



KIEGER HEALTHCARE Monthly Commentary

Zurich, 1 April 2021

Contrasting news push stocks back and forth

The MSCI World Healthcare NR Index gained 2.5% in March, while the MSCI World NR Index rose 3.3%.

Global equity markets remained volatile throughout the month. News pertaining to the re-opening of economies and the upward move in Treasury rates (both on the back of progress on the vaccination front), fears of new COVID-19 waves and reinforced containment measures in some European countries, as well as political/medical interfering with AstraZeneca's vaccine, took turns in impacting the markets.

Overall, the rotation into the hardest-hit sectors of 2020 continued in March, with Financials, Industrials and Real Estate posting above-average returns.

Within healthcare, Providers & Services had a very positive month (+11.6%). Managed Care stocks in particular rebounded on the potential extension of the moratorium on Medicare 2% sequester cuts.

Pharma and Equipment & Supplies returns were driven by stock-specific news and both sectors closed in positive territory.

Overall, Biotech was also positive in March, although dispersion within the sector was high, with many small and mid-cap losing significantly over the month and large caps compensating for their underperformance.

Rotation away from COVID-19 beneficiaries stopped during the month, with many COVID-19 testing and vaccine manufacturing firms regaining some of their prior month's losses.

At the other end of the performance spectrum, Healthcare Technology, which trades at elevated valuation levels (see chart on page 2), suffered another correction (-9.1%) following its February sell-off – in sync with other high beta market segments.

In the spotlight

COVID-19 treatments:

On March 25, AstraZeneca released revised US phase 3 clinical trial data showing its vaccine to be 76% effective at preventing COVID-19 (vs. 79% in the interim analysis) and 100% effective in preventing severe forms of the disease and hospitalisations. Further, with an efficacy rate of 85%, the vaccine seems to work better for patients older than 65 (the efficacy rate had previously been stated at 80%). The vaccine has not yet been approved in the US and various countries that had granted approval (Canada, Denmark, France, Germany, Italy, Norway, Spain, ...) are halting or limiting its use, amid reports that a small number of recipients have experienced serious blood clots.

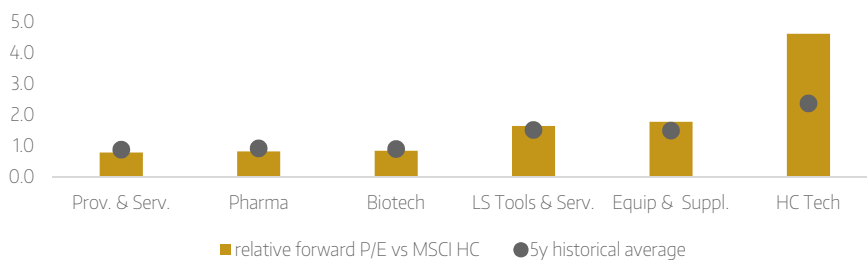
Novavax announced vaccine efficacy of 96.4% against the original strain of COVID-19 and 86% protection against the more contagious UK-variant in its phase 3 UK trial. The company also provided a complete analysis of its phase 2b trial in South Africa, showing an efficacy rate of 55.4% (South African variant). Importantly, the vaccine provided 100% protection against severe forms of the disease (including ALL hospitalisations & deaths) caused by the original and variant strains. Novavax expects its vaccine to be approved in Q2 2021.

Roche & Gilead's phase 3 data from a study combining Roche's Actemra with Gilead's Remdesivir showed no reduction in the length of hospital stays for severe COVID-19 patients, compared with Remdesivir alone. As an anti-inflammatory drug, Actemra was supposed to help dampen a potentially life-threatening immune overreaction in patients with severe pneumonia. Roche has other studies running and continues to believe in Actemra's role for treating certain COVID-19 patients.

On March 29, GSK & Vir Biotechnology submitted a request to the FDA for emergency use authorisation (EUA) for their investigational dual-action monoclonal antibody VIR-7831. This, after having presented interim phase 3 data that demonstrates an 85% reduction in hospitalisations or deaths for patients receiving the drug vs. placebo.

Alzheimer's disease: Eli Lilly presented mixed donanemab phase 2 data from a small and very specific set of patients. On the one hand, brain scans showed that patients taking donanemab saw their plaques fade away. On the other hand, the CDR-SB dementia assessment score, to which Alzheimer experts pay particular attention, did not experience a statistically significant impact. As a next step, Eli Lilly aims to run at least one more mid-stage trial.

Chart of the Month: Forward P/E of healthcare subsectors relative to the MSCI World Healthcare index vs. 5-year historical average (as of 28.02.2021)



Source: Bloomberg

Valuations of Equipment & Supplies (strong stock price performance despite lower sales), Life Sciences Tools & Services (COVID-19 testing and vaccine benefits) and Healthcare Technology are rather high, while Biotech, Providers & Services and Pharma look attractively valued on a 5-year historical basis. Overall, when comparing healthcare to other sectors, the current valuation levels remain very compelling.

Kieger Healthcare Team



Urban Fritsche
Lead Manager Impact Healthcare Fund
+41 44 444 1858
urban.fritsche@kieger.com



Raphael Oesch, CFA
Lead Manager Healthcare Blue Chip Fund
+41 44 444 1849
raphael.oesch@kieger.com



Dr. Maria Specogna
Lead Manager Sustainable Healthcare Fund
+41 44 444 1828
maria.specogna@kieger.com



Alexandra Egg, CFA
Research Analyst
+41 44 444 1829
alexandra.egg@kieger.com



Flavio Mancino, CFA
Research Analyst
+41 44 444 1826
flavio.mancino@kieger.com



Camille Rigaud, CFA
Research Analyst
+41 44 444 1857
camille.rigaud@kieger.com

For a comprehensive overview of our investment strategies please contact us:

Kieger AG

+41 44 444 1844
Limmatstrasse 264, 8005 Zurich
info@kieger.com
www.kieger.com

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