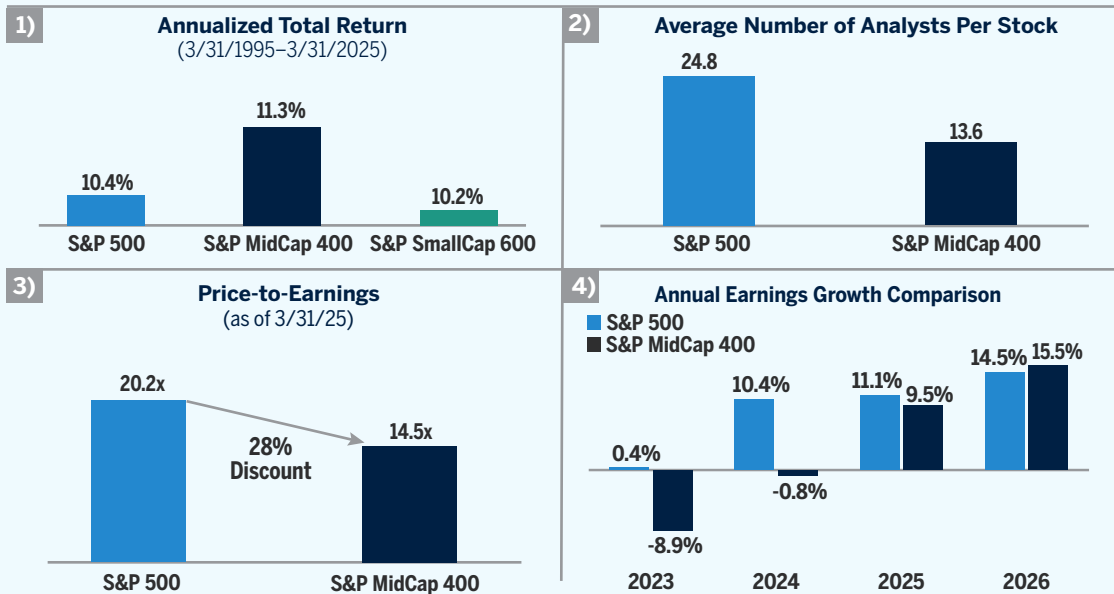


Finding the Sweet Spot

Many investors tend to choose between large-cap stocks or their small-cap counterparts. However, there's a third option that may be more appealing than many realize: mid-caps.

Why Mid-Caps Matter



Source: 1) FactSet and Standard & Poor's for the 30-year period ended March 31, 2025. 2) FactSet as of March 31, 2025. 3) FactSet and Standard & Poor's calculated from April 2005 through March 2025 on a monthly basis. 4) FactSet and Standard & Poor's as of March 31, 2025. The chart depicts the projected calendar year consensus earnings per share (EPS) growth of the S&P MidCap 400 Index and the S&P 500 Index from 2025 through 2026.¹ **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

- 1) U.S. mid-cap equities have outperformed both large and small caps over the 30 years ending March 2025 (see Figure 1). In line with this, mid-cap earnings growth has outpaced small- and large-caps over the past three decades. We believe this may be because mid-caps often have capacity for further growth like small caps but have survived the perils of infancy with more seasoned management teams, proven business models, and access to capital like larger companies.
- 2) The average number of sell-side analysts covering mid-cap stocks is about half that of large-caps (see Figure 2). In our view, this may lead to greater market inefficiency and more opportunities for active managers to generate alpha.
- 3) Historically, the S&P MidCap 400 Index has traded at a 1% premium to the S&P 500 Index on a price-to-earnings (P/E) basis.² However, as of March 2025, mid-cap stocks are trading at a sizable 28% discount to large-cap stocks (see Figure 3).
- 4) Recently, large-cap stocks, represented by the S&P 500 Index, have outperformed mid-caps, represented by the S&P MidCap 400 Index, since the beginning of 2023 due to stronger earnings growth and enthusiasm around artificial intelligence. However, earnings growth for mid-caps is projected to accelerate over the next two years and could potentially outpace that of large-caps (see Figure 4).³ In our view, mid-caps may present a compelling opportunity for long-term investors by offering the growth potential of small-caps with the stability of large-caps.

^{1,3} FactSet as of 3/31/25. Consensus EPS growth for the S&P MidCap 400 Index is projected to grow 9.5% in 2025 and 15.5% in 2026. Consensus EPS Growth for the S&P 500 Index is projected to grow 11.1% in 2025 and 14.5% in 2026.

² The historical average was calculated from April 2005 through March 2025 on a monthly basis.

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Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk (as measured by beta). Beta measures a portfolio's sensitivity to market movements relative to a particular index; a portfolio with a beta of 1.00 would be expected to have returns equal to such index.

FactSet is an independent source, which Alger believes to be a reliable source. FAM, however, makes no representation that it is complete or accurate.

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

Earnings per share (EPS) is the portion of a company's earnings or profit allocated to each share of common stock.

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