

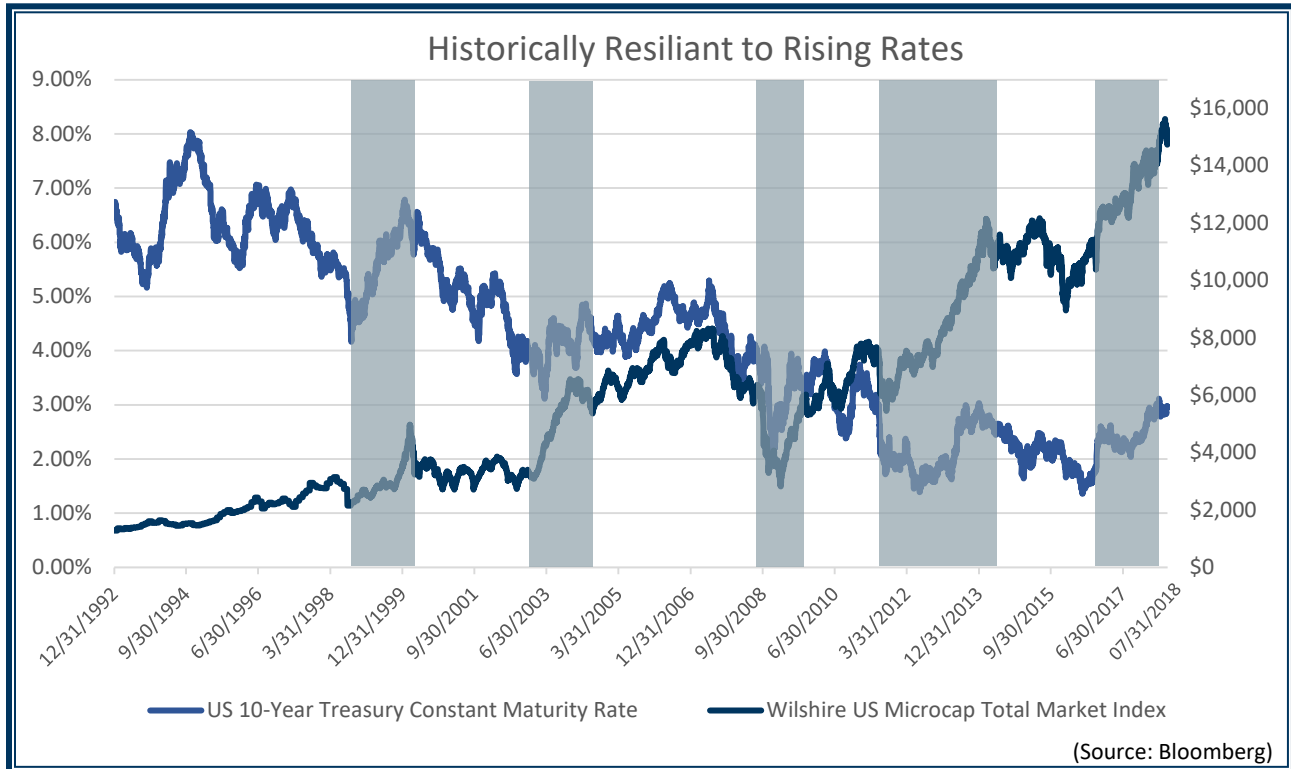


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Microcap Stock Returns following Interest Rate Hikes

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Rising Interest Rates/Domestic Businesses



The headline story on Page B1 of the October 16 edition of the Wall Street Journal was titled “Small Caps Hit by Rising Yields”. The article suggests that rising borrowing costs may prove to be a big pressure point for small caps, noting that the Russell 2000s corporate debt amounts to roughly 3.35 times earnings before interest, taxes, depreciation and amortization. Our analysis of the data suggests that small caps have actually performed quite well in periods of rising rates, as the chart above indicates. Moreover, not all small caps are the same, as many companies have low or no levels of debt. For example, the median debt/EBITDA ratio for NSDVX is 1.3339 and NSMVX is .667. (Source: YCharts as of 10/16/2018)

The performance of the Wilshire US Micro-Cap total Market Index and the 10-Year Treasury Constant Maturity Rate from 12/31/1992 to 07/31/2018 shows that small businesses are resilient to rising rates, contrary to popular belief. The shaded regions highlight a relative increase in interest rates that is also accompanied by an increase in microcap performance. Furthermore, microcap stocks are mostly domestic businesses that focus on the US economy and have fewer international exports compared to large cap stocks, a benefit explained in our recent whitepaper: [Small Cap Stocks: Percent of Revenue from U.S. Higher than Large Cap Stocks.](#)

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