

# Market commentary summary and outlook

## The equity markets off to a slow start but bounced in the latter part of the quarter

**Russell 2000 Value -2.4% and Russell 2500 Value -1.5%;  
Russell 2000 Core -7.5% and Russell 2500 Core -5.8%**

- Inflation at 40-year high proving more than transitory; The Federal Reserve (Fed) policy presumed to be more aggressive; Fear of Fed mistake and recession entering market prices
- Russia/Ukraine conflict potentially slows global growth and further exacerbates inflation through commodity prices
- Value continues to lead growth as rising rates and the decline on Pharma/Biotech drags growth-related small caps
- Value, inflation-related, and broader defensive leadership with higher-quality metrics early in the quarter but low-quality leadership in the back half
- Energy, Utilities, Materials, and Financials, REITs were leaders reflecting inflation/defensive factors
- Consumer Discretionary, Healthcare, and Technology are considerable laggards YTD

## Strengths and opportunities for Small Cap Value

- Nominal GDP growth should still be strong in 2022 but expectations are slowing on the margin; Employment formation and spending continue to positively surprise
- Inversion of yield curve is usually indicative of slowing growth and is potentially recessionary
- Small Value is the most discounted equity category
- Considerable excess savings; increased bank lending should drive growth as liquidity transmits into the real economy
- Earnings recovery slowing, more difficulty expected in the 2nd half of 2022

## Threats to the market

- Valuation multiples not as stretched on an absolute basis; possible multiple contraction as real rates rise; 10%–15% downside if multiples move to a more normal level
- Russia/Ukraine increases risks, drives volatility, and potentially slow global growth
- China's zero-tolerance of COVID creating more impediments to growth and supply recovery
- Inflation becoming a bigger issue especially if current levels persist through 2022; More supply than demand driven
- Supply disruptions were beginning to mitigate but some concerns about pull forward growth on longer-term demand and the extension of disruptions through the rest

## Outlook

- Small cap value should maintain leadership over next 6–12 months as economy continues to grow; 2022 EPS growth should be more moderate as recovery from COVID slows

## About Mesirow Financial

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit [mesirow.com](https://www.mesirow.com) and follow us on [LinkedIn](#).

Past performance is not necessarily indicative of future results.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. © 2022. All rights reserved. Mesirow Equity Management ("MEM") is a division of Mesirow Financial Investment Management, Inc., ("MFIM") an SEC-registered investment manager. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow Financial investment vehicle. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Mesirow Financial Investment Management, Inc. and its affiliated companies and/or individuals may, from time to time, own, have long or short positions in, or options on, or act as a market maker in, any securities discussed herein and may also perform financial advisory or investment banking services for those companies. Mesirow Financial does not provide tax or legal advice. Securities offered through Mesirow Financial, Inc. member FINRA, SIPC. Insurance services provided through Mesirow Insurance Services, Inc.

Mesirow Equity Management ("MEM") is a division of Mesirow Financial Investment Management, Inc., ("MFIM") an SEC-registered investment manager. Please note that this material contains information that is strictly limited to the intended recipients. It is not for use with the general public and may not be distributed.

### Benchmark Definition

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The Russell 2000 Index® offers investors access to the small-cap segment of the U.S. equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The Russell 2000 Value Index® offers investors access to the small-cap value segment of the U.S. equity universe. The Russell 2000 Value is constructed to provide a comprehensive and unbiased barometer of the small-cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate small-cap value manager's opportunity set. (Source: Russell).

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. © 2022. All rights reserved. Mesirow Equity Management ("MEM") is a division of Mesirow Financial Investment Management, Inc., ("MFIM") an SEC-registered investment manager. Effective 04.01.2016, Mesirow acquired Fiduciary Management Associates, LLC ("FMA") which is now an integral part of MEM. This communication is for institutional use only and may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If this information was received in error, you are strictly prohibited from disclosing, copying, distributing or using any of this information and are requested to contact the sender immediately and destroy the material in its entirety, whether electronic or hardcopy. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow investment vehicle. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Model, theoretical or hypothetical performance information and results do not reflect actual trading or asset or fund advisory management and the results may not reflect the impact that material economic and market factors may have had, and can reflect the benefit of hindsight, on MEM's decision-making if MEM were actually managing client's money. Any chart, graph, or formula should not be used by itself to make any trading or investment decision. Mesirow Financial Investment Management, Inc. and its affiliated companies and/or individuals may, from time to time, own, have long or short positions in, or options on, or act as a market maker in, any securities discussed herein and may also perform financial advisory or investment banking services for those companies. Mesirow does not provide tax or legal advice. Securities offered through Mesirow Financial, Inc. member FINRA, SIPC.