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For investors, today’s market presents a mix of challenges and opportunities. While economic uncertainty, shifting fiscal policies, and geopolitical risks dominate headlines, small-cap growth investors must take a measured approach—recognizing both risks and opportunities in the current landscape.

Rather than signaling the end of the growth cycle, current market conditions represent a recalibration period—one that requires discipline and selectivity. Below, we explore key themes shaping the small-cap landscape and considerations for navigating this period of heightened volatility.

➤ Market Corrections: A Necessary Reset, But Not Without Risks

The recent market pullback may feel unsettling, but it serves an important function in resetting valuations. However, while lower valuations create opportunities, they also introduce risks that investors must carefully assess.

Why is this reset significant?

- It curtails excess speculation and refocuses attention on fundamentals.
- It brings valuations to more reasonable levels, potentially opening entry points for high-quality companies.
- It tests the resilience of businesses, revealing those with strong balance sheets and sustainable growth strategies.

Yet, volatility alone does not signal a buying opportunity – careful analysis is crucial. While some companies may emerge stronger, others will struggle with tighter credit conditions and changing economic dynamics. Investors must distinguish between short-term dislocations and structural shifts that could alter long-term return potential.

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➤ Growth Continues, But Risks Remain

Despite current concerns about growth, the economic data presents a more mixed picture:

- GDP growth continues, but the pace of future growth is less clear.
- The labor market remains resilient, though certain sectors are seeing early signs of slowing.
- Corporate earnings have held up, yet margin pressures and input costs remain headwinds.

What we are experiencing is not necessarily the end of the growth cycle, but rather a period of recalibration. Policy uncertainty, particularly around tariffs and fiscal decisions, has dampened sentiment. In addition, structural challenges—such as inflationary pressures and shifting global supply chains—introduce uncertainties that require careful consideration. Historically, these periods have created opportunities, but only for those with a selective, risk-aware approach.

➤ Small Caps: A Partial Shield from Global Uncertainty

One potential advantage of small caps is their partial shielding from global risks. Unlike large multinational corporations, which are deeply integrated into global supply chains, small-cap companies are often more domestically focused.

This can provide some benefits:

- Tariffs and trade disruptions have a more limited impact on companies with a U.S.-centric revenue base.
- Currency volatility is less of a concern for businesses that generate revenue primarily in domestic markets.
- Supply chain disruptions linked to geopolitical risks often have greater effect on larger firms with overseas exposure.

However, this does not mean small caps are immune to macroeconomic pressures. Many rely on credit markets for expansion, and tighter monetary policy could constrain growth prospects. Investors should weigh both the defensive and risk factors when assessing allocations.

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➤ Tariffs, Policy Uncertainty, and Sector-Specific Impacts

One of the biggest market headwinds today is policy uncertainty. Unlike past periods of volatility driven by purely economic factors, current instability is heavily influenced by political decisions.

Key considerations for small-cap investors:

- Trade policy remains unpredictable, with potential sector-specific implications—particularly in manufacturing and industrials.
- Some domestically focused industries (e.g., healthcare, financial services, and technology services, such as cloud computing, cybersecurity, and software development) may be better positioned against trade disruptions but still face regulatory uncertainties.
- The policy environment remains fluid, making risk mitigation strategies essential.

Given the heightened levels of uncertainty in the current environment, taking a broad-based approach may not fully account for the risk. Rather, navigating policy-driven market shifts requires a selective approach. Investors should distinguish between short-term market disruptions and deeper structural changes that could have lasting effects on competitive positioning.



Market Leadership is Broadening—But Selectivity is Key

For much of the past decade, large-cap tech companies have dominated market performance. Now, we are seeing signs of market breadth expanding, creating potential opportunities beyond mega-cap stocks.

Why does this matter?

- Capital rotation suggests investors are exploring opportunities beyond large-cap growth names.
• Small and mid-cap companies are beginning to attract more institutional interest.
• Periods of market broadening historically favor active investment strategies focused on stock selection.

For institutional investors, this shift underscores the importance of thoughtful, research-driven allocation strategies that capitalize on specific opportunities rather than broad market exposure.

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Final Thoughts: A Time for Selectivity, Not Complacency

While today's market presents uncertainty, it is not a time for panic—nor is it a time for indiscriminate risk-taking. Investors who maintain discipline, focus on fundamentals, and evaluate risk-reward dynamics carefully may find compelling opportunities.

Key takeaways for investors:

- Short-term volatility does not necessarily mean long-term decline, but risks remain.
• Valuation resets create opportunities, but selectivity is critical.
• Small caps offer some insulation from global risks, but liquidity and credit conditions must be considered.
• As market leadership shifts, small caps are emerging as a compelling opportunity.

For investors, navigating volatility requires a combination of caution and opportunism. By prioritizing quality, valuation discipline, and sector positioning, investors can balance risk and reward in an evolving market landscape.

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