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SMALL DEALS, BIG ASK: CAN M&A GIVE SMALL-CAPS A SECOND WIND?

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Chart of the Day

CPI: June CPI cooler than anticipated

Core CPI %MoM, %YoY, and %-Point Contribution

= services ex-housing

Core Consumer Price Index - Jun 2026

#	Expenditure Category	(a) Weight (%)	% MoM Prior Month	(b) MoM % Change	(c) CTG Prior Month	(d)=(a)x(b) CTG MoM % Change	(e) % YoY 1M Ago	(f) % YoY Current	(e)-(f) Delta
	Core CPI	100	0.21	-0.02	0.21	-0.02	2.85	2.59	-0.26
	Commodities	24	-0.11	-0.09	-0.03	-0.02	1.06	0.82	-0.24
	Core Services	76	0.29	0.03	0.22	0.02	3.42	3.16	-0.26
	Services ex-Shelter	32	0.26	-0.09	0.08	-0.03	3.49	3.00	-0.49
	Shelter	45	0.32	0.12	0.14	0.05	3.37	3.28	-0.10
1	Shelter ex-Hotels	43.2	0.31	0.23	0.14	0.10	3.32	3.22	-0.09
2	Recreation commodities	2.4	-0.06	0.92	-0.00	0.02	2.55	2.88	0.33
3	Public transportation ex-Airline fares	0.7	-3.76	2.26	-0.03	0.02	0.02	0.99	0.97
4	Motor vehicle maintenance and repair	1.3	0.79	1.09	0.01	0.01	6.13	7.03	0.91
5	Recreation services	4.0	0.50	0.27	0.02	0.01	2.61	2.71	0.09
6	Other personal services	2.0	1.40	0.49	0.03	0.01	5.24	5.13	-0.11
7	Car and truck rental	0.2	-4.21	5.15	-0.01	0.01	-6.07	-4.14	1.94
8	Water and sewer and trash collection services	1.4	0.23	0.32	0.00	0.00	4.70	4.62	-0.09
9	Hospital and related services	3.3	0.62	0.12	0.02	0.00	5.78	5.47	-0.31
10	Tuition, other school fees, and childcare	3.2	0.04	0.11	0.00	0.00	2.63	2.51	-0.12
11	Airline fares	1.4	2.69	0.21	0.04	0.00	26.70	26.54	-0.16
12	Internet services and electronic information provide	1.2	1.18	0.21	0.01	0.00	3.69	3.40	-0.29
13	Personal care products	0.8	-0.27	0.16	-0.00	0.00	2.63	2.70	0.07
14	Motor vehicle parts and equipment	0.4	-0.74	0.22	-0.00	0.00	2.10	1.71	-0.39
15	Alcoholic beverages	1.0	0.06	0.03	0.00	0.00	2.12	2.01	-0.11
16	Postage and delivery services	0.1	5.19	0.40	0.00	0.00	14.70	14.62	-0.09
17	New vehicles	4.8	-0.26	-0.02	-0.01	-0.00	0.24	0.50	0.26
18	Leased cars and trucks	0.5	-0.07	-0.51	-0.00	-0.00	1.56	2.32	0.76
19	Motor vehicle fees	0.6	0.23	-0.39	0.00	-0.00	3.38	3.64	0.26
20	Medical care commodities	1.8	-0.71	-0.16	-0.01	-0.00	-1.80	-2.06	-0.26
21	Tobacco and smoking products	0.6	1.01	-0.68	0.01	-0.00	7.79	6.49	-1.30
22	Health insurance	1.1	-0.11	-0.46	-0.00	-0.00	-6.43	-7.41	-0.98
23	Professional services	4.3	0.50	-0.12	0.02	-0.01	4.54	3.76	-0.78
24	Household furnishings and supplies	4.2	-0.24	-0.13	-0.01	-0.01	2.36	1.34	-1.02
25	Used cars and trucks	3.3	0.10	-0.23	0.00	-0.01	-1.99	-1.77	0.22
26	Education and communication commodities	1.0	-0.02	-0.84	-0.00	-0.01	-6.07	-6.77	-0.71
27	Apparel	3.1	0.29	-0.55	0.01	-0.02	4.79	3.88	-0.91
28	Other lodging away from home including hotels anc	1.6	0.46	-2.76	0.01	-0.04	5.06	4.78	-0.27
29	Telephone services	1.8	1.96	-2.98	0.04	-0.06	-0.96	-3.65	-2.69
30	Motor vehicle insurance	3.3	-1.69	-2.01	-0.06	-0.07	-2.01	-4.11	-2.10
31	Household operations	1.1	n/a	n/a	n/a	n/a	5.41	6.24	0.83

Source: Fundstrat, BLS

Good morning!

Small-caps have handily outperformed their large-cap counterparts this year, with the Russell 2000 up 18.6% thus far in 2026 compared to the S&P 500's 10.2%. Could M&A add a tailwind to the segment?

When President Trump took office for his second term, many anticipated an increase in M&A activity, perceiving that his administration would be more pro-business and less inclined toward tightened regulatory policy. We saw no evidence of that during the first months of Trump 2.0, as his broadside shift on U.S. tariff policy and trade caused near-ubiquitous uncertainty, causing many to take a wait-and-see attitude. Adding a secondary headwind to M&A activity was the revelation that, Andrew Ferguson, Trump's choice to replace former President Biden's famously (or infamously, depending on your perspective) aggressive antimonopolist Federal Trade Commission Chair Lina Khan, indicated that his leadership would not feature the automatic rubber-stamping of any deals that came across his desk.

However, by the end of 2025 and first half of 2026, M&A seemed to be back – at least on an aggregate value basis. Deals hit $1.45 trillion in the second half of 2025 and $1.56 trillion in the first half of 2026, rising 35% and 80% on a year-over-year basis, respectively. Yet a closer look tells a more nuanced picture.

Just as consumer spending is increasingly dominated by the wealthiest of households, dealmaking thus far in Trump 2.0 has been dominated by megadeals like the $110 billion Paramount acquisition of Warner Brothers Discovery, Union Pacific's acquisition of Norfolk Southern Corp., and Kimberly-Clark's $48.7 billion deal for Kenvue. (All of the preceding deals are awaiting approval.)

The number of M&A deals remains anemic overall despite those headline-grabbing numbers, and deals in the small-cap segment accounted for just 12% of aggregate value.

Might that be about to change?

The *Wall Street Journal* and *Bloomberg News* reported last week that JPMorgan just created a new team of investment bankers that will target M&A deals involving small-cap companies. That makes sense firstly because there are more small-cap targets. After all, the number of mega-cap companies and thus, mega-cap deals, is relatively limited.

It also makes sense from JPMorgan's perspective.The bank attributed part of its record-setting earnings yesterday (admittedly not the most prominent part) to investment banking fees in general, including M&A advisory, noting that "the pipeline is actually quite robust."

Yet there are other supportive reasons, as well, to consider the possibility of a coming increase in small-cap M&A dealmaking.

We saw CPI come in significantly below expectations yesterday, notably with core CPI coming in at 0.0% from a month ago. Afterwards, Fed funds futures trading suggested significantly weakened anticipation for a hike at the July 29 Federal Open Market Committee. While the implied odds of a cut before the end of the year remained unchanged at 0 as of this writing, at least expectations are becoming less hawkish.

Higher rates obviously have an outsize impact on small-cap companies in general, since a disproportionate percentage of them carry floating-rate debt. That, in turn, has placed downward pressure on their perceived valuations. But for dealmaking, it goes beyond that.

Pitchbook data suggests that private equity firms are currently sitting on a considerable amount of dry powder, with roughly $2 trillion in capital undeployed because a sustained period of elevated rates made many types of buyout deals unfeasible or illogical. Anticipation of an outright dovish Fed shift – not an actual, realized shift, mind you, but just the anticipation – could make companies in this segment significantly more attractive as targets, as expectations for more favorable math rise. This in turn, could lift sentiment for small-caps in general.

If inflation numbers continue trending in the downward direction, that shift in anticipation might very well happen.

Small-caps are still relatively cheap relative to their large-cap brethren (based on comparative historical forward median P/Es). To me, it seems that if markets begin to anticipate a truly dovish shift in Fed policy, an increase in small-cap M&A could thus serve as a short-term tailwind for the segment as a whole.

Economic Data Report:

The Consumer Price Index (CPI) fell 0.4% on a seasonally adjusted basis for all urban consumers in June 2026, marking its largest monthly decrease since April 2020. After increasing 0.5% in May, the June figure came in below expectations, declining beyond the projected 0.2%. Headline CPI rose 3.5% YoY, down from the 4.2% YoY headline reading for May.

Food prices rose 0.2%, indicating that the decline in energy prices was the main driver of overall pullback. The energy index fell 5.7%, its largest monthly drop since

April 2020. Over the past year, the energy index has risen 15.7%, mainly due to a 26.7% increase in gasoline prices. In June, gasoline prices fell 9.7%, while fuel oil declined 9.2%. This relief can be largely attributed to the temporary peace memorandum between the U.S. and Iran.

However, prospects for peace appear to have faded after the U.S. completed its latest wave of strikes against Iranian military targets and Iran retaliating by targeting Gulf countries. Oil prices have skyrocketed back up around $80, suggesting that war risk premiums may return and place renewed upward pressure on inflation. – *Mason Yuh*

The NFIB Small Business Optimism Index rose 2.1 points to 97.4 in June, nearing the 52-year average of 98.0. The lift came almost entirely from owners anticipating better business conditions (up 10 points to net 13%) and real sales expectations (which rose 8 points to net 9%). This is largely attributed to lower oil prices, which have lowered transportation costs and left consumers with more income. However, the recent U.S.-Iran conflict continuation has resulted in expectations for resurgent gas prices, which could thus pressure small businesses to return to previous index lows.

There are also large concerns regarding actual profits. In June, actual earnings are falling rather than rising, net -20%, and that gap has widened since May, indicating that profitability is getting worse not better. Sales are also slipping: more owners saw revenue decline rather than rise – a net -4%. Additionally, realized price increases have climbed to 38%, which is the highest since January 2023 and nearly triple the historic norm of 14%. While small business owners feel more optimistic about the future, the actual results have continued to be weak, and optimism is running ahead of the true data. – *Micah Kim*

Share your thoughts

Do you think we're about to see an increase in M&A activity? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Should U.S. companies even be using Chinese-developed AI models in the first place?

A: Framing US closed-model dominance as a Silicon Valley tailwind misinterprets China’s asymmetric strategy. The sudden export-control suspension of Fable 5 and Mythos 5 proved that access to US closed models is a revocable privilege, not permanent infrastructure. For enterprises managing platform risk, this weaponization drives a pivot toward "sovereign-enough" open-weight alternatives over superior but seizable assets. Consequently, China is leveraging open weights—like its Belt and Road Initiative—to build global dependency, leaving the US unable to counter with vulnerable, closed architectures.

Catch up with Fundstrat

The macro has become a bit messy as war risks and the selloff in memory triggered margin calls in both the U.S. and Korea. We think the macro data this week will be supportive of lower inflation. And more importantly, we still believe the risk/reward remains positive for stocks.

Technical

Refiners arguably remain the most attractive way to play energy sector, with $CRAK having gained +2.84% Monday to close within striking distance of its early May peaks as crack spreads continue to surge.

Crypto

Yesterday's CPI report materially improved the near-term macro backdrop for crypto by increasing the likelihood of a dovish repricing in rates markets. At the same time, ETH’s relative strength continues to build, supported by cleaner flow dynamics and possible Clarity-related tailwinds.

News We're Following

Breaking News

- Wholesale prices unexpectedly declined 0.3% in June on big drop in gasoline CNBC

Markets and economy

- Inflation drives Americans to cash in credit-card rewards for essentials BBG
- JPMorgan, BlackRock and Goldman to tokenize stocks, Treasurys WSJ

Business

- IBM suffers worst day since Black Monday as AI chip shortage drains software spending TT
- ASML earnings: Full-year outlook raised as AI boosts demand at chipmakers BBG
- In the weight-loss Wars, Novo’s obesity pill is pulling way ahead of Lilly’s WSJ

Politics/U.S.

- Senate Democrats block $1.15 trillion defense authorization bill HILL
- Trump reverses ICE’s decision to suspend traffic stops WSJ
- Shutdown fears rise as Trump, Democrats gird for September showdown HILL

Overseas

- China’s economy grows at weakest pace since 2022 WSJ
- Giorgia Meloni suffers surprise setback in close vote on Italian electoral reform BBC
- U.A.E. rewarded with coveted AI chips for supporting U.S. war in Iran WSJ
- Confirmed Ebola cases top 2,000 in Congo, including 754 deaths AP

Of Interest

- Buffett ended gifts to Gates Foundation over Epstein scrutiny BBG
- China wants more babies—so it’s cracking down on chatbot love affairs WSJ

Overnight

Overnight

S&P Futures	+17 ▲ point(s) (+0.23% ▲)
overnight range:	-8 ▼ to +22 ▲ point(s)

APAC

Nikkei	+1.49% ▲
Topix	+1.22% ▲
China SHCOMP	-0.29% ▼
Hang Seng	+1.40% ▲
Korea	+6.24% ▲
Singapore	+1.17% ▲
Australia	+0.37% ▲
India	+0.09% ▲
Taiwan	+2.00% ▲

Europe

Stoxx	50 +0.06% ▲
Stoxx	600 -0.01% ▼
FTSE	100 -0.21% ▼
DAX	-0.63% ▼
CAC	40 -0.03% ▼
Italy	-0.31% ▼
IBEX	-0.50% ▼
Canada	+0.19% ▲
Mexico	+0.82% ▲
Brazil	+0.51% ▲

FX

Dollar Index (DXY)	+0.02% ▲ to 100.94
EUR/USD	-0.01% ▼ to 1.1419
GBP/USD	+0.01% ▲ to 1.3392
USD/JPY	-0.05% ▼ to 162.33
USD/CNY	-0.04% ▼ to 6.7741
USD/CNH	-0.03% ▼ to 6.7763
USD/CHF	-0.20% ▼ to 0.8107
USD/CAD	+0.01% ▲ to 1.4058
AUD/USD	+0.17% ▲ to 0.6987

UST Term Structure

2Y-3M Spread widened	0.4bps to 40.5bps
10Y-2Y Spread narrowed	-0.3bps ▼ to 38.9bps
30Y-10Y Spread narrowed	-0.2bps ▼ to 51.0bps

USD HY OaS

All Sectors	+6.0bps ▲ to 298bps
All Sectors ex-Energy	+5.2bps ▲ 291bps
Cons Disc	+6.4bps ▲ to 442bps
Indu	+2.0bps ▲ to 227bps
Tech	+2.3bps ▲ to 214bps
Comm Srvcs	+1.6bps ▲ to 286bps
Materials	+3.5bps ▲ to 264bps
[illegible]	[illegible]

Energy	+8.0bps ▲ to 274bps
Fin Snr	+2.9bps ▲ to 195bps
Fin Sub	+7.2bps ▲ to 306bps
Cons Staples	+16.2bps ▲ to 455bps
Healthcare	+5.6bps ▲ to 305bps
Utes	+2.9bps ▲ to 204bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/15	8:30 AM	Jun PPI m/m	0	1.1
7/15	8:30 AM	Jun Core PPI m/m	0.3	0.4
7/16	10:00 AM	Jul Homebuilder Sentiment	35	35
7/17	8:30 AM	Jun Import Price m/m	-0.6	1.9
7/17	10:00 AM	Jul P UMich 1yr Inf Exp	4.5	4.6
7/17	10:00 AM	Jul P UMich Sentiment	51	49.5

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