

# Equities in Focus

Walt Czaicki, CFA, Senior Investment Strategist—Equities

Contributors: Bryan Chang, Investment Strategist—Equities, Steffi Napoli, Product Analyst—Equities and Emory Edwards, Product Analyst—Equities

## Small-Caps: From Laggards to Leaders

For much of the past decade, US equity markets have been dominated by large-cap (especially growth) stocks, leaving small-caps in the shadows. Advisors and clients alike have grown accustomed to the narrative that “bigger is better.” But the tide may be turning beyond a head fake rally.

### Key Takeaways

#### 1. A Favorable Policy Backdrop Is in Place

Fed easing and the One Big Beautiful Bill Act are key tailwinds.

#### 2. Small-Caps Benefit Disproportionally from Lower Rates

Interest expenses fall on the bank and the variable-rate debt many small companies carry.

#### 3. Discounted Valuations and Now Earnings Visibility

Attractive valuations are *finally* being accompanied by earnings growth expected to surpass large-caps.

### A Strong Rotation Indeed

Since June 30, 2025, small-caps have staged a notable comeback, with the Russell 2000 Index returning 22.00% versus the S&P 500 up 12.46% through January 28, 2026. This small-cap comeback has been driven by favorable policy factors, including: the One Big Beautiful Bill Act’s depreciation provisions, which could drive increased capital spending by corporations well beyond the AI ecosystem; and the potential for Fed easing, which would lower small-caps’ interest expense and lead to easier lending standards from banks, who are more frequent lenders to smaller businesses. As *Display 1* shows, interest expense as a percentage of total debt is much higher for small- versus large-cap stocks, in part explaining small-caps’ rate sensitivity. And price-to-earnings multiples tend to get a lift during periods of Fed rate cutting, especially small-cap growth stocks (*Display 2*).

### Fundamentals for a Sustained Broadening

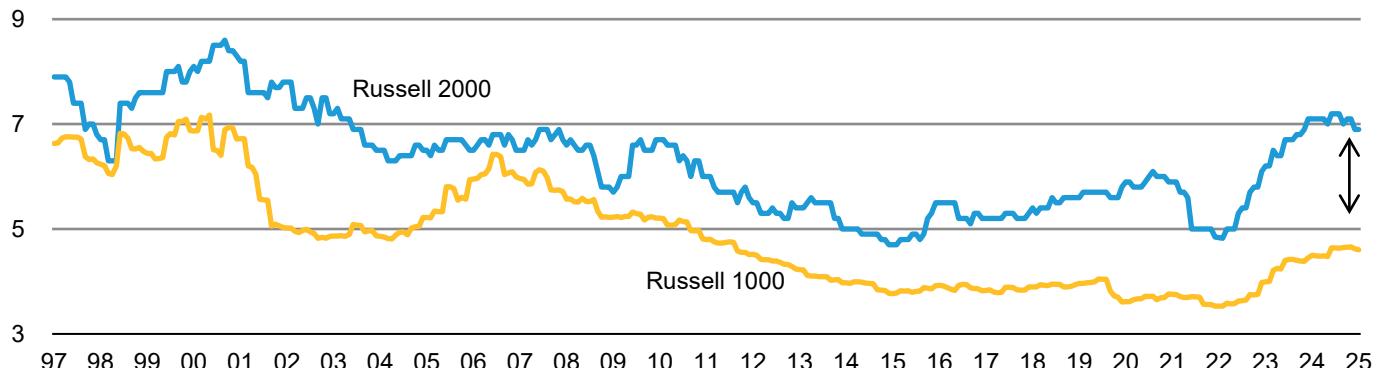
Lower interest expenses could provide meaningful relief for these more indebted companies, improving margins and fueling earnings growth. In fact, the year-over-year earnings growth for small-cap stocks is expected to far outstrip that of large-caps, based on sequential consensus forecasts (*Display 3*). For so long, small- and mid-cap stocks have been overshadowed by the AI trade and a bifurcation in nominal earnings growth versus large-cap equities, with small-caps’ growth rate being inferior. These elements have led to small-caps trading at a substantial discount to large-cap stocks.

### Our View

Attractive valuations are now being accompanied by a vastly improved earnings growth outlook, which if the latter is realized, provides a solid combination that may bolster an enduring equity market broadening. Despite their strong rally, we believe it’s not too late to rebalance back into or initiate a position in this long-unloved and less-crowded asset class.

To learn more about AB’s equity investment solutions and to access other market insights, visit [Equity Investments | AB](#).

**Display 1: Lower Rates Would Provide Relief for the More Indebted Small-Caps**  
 Interest Expense as Percent of Total Debt



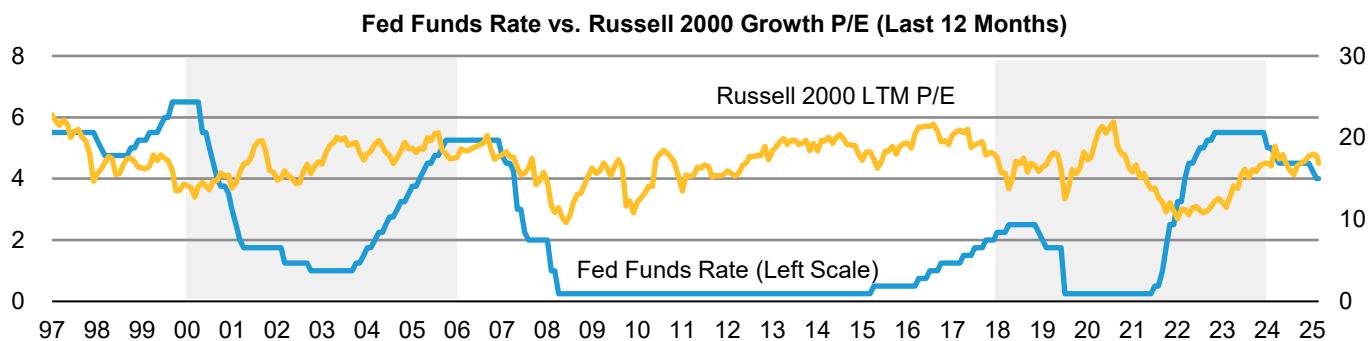
**Past performance does not guarantee future results.**

As of December 31, 2025

Source: FTSE Russell, Strategas Research Partners and AB

**Display 2: An Inverse Relationship Between Valuation and Fed Funds Rate Changes**

Small-Cap Growth P/E Multiples Typically Expand During Periods of Fed Easing and Vice Versa



**Past performance does not guarantee future results.**

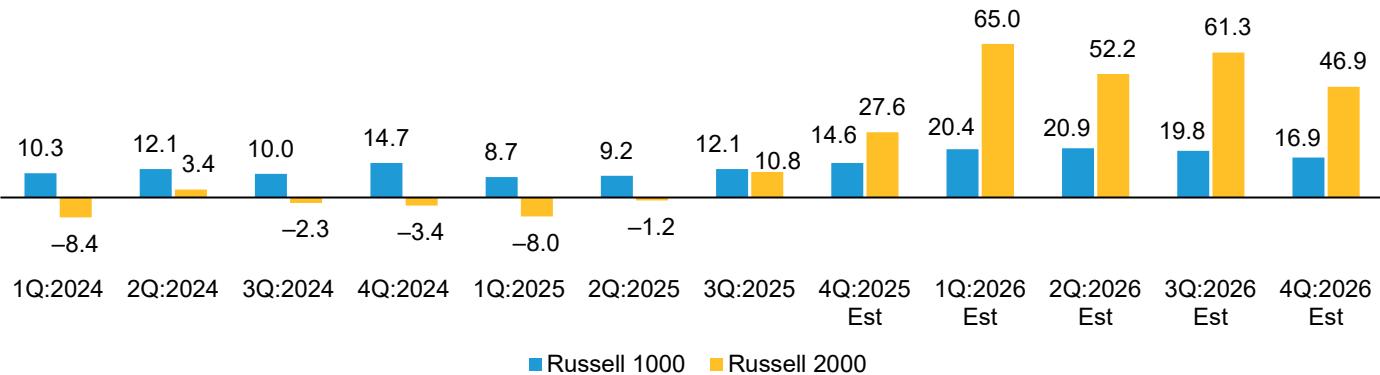
LTM: last 12 months; P/E: price-to-earnings

As of December 31, 2025

Source: Federal Reserve Economic Data, FTSE Russell and AB

**Display 3: Not All About Rate Cuts—Small-Caps Projected to Have an Earnings Edge**

Quarterly EPS Growth



**Past performance does not guarantee future results.**

EPS: earnings-per-share

As of December 31, 2025

Source: FTSE Russell, Strategas Research Partners and AB

---

**The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.**

**Note to All Readers:** The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. The views expressed herein may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. The specific securities identified and described herein do not represent all the securities purchased, sold or recommended for the Portfolio, and it should not be assumed that investments in the securities identified were or will be profitable.

Not FDIC insured | Not a bank deposit | Not insured by any federal government agency | No bank guarantee | May lose value

The [A/B] logo and AllianceBernstein® are registered trademarks used by permission of the owner, AllianceBernstein L.P.

© 2026 AllianceBernstein L.P.