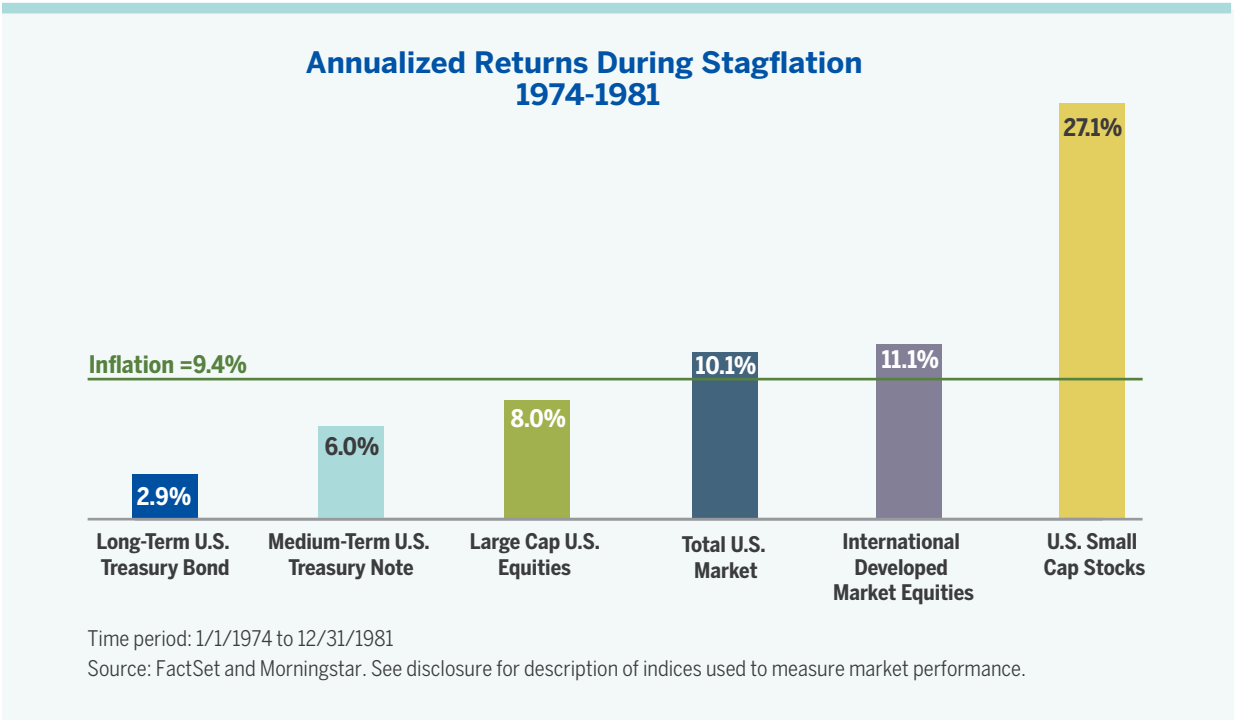
ALGER

Alger On the Money

What Has Worked In Stagflation?

Stagflation is the punishing combination of economic stagnation and inflation. If this very difficult economic environment rears its ugly head again, what are investors to do?



Time period: 1/1/1974 to 12/31/1981
Source: FactSet and Morningstar. See disclosure for description of indices used to measure market performance.

- In the stagflation that occurred from the start of 1974 to the end of 1981, annual U.S. hourly wage increases of 7.6% trailed inflation by approximately 180 basis points, creating misery for many Americans.
- During the period, the S&P 500 Index and bonds produced negative inflation-adjusted returns. Even as large public company earnings kept pace with inflation, price-to-earnings multiples contracted, weighing on performance.
- The Wilshire 5000 Total Market Index, which includes U.S. companies across the market cap spectrum, narrowly outperformed inflation while international equities did slightly better. U.S. small cap equities, however, did quite well, with 27.1% annual returns over the period, well in excess of inflation. This outperformance may have resulted from many smaller companies having a greater proportion of fixed costs plus potentially more flexibility to raise prices or manage costs. Smaller firms may therefore be able to generate stronger profit growth than large firms in higher inflationary periods.
- At Alger, we don't anticipate stagflation. Investors who feel otherwise, however, may want to evaluate history, which suggests small cap stocks can potentially combat the painful one-two punch of inflation and stagnation.

Long-term U.S. Treasury Bond performance is measured by the IA SBBI US LT Govt TR USD Index. Medium-term U.S. Treasury note performance is measured by the IA SBBI US IT Govt TR USD Index. Large cap U.S. equity performance is measured by the S&P 500 Index. The total U.S. market is measured by the Wilshire 5000 Total Market Index. International developed market equities are measured by the MSCI EAFE Index and U.S. small cap stocks are measured by the Ibbotson U.S. Small Stock Total Return Index.

The IA SBBI US LT Govt TR USD Index measures the performance of twenty-year maturity U.S. Treasury bonds. The IA SBBI US IT Govt TR USD Index measures the performance of a single issue of outstanding US Treasury note with a maturity term of around 5.5 years. The S&P 500 Index is an index of large company stocks considered to be representative of the U.S. stock market. The Wilshire 5000 Total Market Index seeks to capture the performance of 100% of the investible U.S. equity market. The MSCI EAFE Index is designed to represent the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, but excluding the U.S. and Canada. The Ibbotson Small Company Stocks Index represents the performance of the fifth capitalization quintile of stocks on the NYSE from 1926 to 1981 and the performance of the Dimensional Fund Advisors (DFA) Micro Cap Fund thereafter.

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Risk Disclosure: Investing in the stock market involves certain risks including the loss of principal. Growth stocks tend to 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 war, acts of terrorism, the spread of infectious illness such as COVID-19 or other public health issues, recessions, or other events could have a significant impact on investments.