

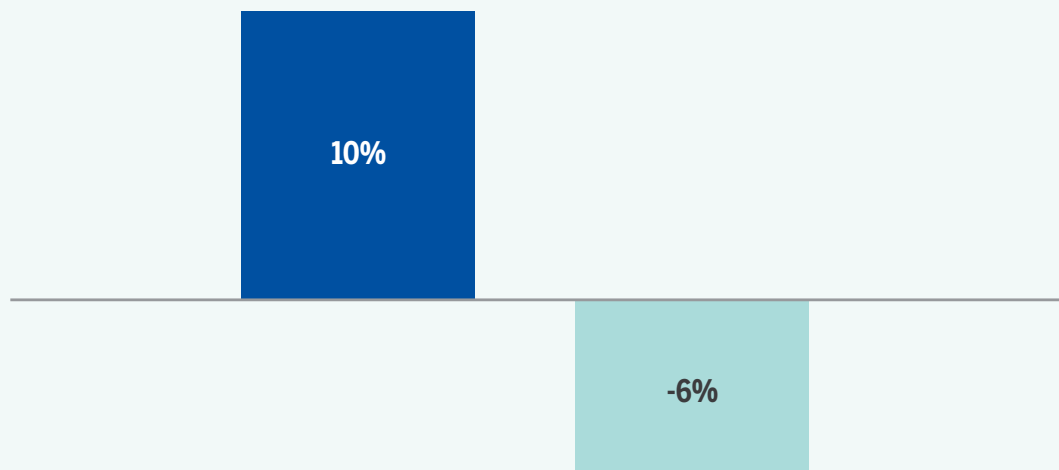
Growth Stock Prices Gone Awry?

Sometimes equity prices and fundamentals diverge dramatically. There is no telling when they will re-converge but history implies that fundamentals ultimately drive stock prices.

Small Growth Stocks Relative to Large Cap Stocks

Last 6 Months

■ EPS ■ Price



Source: FactSet and Alger. Small Growth Stocks are based on the S&P SmallCap 600 Growth Index and Large Cap Stocks are based on the S&P 500. EPS is based on trailing 12-month earnings per share. Data as of December 2021.

- Over the past six months, the S&P SmallCap 600 Growth Index has underperformed the large cap S&P 500 index by 6%. However, during that time small cap growth stock fundamentals outperformed—the S&P SmallCap 600 Growth Index earnings per share (EPS) grew 10% faster than S&P 500 EPS.
- This dynamic has driven already inexpensive small cap growth stocks to deep value territory. Indeed, the S&P SmallCap 600 Growth Index price-to-earnings is now at its largest discount to the S&P 500 in more than 20 years.
- Historically, [fundamentals drive stock prices](#) so valuation should take care of itself over the long term. The last time the valuation discount between small growth and large cap stocks was this large, in early 2001, the S&P SmallCap 600 Growth Index outperformed the S&P 500 by more than 50% during the subsequent five years.



The S&P SmallCap 600 Growth Index measures growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum. Constituents are drawn from the S&P 600

The S&P 500 tracks the performance of 500 large companies listed on stock exchanges in the U.S.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

Price-to-earnings is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

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