

# Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

## March 10, 2021

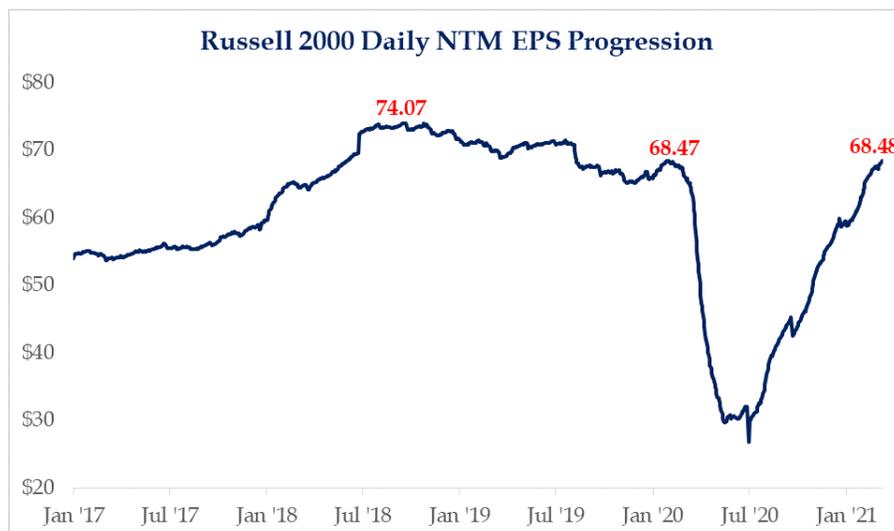
### RUSSELL 2000 NON-EARNERS PEAKED IN DECEMBER 2020

Our Russell 2000 non-earners data shows that the number of unprofitable companies peaked in December of 2020 at 49%. Historically, a peak in R2000 non-earners has coincided with the end of recessions and the beginning of longer, more sustained cyclical upturns in the economy. While we are only two months from the peak, this is welcome news as vaccinations continue to ramp up.



### SMALL-CAP NTM EPS NOW ABOVE PRE-COVID LEVELS

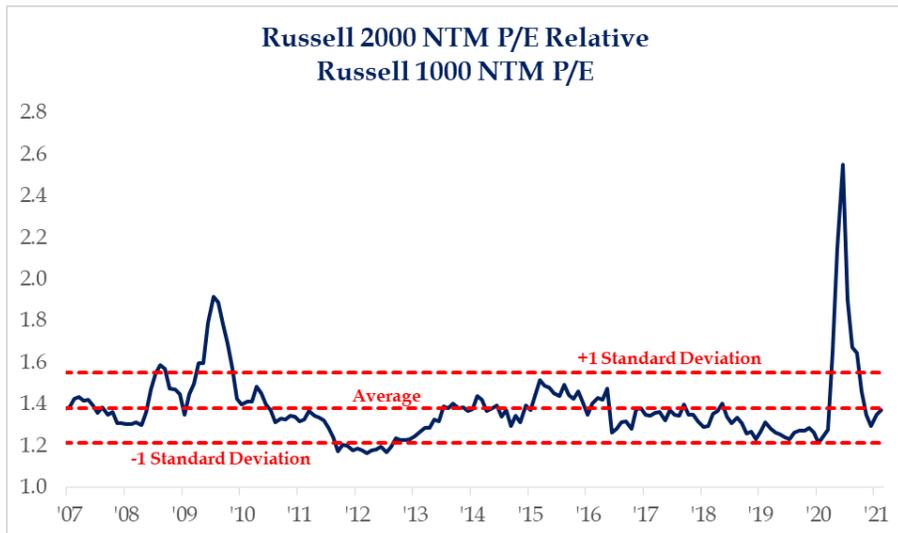
The Russell 2000 daily NTM EPS progression surpassed the pre-covid NTM EPS levels yesterday. However, it still remains about \$6 below the levels seen in September of 2018. Over the coming quarters, we would expect earnings to pass the 2018 highs as smaller companies likely benefit from the cyclical recovery as the economy reopens and additional fiscal stimulus is added to the system.



Please see the Appendix on page 3 for important disclosures.

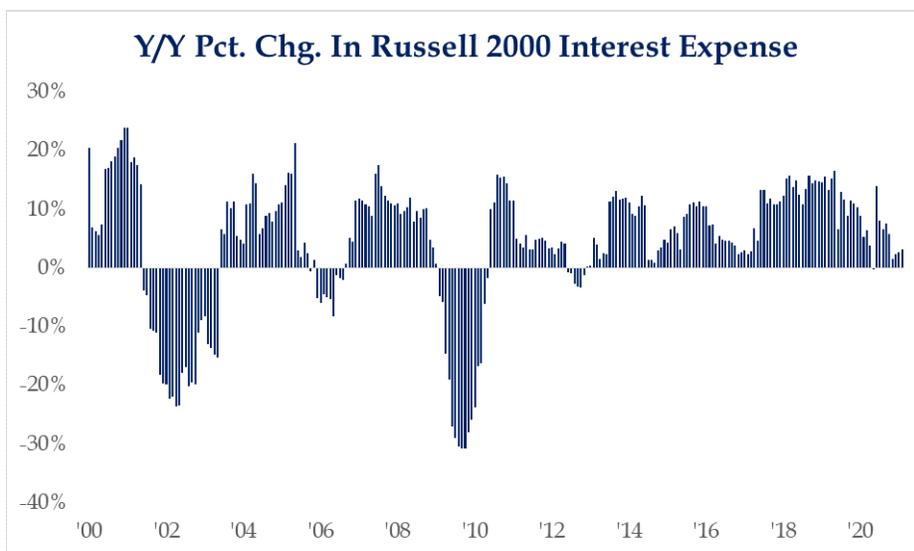
### SMALL RELATIVE LARGE VALUATIONS HAVE NORMALIZED

After reaching historical extremes on a relative basis during the pandemic's height, small caps' relative attractiveness to large caps from a valuation standpoint has normalized. Currently, the NTM price to earnings ratio for the Russell 2000 is 1.4x greater than the NTM price to earnings ratio for the Russell 1000. This is exactly in line with the average ratio over the last 15 years.



### NO DECLINE IN INTEREST EXPENSE FOR SMALL-CAPS THIS RECESSION

During the latest recession, interest expense for small-cap companies continued to rise, albeit at a slower pace. From our perspective, it may signal that the benefits of the ultra-low interest rate environment may be coming to an end for corporations. The next way to reduce interest expense is to pay down debt, which very well could come at the expense of dividends or buybacks.



## APPENDIX – IMPORTANT DISCLOSURES

This communication was prepared by Strategas Securities, LLC (“we” or “us”). Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client; therefore, this communication should be treated as impersonal investment advice. The intended recipients of this communication are presumed to be capable of conducting their own analysis, risk evaluation, and decision-making regarding their investments.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives): We classify the intended recipients of this communication as “professional clients” or “eligible counterparties” with the meaning of MiFID II and the rules of the UK Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not “investment advice” or “personal recommendations” within the meaning of MiFID II and the rules of the UK Financial Conduct Authority. The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy.

The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a “where is, as is” basis, and we expressly disclaim any liability for any losses or other consequences of any person’s use of or reliance on the information contained in this communication.

Strategas Securities, LLC is a registered broker-dealer and FINRA member firm, as well as an SEC-registered investment adviser. It is affiliated with Strategas Asset Management, LLC, an SEC-registered investment adviser. Strategas Securities, LLC is also affiliated with Robert W. Baird & Co. Incorporated (“Baird”), a broker-dealer and FINRA member firm, although the two firms conduct separate and distinct businesses.

A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at <http://www.rwbaird.com/research-insights/research/coverage/third-partyresearch-disclosures.aspx>. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., PWM Research & Analytics, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.