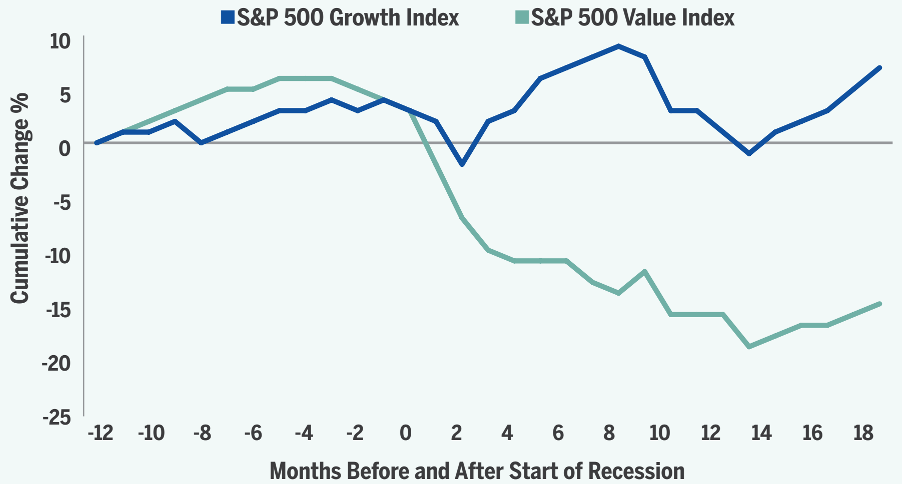
What is Recession Resistant?

Many investors are contemplating a potential U.S. recession over the next year. To plan for a recession, investors may want to consider earnings sensitivity to economic activity. In other words, what is recession resistant?

EPS Estimates – Growth vs. Value



Source: FactSet and Alger Analysis. Recessions started on the following months: April 2001, January 2008 and March 2020. EPS estimates are averages of the past three recessions. They are a consensus of estimates from analysts at financial services firms and are bottom-up next 12-month earnings estimates. The consensus estimates are provided by FactSet.

- Given that only three of the past 11 Fed tightenings have resulted in "soft landings" or the avoidance of recessions, it may be prudent to plan for a recession. But not all types of companies have similar fundamental sensitivity to the economic cycle.
- Over the past three recessions, growth stock earnings have held up much better than that of value stocks. We believe one reason is that changes in earnings are magnified relative to changes in revenue for value stocks because they have higher fixed operating costs and greater interest expense. Additionally, in our view, value stocks tend to operate in markets with more economic sensitivity, such as home building, consumer durables, capital goods, and banking, as compared to growth stocks which are propelled more by secular growth, which involves capturing market share by disrupting industries. For example, cloud computing is disrupting on-premises computing and medical advancements are constantly replacing older legacy health care products.
- While growth companies have recently borne the brunt of valuation multiple compression, history suggests that earnings reductions may hit value stocks harder.

The S&P 500 Growth Index measures the performance of growth stocks within the S&P 500 Index.

The S&P 500 Value Index measures the performance of value stocks within the S&P 500 Index

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