

# The Market's Long Hike Back to Balance

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One of my favorite hikes is the Zirkel Circle outside Steamboat Springs, Colorado. It's a loop that offers a bit of everything: a quiet forest, open alpine stretches and moments where the trail narrows, the incline steepens and suddenly everyone bunches up on the same exposed ridge.

Progress feels exciting, even necessary, but it's also fragile. One misstep, one change in weather, and you're reminded why balance matters.

Markets have felt a lot like that lately.

Over the past few years, investors have crowded onto a familiar ridge: large-cap, growth-oriented stocks. In the process, much of the market has been left behind. Small-cap stocks have notably underperformed but so have many high-quality companies — profitable businesses with strong balance sheets and durable margins — that simply didn't fit the prevailing narrative.

That combination is unusual.

Historically, quality has tended to hold up best during periods of uncertainty. This time, enthusiasm for a narrow set of themes has pulled capital away from both smaller companies and quality more broadly. When leadership narrows this far, markets usually begin to look for firmer footing — not out of nostalgia, but because conditions change.

We believe we're nearing one of those moments.



## A Shift in the Terrain

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Several forces are lining up that could reshape the path ahead.

First, interest rates. Even modest declines matter more for mid- and small-cap companies, easing financing costs and improving cash-flow visibility. They also reduce the penalty investors place on balance-sheet conservatism, often a hallmark of quality businesses.

Second, policy and regulation. A more accommodative tax and regulatory environment tends to favor domestically focused companies, many of which have spent the past few years prioritizing profitability and resilience over aggressive growth.

Third, consumer spending. This year's tax refunds offer additional stimulus leverage, which has historically benefited enterprises with operational leverage and ties to U.S. demand. This suggests that high-quality middle market companies are more likely to be successful than the biggest names at the top.

Individually, none of these are decisive. Together, they suggest a broadening.

And importantly, that broadening has already begun.

## **When the Trail Widens**

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Leadership shifts rarely arrive with fanfare. They start quietly; relative performance stabilizes, then improves.

Mid- and small-cap quality stocks appear increasingly well positioned as financial conditions ease. Many entered recent years conservatively, managing leverage and margins through a more difficult environment. That discipline may have looked uninspiring at the time, but it creates flexibility when conditions improve and investor priorities shift back toward fundamentals.

Emerging markets may also benefit from a lower dollar, easier financial conditions and renewed commodity demand, particularly in economies tied to production and infrastructure.

This doesn't require perfection—just less resistance.

## **Back to Open Ground**

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Markets don't move in straight lines, and leadership doesn't change overnight. But prolonged periods of underperformance — especially for quality companies — have historically laid the groundwork for future opportunity.

Right now, the market feels less like an exposed ridge and more like the trail opening back up wider, steadier and easier to navigate.

We remain patient and disciplined. History suggests that when participation broadens across company sizes and regions, and when quality reasserts itself, markets tend to become healthier and more durable.

And as anyone who's walked the Zirkel Circle knows, once you're off the narrow path and back into open ground, the hike gets a lot more enjoyable.

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