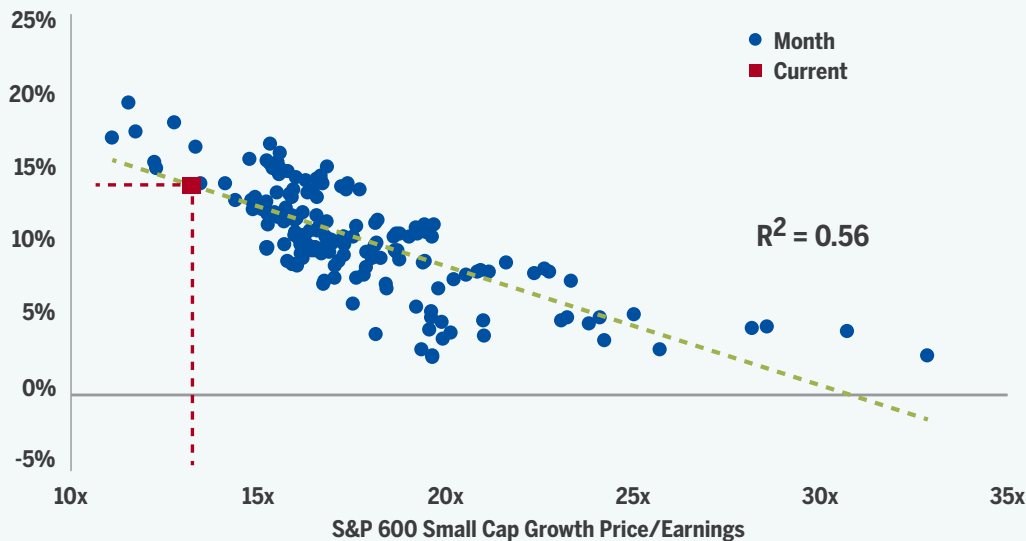


How Cheap is Small Growth?

Growth stock valuations have declined considerably over the past year, with small growth stocks seeing significant multiple compression. How do these valuations compare to history and what might they imply going forward?

Small Growth Valuations and 10 Year Annualized Returns

S&P 600 Small Cap Growth
10-Year Annualized Forward Return



Source: FactSet and Alger. Each dot represents the P/E during that month and the returns generated over the subsequent 10 years. The starting P/E ratio is the price divided by the next 12-month earnings per share estimate at the start of each 10-year period measured. Monthly data beginning in September 1998 through December 2022. R-squared is a statistical measure used to analyze how differences in one variable can be explained by the difference in a second variable. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

- The price-to-earnings (P/E) multiple of the S&P 600 SmallCap Growth index was one of the lowest that we have observed at the end of December 2022.
- As the chart above suggests, there is a strong historical relationship between P/E and subsequent annualized returns. Historically, below-average P/E multiples in small cap growth, which we observe currently, have led to above-average returns.
- We've also observed that small growth (S&P 600 SmallCap Growth) appears attractive on a relative basis to the S&P 500 (more than a 17% discount based on price-to-next 12 months consensus EPS estimates as of the end of December 2022). As a result, we believe that U.S. small cap growth may be an attractive area of the stock market for long-term investors.



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