CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Candriam Equities L Oncology Impact

Market Overview

October offered a continuation of what happened in the previous months, with the difference that the health care sector underperformed broad equity indices as the IT sector continued to dominate stock markets.
Within health care, it was again health insurance companies which outperformed, and big pharmaceutical companies on average did well though there were huge performance dispersions amongst them. Biotechnology was again weak, and size was an important factor as small cap sold off again, often on no news. Life sciences and tools were very weak as de-stocking by customers continued (we expect some improvement in 2024) and this was clear in some of the earnings reports. In general, across all sectors, small caps continued to suffer as long-term interest rates in the US approached 5% and markets switched to an extreme “risk off” mood.

Portfolio Highlights

In October, several medical conferences brought forth a wealth of clinical updates spanning diverse disease areas, including dermatology, oncology, and neurology. The news flow from these conferences, alongside ad hoc clinical, regulatory, and business development updates, was exceptionally abundant last month. The business development and M&A landscape was also active, with seventh acquisition of a portfolio company this year. Mirati, a commercial-stage targeted oncology company was announced to be acquired by a large pharma. Mirati has an approved drug for specific KRAS G12C mutation in lung cancer patients and a promising pipeline drug in synthetic lethality space.

Starting from oncology, at European Society for Medical Oncology meeting (ESMO), there was a notable surge in the use of ADCs (Antibody-Drug Conjugates), exemplified by Daiichi Sankyo's HER3-DXd and several TROP2 ADCs. These agents demonstrated remarkable efficacy in EGFR-mutant lung cancer, alongside broader applications in lung and breast cancer when combined with immuno-oncology therapies like in Gilead’s Evoke-02 and AstraZeneca's BEGONIA clinical trials. AstraZeneca's and Daiichi’s TROP2 ADC (Dato-DXd) stood out for its survival benefits over standard treatments in various cancer types, and other TROP2 ADCs like Gilead’s Trodelvy hinted at similar advantages, with Trodelvy possibly excelling in terms of safety. At triple meeting (AACR-NCI-EORTC), Nuvalent's next generation ALK inhibitor has shown impressive results for ALK-positive lung cancer patients, surpassing the standard of care's efficacy.
In the dermatology domain, at EADV conference, Moonlake Therapeutics boasted a best-in-class dataset for their IL-17A/F nanobody, sonelokimab, showing significant improvements in multiple efficacy measures for the treatment of hidradenitis suppurativa.

In the neurology space, at the Clinical Trials on AD (CTAD) conference, Biogen unveiled a subcutaneous formulation of their anti-amyloid antibody Leqembi, which exhibited even higher reductions in amyloid plaques than the intravenous version of the drug. The subcutaneous formulation offers more convenient dosing, however had slightly more adverse events.

Sarepta's long-awaited phase 3 data for Elevidys, a gene therapy for Duchenne's muscular dystrophy, fell short on the primary endpoint but displayed promising trends in several secondary measures, particularly in younger patients. The company’s quarterly results also highlighted robust Elevidys sales, surpassing expectations after an accelerated approval. On the regulatory front, Alnylam faced a Complete Response Letter for Onpattro's label expansion in ATTR cardiomyopathy, echoing concerns raised during the AdComm's evaluation. However, with the next update, namely phase 3 HELIOS-B, which remains on track for early 2024 we are expecting more evidence of TTR silencers being a potentially best-in-class mechanism of action to treat both neuropathy and cardiomyopathy related to TTR amyloidosis. On a brighter note, UCB has finally received FDA approval for their anti-IL17 antibody, bimekizumab, in psoriasis.
Several companies have already reported their Q3 earnings in October. Merck delivered another strong commercial quarter driven by Keytruda and Lagevrio (antiviral treatment for COVID-19), leading to raised guidance for 2023. It was also another strong quarter for Argenx with Vyvgart product sales beating consensus. Vyvgart Hytrulo (subcutaneous) launch is going well, and the company is adding more indications to the franchise. Amgen posted in-line revenues (negative for Lumakras, Otezla and Enbrel while positive for Evenity, and Blincyto) with EPS beat while guidance was raised to reflect future Horizon’s drug sales and lower-than-expected SG&A expense.

Fund Outlook

We are puzzled by the continuous weakness in the health care sector, as fundamentals have not changed and the sector should be a beacon of stability in this uncertain world. However frustrating it is, it does create a potentially interesting entry point.

Some of the headwinds that have spooked investors should dissipate during 2024. The covid vaccine overhang, hitting some companies specifically within biomanufacturing should disappear as 2023 vaccination levels are probably a good base going forward. De-stocking by many consumers in lab reagents (caused by pandemic demand and also because of the supply chain issues over the last years) should also have run its course by 2024,setting this subsector up for more normalized growth figures again.

The big debate and the biggest factor in reversing the small cap underperformance is the interest rate debate. We still think that the Fed is mostly done, and that inflation rates will reach acceptable levels next year – some clear improvement is already visible, with some countries are even flirting with deflation on some of the more volatile inflation metrics by now. We see scope for a decline in interest rates in 2024 which should be supportive for long duration growth stocks within healthcare but also for the more volatile but innovative junior companies. Funding should also improve for such enterprises.

Drug approvals by the FDA are high YTD, and it looks again a year where many new products are helping patients. Merger activity was also high YTD, and our strategies have enjoyed some of this windfall but unfortunately the M&A failed to spark the sector, as it usually does. It underscores again the high innovation levels, and the willingness by big pharma and biotechnology companies to increase their exposure to this.

In November, we expect again a rich inflow of clinical data, mostly coming from the abstracts for American Society of Hematology (ASH) meeting which will be held at the end of the year. An Advisory Committee for first gene edited therapeutic product (Vertex's and Crispr's exa-cel for sickle cell disease) will also take place in November. As always ad hoc clinical and regulatory updates are also expected.