ALGER
Alger Management, Ltd.

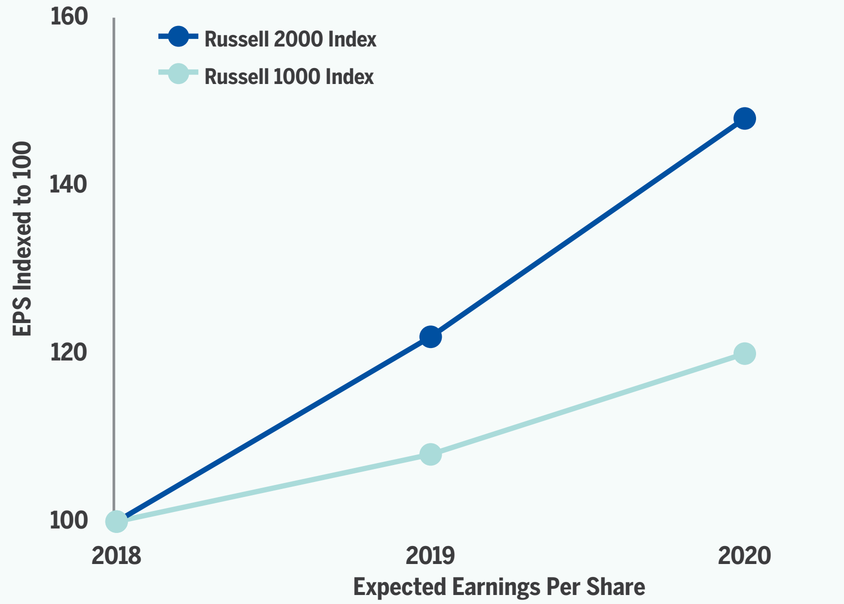
Alger On the Money
A View on the U.S. Market

LA FRANÇAISE

Small Caps Poised to Outperform

Currently in the U.S. it appears that smaller capitalization stocks may be positioned for higher returns than their larger counterparts. As fundamentals and valuation both seem to be aligned, small caps may be able to reverse a multiyear period of underperformance.

Small Caps Are Growing Faster than Large Caps



Source: FactSet as of December 2018. EPS for 2019-2020 are consensus estimates and actual earnings per share might be materially different than shown. Past performance is not an indication or guarantee of future results.

- Over the next two years, small cap earnings per share growth is forecasted to double that of large caps. This would be a significant change from the past several years when the earnings growth of small caps and large caps were similar. (In spite of this, small caps underperformed during the past few years due possibly to investor pessimism driven by recessionary fears.)
- Additionally, given the faster economic growth of the U.S. compared to the rest of the developed world, small caps' greater domestic exposure relative to large caps (79% vs. 64%) may be an advantage.
- Small cap stocks are also attractively valued when one compares the price-to-earnings (P/E) multiple of the Russell 1000 and Russell 2000 indexes; the P/E multiple premium of the Russell 2000 index relative to the Russell 1000 is the lowest it has been in a decade.[1]
- In contrast to the past few years, small cap stocks have historically tended to outperform large cap stocks (see Alger On the Money "Looking for Higher Returns?").

[1] The price-to-earnings (P/E) multiple is a ratio for valuing a company that measures its current share price relative to its earnings per share.

Inspired by Change, Driven by Growth.

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