THE MICROCAP Update

September 2026

September Overview

September brought another pullback in microcaps. The Deupree James Microcap SMA declined 2.01%, net of fees, compared with a 4.18% decline for the Russell Microcap Index. We held up better than the benchmark, although the month still ended with a loss. Through the end of September, the strategy gained 8.82% year to date, net of fees, compared with 18.32% for the Russell Microcap Index.

Unfortunately, this has been a difficult environment for small, unprofitable technology companies —including EOSE, VELO, WATT, and BGDE. These names were correlated with the crowded AI and high-beta growth trade that unwound over the summer, amplified by forced selling after sharp losses at hedge funds such as Situational Awareness. Their declines continued into the fall as higher borrowing costs added to the pressure. We see this as a broad market environment, not necessarily a company-specific failure. At the end of June, these four names plus INV (which we have since sold) made up about 12.7% of the strategy. The remaining four are now about 5%. We still own them because we believe the businesses can reach the other side, and we are watching each company's funding runway closely.

With the November 3 midterms approaching, the research we have discussed over the summer becomes more relevant. Across the midterm cycles in our study, the Russell 2000 averaged a price return of -0.7% in the 12 months before the election, compared with 11.2% in the 12 months afterward. Historically, weakness has tended to concentrate in the final three to six months before the vote. For investors who have been considering the strategy, pre-election weakness may offer a reasonable time to begin an allocation or add to an existing one.

Top Performers in September

AOUT (+39.63%)

American Outdoor Brands, Inc. owns outdoor and shooting-sports brands, including BUBBA and Caldwell. Its September 3 earnings report showed a stronger start to fiscal-year 2027. Quarterly sales rose 25.4% to $37.3 million, though much of that increase reflected an easier comparison after retailers shifted orders out of the prior-year quarter. Adjusting for that timing, sales increased 4.3%.

Gross margin improved to 53.0% from 46.7%, and adjusted EBITDA turned positive at $1.2 million, compared with a $3.1 million loss a year earlier. The company still reported a GAAP net loss, but the improved margins made the recovery more convincing. We sold the entire position on September 11.

EDRY (+35.20%)

EuroDry, Ltd. followed its strong August with another large monthly gain. The dry-bulk shipowner also added a potential source of capital: on September 11, it entered an agreement allowing it to sell up to $20 million of common shares through an at-the-market program. That provides financing flexibility, while any actual share issuance would dilute existing holders.

We trimmed the position at the end of August and sold the remainder on September 25. Shipping earnings and stock prices can move quickly, which makes the price paid and the size of the position especially important.

PXS (+33.36%)

Pyxis Tankers, Inc. operates both product tankers and dry-bulk vessels. A September 4 SEC filing included its latest quarterly results: second-quarter revenue of $12.1 million, up 32.6%, and net income attributable to common shareholders of $2.8 million, compared with a $2.0 million loss a year earlier. The improvement reflected stronger charter rates and utilization across its shipping businesses.

We opened the position on September 4 and added on September 11. Its combination of tanker and dry-bulk exposure gives it more than one source of freight earnings, with the usual sensitivity to shipping rates and global trade.

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Bottom Performers in September

INV (-48.14%)

Innventure, Inc. remained under pressure following the withdrawal of Accelsius's financial targets, which we discussed in last month's update. We sold the entire position on September 18. Later in the month, on September 21, management announced a sharper focus on Accelsius, a smaller parent organization, and changes to finance leadership and the board.

The company targeted quarterly costs at the parent of approximately $3.2 million by year-end, compared with $7.5 million at the start of 2026. That target excluded debt service and several one-time costs. The changes were substantial, but commercial execution at Accelsius and the parent's continuing financing needs remained central to the situation.

SEAT (-33.51%)

Vivid Seats, Inc. operates an online marketplace for concert, sports, and theater tickets. On September 9, it announced a multiyear partnership with the Los Angeles Rams, including fan packages with field or sideline access at SoFi Stadium. The announcement expanded its sports partnerships but did not quantify an impact on revenue or earnings.

The stock declined sharply during the month, and we exited the entire position in September and early October.

RFIL(-25.26%)

RF Industries, Ltd. makes cables, connectors, and other interconnect products. Its September decline came despite an improving operating picture. On September 14, the company reported record quarterly sales of $23.96 million, up 21% year over year. Gross margin improved to 35.6%, and operating income rose to $1.8 million from $720,000.

Management attributed the margin improvement to a shift toward higher-value custom cabling and integrated systems, with broader exposure to markets including aerospace and data-center infrastructure. We added to the position on September 11, ahead of the earnings release.

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