

Fed Easing To Benefit Smalls Caps

The stock market's lukewarm start to the year has investors worried. But Fundstrat's Head of Research Tom Lee reiterated that the fundamentals are still there.

"Just because the calendar year changed, doesn't mean that the strength that we saw throughout 2024 suddenly has evaporated," Lee said on CNBC's Closing Bell with Michael Santoli.

In Lee's playbook for 2025, he said that easing financial conditions could kick off a broad-based rally that benefits cyclical areas of the market, such as financials, regional banks, industrials, and especially small caps. (That's of course unless inflation reaccelerates, forcing rates to stay higher, though Lee's team views that as unlikely.)

The outlook for small-cap stocks looks good partly because their earnings estimates are not only higher than their large-cap counterparts but also picking up steam, he said.

"I do think this is a year where as long as the Fed is committed toward getting toward neutral...small caps should really be an important beta play to the easing of financial conditions that follows," Lee added.

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