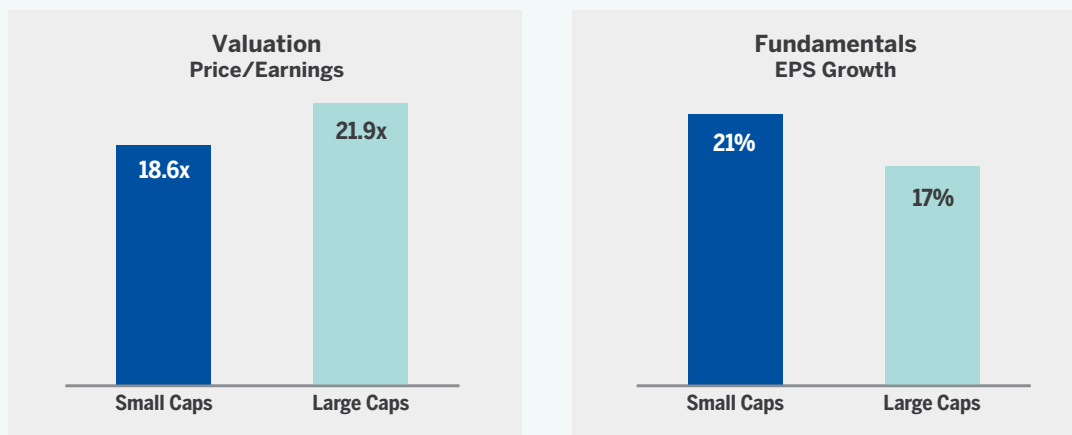


A Small Opportunity

We highlighted the opportunity in small caps in a previous Alger On the Money called [Small Caps for the Recovery](#) in the spring of 2020, noting that small caps historically tend to outperform as the economy emerges from recessions. That scenario has transpired with the Russell 2000 outperforming the S&P 500 by 20% since the piece was published on May 13 through the end of last year, but is there more room to run in small caps?

Attractive Valuation and Better Fundamentals?



Source: FactSet, Alger.

Note: Large and small cap stocks are represented by the S&P 500 and S&P 600 Indices, respectively. P/E is based on 2021 consensus estimates. P/E is price-to-earnings, a ratio for valuing a company that measures its current share price relative to its earnings per share. Growth is based on 2022/2021 consensus EPS estimates. EPS is earnings per share, a company's net profit divided by the number of common shares it has outstanding.

- Small cap stocks historically traded at a price-to-earnings premium to their large cap cousins. This makes sense to us, given that small cap stocks typically grow faster. However, recently U.S. small cap equities have traded at an unusual discount to large capitalization U.S. stocks.
- This valuation anomaly comes even though small cap company earnings are expected to grow faster than large cap earnings in both 2021 and 2022.
- 50 years of history demonstrated that the small size factor has generated nearly 1% of annual outperformance.
- We believe this setup may help correct the past several years of underperformance of the small size factor.



The Russell 2000 is a small cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

The S&P 500 Index is a stock market index that measures the performance of about 500 companies in the U.S.

The S&P 600 Index covers roughly the small cap range of U.S. stocks.

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