

The New Normal Could Support Market Leaders

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Barbecue ribs are increasingly finding a spot in aircraft cargo bays and wine is more likely to appear in a local delivery person's hands. It's all part of the many surprising twists and turns in the economy resulting from economic shutdowns and stay-at-home orders implemented to slow the spread of Covid-19. These actions have driven rapid growth for companies like online retailers and home delivery services, as well as remote office and virtual conference technology providers.

As countries ramp up their Covid-19 vaccination programs, some investors have grown fearful that beneficiaries of the pandemic, such as providers of virtual conference technology or other services that enable social distancing, could experience a deceleration of demand for their products. However, we believe that significant shifts in supply chains, logistics and consumer and business behavior have positioned leading companies for potentially strong growth even after the pandemic is contained and we return to a new normal.

Disruption from Innovation

At Alger, we seek to invest in highly innovative companies because we believe innovation is an extremely disruptive force that can help leading businesses capture market share and grow their earnings often at a rate that many investors underestimate.

We believe the concerns about these companies and the potential end of Covid-19 overlook the new normal, including, among many examples, leading restaurants launching services to deliver prepared food in response to dining rooms being shut down and wine vineyards developing e-commerce as an alternative to brick and mortar stores.

Online Shopping Accelerates

From a broader perspective, online shopping has seen near exponential growth, with FedEx commenting that shipping volumes that were previously expected to be reached by 2026 will now occur by 2023 due to increased online shopping. This acceleration is happening after decades of growth in online retailing, which benefit large online retailers, but also smaller retailers who had the foresight to adopt and even primarily build their businesses online, often using technology from Shopify, Inc., Square, Inc. and HubSpot, Inc. We believe e-commerce will continue to grow well above the retail industry average because individuals are benefiting from the convenience of using the internet.

Employers Adopt Collaboration Technology

Demand for technology that supports online collaboration, videoconferencing, business process management, network capacity and security for remote workers is also likely to continue.

A study by Gartner found that 82% of executives say they plan on letting employees work remotely some of the time and 47% said they will allow employees to work remotely all of the time (executives could select more than one answer). This shift in thinking could support strong demand for providers of online collaboration technology that have already benefited from stay-at-home orders including Microsoft, which offers collaboration through its Microsoft Teams service.

The adoption of technology extends beyond online meetings as businesses increasingly digitize operations. Paylocity is enjoying increasing demand for its cloud-based payroll and benefits administration services while Bill.com is experiencing growing demand for its technology that streamlines the procurement process by digitizing invoices and the approval of payments for vendors. Firms such as DocuSign that allow firms to manage contracts electronically with functions such as e-signatures are also experiencing strong demand for their services.

Health Care Innovation Gets a Boost

The adoption of innovation in health care has also accelerated as medical professionals and consumers have embraced telemedicine to practice social distancing. In addition to convenience for patients, telemedicine is helping health care providers reduce their reliance on costly offices within hospitals or other facilities so we believe this trend will continue during the new normal.

Adoption is also accelerating for many other technologies that enable remote care, including continuous glucose monitoring (CGM) for insulin-dependent diabetics and pulse oximetry for monitoring patient health metrics.

The rapid development of Covid-19 vaccines resulting from genetic science, including messenger RNA (mRNA), is also significant.

For Moderna's mRNA Covid-19 vaccine, the company was able to go from DNA sequencing and product design to conducting first in-human trials in about 63 days. The potential promise of mRNA medicines is to instruct a patient's own cells to produce proteins that could prevent, treat or cure disease. We believe the use of mRNA could potentially accelerate now that the technology has been validated and we have identified at least 13 companies that are using it to develop treatments for oncology, infectious diseases, cardiovascular care and pulmonary disorders.

Acceleration is also prevalent in the adoption of immunology-oncology, which engages the immune system to fight cancer, and genetic editing, which attempts to directly address diseases caused by genetic disorders. In the field of diagnostics, the development of a new generation of blood-based tests seeks to increase the sensitivity and accuracy of cancer detection and monitoring for cancer survivors; a more detailed understanding of the pathology of a patient's cancer, it is hoped, will also improve the design of cancer treatments for patients.

If successful, these new blood-based diagnostic tools will likely supplement or, in some cases, substantially reduce the use of traditional biopsies in cancer treatment. At the same time, the use of "Big Data" is likely to continue to expand significantly. Through the use of machine learning and artificial intelligence, health care companies are able to leverage large patient data sets to develop new therapeutics, more effectively diagnose diseases and allow patients to better manage chronic conditions.

The Road Ahead

At Alger, we will continue to focus on conducting in-depth research to find companies with strong business models and innovative products that have potential to thrive through economic cycles, including when the new normal finally arrives.

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