Investment Insights | March 2024

Small but Mighty

The remarkable growth of the Mag 7 stocks has captured the market's attention, but investors may be overlooking the highest-growth companies.

Scott Herrick

Client Portfolio Manager, Small Cap Growth

William Theriault

Client Portfolio Manager, U.S. Mid and Large Cap Equities

There's no denying that the "Magnificent 7" stocks—or, more recently, the "Significant 6" (less Tesla)—have shown impressive growth that's warranted investor attention. But as companies grow larger, sustaining the same rate of expansion becomes increasingly difficult. Nevertheless, the largest seven U.S. companies have managed to defy the odds, resulting in their market capitalizations representing a staggering 29% of the total market.[1]

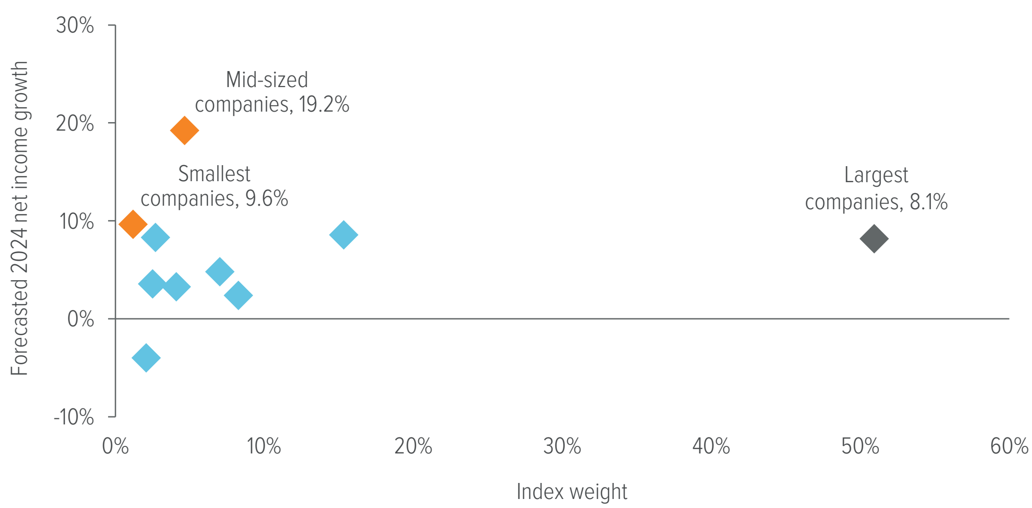
We see this dominance as a reminder that the investable stock universe is sizable, and that it's easy to overlook less tapped areas of the market—where fast-growing companies exist beyond the industry giants.

Is now the time to diversify "down cap"?

As we seek to diversify away from the larger names, our bottom-up fundamental research has uncovered a notable market anomaly: The smallest and mid-sized U.S. companies are projected to have higher growth in 2024, than the largest companies (Exhibit 1).

While considering these more pint-sized stocks, it's necessary to strike a balance between their ability to generate alpha and their inherent risks and volatility. This balancing act informs our investment decisions as we focus on "down cap" companies that have high growth potential.

Exhibit 1: The smallest and mid-sized U.S. companies offer robust growth potential



As of 2/26/24. Source: Strategas Securities, Voya IM.

[1] As of 2/26/24. Source: FactSet.

Voya INVESTMENT MANAGEMENT

Risks of investing

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Smaller cap stocks may be more volatile and less liquid than stocks of larger more established companies.

Past performance does not guarantee future results. This market insight has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults, (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

Not FDIC Insured | May Lose Value | No Bank Guarantee
IM3429195 • 222973 • 030724 • 2024-03-3139752

INVESTMENT
MANAGEMENT