

MacroSpotlight

**US Small Caps: Sharpe at Multi-Year Highs —
Macro Tailwinds or Complacency?**



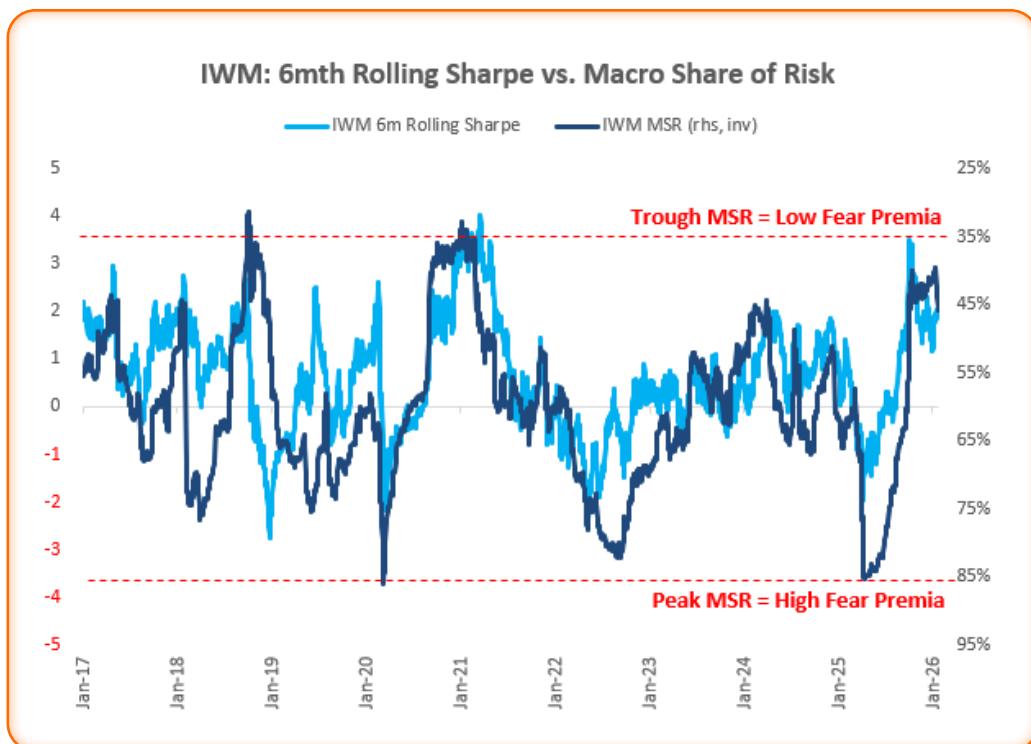
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US Small Caps: Sharpe at Multi-Year Highs — Macro Tailwinds or Complacency?

Into year-end 2025, the Sharpe ratio of IWM (US small caps) hit multi-year highs.

Why? Quant Insight's Risk Model helps unpack it:

- **Macro Share of Risk (MSR) for IWM hit multi-year highs in Apr'25, then fell to range lows by Jan'26** — a signal of dissipating macro fear translating into a tailwind for risk-adjusted returns.





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Since the Fed's Nov'25 pivot, macro has been a clear tailwind.

IWM Return Attribution	
(20-Nov-25 to 23-Jan-26)	
Corporate Credit	4.42%
CB QT Expectations	2.80%
Risk Aversion	1.80%
CB Rate Expectations	0.70%
Metals	0.18%
10Y Yield	0.10%
Economic Growth	0.03%
Inflation	0.01%
Forward Growth Expectations	-0.02%
DM FX	-0.03%
Real Rates	-0.18%
Energy	-0.25%
Macro Factors	9.85%
Idio Factors	6.09%
Total	15.94%

Our model attributes 62% of IWM's returns since then to macro drivers — especially:

- Tighter HY credit spreads
- Falling volatility across equities and rates

What's been “macro top of mind” for the market?

Looking at correlations between factor exposures and price action, the dominant narrative since the summer has been:

- Higher economic growth
- Lower inflation expectations
- Lower 10y yields

→ The Goldilocks regime.



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But here's the twist...

Despite this macro setup, YTD IWM has risen alongside a higher 10y yield and higher inflation expectations - a possible sign of newfound market confidence...or creeping complacency?

With MSR at range lows, the market is saying: macro is not a problem. Yet historically, such clear macro skies is when to pay more attention.



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