

## Three speed highway

14<sup>th</sup> October 2024

### Bifurcation of large and small-cap markets

Since the beginning of 2022, there has been a complete bifurcation of the returns of large and small-cap segments of the ASX. We segmented the ASX based on market cap on the 4<sup>th</sup> January 2022. We did this rather than using an index as we wanted to remove any positive or negative impact from survivorship bias:

1. Large-cap: top 100 \$2.9 billion to \$212 billion
2. Small-mid cap: 101-300 \$414 million to \$2.9 billion
3. Micro-small cap: 301-800 \$50 million to \$412 million

The top 100 is close to the ASX 100, while the small-mid cap is similar to the ASX small ordinaries.

On a market-weight basis (see Table 1), the top 100 companies have seen an overall price increase of +10.5%, compared to a -14.7% decline in the value of the micro-small cap stocks.

Table 1: Significant bifurcation of market cap-based share price returns

	100	101-300	301-800
Mkt cap*	\$2.9b – \$212b	\$414m – \$2.9b	\$50m – \$412m
Index return**	+10.5%	+5.6%	-14.7%

\* Market cap on 4<sup>th</sup> Jan 2022

\*\* Return calculated using market cap-weighted index, from 4<sup>th</sup> Jan 2022 to 11<sup>th</sup> Oct 2024

Source: S&P Global, Venn Brown

### Record highs hide the majority's performance

While headlines keep reporting the market reaching all-time highs, these highs are being obtained by a small market subsegment, leaving behind most listed companies. Figure 1 shows market-weighted performance of each of the subsegments created for the three market cap segments outlined above. As is clear, the micro to small-cap portion of the ASX is well underperforming the large-cap segment.

### ASX All Ordinaries

#### ASX:XAO

Sector	All
Num. constituents	487
Date	11-Oct-24
Value	8,491
52 week range	6,960 / 8,538
Market cap	\$2,787b
Yield	3.2%

### ASX Small Ordinaries

#### ASX:XSO

Sector	All
Num. constituents	199
Date	11-Oct-24
Value	3,179
52 week range	2,557 / 3,179
Market cap	\$271b
Yield	2.3%

### 3-year Price Chart

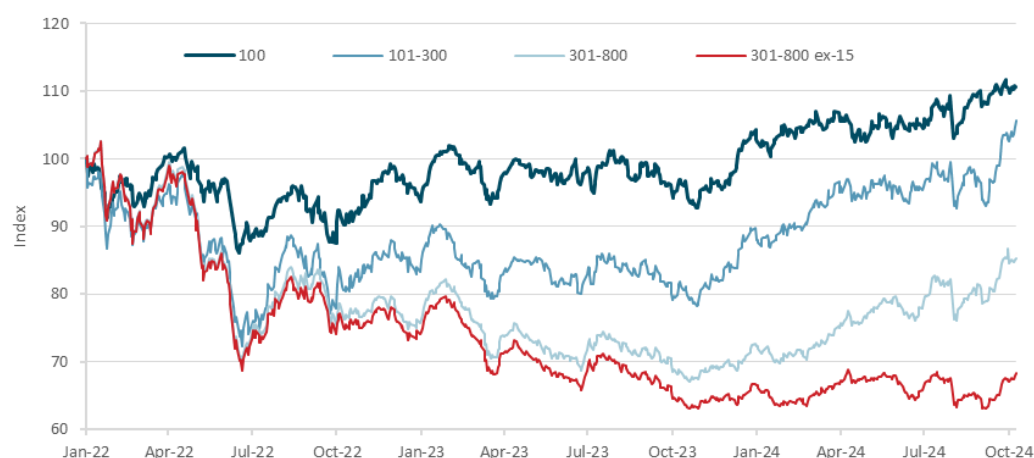


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Figure 1: Since January 2022, there has been a significant bifurcation in market returns



Source: S&P Global, Venn Brown

Incredibly, the triple digit returns of just 15 companies underpinned the performance of the micro to small cohort. If these 15 companies were removed (see red line), the remaining cohort would have been down -32% since the beginning of 2022.

Table 2: The top 15 companies were responsible for 20 percentage points of returns

	100	101-300	301-800	301-800 ex-15
<b>Mkt cap</b>	\$2.9b – \$212b	\$414m – \$2.9b	\$50m – \$412m	\$50m – \$412m
<b>Index return</b>	+10.6%	+5.6%	-14.7%	-31.7%

Source: S&P Global, Venn Brown

The median return for micro-small cap companies since January 2022 is -51%

Instead of looking at the market-weighted returns<sup>1</sup>, the drivers of this bifurcation emerge more clearly by looking at the equal-weighted returns of the different segments. We looked at the price change (accounting for new share issuances) of each individual company in each segment and took the average and median of these changes. This method treats the percentage movement of each company equally, irrespective of market cap.

As shown in Table 3, since January 2022, the average equal-weighted share price movement has ranged from +6% for the large-cap stocks, +4% for the small and mid-cap stocks and -5% for the micro and small-cap companies.

Probably more relevant is the median equal weighted change, which over the same period has seen micro to small-cap stocks decline -51%, compared to a median change in the large-cap stocks, which has seen a +1% uptick.

<sup>1</sup> Average and median price changes are measured on an equity-weighted basis, without regard to market cap. They are calculated by calculating the average/median of percentage change of each company's market cap since January 2022.

Table 3: Equal weighted returns reveal a different picture for individual companies

	100	101-300	301-800	301-800
<b>Mkt cap*</b>	\$2.9b – \$212b	\$414m – \$2.9b	\$50m – \$412m	\$50m – \$412m
<b>Max</b>	+182%	+555%	+1,723%	+399%
<b>Min</b>	-93%	-97%	-99%	-99%
<b>Average</b>	+6%	+4%	-5%	-29%
<b>Median</b>	+1%	-17%	-51%	-53%

\* Market cap on 4<sup>th</sup> Jan 2022

Source: S&P Global, Venn Brown

The sizeable difference between the average and median values results from the large positive changes by a few stocks (mentioned above), offsetting the negative single and double-digit returns of most companies.

Table 4 below shows the share of companies in each group that have delivered negative returns since the beginning of 2022. At the micro-small cap end of the spectrum, 74% of all companies saw a decline in the market cap. In comparison, 49% of large-cap companies have seen their share price decline.

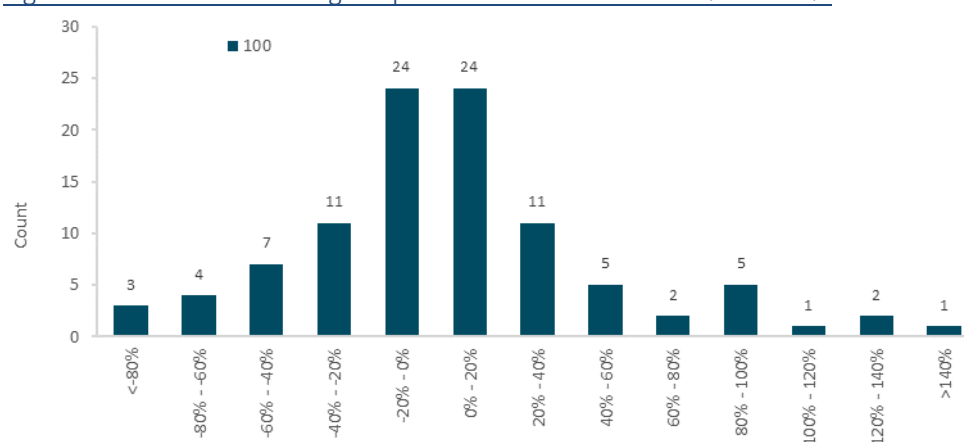
Table 4: 74% of micro-cap companies have had share price declines

	100	101-300	301-800
<b>Companies w/ &lt;0% return</b>	48%	58%	74%

Source: S&P Global, Venn Brown

Figure 2, Figure 3 and Figure 4 below show the number of companies in each share price return bucket for each market segment. Figure 2 shows the count for the large-cap companies, which is fairly symmetrical, as expected, given the 1% median return.

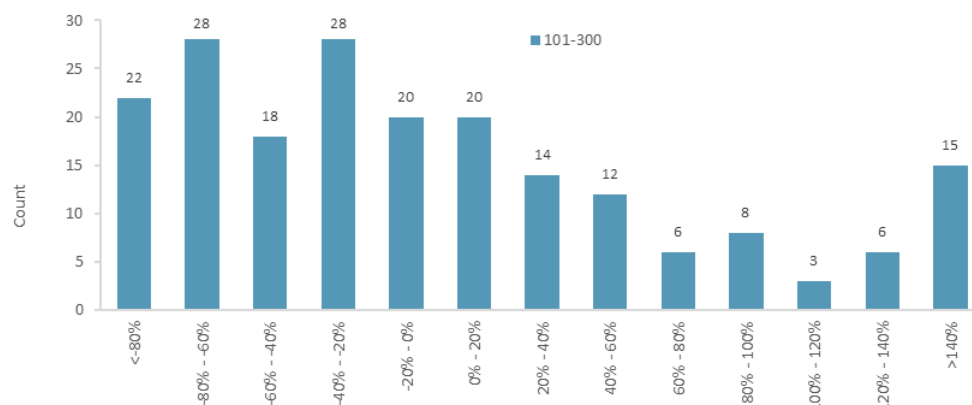
Figure 2: Almost half the large-cap stocks have returned -20% to +20%



Source: S&P Global, Venn Brown

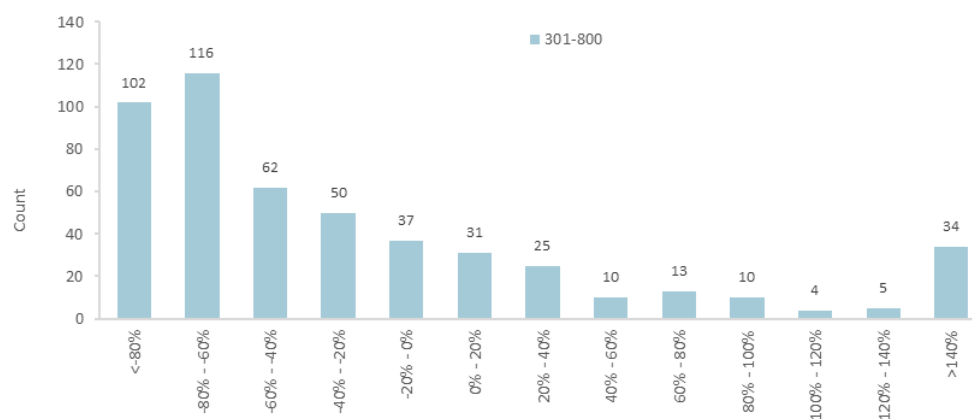
Figure 3 and Figure 4 are progressively more negatively weighted, with 59% of the small-mid cap companies delivering negative returns and 74% of micro to small caps experiencing negative share price movements.

Figure 3: 59% of small to mid-cap companies have seen their share price decline



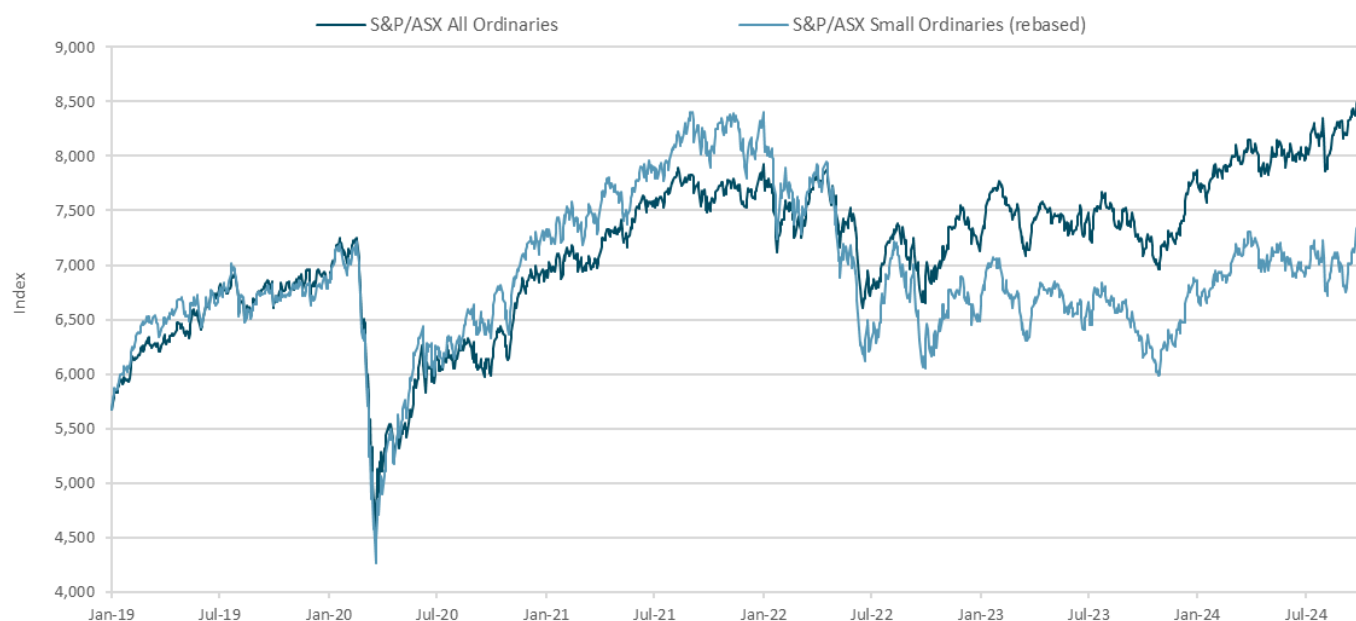
Source: S&P Global, Venn Brown

Figure 4: 74% of micro to small-cap companies have had share price declines



Source: S&P Global, Venn Brown

## Index performance



Source: S&P Global

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