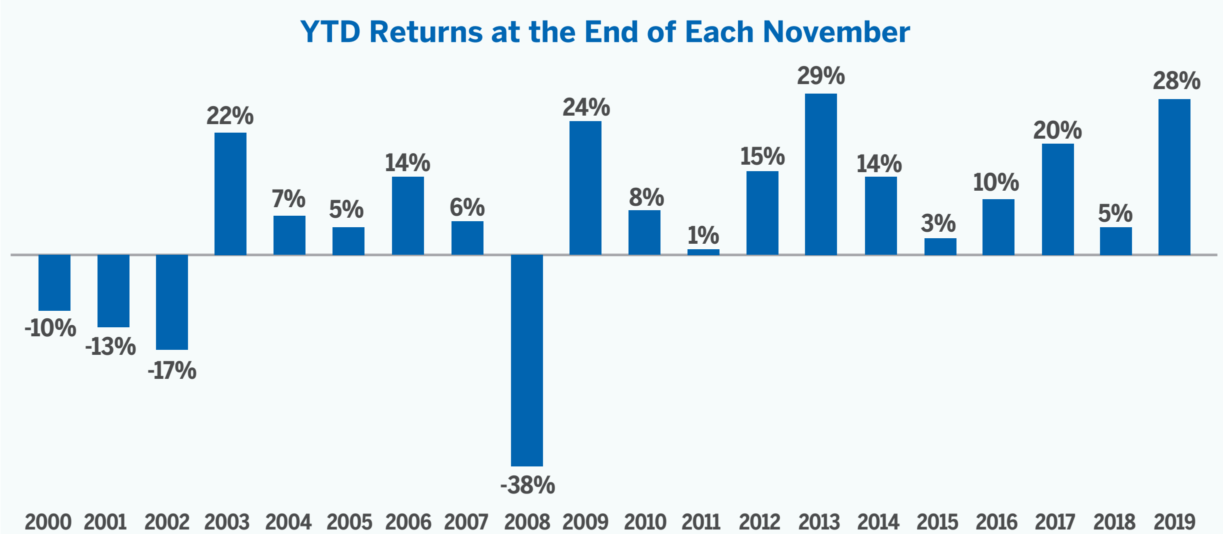
ALGER

Alger On the Money
A View on the U.S. Market

This May Surprise You

While negative headlines concerning impeachment in the U.S., economic growth and trade wars have dominated market news recently, the S&P 500 is currently having its second best year over the last 20 years. As investors approach the home stretch of 2019, it's time to take stock of the year in equities.



Source: Morningstar

- Alger foresaw potentially robust equity returns for 2019 in our Winter Capital Markets presentation. We noted that strong returns typically follow large declines in valuations and that in years following double-digit declines in price-to-earnings (P/E), the S&P 500 has historically averaged 19% returns. Indeed the S&P 500 P/E multiple had its second largest decline in three decades in 2018 when it plunged 21%.
- During 2019, the market's P/E rebounded more than 20% while next 12-month earnings expectations grew modestly. In our view, the driver behind the P/E expansion was increased confidence that the economy would avoid recession in the near term. The Fed moved from tight monetary policy in a difficult economic environment to a more accommodative policy that has helped boost economic metrics such as mortgage applications and industrial activity (as measured by Purchasing Managers' Indices).
- While the market's P/E now appears elevated relative to history, we believe valuations look more reasonable with respect to low interest rates and stronger free cash flow generation as a result of the changing economy and changing business models (see Alger On the Money "Evaluating Valuations"). As a result, a strong year may not preclude future gains.

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