

MICROCAP DESK · QUARTERLY RESEARCH

Q3 2026 Micro-Cap Market Report

The quarter micro-caps paused — and what held firm underneath the drawdown.

Period: 1 Jul – 30 Sep 2026

Published 7 Oct 2026

Not investment advice

The quarter in four numbers

-7.2%

Russell Microcap, Q3

First negative quarter of the cycle. The Russell 2000 fell the same amount.

+18.3%

Same index, year to date

Still ahead of large-cap (+12.3%) and mega-cap (+6.2%) through 30 September.

+19.5%

**Russell 2000
EPS growth**

Earnings rose while prices fell. Large-cap EPS grew 10.2% over the same stretch.

5.01%

10-year Treasury peak

Highest since October 2023, hit mid-September as oil broke \$100 and the Fed hiked.

The read: a de-rating driven by discount rates and a rotation back into mega-cap AI — not a break in micro-cap company performance.

PERFORMANCE SCORECARD

The smaller the company, the harder the quarter

Index	Q3 2026 total return		Q3	Year to date	
Russell Microcap				-7.2%	+18.3%
Russell 2000				-7.2%	+13.7%
Russell 1000				+1.8%	+12.3%
Russell Top 50				+4.1%	+6.2%
Russell 2000 Value				-4.9%	+17.0%
Russell 2000 Growth				-9.4%	+10.7%

Bars run left of the rule for losses and right of it for gains, on one scale. The top four rows are the size ladder; the bottom two split the Russell 2000 by style.

THE QUARTER'S DEFINING GAP

11.3 points

separated the mega-cap Russell Top 50 (+4.1%) from the Russell Microcap (−7.2%) in a single quarter — the widest size spread of the cycle so far.

July

Money rotated out of AI-infrastructure names, small-caps and semis included, into sector laggards.

August

Software rebounded once fears of AI making it obsolete were read as an overreaction. Small-caps got a brief pause.

September

OpenAI's GPT-6 reignited chip demand; the Nasdaq hit a record on the 21st. Small-caps fell again.

Source: Royce Investment Partners 3Q26 recap

CYCLE CONTEXT

One quarter inside an 18-month run

Total return from the 8 April 2025 market low to 30 September 2026. Micro-caps have compounded at roughly 1.7x the pace of large-caps across the whole move.



Historically, size-leadership cycles have run long: across eight completed cycles since 1931, the shortest lasted five years and the three longest ran 14 to 16 years.

Value lost less – and is still winning

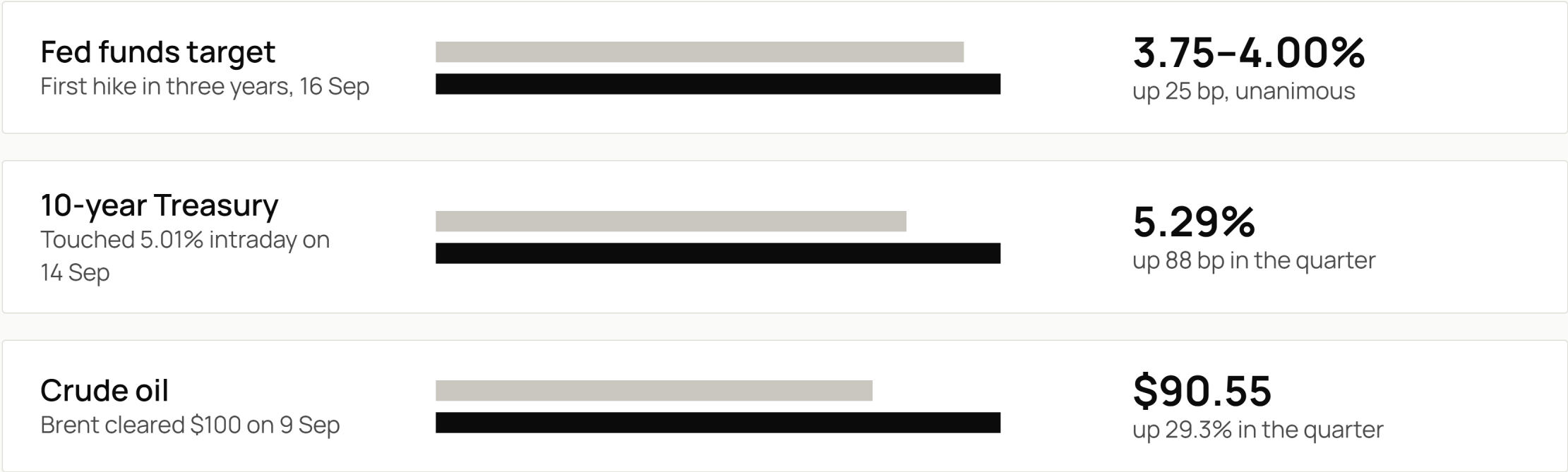
Russell 2000 Value	
Q3 2026	-4.9%
Year to date	+17.0%
Since Apr 2025 low	+63.4%

Russell 2000 Growth	
Q3 2026	-9.4%
Year to date	+10.7%
Since Apr 2025 low	+60.5%

Value holding up in a drawdown is normal. Value leading in a bull cycle is not – and it has, on every horizon here. Momentum-led small-growth funds took the worst of it, with the leading category strategies down 14% to 17% in the quarter.

DRIVERS

Three dials moved against small, all quarter

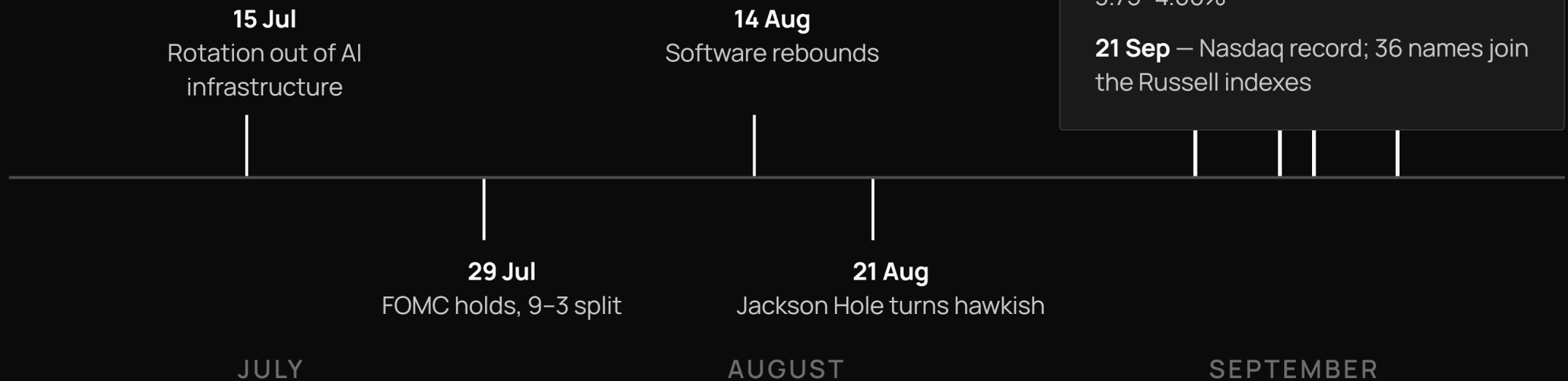


Light bar = quarter start, dark bar = quarter end. Core PCE ran above 3% every month of 2026 with unemployment at 4.1% – the mix that kept policy tight and lifted the discount rate on every long-duration asset.

Sources: Federal Reserve FOMC statement and SEP, 16 Sep 2026; Reuters; EIA; First Financial Trust Q3 review

MARKET ACTIVITY

The quarter, event by event



July and September both fell; August was the pause. The decisive week was the middle of September.

Sources: Federal Reserve; FTSE Russell; Reuters; Al Jazeera; Royce Investment Partners

SECTOR STORY

Ten of eleven sectors fell. Energy alone added.

Q3 detractors, ranked by contribution

- 01 Industrials
- 02 Information Technology
- 03 Financials
- 04 Consumer Discretionary

Leading industry detractors: semiconductors and semicap equipment, biotechnology, machinery, banks, construction and engineering.

ONLY POSITIVE CONTRIBUTOR

Energy

Carried by oil, gas and consumable fuels as crude ran 29% higher through the quarter.

Year to date, the picture inverts

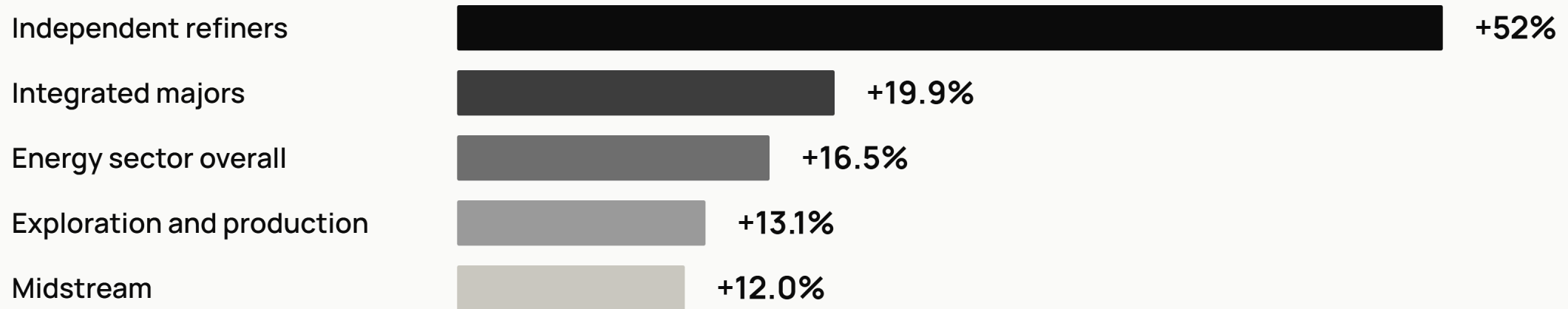
Nine of eleven sectors positive, led by Information Technology, Industrials and Health Care. Only Consumer Discretionary and Utilities detracted, both modestly.

The whipsaw is the finding: semis and semicap equipment led the year to date and topped the Q3 detractor list.

INSIDE THE ONE WINNING SECTOR

Energy Led – Refiners Ran Away With It

Average Q3 2026 return by energy sub-industry. The spread between refiners and pipelines was the widest inside any sector this quarter.



Not all of energy worked. Natural-gas producers fell – Comstock Resources -17.4%, EQT -8.4%, Antero -5.0% – and traditional pipeline operators lost ground, with Enbridge -13.1% and TC Energy -11.9%.

NAMED MOVERS

Tankers and Refiners up. Data-Centre Builders Down.

Quarter's upside	
CVR Energy — refining	+86%
PBF Energy — refining	+70%
Dorian LPG — shipping	+61.9%
Teekay Tankers — shipping	+50.1%
Nordic American Tankers	+48.1%
DHT Holdings — shipping	+45.6%
SM Energy — E&P	+30.2%

Quarter's downside	
Argan — energy construction	-53%
Sterling Infrastructure	-41%
Comstock Resources — gas	-17.4%
Enbridge — pipelines	-13.1%
TC Energy — pipelines	-11.9%
Argan and Sterling were among the strongest first-half performers in the small-cap data-centre build. Both gave back the bulk of those gains in one quarter.	

Q3 2026 price returns. Names span the small- and mid-cap range and are shown to illustrate where the quarter's dispersion sat — they are not recommendations.

FUNDAMENTALS

Prices fell. The businesses did not.

■ Russell 2000 ■ Russell 1000

Per-share growth, Q3 2026

Earnings per share



Free cash flow per share



Sales per share



1,130 vs 900

Companies with positive earnings in the Russell 2000 against the Russell 1000.

2026 and 2027

Consensus puts small-cap earnings growth ahead of large-cap in both years.

Cash pays again

Net-cash small-caps earn a real return on the balance sheet for the first time in two decades.

Micro-cap is the Cheapest Corner of the U.S. Equity Market

On median EV/EBIT excluding negative-EBIT companies, Russell Microcap Value, Russell Microcap and Russell 2000 Value sit just below or slightly above their own 25-year averages. Large-cap valuations still have a long way to fall to reach theirs.

At or near fair

Micro-cap value, micro-cap core and small-cap value — all close to their long-run medians rather than stretched.

Priced for a lot

Large- and mega-cap, where index concentration also sits. Higher rates press hardest on the highest multiples.

The squeeze

Small-cap sits between two crowded allocations — mega-cap equity and illiquid private markets — both at valuation extremes.

Index shape

Russell Microcap held 1,375 names at the June reconstitution, averaging about \$292m in market cap.

CAPITAL MARKETS

Issuance stayed open – and got selective

U.S. IPO proceeds by quarter, 2026



Volume fell back from an exceptional second quarter but stayed well ahead of Q1. Healthcare was 45% of the Q3 IPO count, with technology and industrials at 15% each.

\$40bn+

Convertibles in Q3 alone. 2026 has passed 2025's full-year record, on pace for about \$180bn.

\$50bn

Follow-ons and block trades, against roughly \$34bn in the same quarter last year.

36 names

Entered the Russell 1000, 2000 and Microcap indexes on 21 September – a real flow event at this size.

OUTSIDE THE U.S.

Where the AI Trade is Thinner, Small Still Won

MSCI ACWI ex-USA Small Cap

+2.1%

Third quarter 2026. Up 11.4% year to date.

MSCI ACWI ex-USA Large Cap

+0.1%

Essentially flat. Up 14.5% year to date.

Non-U.S. small-caps outperformed their large-cap peers for a second straight quarter — the mirror image of the U.S. result.

That decoupling is the cleanest available evidence that the U.S. small-cap drawdown was about the composition of the U.S. market — mega-cap AI concentration and a rate shock — rather than a global repricing of small companies.

Source: MSCI via Royce Investment Partners

FINDINGS

Five conclusions from the quarter

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- 01 **It was a de-rating, not a downgrade.** Multiples compressed while sales, free cash flow and earnings per share all rose.
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- 02 **Leadership survived the quarter.** Micro-cap still leads year to date and off the April 2025 low by a wide margin.
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- 03 **Rates hit sentiment, not cash flow.** A 5% ten-year repriced duration; small-cap operating results kept improving through it.
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- 04 **The AI trade stopped paying small.** Semis and semicap equipment led the year to date and topped the Q3 detractor list. Small-cap suppliers to the buildout have not been re-rated with it.
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- 05 **Quality and value cushioned the fall.** Value lost 4.9% against growth's 9.4%, and momentum-led small-growth strategies took the heaviest losses.

What Changes in How You Read a Micro-Cap

The balance sheet is the factor

With cash earning a real return again, net-cash companies have an advantage they have not had since before 2009 — and the optionality to buy assets while rivals refinance.

Screen the maturity wall

At a 5% ten-year, the dividing line in micro-cap is refinancing risk: leverage, covenant headroom and 2027 maturities now matter more than revenue growth.

Read the structure, not the ticker

Record convertible issuance and 36 new index entrants mean more dilution, lock-ups and inclusion flows to track per name — the detail lives in the filings.

The acquirer flipped sides

A cohort of quality small-caps has gone from take-private target to buyer, picking up businesses cheaply from private equity firms that need liquidity.

The practical shift: in a 4% cash world, dispersion inside micro-cap widens. Index-level calls get less useful and name-level balance-sheet work gets more.

Five catalysts to track

Catalyst	Timing	Why it matters for micro-cap
December FOMC	Mid-December	The median dot implies one more hike. A hold would be the cycle's first dovish surprise.
Russell reconstitution	December	First December rebalance under the semi-annual schedule. Membership changes drive real flow.
Q3 earnings season	Oct-Nov	Tests whether the per-share growth holds once the full small-cap universe reports.
Oil and the Gulf	Ongoing	Brent above \$100 feeds inflation, yields and input costs. The main two-way risk.
M&A and take-privates	Ongoing	A wide valuation gap plus liquidity-hungry sponsors is the setup for deal activity.

Base case into year end: dispersion rather than a clean directional call – cheap valuations and accelerating earnings against a hawkish Fed and an unresolved energy shock.

Where the numbers come from

Index and fundamentals

- FTSE Russell index returns, via Royce Investment Partners 3Q26 Small-Cap Recap, 1 Oct 2026
- FactSet consensus EPS estimates, data run 1 Oct 2026
- FTSE Russell June 2026 reconstitution and September quarterly IPO additions
- Morningstar fund-category returns, Q3 2026

Macro and capital markets

- Federal Reserve FOMC statement and Summary of Economic Projections, 16 Sep 2026
- Reuters and Trading Economics Treasury yield series, Sep 2026
- EIA Short-Term Energy Outlook, Sep 2026
- ICR Capital Q3 2026 Equity Capital Markets Review
- State Street Investment Management US-listed ETF flows

All index figures are total returns for the periods stated. Cycle returns run from the 8 April 2025 market low to 30 September 2026. Past performance is no guarantee of future results, and index performance is not investable directly.

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