



KIEGER HEALTHCARE Monthly Commentary

Zurich, 2 November 2020

Q4 picks up where Q3 left off

The MSCI World Healthcare Net Return (NR) Index posted a -4.88% loss in October 2020. The MSCI World NR Index was down -3.07%.

Global equity markets remained volatile during the month. The rising number of COVID-19 cases and new containment measures lead to a déjà-vu correction in the last few days of October.

Healthcare and other defensive sectors (Real Estate and Consumer Staples) were used as a source of cash. Money went into cyclical sectors, such as Communication Services, Consumer Discretionary and Financials. This trend then showed signs of reversing at the end of the month.

It is again a busy time of the year for analysts, with Q3 reporting in full swing. At the time of writing, 56% of MSCI World Healthcare firms have published their results. 85% of companies have beaten EPS expectations, with an aggregate upside surprise of 12%. Across all healthcare sub-sectors, companies are reviewing their cost structure and share buybacks have restarted selectively – yet consensus EPS estimates remain stalled. As regards sales, market expectations were exceeded by 2% on aggregate, with 70% of firms surprising positively. Some sub-sectors saw revenues rebound following H1 pandemic-related weakness (83% of Equipment & Supplies and 67% of Providers & Services firms above estimates), while Life Sciences Tools & Services (all positive and 10% above consensus) benefitted from COVID-19 tailwinds (testing, vaccines and therapeutics manufacturing). US and European Pharma have underperformed consensus so far (65% below estimates), whereas lots of their Japanese peers are doing ok.

In the spotlight

Vaccines: Pfizer and Moderna informed that they expect to release Phase 3 data in November and, assuming this data is positive, will soon thereafter seek emergency authorisation for their vaccines. Meanwhile, AstraZeneca and J&J both reported to be resuming their US studies after COVID-19 vaccine tests were put on hold due to a participant in each of their respective trials becoming seriously ill.

Therapeutics: Gilead's "Remdesivir" is the first treatment for COVID-19 to have received FDA approval. Eli Lilly has stopped the clinical trial of its antibody treatment for hospitalised patients, but other studies covering patients with mild to moderate forms of the disease continue. Regeneron's drug ("REGN-COV2") was used to treat President Trump in the wake of his COVID-19 infection, but remains for now in Phase 3 (the trial begun in July).

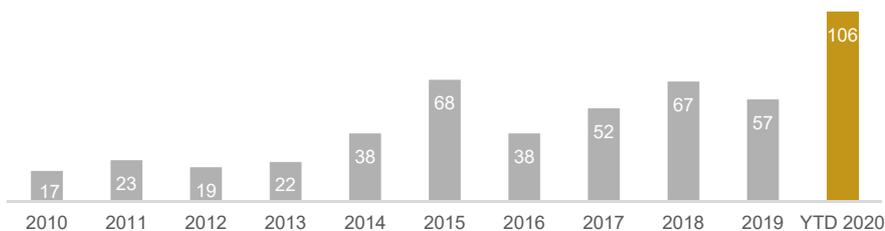
US Elections I: In order to lower US drug prices, presidential candidate Joe Biden came up with the idea of adopting a variation of the German drug pricing model, which requires drug companies to justify prices to an independent panel. Pharma and Biotech stocks dropped markedly on this news. Further, during the second US presidential debate, Biden refined his plan to enhance the Affordable Care Act (ACA), including a public option on the various health plans. His idea is also to allow Medicare to negotiate drug prices with insurance companies and reduce premiums. The fact that "BidenCare" would not force anyone out of their private insurance led Managed Care stocks to move up 1.4% on the subsequent day.

US Elections II: As election day approaches, more and more "what if" analyses are being published. From a healthcare investor point of view, there are two key themes ("drug pricing" and "ACA repeal") that require attention:

- *Trump / Republican Senate:* A reform of drug pricing would be unlikely and current executive orders should make progress (rebate rule etc.), although obstacles would remain. Coverage expansion and the continuation of ACA repeal would depend on the outcome of the upcoming Supreme Court case (expected in June 2021)
- *Trump / Democrat Senate:* In such a scenario there would be a medium likelihood of some reform of drug pricing. Again, coverage expansion and the continuation of ACA repeal would depend on the Supreme Court decision
- *Biden / Republican Senate:* This would probably be the best outcome for drug pricing. In this case too, coverage expansion and the continuation of ACA repeal would depend on the Supreme Court decision
- *Biden / Democrat Senate:* Such an outcome would imply a high likelihood of some reform of drug pricing. The focus would be on ACA stabilisation

Chart of the Month

Biotech is experiencing record-high funding in 2020 (in USD bn)



Source: BioWorld

COVID-19 has boosted interest in the Biotech sector, many companies being seen as part of the solution to the pandemic. As of 16 October, YTD funding (including IPOs, follow-ons, public and private sources) was up 86% vs. the full year 2019. Also benefitting from these inflows are CROs (R&D and outsourcing for Biotech) and Life Sciences Tools & Services firms (involved in drug development and production).

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