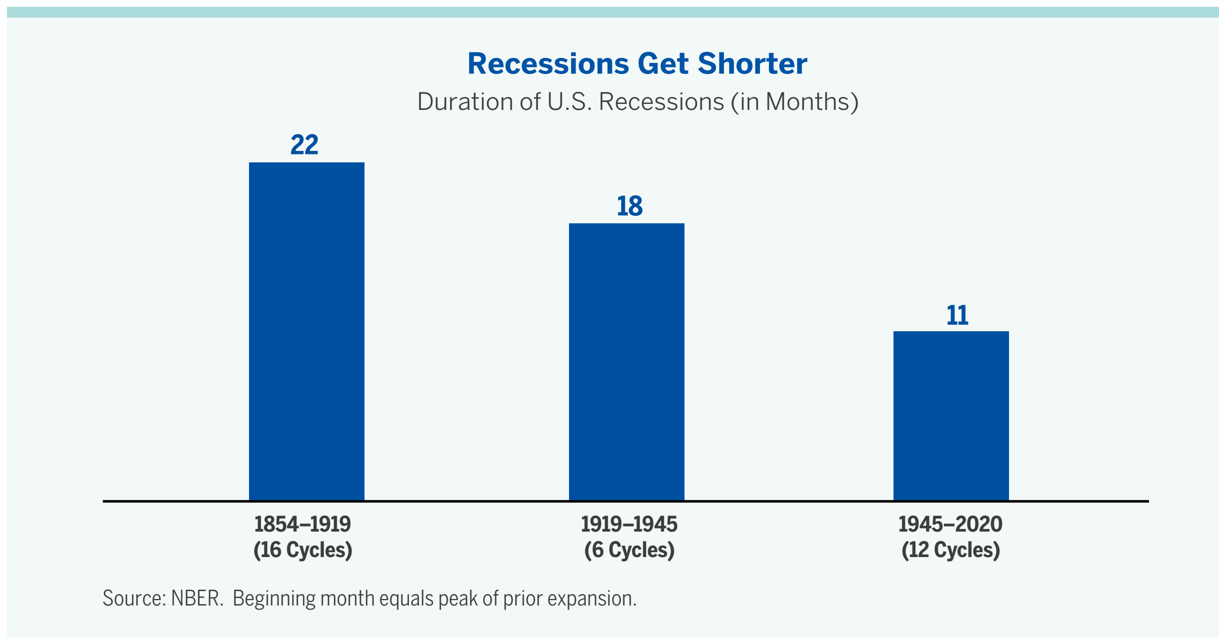
ALGER

Alger On the Money

Periods of Pain: Shorter Than You Think

Acute adversity makes time seem to stand still, but periods of deep economic pain such as recessions have become shorter. Understanding factors that have driven this trend may help investors manage fears about recessions and avoid panic selling just prior to an uptick in market sentiment.



- The average duration of recessions has dropped dramatically from 22 months to only 11, (see above). Unusual events such as the Global Financial Crisis that started in 2007 can create exceptions, but we believe powerful changes are contributing to recessions, on average, becoming shorter.
- With technology, businesses maintain inventory in real time. When the economy contracts, excess inventories are minimized, thereby reducing the need to discount prices. In our view, technology has also facilitated the "gig economy" consisting of an increased number of part-time workers so the size of the workforce can quickly be adjusted to reflect economic conditions.
- We believe that the economy is also more heavily weighted toward asset-light services. For example, unlike traditional resort companies, online reservation services don't have costs associated with underutilized hotel rooms when the economy weakens. Similarly, ride hailing services, unlike traditional limo companies, don't have costs associated with owning vehicles.
- Corporations' capacity for preserving earnings may help shorten future recessions. So, while it may make sense to plan for a potential recession, one may also want to prepare for potential subsequent recovery because periods of pain may be short lived.

Alger is a signatory to the PRI and carbon neutral.

Inspired by Change, Driven by Growth.

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