MARKET OBSERVATIONS
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Big & Beautiful

"One big beautiful . . ." is the new mantra of the day. Will it stand the test of time in the political arena, let alone spill over into other of life's endeavors? The One Big Beautiful Bill Act ("OBBBA") covers a very broad range of tax and spending rules and priorities at the federal level. In these early days of analysis, it seems likely that the breadth and depth of OBBBA is such that each one of us might find areas to support as well as provisions to reject. Finding one big beautiful investment in which to anchor a portfolio is a wishful pursuit. The perspective here provides some comparisons that might be useful for determining what portfolio structures and strategies merit greater attention over time.

PERSPECTIVE

Much investor focus in recent years has been on the outsized stock performance of a handful of large U.S. companies. Names such as Apple, Microsoft and Tesla come to mind. Broadening the scope to all large-company U.S. stock returns versus all small-company U.S. stock returns over market cycles provides a useful analysis. Chart I shows the difference in 12-month returns between large-company and small-company U.S. stocks. The general out-performance of large stocks can be seen in recent years and in earlier years while the return advantage of small stocks generally prevailed between. For the whole period, large company stocks out-performed 56% of the time.

While there are large-company stocks in emerging markets, the preponderance of emerging market stocks are of small companies. At the same time, large company stocks are broadly represented in foreign developed markets. Comparing stock returns of developed markets versus emerging markets is a fair analysis of big versus small in world markets generally. Chart II shows the difference in 12-month returns between developed market stocks and emerging market stocks. Developed market stocks have out-performed more recently and in earlier years of the market cycles shown. For the whole period, however, emerging market stocks out-performed 56% of the time.

Currency returns come in to play when investments outside of an investor's home country are being considered. Foreign bond or stock investments have a component of the underlying security investment as well as a component of the relevant currencies. The currency exposure can be hedged, but often the strategy of foreign investing incorporates currency exposure as well. Chart III shows the difference in 12-month returns between developed economy currencies and emerging economy currencies. The pattern shown here over many market cycles shows the long and significant relative increase in the currency of China. In recent years, the influence of China has been more muted. As a result, the return difference between developed and emerging currencies has varied in a narrower range. For the whole period, emerging currencies out-performed 66% of the time.

CHART I

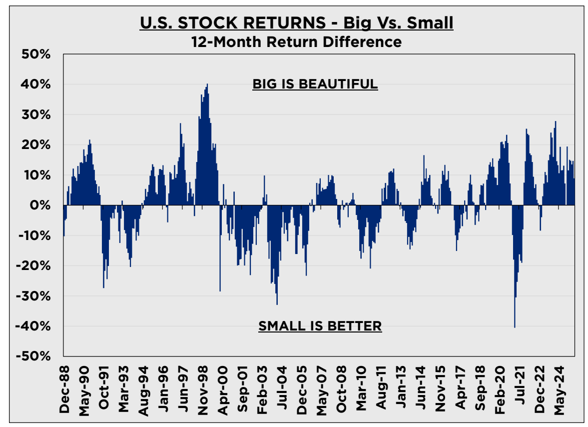


CHART II

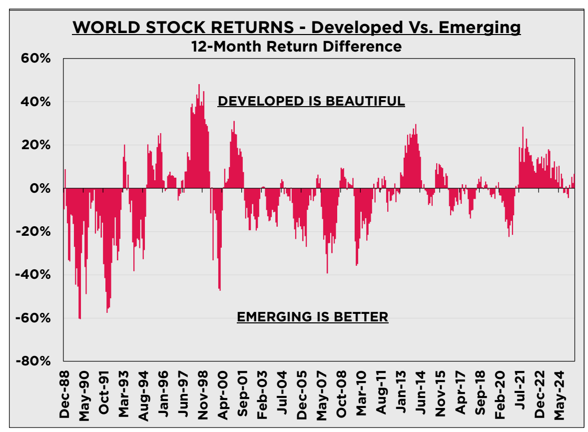
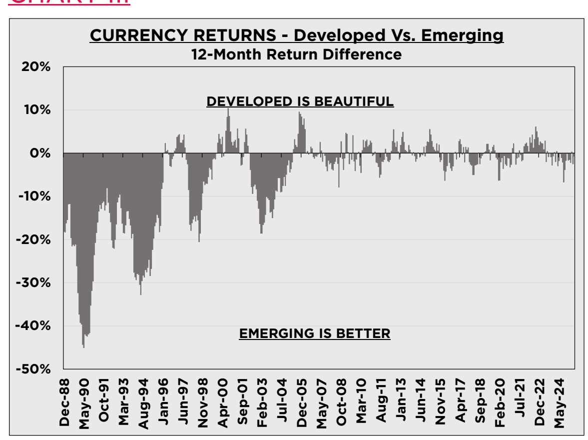


CHART III



INVESTMENT IMPLICATIONS

With respect to investing, allocations to big investments do not guarantee that subsequent portfolio returns will be beautiful. In fact, the range of investment outcomes between big and small strongly supports the long-held principle of portfolio diversification. It also supports undertaking good, fundamental research to understand the factors driving return differences between big and small, developed and emerging, stocks and currencies. Knowledge of these driving factors and resultant diversified portfolios does not guarantee beautiful returns, but the odds of very unattractive outcomes can be reduced.