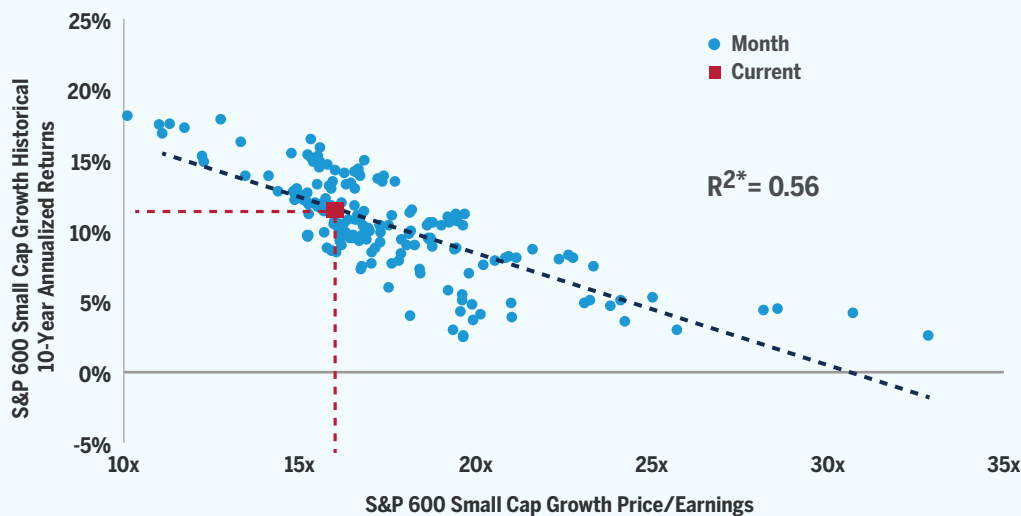


How Cheap is Small Growth?

Growth stock valuations have declined considerably over the past three years, with small growth stocks experiencing significant multiple compression largely due to rising interest rates. How do small cap growth valuations compare to history and what might they imply going forward?

Small Cap Growth Valuations and 10 Year Annualized Returns



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 through May 2024 and beginning in September 1998. 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 chart above illustrates the historical relationship between the price-to-earnings (P/E) multiple for the S&P SmallCap 600 Growth Index and its subsequent 10-year annualized returns. As of May 2024, the P/E ratio for small cap growth stocks is 16x. While past performance is not indicative of future returns, the regression analysis shown in the chart above implies that small cap growth stocks trading around a P/E ratio of 16x have historically corresponded to an approximate 11% annualized return over the following decade.
- Historically, the S&P SmallCap 600 Growth Index has traded at an average premium of 11% compared to the large-cap S&P 500 Index. This makes sense given the faster growth that should be inherent in small cap growth fundamentals. However, small cap growth stocks are currently trading at a P/E discount of -22% relative to large caps.
- In addition to an attractive P/E valuation, we believe small cap growth stocks are well-positioned to potentially outperform large caps due to their strong negative correlation to interest rates,¹ which are expected to decline as the Federal Reserve moves towards a more accommodative policy.² Further, small cap growth stocks are projected to have faster earnings growth relative to large caps over the next three years.³ Given these considerations, we believe that U.S. small cap growth may be an attractive area of the stock market for long-term investors.

¹ Over the past three years, small cap growth stocks have had a -72% correlation to the yield of the U.S. 2-year treasury note, while large cap stocks have had only a 11% correlation, as of May 2024.

² The Federal Reserve's March 20, 2024, Summary of Economic Projections shows a "longer run" Fed Funds rate of 2.60% as opposed to 5.25-5.50% in May 2024.

³ As of 12/31/23, consensus cumulative EPS growth for the Russell 2000 Growth Index is estimated to grow 92% through 2026, while the S&P 500 is estimated to grow 41%. Correlation is a statistical measure that shows how two variables are related to each other. If two variables are correlated, it means that they tend to move together in some way.

The views expressed are the views of Fred Alger Management, LLC ("FAM") and its affiliates as of June 2024. These views are subject to change at any time and may not represent the views of all portfolio management teams. These views should not be interpreted as a guarantee of the future performance of the markets, any security or any funds managed by FAM. These views are not meant to provide investment advice and should not be considered a recommendation to purchase or sell securities.

Risk Disclosures: Investing in the stock market involves risks, including the potential loss of principal. Growth stocks may be more volatile than other stocks as their prices tend to be higher in relation to their companies' earnings and may be more sensitive to market, political, and economic developments. Local, regional or global events such as environmental or natural disasters, war, terrorism, pandemics, outbreaks of infectious diseases and similar public health threats, recessions, or other events could have a significant impact on investments. Investing in companies of small capitalizations involves the risk that such issuers may have limited product lines or financial resources, lack management depth, or have limited liquidity. Assets may be focused in a small number of holdings, making them susceptible to risks associated with a single economic, political or regulatory event than a more diversified portfolio. **Past performance is not indicative of future performance.** Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Important Information for US Investors: This material must be accompanied by the most recent fund fact sheet(s) if used in connection with the sale of mutual fund and ETF shares. Fred Alger & Company, LLC serves as distributor of the Alger mutual funds.

Important Information for UK and EU Investors: This material is directed at investment professionals and qualified investors (as defined by MiFID/FCA regulations). It is for information purposes only and has been prepared and is made available for the benefit investors. This material does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorized or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this material and should be satisfied in doing so that there is no breach of local legislation or regulation.

Certain products may be subject to restrictions with regard to certain persons or in certain countries under national regulations applicable to such persons or countries.

Alger Management, Ltd. (company house number 8634056, domiciled at 78 Brook Street, London W1K 5EF, UK) is authorized and regulated by the Financial Conduct Authority, for the distribution of regulated financial products and services. FAM and/or Weatherbie Capital, LLC, U.S. registered investment advisors, serve as sub-portfolio manager to financial products distributed by Alger Management, Ltd.

Alger Group Holdings, LLC (parent company of FAM and Alger Management, Ltd.), FAM, and Fred Alger & Company, LLC are not authorized persons for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA") and this material has not been approved by an authorized person for the purposes of Section 21(2)(b) of the FSMA.

Important information for Investors in Israel: This material is provided in Israel only to investors of the type listed in the first schedule of the Securities Law, 1968 (the "Securities Law") and the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995. The Fund units will not be sold to investors who are not of the type listed in the first schedule of the Securities Law.

S&P 500[®] is an index of large company stocks considered to be representative of the U.S. stock market. S&P SmallCap 600 Growth Index is an unmanaged index considered representative of small-cap growth stocks. The Russell 2000[®] Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is constructed to provide a comprehensive and unbiased barometer for the small-cap segment. Investors cannot invest directly in any index. Index performance does not reflect deductions for taxes. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell[®] is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

The S&P indexes are a product of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by Fred Alger Management, LLC and its affiliates. Copyright 2024 S&P Dow Jones Indices LLC, a subsidiary of S&P Global Inc. and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. S&P[®] is a registered trademark of Standard & Poor's Financial Services LLC and Dow Jones[®] is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. Investors cannot invest directly in any index. Index performance does not reflect deductions for taxes. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

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

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

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

Alger pays compensation to third party marketers to sell various strategies to prospective investors.