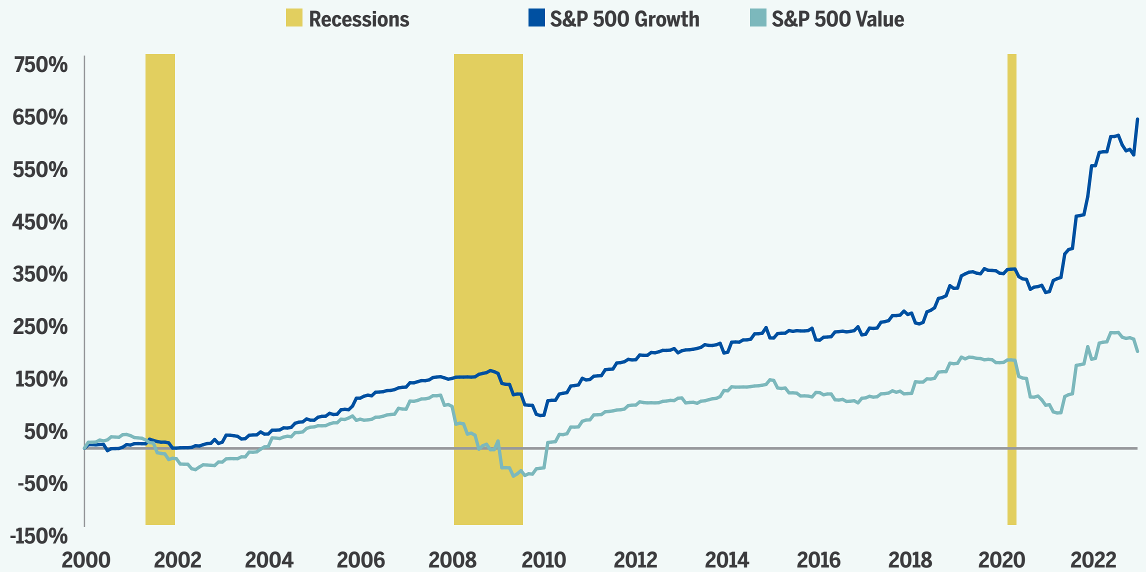
ALGER

Alger On the Money

Seeking Durability in Times of Economic Difficulty

During times of market volatility, investors may seek companies that can weather challenging economic conditions. What does history tell us about the types of companies that have proven to be tough?

Earnings Per Share Growth Since January 2000



Source: FactSet, Standard and Poor's.

- Historically, growth stocks have exhibited stronger business fundamentals in past recessions than more economically sensitive value stocks. Over the past three recessions, the average decline in growth stock EPS of -16% was about one-third that of value stocks (-54%)[1].
- In our view, the bifurcation between growth and value fundamentals during recessions can be explained by their economic sensitivity. Value stocks, such as consumer durables, capital goods and banking have greater economic sensitivity. Conversely, growth stocks are propelled more by secular progress, driven by market share gains through industry disruption. For example, solar power is vying to replace fossil fuels, advanced surgical technologies are replacing legacy methods, cloud computing is replacing on-premise software products, and artificial intelligence is replacing some human tasks as natural language processing disrupts the customer service experience with chatbots (see Chatting with the Future).
- If the Federal Reserve gets its wish to bring down inflation by slowing the economy via higher interest rates, we believe it may be helpful for investors to consider which companies will be tough enough to weather a difficult economic environment. While the outcome is uncertain, in our view, growth stocks have the potential to gain market share and expand, irrespective of the macroeconomic environment.

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[1] The average decline in EPS of growth and value stocks references the S&P 500 Growth Index and the S&P 500 Value Index, respectively. The calculation takes the month of the lowest EPS level of both growth and value at the start of each recession, divided by the EPS level at the start of each recession. Recession periods are defined by the Federal Reserve Bank of St. Louis, NBER.

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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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