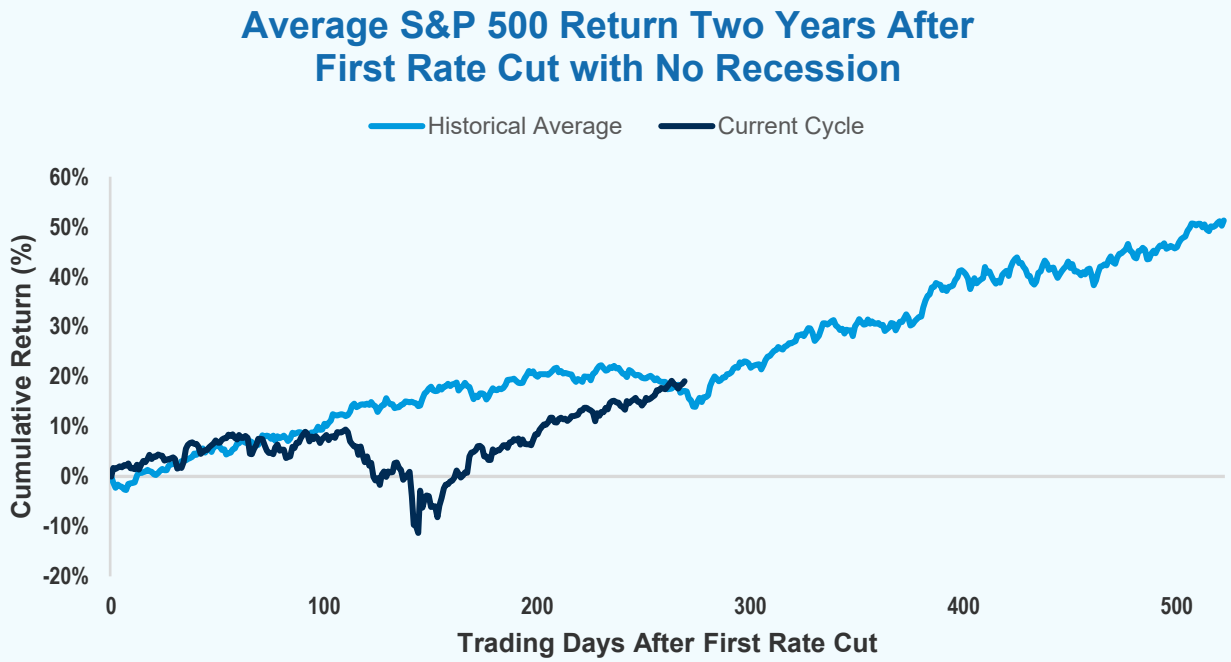
ALGER

Alger On The Money

Cutting Rates, Boosting Stocks?

When the Federal Reserve (Fed) begins to ease monetary policy without a recession, historically the market has responded favorably.



Source: Federal Reserve, Standard & Poor's, FactSet and Alger. Historical rate cut average based on rate cuts on 9/3/84, 7/6/95, and 9/29/98. The current cycle is based on 9/18/24 through 9/30/25. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results**.

- Historically, when the Fed has eased monetary policy while economic growth remains intact, the S&P 500 has delivered strong gains over the following two years. The average S&P 500 return was approximately 50%, measured two years after the first rate cut, as shown in the chart above. A little over a year into the current Fed easing this cycle, market performance has been tracking historical patterns.
- Why has monetary easing supported stock prices? Lower interest rates can reduce the discount rate investors apply to future cash flows, boosting valuations when longer term interest rates decline. Easier monetary policy also lowers borrowing costs for consumers and businesses, stimulating spending and investment. The resulting economic activity often supports corporate revenues, profitability, and employment, reinforcing the cycle of growth that underpins higher stock prices.
- With smaller cap stocks lagging for much of the past two years, we believe they may be poised to benefit most from lower rates, as they did in the third quarter of 2025 when the Fed eased and long-term rates declined. In that period, the Russell 2000 small cap index outperformed the S&P 500 by over 400 basis points (see also A Broadening Market).[1] In our view, Fed rate cuts, coupled with historically attractive valuations and improving fundamentals, could support small cap performance going forward.

[1] FactSet, Russell and Standard & Poor's. From 6/30/25 through 9/30/25, the total return for the S&P 500 Index and the Russell 2000 Index was 8.13% and 12.39%, respectively.

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Russell 2000® Index: Measures the performance of the small-cap segment of the U.S. equity universe. Index performance does not reflect deductions for fees, expenses, or taxes. After March 24, 2025, FTSE Russell implemented a new methodology capping individual companies at no more than 22.5% of the index and capping companies that have a weight greater than 4.5% in aggregate at no more than 45% of the index. Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2025.
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