

Belfius Equities Global Health Care

Market Overview

The health care sector started the year well, outperforming broad equity markets which were pushed higher also by continued strength in the technology sector.

Within health care, the major pharma and biotechnology companies were top performers, though with wide dispersions between individual companies, whilst smaller caps in general and surely within biotechnology saw some profit taking after the strong advances made in December.

Health insurance companies also performed badly, as “utilisation”, meaning medical consumption, was strong and this obviously is a cost for the insurance companies. High utilisation usually means many procedures in hospitals, and this is clearly good for medical technology companies as they provide the tools.

Life Sciences companies continue to bottom out with some positive remarks on order intake from a couple of those companies during their earnings calls.

Portfolio Highlights & Strategy Review

We mentioned the quarterly earnings and towards the end of the month many companies released their figures. There was a wide dispersion in fortunes, with health insurance companies United Health and Humana warning on higher costs and seeing pressure on their margins, as medical consumption remained high in a post-covid world. As an example, Johnson & Johnson registered 9% growth in their medical technology business during Q4, whilst Boston Scientific even published 13,6% top line growth.

Life Sciences companies still endured pressure from de-stocking by their clients whilst China remains weak, but the first signs of orders momentum started to kick in, leading to some share price recoveries in this subsector as 2024 should see both issues mostly disappear – though China might take time before returning to healthy growth.

Big pharma and commercial stage biotechnology companies were usually in line with expectations, with some European pharma companies being hit somewhat by currency moves, especially those reporting in CHF. The star earnings release came from Novo Nordisk again, a company riding the obesity treatment boom. The company predicts top line growth for 2024 eventually reaching 20% plus.

Clinical news flow was as usual very company specific, with Vertex acting well due to a positive update on their pain drug clinical programs whilst Novartis showed strong data in CML cancer. On the negative side, Gilead fell after disappointing data in later line breast cancer patients.

Fund Outlook

The ongoing expectations of a global economic slowdown continues to support the outlook for interest rate cuts by the FDA – though the market seems overly optimistic as to amplitude and timing of those cuts. On top of this, US elections might bring extra volatility to markets. Within this context, we remain positive on health care, and the generally good earnings season hitherto and a record 66 new drug approvals in the US in 2023 are all supportive of this view, with the sector finally showing some outperformance versus broad markets over the last months.

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