

# MacroSpotlight

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

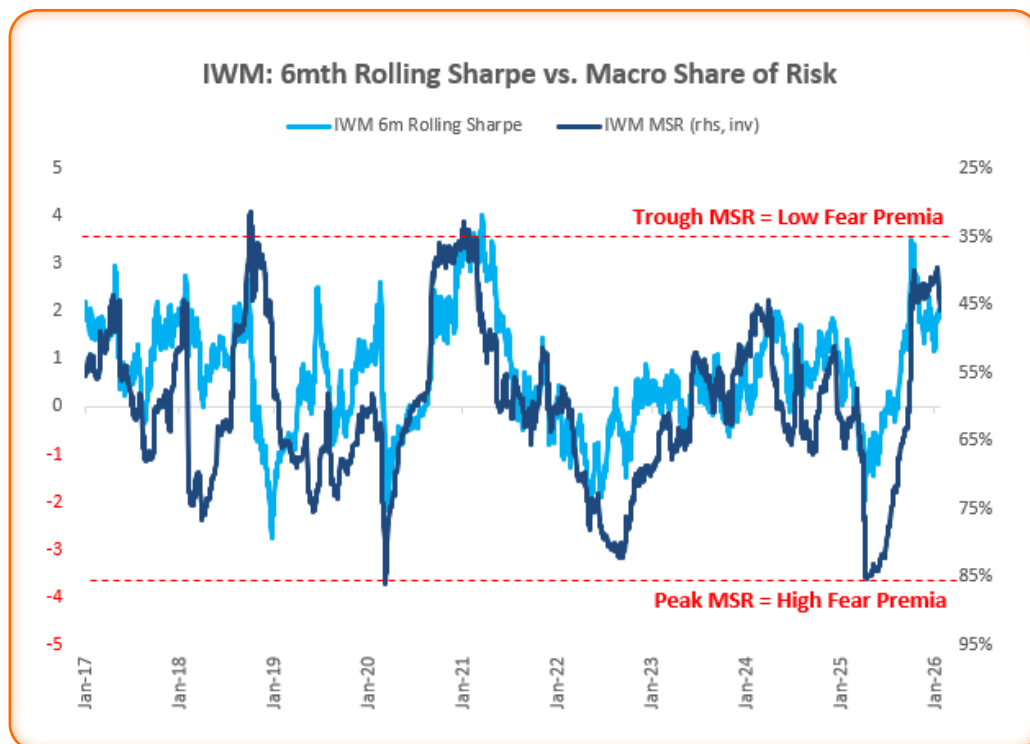


## US Small Caps: Sharpe at Multi-Year Highs — Macro Tailwinds or Complacency?

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%
<b>Macro Factors</b>	<b>9.85%</b>
<b>Idio Factors</b>	<b>6.09%</b>
<b>Total</b>	<b>15.94%</b>

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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