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The grass isn't always greener

Is it a good time to look beyond the hottest memes and themes?

Jo Groves

Jo@keplerpartners.com

Nobel Prize-winning psychologist, Daniel Kahneman, observed that "No one ever made a decision because of a number. They need a story." Stock markets have certainly embraced that philosophy in recent years, with artificial intelligence (AI), quantum computing and commercial space exploration fuelling some spectacular gains.

These technologies may yet justify the sky-high expectations. But when investors are more focused on future potential than business fundamentals, returns can become increasingly dependent on a narrow group of winners. September offered a timely reminder of this: the S&P 500 fell just 0.5%, yet almost 80% of its constituents declined. Nearly half remain in negative territory year-to-date, with a small cohort of AI-related names doing much of the heavy lifting.

Nor is this simply a mega-cap phenomenon, with concentration within the Russell 2000 reaching its highest level since the dotcom era. According to JPMorgan, 17 of the 25 largest contributors to Russell 2000 returns in the two years to June 2026 were linked to AI, with quantum computing and space exploration accounting for much of the remainder. The companies may differ, but the market is still rewarding a narrow set of technology-driven narratives.

Investors don't need to bet against today's themes, but neither do they need to crowd into the same handful of fashionable narratives to find compelling opportunities.

Beyond the hype

The US mega-caps may have delivered impressive AI-fuelled earnings growth, but they're not the only show in town. The Russell 2000 is forecast to deliver earnings growth of 55% and 30% in 2027 and 2028 respectively, compared with 17% for the S&P 500 in both years, according to research house Yardeni. With revenue growth expected to be more modest, these forecasts rely heavily on margin expansion but highlight the

potential for earnings growth beyond the market's largest names.

Growth, however, is only half the story. The more pressing question is what investors are being asked to pay for it. The Russell 2000 is currently trading on around 22 times forward earnings, broadly in line with the Magnificent Seven. Yet this headline valuation masks a sharp divide, with growth stocks trading at around 38 times earnings compared with 16 times for value.

In recent years, investors have tended to fall into two camps, gravitating either towards companies offering explosive growth (often regardless of profitability) or towards cheaper value stocks, leaving quality-growth businesses occupying an awkward middle ground. These businesses are, in simple terms, companies that can be expected to get on with delivering steady growth without the fanfare of 'big stories'. With investors focusing their attention elsewhere, their share prices may not fully reflect the strength of the underlying businesses, offering an attractive potential entry point.

Identifying these opportunities, however, requires careful stock selection. Regulatory changes have made it easier for unprofitable companies to list, while some larger, more established businesses are choosing to remain private for longer. [JPMorgan US Smaller Companies \(JUSC\)](#) aims to capitalise on these valuation inefficiencies by investing in high-quality companies with durable business models and sustainable cash flow, whose growth prospects are not fully reflected in their share prices.

Managers Don San Jose, Dan Percella and Jon Brachle combine more than 70 years of experience, supported by JPMorgan's extensive research resources and regular meetings with company management. The result is a portfolio of around 100 holdings across a broad range of sectors, with individual positions capped at 5%.

The managers have continued to adapt the portfolio to changing conditions, adding around 30 holdings this year. These include profitable companies well-positioned to benefit from the capital expenditure supercycle, alongside commercial-stage biotechnology businesses. The aim is to capture structural growth opportunities without compromising on quality.

JUSC has delivered a total return of almost 100% over the past 10 years, together with positive returns in seven of the last 10 calendar years. More recently, however, its quality-focused approach has faced headwinds as investors have favoured unprofitable companies exposed to themes such as AI, cryptocurrency and quantum computing. While quality stocks can lag during small-cap rallies, the scale of the recent underperformance of the benchmark has been unusually pronounced, which we see as a potential opportunity for investors willing to take a longer-term view.

Better together

JUSC is preparing for a new chapter, having announced a proposed combination with fellow US small-cap trust [Brown Advisory US Smaller Companies \(BASC\)](#), following a strategic review by the BASC board. BASC shareholders can choose to roll their investment into JUSC, take cash or combine the two options.

We think the transaction makes sense for both sets of shareholders. Both trusts have a market capitalisation of

under £200 million, meaning that a combined vehicle should improve liquidity in the shares, as well as the potential to reduce trading and holding costs.

The enlarged trust would benefit from a reduced management fee of 0.65% on the first £200 million of net assets and 0.60% thereafter. The board estimates that this would reduce annual fees by approximately 20 basis points for BASC shareholders rolling into JUSC and 13 basis points for existing JUSC shareholders.

We believe the investment trust structure is particularly well suited to the small-cap sector, allowing managers to invest in less liquid businesses and take a longer-term view without being forced to sell holdings to meet investor redemptions. JUSC also intends to manage its discount through share buybacks, alongside a continuation vote and conditional tender offer every five years.

Stories will always move markets, and today's technological revolutions may yet produce some of tomorrow's winners. But as JUSC's approach illustrates, investors don't have to buy into the hype to benefit from growth. Sometimes, the most compelling investments are those where the fundamentals are stronger than the story.

Performance figures based on share price total returns. Unless specified otherwise, data sourced as at 20/10/2026.

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