

A Decade of Small-Caps, Top Performing and Riskiest Sectors

Drawdown as a measure of risk. There are several ways to express risk but one way most investors understand is maximum drawdown or the largest peak to trough drop for an asset in a given period.

Health Care and Information Technology, top performers, Utilities and Consumer Staples, least risky? While the S&P 600 Index has generated an average calendar year return of 12.7% since 2011. Health Care and Information Technology have generated average calendar year returns of 21% and 17%, respectively. In terms of risk, Utilities and Consumer Staples were the two sectors that suffered the least severe calendar year maximum drawdowns on average.

Energy, riskiest sector, worst performer. Over the past 10 calendar years, the small-cap energy sector has most often experienced the largest maximum drawdown. On average, the small-cap energy sector has suffered a drawdown of 44% each calendar year dating back to 2011 and a negative average return of nearly 13%. Real Estate and Communication Services also lagged by generating single digit average returns of 6.5% and 4.7%, respectively.

How to allocate to small-caps and reduce risk? Equity investors seeking small-cap exposure but looking to limit risk, may want to consider how much they allocate to small-cap energy and material stocks, two sectors that have been among the riskiest over the past 10 years.

	10-Year Average		S&P 600 Sectors - Calendar Year Maximum Drawdown									
	Max Drawdown	Performance	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Consumer Discretionary	-19.2%	13.8%	-40.7%	-30.0%	-19.8%	-53.0%	-54.2%	-29.9%	-47.7%	-56.1%	-48.4%	-74.0%
Health Care	-17.0%	21.4%	-32.4%	-20.9%	-17.6%	-19.0%	-27.0%	-18.9%	-15.0%	-33.5%	-22.6%	-53.4%
Information Technology	-18.5%	17.3%	-30.5%	-16.4%	-10.4%	-18.1%	-21.6%	-18.9%	-12.7%	-30.5%	-16.8%	-49.6%
Consumer Staples	-12.9%	13.7%	-29.9%	-15.3%	-10.3%	-14.0%	-18.6%	-18.4%	-10.6%	-30.2%	-13.7%	-45.3%
S&P Small Cap 600 Index	-16.7%	12.7%	-29.2%	-13.7%	-9.8%	-13.9%	-15.3%	-14.3%	-9.7%	-28.3%	-12.7%	-44.4%
Utilities	-12.3%	12.5%	-26.7%	-13.3%	-8.7%	-13.1%	-15.2%	-13.1%	-9.4%	-27.4%	-12.5%	-42.6%
Industrials	-18.5%	13.1%	-26.6%	-12.1%	-7.8%	-11.7%	-14.9%	-12.3%	-9.0%	-27.1%	-11.2%	-42.0%
Materials	-23.0%	11.3%	-24.9%	-11.8%	-7.2%	-9.7%	-14.9%	-12.2%	-8.1%	-26.6%	-10.1%	-41.2%
Real Estate	-17.8%	6.5%	-24.6%	-10.7%	-5.8%	-9.0%	-13.4%	-11.7%	-7.8%	-22.6%	-9.4%	-36.2%
Communication Services	-21.0%	4.7%	-24.1%	-10.1%	-5.0%	-8.3%	-13.2%	-10.9%	-7.4%	-20.9%	-8.9%	-29.9%
Financials	-16.6%	11.1%	-16.8%	-9.2%	-5.0%	-7.8%	-12.0%	-10.9%	-6.6%	-18.1%	-7.0%	-29.3%
Energy	-44.4%	-12.8%	-13.6%	-8.1%	-4.2%	-7.4%	-10.5%	-10.2%	-5.9%	-11.8%	-5.8%	-29.2%

Source: Bloomberg Finance L.P. Data as of 12/31/2020. Investors cannot directly invest in an index.

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