White Paper
September 2026

Why Mid Cap Value, Why Now?

Portfolios are historically concentrated by size and by style. That concentration has created an unusually attractive entry point into an asset class with a long-term record of leadership and a durable advantage.

Summary

Equity portfolios today are historically concentrated by both market capitalization and style. This dynamic was the focus of our companion paper, A Contrarian Case for Value Investing, which examined how capital has crowded into passive strategies, leveraged private-market vehicles, and a narrow group of mega-cap growth and AI-related stocks. A handful of mega-cap growth stocks now dominate benchmark performance and investor returns. Increasingly, they also define the risk profile of many portfolios. In our view, this environment has created an unusually attractive entry point into a diversifying asset class with a long-term record of leadership and a durable advantage: Mid Cap Value.

A Long-Term Record of Leadership

Over the past century, mid cap stocks have delivered the highest annualized returns of the conventional size segments of the US equity market. Just as important, they have done so with meaningfully less volatility than small caps and only modestly more than large caps, producing the most attractive risk-adjusted returns of the group.

Table 1: Return and Risk by Size Segment, July 1926 to May 2026

	Annualized Return	Annualized Volatility	Risk-Adjusted Return
Small Cap	10.74%	30.81%	0.37
Mid Cap	**12.39%**	**23.54%**	**0.47**
Large Cap	10.77%	20.04%	0.45
Total Market	10.38%	18.35%	0.45

Source: Nuance analysis of Ken French Data Library (CRSP) data

Because few investors have 100-year horizons, rolling 10-year periods offer a more relevant lens, one that also captures the experience of recent market cycles. The record is strikingly persistent as mid cap stocks outperformed the total market in 84% of all rolling 10-year periods over the past century, well ahead of small caps (56%) and large caps (61%). The magnitude of that outperformance has also been the largest.

Table 2: Rolling Ten-Year Outperformance Versus the Total Market

	% of Outperforming 10 Year Periods	Average Ann. Outperformance	Median Annualized Outperformance
Small Cap	56%	1.29%	1.10%
Mid Cap	**84%**	**2.53%**	**2.58%**
Large Cap	61%	0.37%	0.56%

Source: Nuance analysis of Ken French Data Library (CRSP) data, July 1926 to May 2026

Having established the empirical case for mid cap stocks, which style has been the most rewarding within the segment? Using Compustat data beginning in July 1963 (more than 60 years of history), value has delivered notably higher annualized returns than growth, and has done so with less volatility, improving on the risk-adjusted returns of a simple mid cap approach. The advantage has been persistent, with mid cap value outperforming mid cap growth in 78% of all rolling 10-year windows. Value has also protected capital far better in down markets with meaningfully lower downside capture and a shallower maximum drawdown.

Table 3: Mid Cap Value Versus Mid Cap Growth, July 1963 to May 2026

Style	Annualized Return	Annualized Volatility	Risk-Adj Return	Downside Capture	Max Drawdown
Mid Cap Growth	10.81%	20.38%	0.39	128%	-62.5%
Mid Cap Value	**14.65%**	**18.80%**	**0.59**	**94%**	**-48.9%**

Source: Nuance analysis of Ken French Data Library (CRSP, Compustat) data

A Durable Advantage

Mid cap value's compelling historical record is only useful going forward if the forces that produced it still hold. Understanding why mid cap value has outperformed also reveals the conditions under which it is likely to underperform.

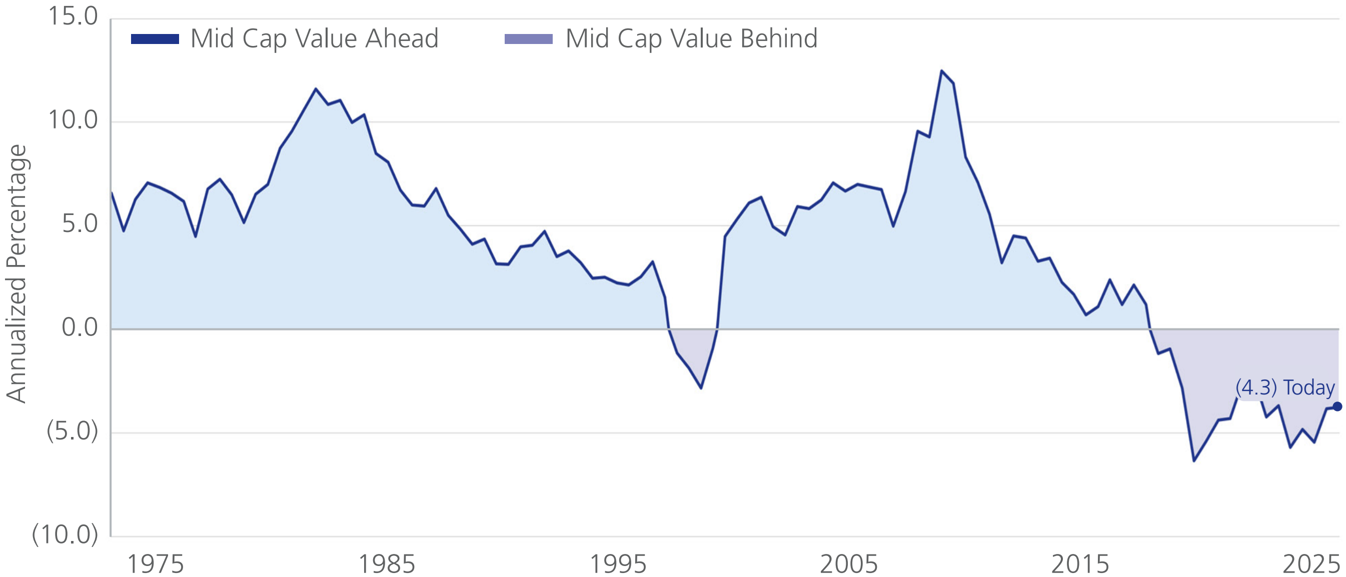
Irrespective of value or growth style, mid cap stocks occupy what we believe is the sweet spot of the market capitalization spectrum. For reference, the Fama-French definition puts the median mid cap company at roughly $5 billion in market value, and the Russell Midcap Index median is just under $10 billion. These businesses have survived the riskier, failure-prone small-cap stage and possess established business models, proven management teams, and the financial flexibility to invest in the business and grow market share. Yet unlike large caps, where the law of large numbers limits growth and organizational complexity can slow adaptation, mid caps retain long growth runways and their nimble size allows for easier adaptation to potentially changing competitive conditions. Additionally, mid caps are prime hunting grounds for strategic and private equity acquirers as many of these businesses are large enough to matter yet small enough to digest, and they disproportionately benefit from the resulting takeover premiums.

Within mid caps, why has value persistently beaten growth? In our view, investors pay too much for stocks with seemingly exciting futures and too little for those facing boring or out-of-favor circumstances. Value stocks embed low expectations, often reflecting transitory difficulties and are priced low relative to fundamentals, creating the opportunity for higher returns as fundamentals normalize and valuations mean revert. Growth stocks, by contrast, are priced richly relative to fundamentals and their lofty embedded expectations compress the margin of safety and lower expected returns when risks emerge. Combining inexpensive valuations with mid cap attributes creates outsized re-rating potential. Supported by attractive growth runways and the prospect of takeover premiums, this combination has produced attractive and persistent long-term results for mid cap value stocks.

An Unusually Attractive Entry Point

If mid cap value's long-term returns are in part explained by the payoff of taking the other side of overpriced, exciting stocks, the asset class will inevitably underperform when stocks of that nature dominate the market. Over the past 60-plus years, that has happened in just two extended stretches: the late 1990s and the period today. While mid cap value has outperformed the total market in 82% of rolling 10-year periods, it has lagged by more than 4% annually over the past decade, a 7th percentile outcome. Both stretches of underperformance came during the early stages of a new wave of technology optimism, defined by massive infrastructure investment cycles and extreme large-cap concentration.

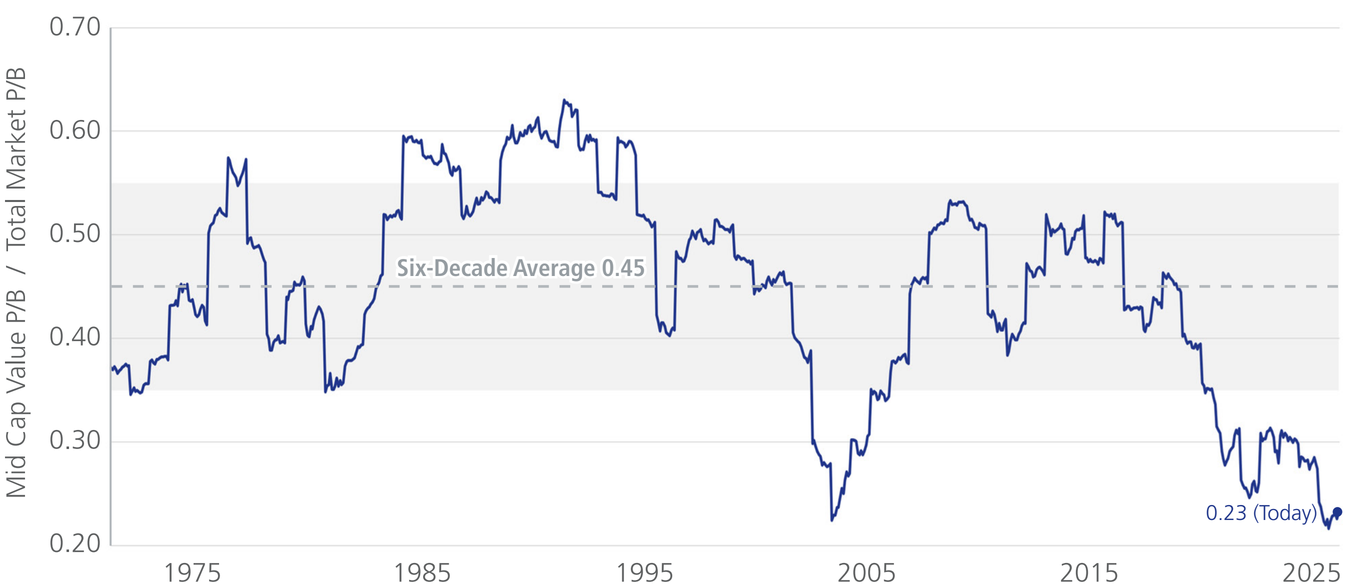
Figure 1: Rolling Ten-Year Return, Mid Cap Value Less the Total Market



Source: Ken French

The resemblance of the late 1990s period extends to the relative valuation of mid cap value stocks versus the total market. Using Fama-French's defining value measure, price-to-book, mid cap value currently trades at ~0.23 times the total market's multiple, well below the long-run average. That places today's relative valuation more than two standard deviations below its six-decade mean, in the 1st percentile of all monthly observations since 1963. The only other prior stretch that ever reached this extreme was the peak of the dotcom era. The relative valuation gap of mid cap stocks versus the market is now about as wide as it has ever been, matched only by the episode that preceded mid cap value's strongest decade of relative returns.

Figure 2: Mid Cap Value Price to Book Relative to the Total Market



Source: Ken French

What followed this last episode is instructive. From March 2000, mid cap value went on to deliver 13.1% annualized over the following decade while the total market returned just 0.2% annualized. The market's lost decade was the most rewarding relative performance stretch over this history for mid cap value investors. Notably, this change of fortune for mid cap value did not require the technology itself to fail, only for reality to fall short of what was priced into a concentrated set of stocks with no room for error. History suggests that when the gap between exciting growth stocks and forgotten value stocks reaches extremes, the subsequent reversal tends to be powerful and heavily in favor of mid cap value stocks. However, the reversal's timing is unknown and capturing it requires the patience to sit through stretches like the one we are in now.

We believe the structural case for mid cap value remains fully intact. Investors must decide whether this time is different, or whether this is yet another generational buying opportunity for mid cap value stocks. Value investing works over the long term because it compensates investors for enduring painful stretches of contrarianism. Are you willing to be contrarian?

About Nuance

Nuance Investments, LLC (Nuance) is a boutique classic value investment firm headquartered in Kansas City, Missouri. Founded in 2008 and one hundred percent employee-owned, the firm manages two composites: Nuance Concentrated Value and Nuance Mid Cap Value.

The Nuance Investments investment philosophy is a classic value approach founded on the belief that identifying leading business franchises selling at a discount to fair value has the potential to generate excess returns over time. Our performance focus is on superior risk-adjusted returns.

For more information about Nuance or the strategies discussed in this paper, please contact Nuance Client Services at client.services@nuanceinvestments.com.

Compliance Statement