

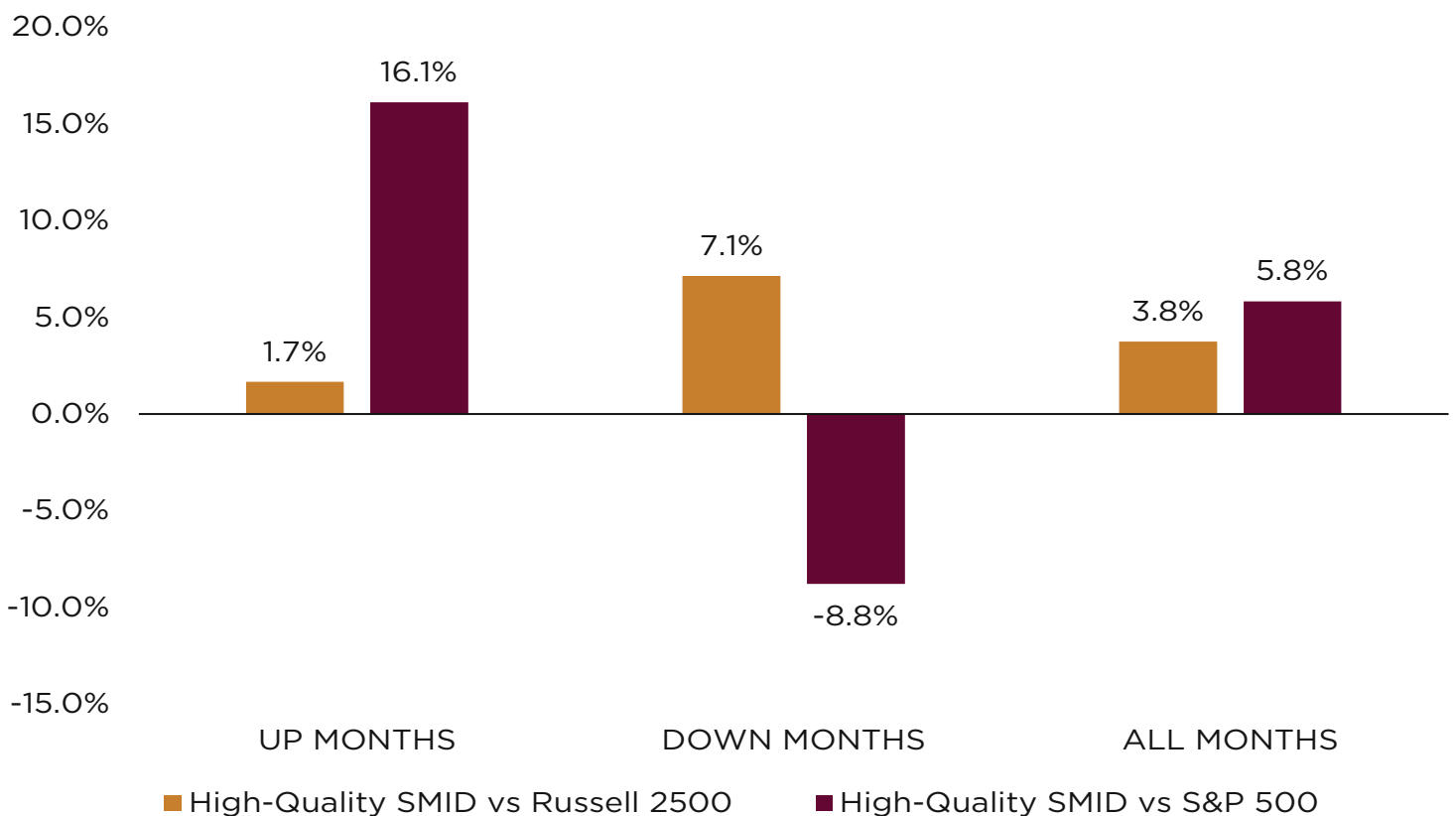
HIGH-QUALITY SMID CAP: AN ALL-WEATHER ALLOCATION

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As investors evaluate the [opportunity in small and mid \(SMID\) cap stocks](#), the uncertain macroeconomic environment weighs heavily on allocation decisions. Fortunately, our data finds that a high-quality approach to SMID cap stocks can offer the attractive upside of a small cap tilt while also mitigating risk and providing downside protection. For this reason, quality SMID caps can play a useful portfolio role for asset allocators dealing with market uncertainty.

To test this, we looked at monthly returns for the quality factor in SMID cap stocks going back 25 years. We found that high-quality SMID caps outperform the S&P 500 on average in positive months for the market while outperforming the Russell 2500 index in negative months. In other words, you get an asset allocation with higher up-capture in positive months, with downside protection versus the benchmark in down months. This profile has resulted in superior average monthly performance for high-quality SMID caps across all market environments, as shown in the chart below:

Annualized Relative Performance -25 Years



SOURCE: JOHNSON ASSET MANAGEMENT, FACTSET, DATA FROM 11/30/1999 TO 11/30/2024; "HIGH-QUALITY SMID" DEFINED AS TOP QUINTILE (Q1) AMONG RUSSELL 2500 STOCKS USING A PROPRIETARY MULTI-FACTOR QUALITY MODEL.

What does this mean for considering an allocation to SMID caps today? Regardless of your views on the economy moving forward, a high-quality approach to SMID cap should be well-positioned to benefit portfolios.

- For the investor who believes a recession or bear market is coming, a high-quality approach to SMID is built to outperform the benchmark in most down periods.
- If you have a bullish market view, SMID cap has typically outperformed large cap in positive markets, so position your portfolio to take advantage of today's large relative valuation opportunity in SMID cap stocks with a quality lens to weather any blip along the way.
- Lastly, if you don't take a specific market view, rest assured that quality has worked in both up and down markets, so over a full market cycle, emphasizing quality has been a winning strategy.

Our data shows that a high-quality approach can benefit portfolios in strong markets, provide downside protection vs. the SMID universe in down markets, and outperform over full market cycles. Regardless of your macroeconomic views heading into 2025, the valuation opportunity within SMID cap stocks warrants consideration.

For more information on Johnson Asset Management and our [quality-oriented investment discipline within SMID Cap Core](#), please visit www.johnsonasset.com.

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