

## Macro Roundup Article

**Headline:** [The Death of Small Cap Equities?](#)

**Article Link:** <https://mailchi.mp/verdadcap/the-death-of-small-cap-equities?e=7b209e1099>

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**Tweet:** [.@verdadcap](#) uses Gross Profits/Assets as a proxy for quality, and notes that there has been a sharp deterioration in quality for US small caps. Chris Satterthwaite writes that foreign small caps have similar quality but lower price than US small caps.

**Summary:** Examined our favorite quality metric, gross profit/assets (GP/A), over time by sector for “small” US companies, which we define as between \$400M and \$4B in market cap today, or the equivalent percentile rank by market cap historically. We made the decision to exclude the health-care industry entirely given the significant proliferation of unprofitable pharma and biotech stocks, which tripled in proportion from 5% of small stocks in 1995 to 16% of stocks in 2021. We were curious whether the degradation in quality still held once we excluded this mix shift impact. The chart below shows the contribution to aggregate small-cap US GP/A by sector (e.g., IT GP/A multiplied by IT proportion of total market cap). Most notable is the broad-based decline in quality from the early 2010s to today. The most impacted sectors include IT, consumer discretionary, and industrials. We find it notable that US large caps trade at a premium to the rest of the world, while the median US small cap stock. Related: [Inching Toward Equilibrium and Market Bipolarity: Exuberance versus Exhaustion and Long-Term Shareholder Returns: Evidence From 64,000 Global Stocks](#)

**Primary Topic:** Financial Markets

**Topics:** Database, Financial Markets, GDP, Op-Ed/Blog Post, Weekly

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