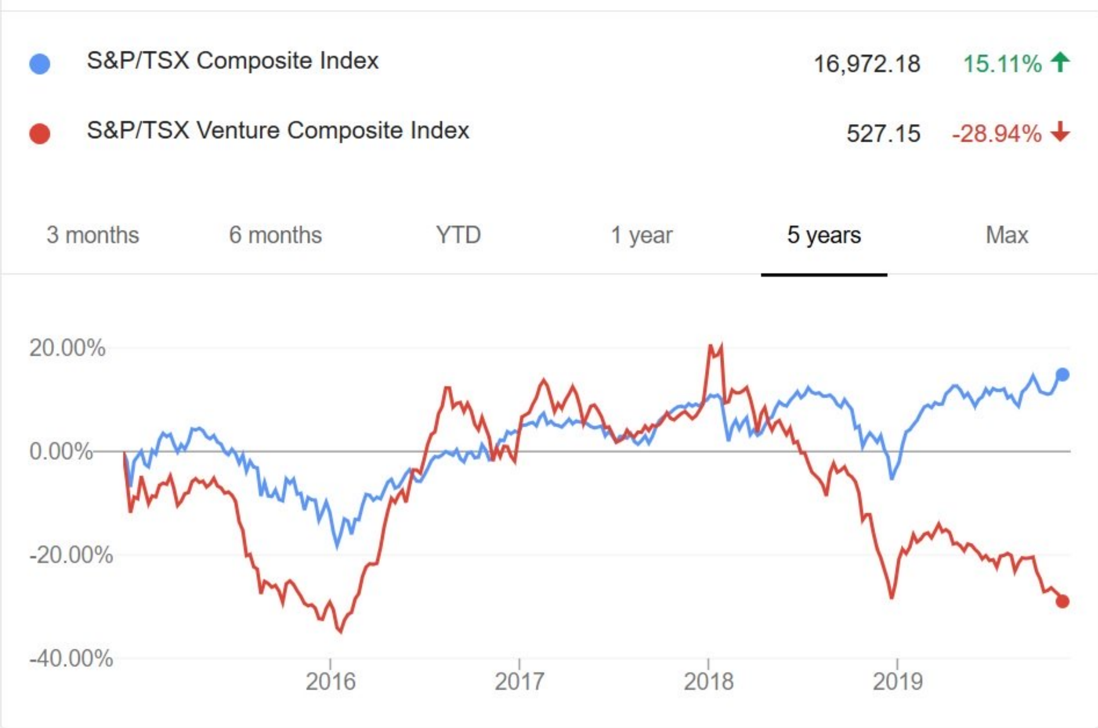
Are small cap stocks on the TSX-V set for a holiday rally?

Canadian small caps, represented by the TSX Venture (TSX-V) exchange, have had a very tough past two years and are way under-performing the Canadian large caps (TSX exchange). We ask the question why? And does this make Canadian small caps on the TSX-V a contrarian recovery play?

Comparing the two main Canadian indexes below we see the 5 year cumulative returns shown on the charts below. Clearly the TSX Composite Index (TSX large caps) has outperformed returning 15.11%. The TSX-Venture Composite Index (TSX-V small caps) has performed very poorly, especially since January 2018, returning a negative 28.94%. The chart below also shows last time the TSX-V fell heavily we saw a large recovery rally in 2016.

TSX large caps (blue) versus TSX-V small caps (red) – 5 year price chart



[Source](#)

What are the main differences between the TSX and the TSX-V?

The most obvious is size, with the TSX stocks having a bigger market capitalization. The next key difference is the TSX is heavily weighted to [financials and energy](#), whereas the TSX-V is heavily weighted to the materials (mining) sector (29.15%).

TSX-V sector weightings and Top 10 holdings

Sector Breakdown

Sector	Weight %
Materials	29.15
Energy	10.07
Industrials	8.71
Health Care	5.11
Financials	5.06
Information Technology	4.96
Consumer Discretionary	0.81
Consumer Staples	0.43
Utilities	0.19

Top 10 Constituents by Market Cap

Constituents
Equinox Gold Corp
StorageVault Canada Inc.
Jadestone Energy Inc.
People Corporation
K92 Mining Inc.
The Westaim Corporation
Auxly Cannabis Group Inc.
Novo Resources Corp.
Pharmacielo Ltd.
Great Bear Resources Ltd.

Why are the TSX-V (small caps) under-performing, especially in the past 2 years?

There are a number of reasons for the under-performance. First and foremost is the under-performance of the materials (mining) sector. Incidentally, the trade war started about 2 years ago, and the electric vehicle (EV) metals boom peaked ~2 years ago (January 2018). We have also seen a slowdown in global growth in 2019, which is a negative for much of the mining sector. Gold is the exception, and palladium has been another exception due to tougher emission standards arriving in 2020.

This means we have seen the TSX-V taken down by a large downturn in the mining stocks, especially those related to the trade war and China, such as the base metals and EV metal miners. We also saw a considerable pullback in the cannabis stocks the past year after their previous boom.

Does this make Canadian small caps on the TSX-V a contrarian recovery play?

The answer is mostly yes, if you believe we will soon see a trade war recovery and a strong China. China consumes almost half the world’s metals, so a stronger China is good for Canadian metal miners.

Investorintel asked Mario Drolet (President of MI3 Financial Communication and 25 year trading veteran) to share his thoughts, and this is what he said:

> *‘’Despite the fact that the big market is continuing to make new record highs.….Dow at 28,000.….The small-cap stock index and many sectors has been anemic..…but remember the junior market is a catch up market.….and I am expecting a Christmas rally.….(mid-November to December) and we should start seeing some inflows of money soon into the market..…We are all seeing the TSX-V and CSE Index near their all time lows..…the cannabis and blockchain sectors pullback have accentuated the downward movement and have not helped the cause.…Lookout for a rebound on precious (gold) and base metals (copper, nickel) and strategic metals like rare earths.‘’*

I would agree with Mario’s conclusions. If we get a trade war deal and global growth starts to pick up again (including China EV sales), then we should see better sentiment to small caps (especially the EV and base metal miners), and the TSX-V could be set for a brilliant Christmas rally.