When the going gets tough, the tough get going

In May, markets stayed choppy, while Healthcare was able to further extend its outperformance versus global equities. Earnings season is almost concluded and trends outlined in last month's report held true. Our chart of the month focuses on the huge M&A firepower of large biopharma companies.

Over the month, markets continued to grapple with multiple, known headwinds (unresolved debates regarding the Fed's tightening trajectory, a potentially more fragile than expected economic recovery, soft Chinese activity data, potential lockdowns in Beijing...). In May, the MSCI World returned 0.1%.

Healthcare stood its ground and gained 0.5%, extending its year-to-date outperformance vs global equities to 5.6%. Biotechnology (2.2%) was the top performing sub-sector, with vaccine stocks surging on the monkeypox outbreak. The release of ASCO abstracts was also a source of price action. And Pfizer's acquisition of Biohaven temporarily lifted small-and mid-cap Biotech names. Tools & Services (1.4%), trading at rebased valuations and coming out of a strong earnings season, reversed some of their year-to-date underperformance. Pharma's performance was mixed (0.8) and driven by stock-specific newsflow (including the release of ASCO abstracts). Large US companies outperformed their European peers over the month. In Providers & Services (0.1%), laboratories (likely extension of the Public Health Emergency through the fall, rising COVID-19 cases) and some of the distributors added performance. Equipment and Supplies' performance (-0.8X%) remained choppy during May, with macro events (supply chain constraints, Chinese lockdowns...) taking center stage. Healthcare Technology (-3.8%) saw some names rebound towards the end of the month, but the subsector continues to be challenged.

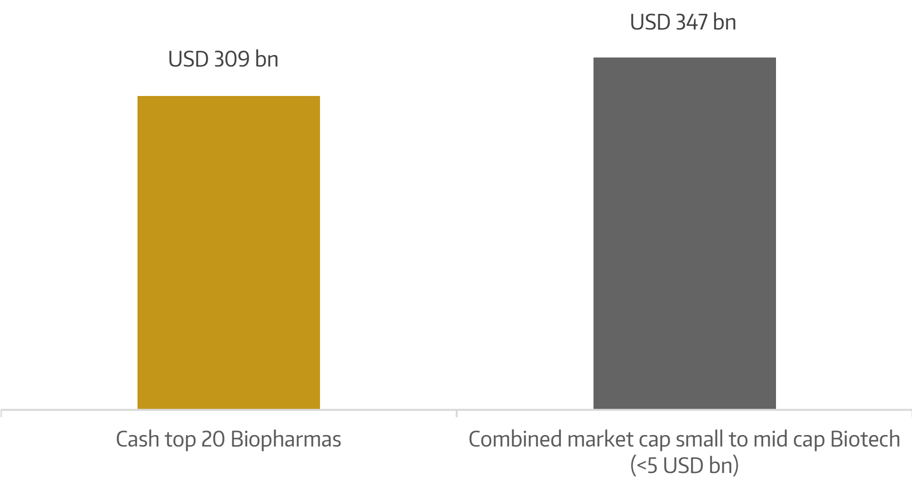
In the spotlight

Earnings Season

May almost concluded the Q1 2022 reporting season (96% of MSCI World Healthcare components have released their results) and the trends discussed in last month's commentary held true. 66% of companies topped EPS expectations, with an aggregate upside surprise of 7.9% (not as strong as in the past 8 quarters). Sales outperformed market expectations by 3.0% overall (above the recent average), with 69% of companies surprising on the upside. As seen in Q4, beating expectations was not, however, sufficient to ensure strong stock performance. Overall, share prices shed an average 1.5% on the day of the earnings release, with Life Sciences Tools & Services and Biotechnology the sole sub-sectors in positive territory (both up 0.2%). What stood out during Q1 was the broad-based strength of the Tools & Services subsector, with 88% of companies exceeding sales expectations and 94% outperforming the earnings consensus. Published results showed a reassuring picture, with many firms enjoying strong end-markets, good pricing power and solid supply chain management.

Chart of the Month: The top 20 Biopharmas have huge M&A firepower

Small- and mid-cap Biotech companies were heavily shaken by the market in 2021 and also got off to an exceptionally bad start this year. While M&A had been a substantial performance driver for them in the past, it has now almost completely dried out. This is because of elevated price expectations, solidly financed target firms and lack of in-person interactions/conferences due to COVID-19. Currently, large Biopharma sits atop huge piles of cash, with the 20 biggest firms theoretically able to buy up nearly all of their small- and mid-cap peers. And many of the smaller biotech companies are now trading below their net asset value. It might take a while before greater M&A activity is observed, but history has shown that extreme situations do not last forever. Check out our video on this subject on
https://kieger.com/news/kieger-healthcare-chart-of-the-month-9/



Source Kieger, Jefferies

Kieger Healthcare Team

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

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

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

Anja Tsai Cabal
Research Analyst
+41 44 444 1844
anja.tsaicabal@kieger.com

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

Flavio Mancino, CFA
Research Analyst
+41 44 444 1626
flavio.mancino@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

Kieger is a proud member/signatory of

GIIN MEMBER

Swiss Sustainable Finance

PRI Principles for Responsible Investment