KIEGER HEALTHCARE
Monthly Commentary

Zurich, 1 March 2021

Rising rates and positive real-world vaccine data propel cyclical stocks

The MSCI World Healthcare NR Index returned -2.7% in February, while the MSCI World NR Index rose 2.6%. During the last week of the month, many sectors took a hit because of rising 10-year Treasury rates (now at their highest levels in a year), enhancing the attractiveness of bonds vs. equities. Increasing rates are typical of the early stages of economic recoveries (as observed in 2003 and 2009) and reflect improving private sector confidence and growth prospects. That said, higher rates can be offset by rebounding corporate earnings, as is expected to happen in 2021. Healthcare, whose sales held up well in 2020 (unlike those of other industries), is being viewed as one of the sectors with lesser cyclical upside in earnings, hence lost some ground in relative performance terms.

The reporting season is almost over (8% pending for the MSCI World Healthcare Index). 68% of the firms have beaten EPS expectations, with a flat aggregate upside surprise. As regards sales, market expectations were exceeded by 1.8% on aggregate, 66% of companies having surprised positively. That said, the aggregate numbers are misleading since almost all major sub-sectors delivered high single- to low double-digit earnings and low single- to mid-single- digit sales upside surprises. These good results were driven by underestimated COVID-19 tailwinds (for Life Sciences Tools & Services, as well as Providers & Services) and overestimated COVID-19 headwinds (for some Equipment & Supplies firms). Only Pharmaceuticals (39% of the index) posted negative earnings (-13.1%) and sales (-1.0%) surprises, driven by several large-cap misses, such as Pfizer and Merck.

In the spotlight

COVID-19 treatments:

<u>Pfizer/BioNTech</u>: A report published by The New England Journal of Medicine pointed to a vaccine effectiveness that was reduced by two thirds against an engineered virus with South African characteristics in in-vitro studies. However, both firms released a statement stressing that these were laboratory results and that, to date, there is no such clinical evidence – adding that they are nevertheless preparing to develop an updated vaccine or booster shot. In the meantime, promising real-world data from Israel shows that the national vaccination program has been 89.4% effective at preventing infections. It has also been reported that the vaccine is 98.9% effective at preventing deaths due to the virus and that the rates of preventing morbidity, symptomatic cases and hospitalisations all exceeded 95% two weeks post the second shot.

<u>Moderna</u>: Like Pfizer/BioNTech, the company stated the actual efficacy against the South African variant is yet to be determined.

<u>Johnson & Johnson</u>: On 29 January, J&J announced that its single-shot vaccine was 66% effective in preventing moderate to severe forms of COVID-19 in a phase 3 study. This is well above the 50% effectiveness threshold set by regulators, but lower than the rates reported for Pfizer's (95%) and Moderna's (94.5%) vaccines. This positive news was then tempered by signs of weakened vaccine potency (57%) against the South African variant. J&J's vaccine has been approved in the US, but not yet in Europe.

<u>Novavax</u>: The company presented UK phase 3 vaccine data indicating 90% efficacy against the UK coronavirus variant, but only a 49.4% success rate against the African strain. In the US, its phase 3 trial continues to proceed.

<u>AstraZeneca</u>: While its vaccine provides good protection against the UK variant, a small study showed minimal protection against the South African variant, leading the South African government to halt its use. AstraZeneca's vaccine is being administered in Europe, albeit facing increasing consumer resistance, and has not yet been approved by the FDA.

<u>Eli Lilly</u>: The FDA has authorised a combination of antibodies for treatment of patients at high risk of a severe form of the disease, by allowing physicians to add the new monoclonal antibody "Etesevimab" to "Bamlanivimab" (authorised last year).

Chart of the Month: Over-80-year-olds in OECD nations will increase twentyfold by 2050
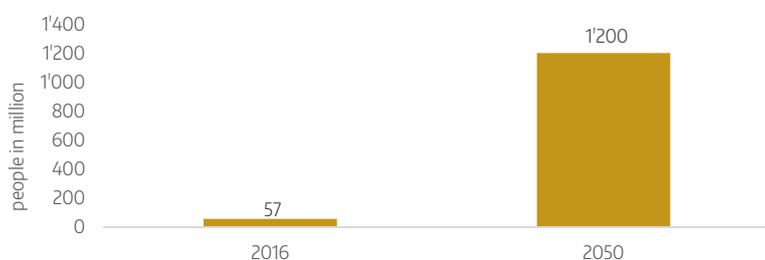
Source: OECD

Driven by an increase in average life expectancy and population structure, the number of people aged over 80 will grow from 57 million in 2016 to more than 1.2 billion in 2050e (OECD). Considering that the 65+ age group accounts for 48% of healthcare costs, this creates unique opportunities but also stresses the societal obligations of the healthcare sector to innovate continuously and come up with better, as well as more cost-efficient, solutions.

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