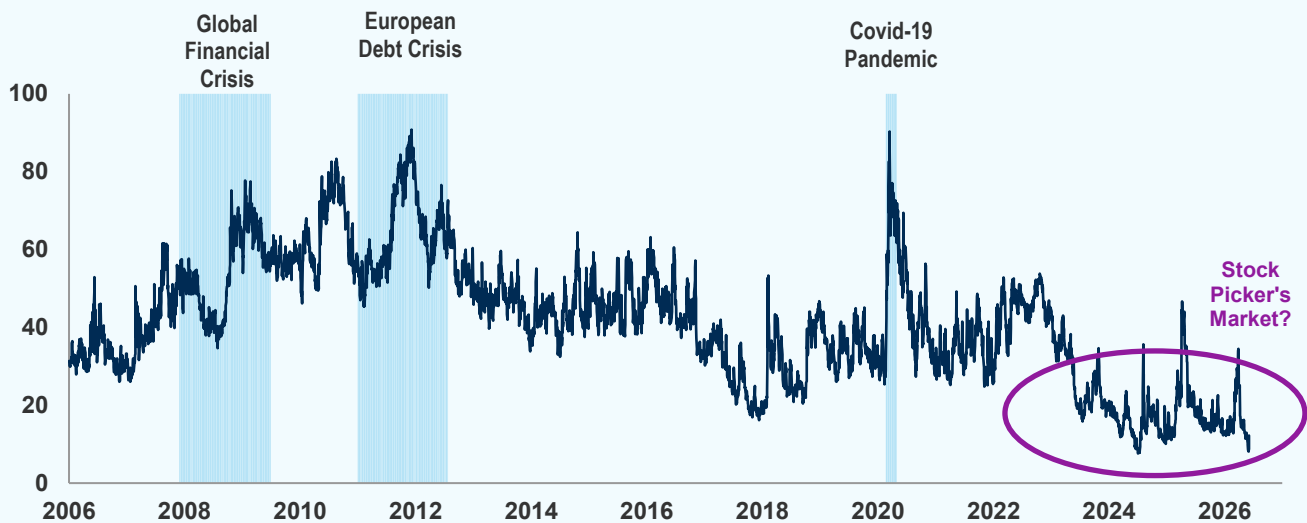


Stock Picker's Market?

Greater dispersion in individual stock returns tends to create more scope for stock selection to add value. One way to gauge how much differentiation may exist is through correlation, which reflects how closely stocks move together. Does the current low correlation environment mean more opportunities for stock pickers?

Implied Correlation Within The S&P 500 Index



Source: Cboe, S&P Global, Inc., and FactSet. The Cboe 3-Month Implied Correlation Index reflects the market's expectation of the average correlation among the top 50 stocks in the S&P 500 over the coming three months, derived from S&P 500 index and single-stock options. Data from 1/3/2006, through 6/17/2026.

- High correlation suggests stocks are moving in tandem, while low correlation indicates more independent performance. As shown in the chart above, correlation tends to rise during major macroeconomic events, such as the 2008 financial crisis, the 2011 European debt crisis, and the 2020 Covid-19 pandemic. Conversely, correlation tends to fall when company-specific factors drive returns, such as innovative breakthroughs in cloud computing and artificial intelligence (AI). The CBOE measure of implied correlation between the top 50 stocks in the S&P 500 is near its lowest level in over two decades, suggesting a backdrop in which stock selection may play a more meaningful role.
- Investors often use the phrase “stock picker’s market” to describe periods when skilled security selection may play a larger role in investment outcomes. That does not mean active managers can only perform well in certain environments. It simply means that when individual stocks behave less uniformly and company-specific fundamentals matter more, there may be more opportunity for active managers to add value.
- We believe the past few years of low correlations may be due to AI-driven disruption in which the enablers of the new technology thrive while other companies face narrowing competitive advantages and eroding business fundamentals. As bottom-up stock pickers, we at Alger embrace these dynamic environments, where the accelerating pace of innovation expands the opportunity set for potential alpha generation.

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

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 Chicago Board Options Exchange (CBOE) is a major financial marketplace for trading options contracts.

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