KIEGER HEALTHCARE Monthly Commentary

Zurich, 4 April 2022

World War Wired

The conflict in the Ukraine is the first war in a fully interconnected world, wired more closely than ever before by trade, supply chains and financial markets. As such, while the drama is occurring within Ukraine's frontiers, the consequences of Putin's "special military operation" are being felt across the globe. The US (and pending European) decision to ban Russian oil imports has fueled the commodity rally, playing into worries over global supplies and heightening stagflation concerns. Central banks, however, are still intent on normalising policy. The Fed has initiated its tightening cycle with a 25 bps hike and signaled six further increases in 2022, for what would be the most aggressive policy campaign in decades. And an announcement regarding balance sheet reduction could come as soon as May.

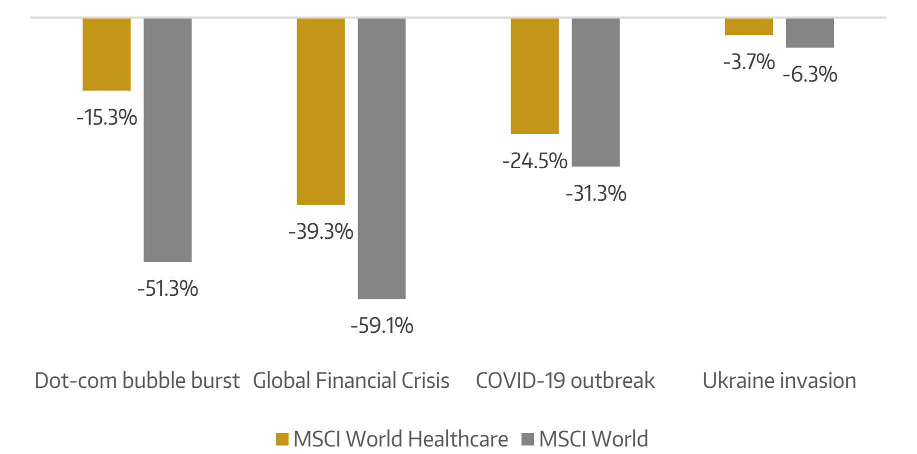
Meanwhile, equity investors seemed to become more optimistic again in the latter part of the month, pushing the MSCI World Net Total Return up from -6.0% on 8 March to +2.8% on 31 March. Healthcare, once again, lived up to its safe haven status, losing significantly less than global equities (-3.2% at the trough) and ultimately closing March on a +4.9% return. More to be found in our chart of the month on page 2.

Healthcare-related news flow was rather thin during the month and investor focus remained mostly centered on the impact of macroeconomic drivers. With the Q1 reporting season knocking at the door, April should bring fundamental drivers back into the spotlight. Special scrutiny will need to be applied to companies' input costs, supply chain dependencies and pricing power.

In the spotlight

Healthcare sub-sector performance:
Biotechnology (+7.9%) was the best performing sub-sector in March. The gains were broad-based and driven mainly by large caps. The clinical news flow in the sector was limited and no M&A transaction was announced during the month.
Pharma (+6.8%) showed off its defensive qualities in a market fraught with uncertainties.
Providers & Services (+4.7%) was fueled by strong Distributors (+7.6%) and Managed Care (+6.8%) performance, both groups being considered safe places. Providers (+1.0%) were little changed.
Life Sciences Tools & Services (+4.6%) rebounded after a tough start to the year, bringing year-to-date performance to -14.0%. The sub-sector suffered from debates regarding appropriate valuation levels for businesses that might have peaked over the near term.
Equipment & Supplies (+0.5%) experienced a mixed performance. On the one hand, elective surgery bounced back faster than anticipated during the Q1 reporting season. On the other hand, higher raw material and energy costs are pressuring company margins more than is currently modelled. Chinese lockdowns have further exacerbated supply chain pressures and the overall situation with regards to chip availability is still stalled.
Healthcare Technology (-3.2%) remains out of investors' favour, extending its negative year-to-date performance to -14.7%.

Chart of the Month: Maximum MSCI World drawdown vs. MSCI World Healthcare performance over the same time period



Source Kieger, MSCI

The Healthcare sector is considered a defensive area of the market, as patients need their drugs and therapies, no matter what the economic (or geopolitical) situation is. Healthcare revenue growth thus exhibits one of the lowest correlations to global GDP growth. During each of the major market corrections of the past two decades, the sector was able to outperform global equities, as shown in the above chart which compares the maximum MSCI World drawdown to the MSCI World Healthcare performance over the same time period. Healthcare lost significantly less during the bursting of the dot-com bubble at the beginning of the new millennial (+36.0% performance differential), the global financial crisis (+19.8%), the COVID-19 outbreak (+6.8%) and, today, the Russian invasion of Ukraine (+2.6%).
Check out our video on this subject on http://www.kieger.com

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