



## Sapphire Star Capital Small Cap Strategy Q4 2025

### Commentary

Recent projections indicating 5% GDP growth for the first half of 2026 appear increasingly credible following the Commerce Department's upward revision of third-quarter GDP to a 4.3% annual rate. This figure not only represents the fastest growth in two years but also surpasses both economists' consensus estimates of 3% and the previous quarter's 3.8%. The revision reflects particularly strong trade data as well as improved consumer spending.

Specifically, net exports added 1.6% to third-quarter GDP, driven by substantial export expansion and a moderation in imports. Consumer spending also demonstrated resilience, advancing at a 3.5% annual rate, while business investment grew at a pace of 2.8%. Although a temporary slowdown is anticipated in the fourth quarter due to the federal government shutdown, the outlook for 2026 remains distinctly positive.

Supported by strengthening economic indicators, further monetary policy easing by the Federal Reserve is expected. Such measures are likely to broaden market impacts and favor Small Cap equities relative to Large Cap equities over the short- and medium-term horizons. Historically, Small Cap equities have outperformed during periods of declining interest rates, and current trends suggest this cycle may be underway.

### Portfolio Review

#### Performance Comparison in Q3 2025

- Overall Performance:
  - **Q4: (2.70%) net of fees**
  - **YTD: 24.90% net of fees**
- Russell 2000 Growth: 1.22%
  - YTD: 13.01%
- Russell 2000: 2.19%
  - YTD: 12.81%

#### Sectors That Aided Performance:

- Producer Manufacturing
- Consumer Services
- Industrial Services

7826 Leary Way NE, Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083  
[Sapphirestarcapital.com](http://Sapphirestarcapital.com)



#### Sectors That Restrained Performance:

- Health Technology
- Health Services
- Process Industries

#### Individual Stock Performance:

- Hecla Mining: +58.64%
- Mueller Industries: +13.79%
- Flowserve Corp.: +30.95%
- Hims & Hers Health: -42.75%
- AeroVironment: -23.18%
- Itron, Inc.: -25.45%

By consistently prioritizing high-quality stocks, our portfolio has outperformed its benchmarks over time. This commitment to rigorous investment standards has supported strong results during both volatile markets and periods of sustained growth. Although short-term performance for the recent quarter did not meet our expectations, we recognize this as a natural adjustment following significant gains earlier in the year.

#### Looking Forward

As anticipated in Q4 2025, market volatility has persisted due to evolving economic indicators, policy adjustments, and global developments. Despite these challenges, our outlook remains optimistic, supported by robust U.S. economic performance, anticipated Federal Reserve rate reductions, and stable earnings across core holdings. Increasing optimism among analysts, particularly with regard to the Small Cap sector, further strengthens this perspective.

Ongoing market fluctuations are attributable to trends in inflation, employment statistics, and shifts in international policies. The Federal Reserve further possible interest rate cuts and sustained consumer demand continue to underpin a constructive market outlook. Core sectors such as technology and healthcare maintain strong earnings results.

Risks to this outlook include global trade modifications, technological advancements, and instability within emerging markets. Continued positive commentary from analysts on networks including CNBC and Bloomberg is expected to help reposition the Small Cap segment from an “also ran” to a performance leader, particularly in response to a more accommodative Federal Reserve policy. Many experts recommend increasing exposure to Small Cap stocks, which have historically performed well under these conditions.

Thank you for your continued confidence in the Sapphire Star Small Cap Strategy. Please feel free to contact us with any questions or concerns.

7826 Leary Way NE, Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083  
[Sapphirestarcapital.com](http://Sapphirestarcapital.com)



Regards,

Michael J. Borgen  
Founder & CIO  
Sapphire Star Capital LLC  
[mjborgen@sapphirestarcapital.com](mailto:mjborgen@sapphirestarcapital.com)

Meghan N. Chicoine  
COO / CCO  
Sapphire Star Capital LLC  
[mnchicoine@sapphirestarcapital.com](mailto:mnchicoine@sapphirestarcapital.com)

**Important Disclosures:**

***Sapphire Star Capital LLC is a registered investment adviser and the information contained herein has been prepared by Sapphire Star Capital LLC. Such information is obtained from and based upon sources believed to be reliable, but accuracy cannot be guaranteed. Sapphire Star Capital LLC and its affiliates and representatives disclaim all liability for any inaccuracies and omissions contained in these materials. All opinions and estimates constitute Sapphire Star's judgement as of the date of the creation of these materials and are subject to change without notice. The information presented is not intended to be an offer of solicitation for the sale or purchase of any securities, investments involve risk and are not guaranteed. Any decision to purchase securities mentioned herein must consider existing public information on such security. Projections contained herein are based on a variety of estimates and assumptions and there can be no assurance that the assumptions made in connection with the projections will prove accurate, and actual results may differ materially. Past performance is not indicative of future results.***

7826 Leary Way NE, Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083  
[Sapphirestarcapital.com](http://Sapphirestarcapital.com)