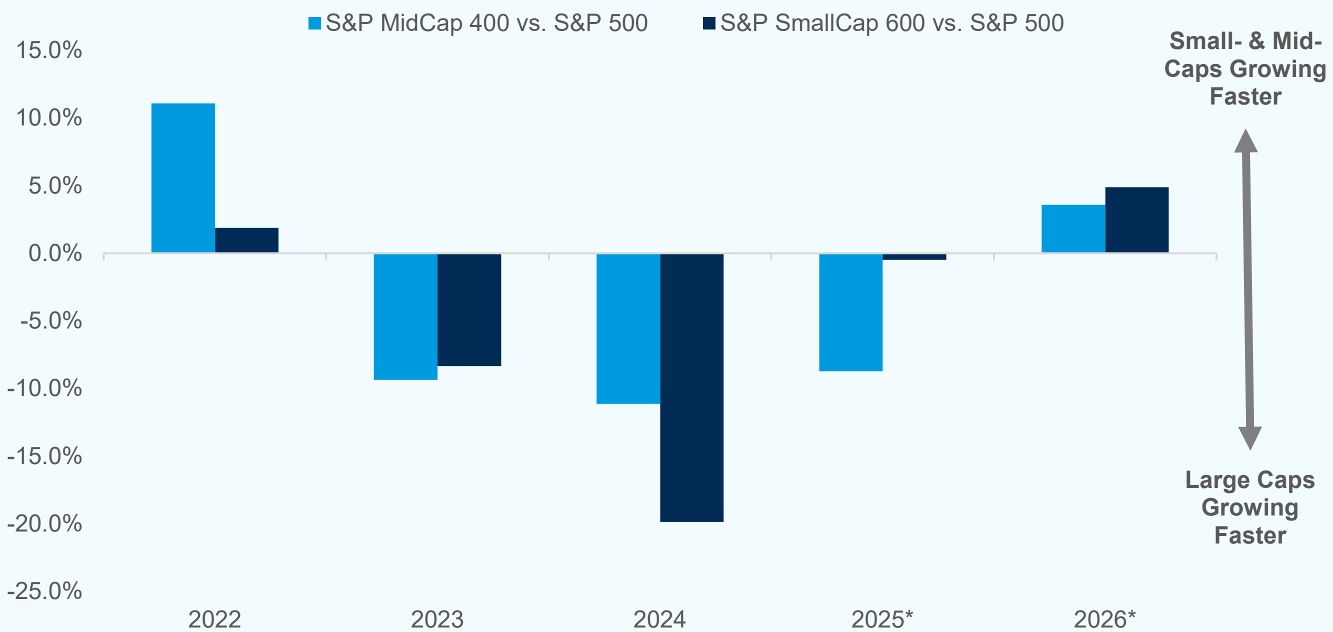
ALGER

Alger On The Money

A Broadening Market?

Since the beginning of 2023, large cap equities have significantly outperformed both small- and mid-caps, led by a handful of technology giants. With monetary policy easing and improving economic conditions, the stage may be set for broader market participation. For investors, could this mean a shift toward a more inclusive rally and new opportunities beyond the mega-cap technology names?

Earnings Per Share Growth Relative to S&P 500 Index



Source: FactSet and Standard & Poor's as of September 30, 2025. The chart depicts the earnings per share (EPS) growth of mid caps, as represented by the S&P MidCap 400, and small caps, as represented by the S&P SmallCap 600, relative to large caps, as represented by the S&P 500. *2025 and 2026 are projected consensus estimates.

- With large cap equity indices such as the S&P 500 outperforming smaller cap indices such as the S&P SmallCap 600 and S&P MidCap 400 by more than 30% and 20%, respectively, over the past three years, a significant valuation gap has emerged. Today, those small- and mid-cap indices trade at approximately 30% discounts to the S&P 500 on a price-to-earnings (P/E) basis versus the small premiums they enjoyed in the past. In other words, smaller cap stocks are inexpensive relative to history.[1]
- Valuations are typically not a catalyst for outperformance, but improving fundamentals may be. In the chart above, both the S&P SmallCap 600 and S&P MidCap 400 earnings growth is projected to exceed that of the S&P 500 in 2026 for the first time in three years. As monetary easing continues, lower borrowing costs and a broader pickup in economic activity could boost small- and mid-cap performance relative to their larger peers.
- Compared to large caps, the small-cap and mid-cap universes are wide and underfollowed, which can often create greater discrepancies between price and fundamentals.[2] Should market leadership broaden and small- and mid-cap earnings outpace large caps, we see fertile ground for active managers to identify quality growth companies at attractive valuations.

[1] Standard & Poor's and FactSet as of September 30, 2025.
[2] As of September 30, 2025, the average number of analysts covering each company in the S&P SmallCap 600 and S&P MidCap 400 are approximately 8 and 14, respectively, compared to roughly 25 for the average S&P 500 company.

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