

## SMALL-CAP OPPORTUNITIES MARKET COMMENTARY

2Q 2026

### The Quarter in Review

The Oberweis Small-Cap Opportunities Composite returned 37.61% (37.40% net of fees) in the second quarter, exceeding the Russell 2000 Growth benchmark return of 25.71% by over 1,100 basis points net of fees. Year-to-date through June 30, the strategy returned 43.10% (42.63% net of fees) versus 22.18% for the index.

It was an extraordinary quarter for U.S. small cap stocks, which shrugged off yet another macro calamity — this time the war with Iran — to post their best quarter since the fourth quarter of 2020. It was, in fact, the second-best second quarter on record for the Russell 2000 Growth Index. Encouragingly, after a decade that favored large caps, small caps are showing leadership once again, outperforming by nearly 900 basis points in the quarter and by just over 2,100 basis points in the trailing one-year period<sup>1</sup>. The driver: Russell 2000 earnings growth projections for 2026 have reached 38%, attributed to the AI capital expenditure boom. Lower-quality shares again performed better within the small cap growth market during the quarter and six-month period, a headwind we were nonetheless able to overcome despite our portfolio's material overweight to profitable, higher return-on-equity companies<sup>2</sup>. We focus on investing in companies generating an earnings surprise driven by a misunderstood fundamental change.

We believe this is likely just the start of a sustained period of small cap leadership on both an absolute and relative basis, and history is on our side: when the Russell 2000 Growth has been this strong in the June quarter, it gained roughly 22% on average the rest of the year<sup>3</sup>. Our conviction rests on several pillars. First, despite the recent rally, the relative valuation gap between small and large caps remains near historically attractive extremes, and even on an absolute basis the forward multiple of our investable universe still sits below its long-run median. Second, it is our view that the market dominance of the “Magnificent 7” has likely peaked and will wane in the coming years, because artificial intelligence represents a genuine business-model risk. These companies face a prisoner's dilemma on AI spending that has compressed their aggregate free cash flow to nearly zero for an uncertain return on investment. The choice is stark: spend and possibly lose, or don't spend and most likely lose. The bill is staggering — capital expenditures for the major hyperscalers are projected to climb from \$416 billion in 2025 to about \$758 billion in 2026 and nearly \$1 trillion by 2028. In our experience, contracting free cash flow combined with uncertain ROI rarely drives stock-price success, and top-heavy concentration in the S&P 500 is already easing.

The biggest reason for our optimism, however, is our belief that small cap companies disproportionately benefit from the emergence of artificial intelligence. Countless small caps across the technology, industrials, and energy sectors are directly profiting from the AI buildout, the most significant secular growth driver we have ever seen. But there is a second wave we believe is still not well understood: the efficiency gains of agentic AI should, in our view, accrue more profoundly to smaller companies. Nimbler and less complex than their multinational large-cap brethren, small caps should adopt AI efficiencies more quickly and more fully, leading to better-than-expected margin expansion and earnings. AI diminishes the competitive advantages historically found with the market giants. With only 21% of U.S. businesses currently using AI in any function, the runway is enormous. We expect this backdrop will usher in a golden era for active management, as the divide between AI winners and losers widens.

<sup>1</sup>For the 1-year period ended 6/30/2026, the Russell 2000 Growth Index returned 38.74% versus 17.71% for the Russell 1000 Growth Index.

<sup>2</sup>According to Jefferies, non-earners and the most expensive two P/E quintiles within the Russell 2000 Growth Index performed best during the quarter.

<sup>3</sup>Source: Jefferies

#### AVERAGE ANNUAL TOTAL RETURNS (as of June 30, 2026)

|                                                | QTD           | YTD           | 1 Yr          | 3 Yr          | 5 Yr          | 10 Yr         | Since Inception<br>(9/15/1996) |
|------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------------------|
| <b>Small-Cap Opportunities (gross of fees)</b> | <b>37.61%</b> | <b>43.10%</b> | <b>61.01%</b> | <b>25.57%</b> | <b>18.66%</b> | <b>21.07%</b> | <b>12.12%</b>                  |
| <b>Small-Cap Opportunities (net of fees)</b>   | <b>37.40%</b> | <b>42.63%</b> | <b>59.93%</b> | <b>24.71%</b> | <b>17.84%</b> | <b>20.23%</b> | <b>11.35%</b>                  |
| Russell 2000 Growth Index                      | 25.71%        | 22.18%        | 38.74%        | 18.44%        | 5.57%         | 11.97%        | 7.88%                          |

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. Advisory fees are disclosed in Part II of Form ADV.

Oberweis Asset Management, Inc. (“OAM”) is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of \$2.5 million. Performance results, from 1-1-97 to 12-31-03 and from 7-1-08 to 12-31-25, are derived solely from the performance of the Oberweis Small-Cap Opportunities Fund, a registered open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted earnings growth rates. The index is an unmanaged group of stocks, whose performance does not reflect the deduction of fees, expenses or taxes. It is not possible to invest directly in an index.



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### The Quarter in Review (continued)

Meanwhile, the macroeconomic backdrop remains reasonably constructive, albeit increasingly nuanced. Labor markets are broadly stable — payrolls rose 172,000 in May and the unemployment rate sits at 4.3% — and the consumer remains on solid footing, with a household debt-service ratio of just 11.1%, well below historical norms. The potential for falling gas prices could further support the consumer and economic growth in the second half of the year. The storm clouds we are watching include weak composite Purchasing Managers' Index readings in Europe and, more pressing, potentially stubborn inflation that forces new Fed Chair Kevin Warsh to be incrementally more hawkish compared to his more dovish reputation in the market. Contentious mid-term elections and the potential for a flare up in the Middle East also bear monitoring.

While stock price sentiment may swing wildly in the short-run in response to incremental economic data, comments by the Federal Reserve, headlines, and TV soundbites, our bottom-up investment strategy focuses instead on companies demonstrating better-than-expected earnings power driven by transformational change. The P/E multiples afforded such companies may vary from quarter to quarter, but we believe a diversified portfolio of these investments is likely to outperform the market over the longer term.

### Portfolio Highlights

As of June 30, 2026, the portfolio was 97.5% invested in 78 different positions. The portfolio had its largest overweightings in technology (44.7% average weighting during the quarter versus 22.5% for the Russell 2000 Growth Index) and consumer discretionary (12.3% versus 7.1%). The portfolio was most underweight industrials (15.7% versus 24.5%), health care (15.4% versus 22.7%), and financials (5.8% versus 9.2%).

Overall performance in the second quarter was positively impacted by strong stock selection, particularly in technology (where our holdings returned 60.54% versus a 47.29% return for the benchmark's technology holdings) and consumer discretionary (23.29% versus 16.13%). Our overweight allocation to the technology sector also positively impacted performance in the quarter. Our stock selection in health care (23.24% versus 25.40%) and communication services (-16.20% versus +21.63%) detracted from performance during the quarter.

### Organization Update

There was no change to the team during the quarter.

### Oberweis Asset Management's Investment Philosophy

We believe that investing in smaller companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation — smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

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