Mid cap stocks: Finding companies in the heart of their growth trajectories

Mid cap stocks have offered similar growth vs. large caps and more mature and stable companies vs. small caps

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Key takeaways

- Mid caps represent companies transitioning from validated business models to scaled, self-funded expansion, offering a compelling combination of growth, stability, profit, and valuation.
- The S&P MidCap 400 index has meaningfully topped the cumulative performance of benchmark large and small cap indexes since 2000, while trading at a lower aggregate price-to-earnings multiple than the S&P 500 index over this period.
- As an asset class, mid caps can add structural breadth and economic diversification within equity portfolios, while exhibiting less concentration risk and vulnerability to crowding than large caps.
- From a quantitative standpoint, greater return dispersion, higher levels of stock-specific risk, and lower correlations among constituents suggest mid caps may offer more opportunities for active stock picking.
- A select group of mid caps may be uniquely positioned to benefit from temporary price dislocations associated with index reconstitutions.

Why invest in mid cap stocks now

If you’re concerned about increasing exposure to a limited number of equity investment themes and elevated concentration and crowding risks, mid caps may be an important part of the solution.

They offer investors a way to access a diverse set of companies as they transition from proven business models to scaled, self-funded expansion.

This stage of a company’s life cycle can offer a balance of growth, stability, quality, valuation, and cyclical exposure.

What makes mid caps different

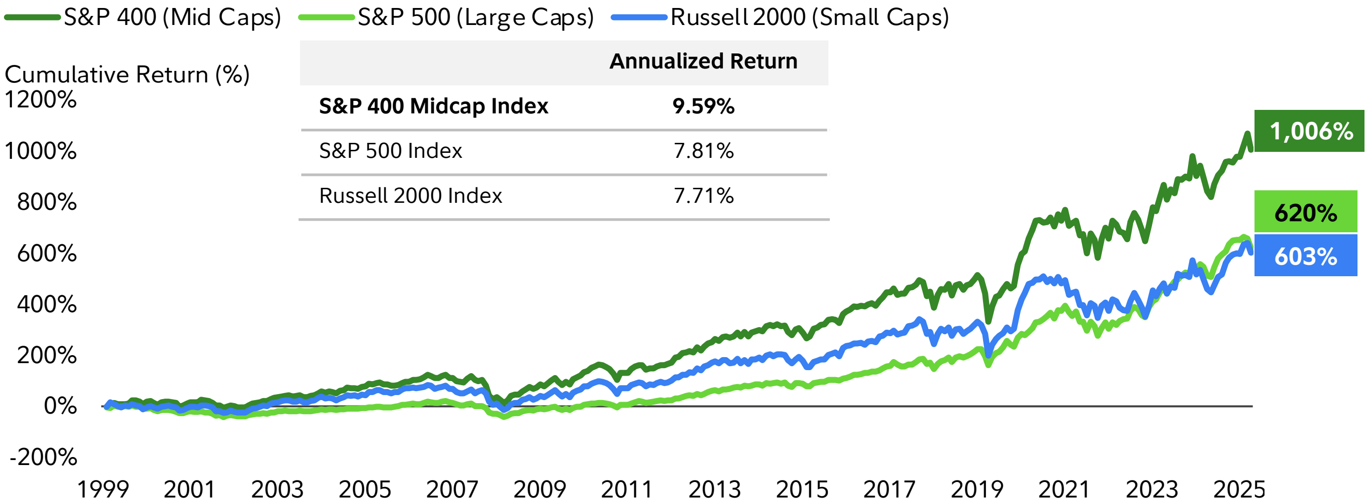
Unlike small caps, most mid cap companies are no longer in an early growth stage and have demonstrated demand for their products or services over time. Most benchmark S&P MidCap 400 Index components have achieved consistent profitability and relatively stable balance-sheet characteristics, supported by quality-based index inclusion rules.

Unlike large caps, fewer mid caps have reached structural maturity, such as market saturation or the need for large-scale restructuring. Many still have room to expand revenue, allowing operating leverage to contribute to earnings growth. As a result, they may be less dependent on efficiency gains or sustained pricing power to support earnings.

This life-cycle positioning helps explain the long-term return profile of mid caps. Exhibit 1 shows the cumulative returns of mid cap stocks versus large caps and small caps since 2000.

Exhibit 1: Return of mid caps vs. large caps and small caps

Cumulative return since 2000



	Annualized Return
S&P 400 Midcap Index	**9.59%**
S&P 500 Index	7.81%
Russell 2000 Index	7.71%

Source: Factset and Fidelity Investments, as of 3/31/26. **Past performance is no guarantee of future results.**

Although mid caps are exposed to cyclical economic dynamics, resilience during economic slowdowns can, in some cases, be aided by company-specific characteristics. Mid cap companies with long-term competitive advantages, pricing power, or exposure to secular growth trends may be less sensitive to near-term economic fluctuations and demonstrate more stable earnings trajectories relative to broader indexes. This is not uniform across the segment, however, as large caps, in general, tend to have larger balance sheets and greater geographic diversification, which supports their earnings stability.

The growth profile of mid caps

Exhibit 2 highlights an additional characteristic of mid caps: Aggregate growth expectations are broadly comparable to those of large cap stocks, despite mid caps trading at a lower multiple of forward earnings as of May 2026.

This may allow room for stock-multiple expansion over time.

Exhibit 2: Relative valuation and growth metrics for mid caps vs. large caps

	S&P 500	S&P 400 MidCap Index
12-month forward P/E	21.2	16.3
Earnings per share	23.0%	22.5%
Dividends per share	9.6%	10.5%
Sales	9.9%	9.20%

12-month forward P/E (price-to-earnings) calculated as of 5/31/26. All other metrics in this exhibit calculated based on aggregate estimates through 12/31/26. Source: Factset and Fidelity Investments, as of 5/31/26. **Past performance is no guarantee of future results.**

When to invest in mid caps

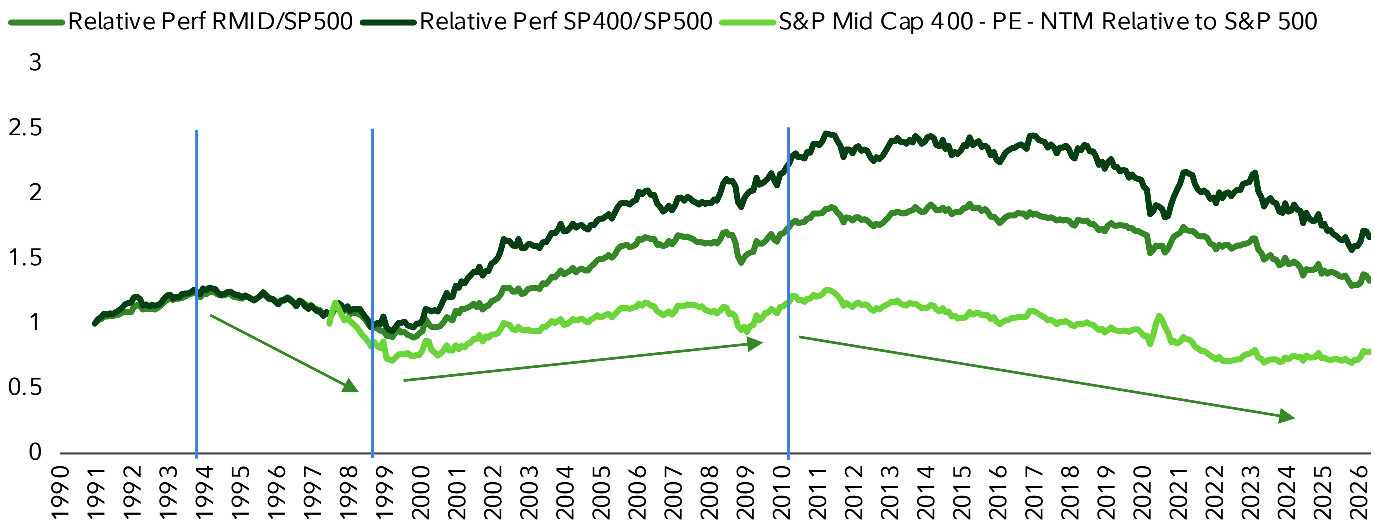
Is there a right time to invest in mid caps as part of a diversified portfolio? Any time might be the answer, as they offer a differentiated set of companies with heavy exposure to the U.S. economic cycle (and less exposure to global economics). For example, industrials accounted for roughly 26% of the S&P MidCap 400 versus only about 9% of the S&P 500 as of May 2026. This could, in theory, better position the S&P MidCap 400 in a cyclical economic recovery that could include some mix of U.S. Federal Reserve rate cuts, geopolitical conflict resolution, a drop in oil prices, and fiscal stimulus.

Otherwise, buying at low valuations versus large caps appears to have offered an advantage, based on the performance history following recent relative valuation peaks and troughs.

Exhibit 3 shows that from 1990 to 1994, and from 1999 to 2011, mid caps outperformed large caps, typically following periods of relatively low valuations (troughs). Conversely, from 1994 to 1999, and from 2011 to 2026, large caps led mid caps, coinciding with elevated mid cap relative valuations (peaks). The amplitude of these cycles varied, but the pattern remained consistent: Extreme relative valuations tended to precede reversals in performance leadership.

As of May 2026, the mid cap to large cap relative valuation stood at 0.78, suggesting mid caps may be closer to a trough than a peak.

Exhibit 3: Historical performance cycle, mid caps vs. small caps



Vertical lines on the chart indicate reversals of relative performance between mid caps and small caps at extremes. Source: Bloomberg Finance L.P. and Fidelity Investments, as of 4/30/26. Relative Perf = relative performance. RMID = Russell Mid Cap Index. SP500 = S&P 500 index. SP400 = S&P 400 Mid Cap Index. PE = price-to-earnings ratio. NTM = next 12 months. **Past performance is no guarantee of future results.**

Security selection among mid caps

Mid caps may offer a broader set of security selection opportunities relative to large caps based on several structural differences.

- The top 10 components of the S&P 400 MidCap Index comprise only about 5% of the index, compared with 32% for the top 10 S&P 500 Index components. Therefore, mid caps exhibit less dependence on a small number of dominant stocks—many of which are tied to similar themes in large cap indexes.
- The sector balance of the S&P 400 MidCap is more evenly distributed than that of the S&P 500. There is less exposure to mega-cap technology and communication services, and relatively more exposure to cyclical sectors.

- Mid caps have shown greater return dispersion, more variation caused by company-specific risk factors, and somewhat lower return correlations versus large caps over time (Exhibit 4). This means a larger share of returns may be driven by individual company outcomes, as opposed to broad market movements, which can support active security selection. For this exercise, we studied the Russell Mid Cap Index as a proxy for mid caps, because it includes roughly double the components of the S&P 400 MidCap Index. Using the broader index in this instance can help reduce the chance of a few constituents skewing the quantitative metrics.

Exhibit 4: Quantitative differences, mid caps vs. small caps

	Russell Mid Cap Index	S&P 500 Index
Current monthly return dispersion (more is better)	10.1%	8.5%
Historical average (more is better)	9.2%	8.0%
Return correlation (less is better)	0.17	0.14
Historical average (less is better)	0.25	0.28
Variation caused by specific risk* (more is better)	57.6%	53.5%
Historical average (more is better)	56.4%	51.7%

Historical averages compiled monthly since 12/01/94. *Percent of total variance not attributable to the top 5 factors in a principal component analysis. Green figures used to highlight the more favorable results from a security selection perspective. **Monthly return dispersion** gauges the variability of individual stock returns relative to each index. High dispersion suggests divergent performance and wide market breadth. The monthly return dispersion reflects the standard deviation of 1-month trailing returns, in percentage points. **Stock-level return correlation** measures how closely two stocks move together. Low correlation indicates stocks move more independently of each other. Correlation analysis above uses trailing 60 days of daily returns. **Volatility from stock-specific risk** measures the percent of returns attributed to idiosyncratic stock events, rather than market-driven factors ("beta"). High stock-specific risk volatility usually points to high dispersion. It is represented by percent of total variance not attributable to the top 5 factors in a principal component analysis (PCA). Source: Bloomberg Finance LP, FactSet, and Fidelity Investments Equity Quantitative Research, as of 5/31/26. **Past performance is no guarantee of future results.**

Unique selection opportunities for mid caps

Lastly, mid caps present two repeatable sources of stock-level inefficiency, each related to movements in and out of major indexes (fallen angels and rising stars). These transitions can create recurring, non-fundamental dislocations in pricing and investor positioning.

Fallen angels

Fallen angels are companies that were once S&P 500 constituents but were downgraded to the S&P MidCap 400 Index due to declining market values or changing fundamentals. This may occur due to earnings disappointments, sector re-rating, or balance sheet pressure.

These transitions can trigger selling by S&P 500 index investors and create temporary price dislocations.

Managers who can distinguish between companies facing temporary pressures and those facing structural challenges may be able to purchase attractive long-term holdings at discounted prices.

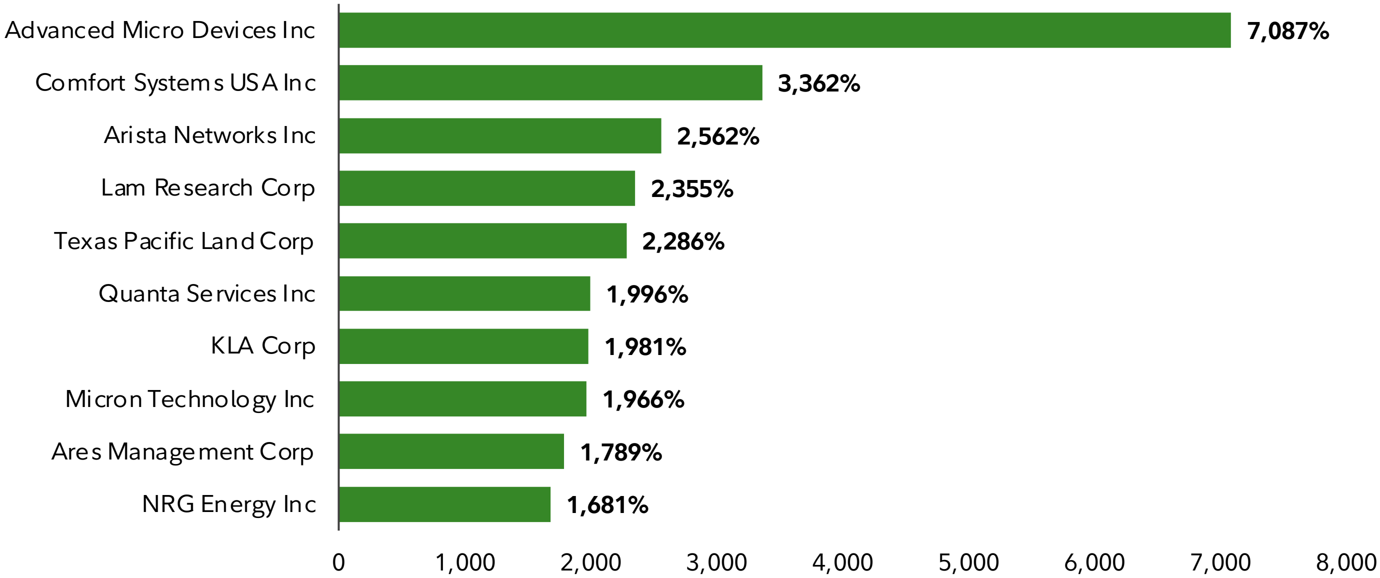
Rising stars

Rising stars are fast-growing mid cap companies that eventually move into the S&P 500 index. Exhibit 6 shows the 10-year cumulative returns through the end of 2025 for a select group of S&P 500 components that began the decade as mid cap stocks and, within this time period, became rising stars.

Many of these companies may exhibit sustained earnings growth, improving operating efficiency, and increasing investor recognition prior to S&P 500 inclusion. When they are added to the S&P 500, additional demand from index investors may affect ownership, liquidity, and valuations.

While valuations for these companies may already reflect some growth expectations, the transition to large cap status can, in some cases, coincide with additional multiple expansion.

Exhibit 5: Mid cap stocks before they became large caps



Universe defined as S&P 500 constituents as of 12/31/25 with a market capitalization between $1 billion and $15 billion on 12/31/15. Source: Factset and Morningstar, as of 12/31/25. The stocks mentioned are not necessarily holdings invested in by Fidelity. References to specific company stocks should not be construed as recommendations or investment advice. The statements and opinions are those of the speaker, do not necessarily represent the views of Fidelity as a whole, and are subject to change at any time, based on market or other conditions.

Conclusion

The role of mid caps within an equity allocation goes beyond their position between large and small caps.

Mid caps are composed of companies in transition—firms either scaling their operations or adjusting following periods of prior growth. This dynamic contributes to a combination of characteristics that differ from other equity segments.

The structural features of mid caps—balanced growth characteristics, broader exposure, higher dispersion, and ongoing index turnover—have led to returns more dependent on individual company outcomes than on a small number of index-level drivers.

Also, the continuous movement of companies into and out of the segment can introduce periodic inefficiencies driven by index mechanics, investor behavior, and changing ownership.

Taken together, these features suggest mid caps can serve as a differentiated source of investment returns, with meaningful opportunities for active security selection.

Authors

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Jim serves as a member of the investment management team, maintaining a deep knowledge of portfolio philosophy, process, and construction, assisting portfolio managers and their chief investment officers. He acts as a principal liaison for portfolio management to a range of current and prospective clients and internal partners, providing detailed portfolio reviews and serving as a key conduit of client objectives, requirements, and marketplace insight back to the investment team. His primary focus includes multi-asset class target risk and U.S. equity strategies.

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S&P MidCap 400 Index is a market capitalization-weighted index of 400 mid cap stocks of U.S. companies chosen for market size, liquidity, and industry group representation.

Russell Midcap® Index is a market capitalization-weighted index designed to measure the performance of the mid-cap segment of the U.S. equity market. It contains approximately 800 of the smallest securities in the Russell 1000 Index.

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