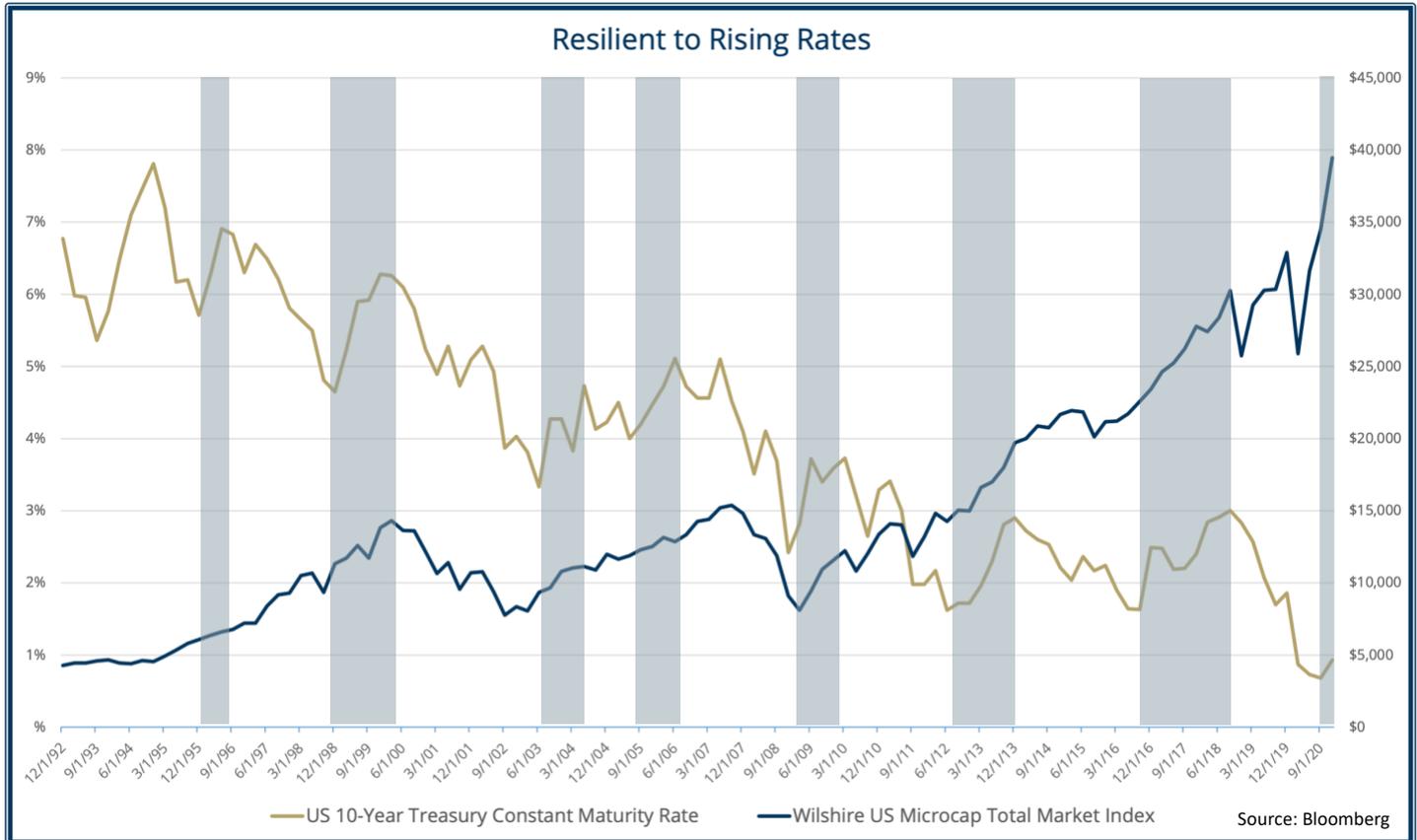


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Small and Micro Cap Performance During Periods of Rising Interest Rates

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Rising Interest Rates/Domestic Businesses



There is a common misperception that small and micro cap stocks are adversely affected by rising yields. The underlying logic is that rising borrowing costs may prove to be a big pressure point for these asset classes, as the Russell 2000's corporate debt amounts to roughly 1.32 times total equity. Looking back at data over the last 30 years, however, we note that there have been seven periods of varying durations where interest rates have increased. In all of these instances, small and micro cap stocks provided positive returns. We appear to be entering the eighth period, and once again small and micro cap stock prices are trending higher.

The chart above shows the performance of the Wilshire US Micro-Cap Total Market Index and the level of the 10-Year Treasury Constant Maturity Rate from 12/31/1992 to 12/31/2020. During this period, small and micro cap stocks have been resilient to rising rates. The shaded regions highlight an increase in interest rates is often accompanied by positive small and micro cap returns.

It is our expectation that we are at the early stages of a prolonged period of rising rates and that it is not too late for investors to dip their toes into the small and micro cap pool. Moreover, not all small and micro cap stocks are the same, as many companies have low or no levels of debt. Portfolios can be constructed to focus on small and micro cap companies with lower leverage levels. For example, the median debt/equity ratio for the North Star Dividend Fund (NSDVX) is 0.71 and the North Star Micro Cap Fund (NSMVX) is 0.51.

(Source: Bloomberg as of 03/01/2021)

Furthermore, small and micro cap 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 whitepaper, [Small Cap Stocks: Percent of Revenue from U.S. Higher than Large Cap Stocks.](#)

As a result of the COVID-19 pandemic, U.S. GDP suffered a record decline in the second quarter of 2020. In anticipation of that decline, small and micro cap stocks suffered disproportionately sinking 35.87% in the first quarter 2020. We believe the combination of the successful vaccine development and the recent passage of the \$1.9 trillion American Rescue Plan have set the stage for a dramatic rebound in 2021 U.S. GDP. The Conference Board forecasts 5.5% GDP growth, while some economists estimate an even higher increase. Whereas small and micro cap stocks typically move in advance of the GDP, we forecast the most significant portion of the economic rebound will be in the second half of 2021, leaving plenty of runway for small and micro cap stocks. Diving even deeper, small and micro cap dividend-paying stocks could also benefit from this environment. An improving economy suggests companies may raise dividends; thus, those incremental dividends can offer more protection against interest rate increases versus traditional fixed-rate bonds.

In summary, when looking at small and micro cap stocks, investors should embrace the tailwinds of the improving U.S. economy and abandon the common fear of steepening yield curves.

Key Definitions:

Russell 2000 Index: The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Wilshire US Micro-Cap Total Market Index: The Wilshire US Micro-Cap Total Market IndexSM is a benchmark of the micro-sized (based on capitalization) companies in the U.S. equity market. The Wilshire US Micro-Cap is a float-adjusted, market capitalization-weighted index of the issues ranked below 2,500 by market capitalization of the Wilshire 5000 Total Market IndexSM (Wilshire 5000®).

Important Risk Information:

Mutual funds have investment risks including loss of principal. There is no guarantee either fund will meet its objective.

Investors should carefully consider the investment objectives, risks, charges and expenses of the North Star Funds. No-load mutual funds are sold without sales charge; however, they have ongoing expenses, such as management fees. This and other important information about each of the Funds are contained in the prospectus, which can be obtained at www.nsinvestfunds.com or by calling (855) 580-0900. The prospectus should be read carefully before investing. The North Star Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Northern Lights Distributors, LLC and North Star Investment Management are not affiliated. 2228-NLD-3/16/2021