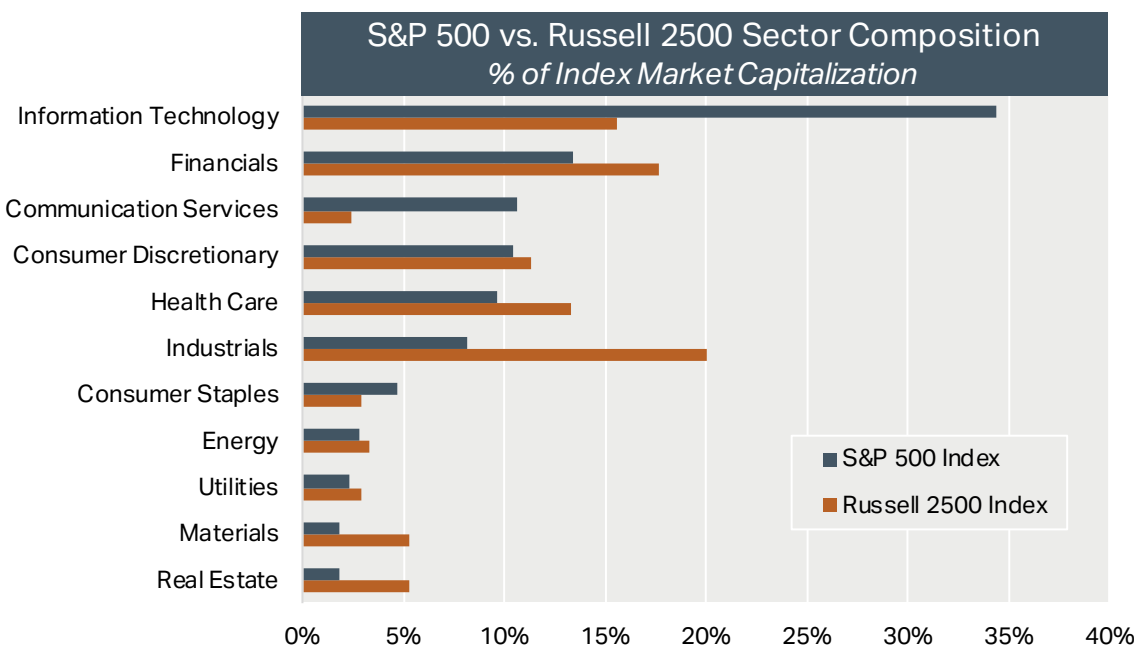
Forward P/E as % of 20-year Avg. P/E			
	Value	Blend	Growth
Large	122.5%	135.8%	144.9%
Mid	107.1%	105.2%	125.9%
Small	102.1%	101.6%	110.1%

Source: JPMorgan Asset Management, Guide to the Markets, Data as of 12/31/2025. The forward price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM) based on data collected by FactSet Market Aggregates and J.P. Morgan Asset Management.

2. Diversification

PERSPECTIVE

The S&P 500 Index remains concentrated with the Magnificent 7 cohort of companies representing 35% of the index capitalization at the end of December 2025. Significant differences exist between the sector composition of large cap indexes and smid cap indexes (pictured below).



Source: Bahl & Gaynor and FactSet. Data as of 12/31/2025.

KEY TAKEAWAY

Investors may find equity diversification a difficult priority to address when only considering style exposures in the large cap space. Smid equity exposure can potentially address concentration concerns by offering different and complementary sector exposure to that of large cap indexes.

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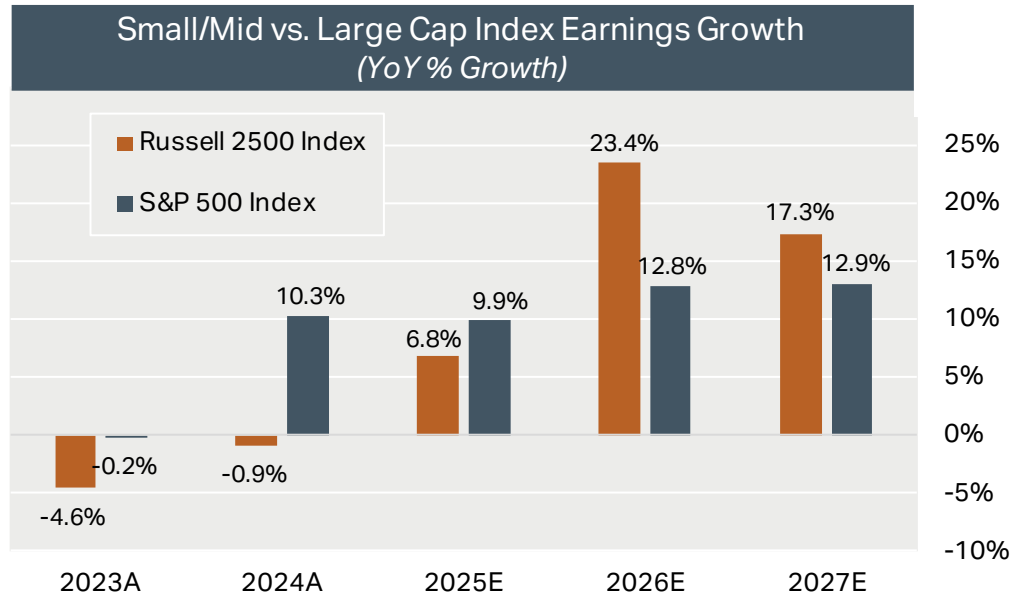
3. Potential Earnings Inflection

PERSPECTIVE

Smid cap equity earnings growth is expected to accelerate meaningfully and outpace large cap earnings growth over the coming years (pictured to the right).

KEY TAKEAWAY

Earnings growth is generally accepted as the most significant driver of long-term equity returns. Accelerating earnings growth could be an important factor in driving potential smid equity and overall investor portfolio returns.



Source: Bloomberg, 2025. Estimates as of 12/31/2025.

BOTTOM LINE

Bahl & Gaynor finds smid equity exposure compelling in the current environment due to the potential valuation, diversification, and earnings inflection opportunities represented in this exposure. We believe smid equity exposure is a worthy consideration for portfolio allocations, particularly for investors with existing exposure to large cap and growth style categories.

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Large Capitalization Companies, or large-cap stocks, are companies with a market capitalization typically of more than \$10 billion. **Mid Capitalization Companies**, often referred to as mid-cap stocks, are companies with a market capitalization typically ranging between \$2 billion to \$10 billion. **Small Capitalization Companies**, often referred to as small-cap stocks, are companies with a market capitalization typically between \$200 million and \$2 billion. **Growth Style** focuses on stocks with high-growth potential and future expansion. **Value Style** focuses on undervalued stocks with strong fundamentals and stable earnings. **Blend Style** combines elements of both growth and value investing for a balanced, stable approach. Next **12-month (NTM) P/E Ratio** is the weighted harmonic average of the portfolio stocks share price, or most recent index price, divided by the next-twelve-months earnings per share estimate. **GICS Sector Classification** refers to a system developed by MSCI and Standard & Poor's (S&P) to categorize companies based on their business activities. GICS stands for Global Industry Classification Standard, and it is used to group companies into 11 sectors (broadest categories), and further into industry groups, industries, and sub-industries. **Magnificent 7 Cohort** refers to a group of seven influential U.S. technology companies: Alphabet (the parent company of Google), Amazon, Apple, Meta Platforms (formerly Facebook), Microsoft, NVIDIA, and Tesla. **Earnings Growth** refers to the increase in the trailing-twelve months earnings per share (EPS), year-over-year, for the Russell 2500 and S&P 500 indexes.