Perritt
CAPITAL MANAGEMENT

2018

Interest Rate Hikes and Small-Cap Stock Returns

Regardless of the macro factor influences, investors are always concerned about future returns. One of those concerns is the impact on stock prices once the Federal Reserve starts raising short-term interest rates. While we certainly agree that many recessions happen after the Fed raises rates too much, it may interest investors how small-cap returns perform.

While exact dates and periods of past tapering actions or interpretations of "Fed speak" can't be measured precisely, we can look at past periods of interest rate hikes and their impact on small-cap equity returns. From this data, investors may gain some historic context to enhance their perspective regarding Fed actions and stock returns.

The previous six times the Fed embarked on a tightening cycle and the associated small-cap returns are below:

During each of the last six instances, small cap returns have provided positive average returns over the 12-,18-and 36-month periods following Fed tightening

RUSSELL 2000 INDEX RETURNS FOLLOWING FED FUNDS RATE INCREASE

Hike Date	3 months after	12 months after	18 months after	36 months after
2/1/83	n/a	26.97%	5.20%	49.22%
10/1/86	1.75%	29.02%	7.47%	40.02%
2/4/94	-2.54%	-2.69%	16.85%	47.57%
6/30/99	-6.32%	14.32%	7.60%	1.71%
6/30/04	-2.86%	9.45%	15.88%	48.00%
12/15/15	-5.36 %	22.63%	17.55%	9.14%
Averages	-3.07%	16.62%	11.76%	32.61%

During each of the last six instances, small cap returns have provided positive average returns during the 12, 18 and 36-month periods following Fed tightening. Notably, small cap stocks generally performed very strongly for the first twelve months following a rate hike, followed by a pull back during the ensuring six-month period. This indicates that, historically, if there is a time for concern regarding small cap returns in relation to Fed actions, that time is typically twelve months following a rate hike. Lastly, it could be argued that the 12 to 18-month period could be a buying opportunity too. The 36-month return after an initial rate is remarkably strong.

The information provided herein represents the opinion of Perritt Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance is not a guarantee of future results. Index performance is not indicative of fund performance. To obtain fund performance visit http://www.perrittcap.com/wp-content/uploads/Perritt_Prospectus.pdf or call (800) 323-3133.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company and may be obtained by calling 800-331-8936 or by visiting www.perrittmutualfunds.com. Read carefully before investing.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. It is not possible to invest directly in an index.

Mutual fund investing involves risk. Principal loss is possible. The Funds invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The Funds invest in micro cap companies which tend to perform poorly during times of economic stress. The Ultra MicroCap Fund may invest in early stage companies which tend to be more volatile and somewhat more speculative than investments in more established companies.

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