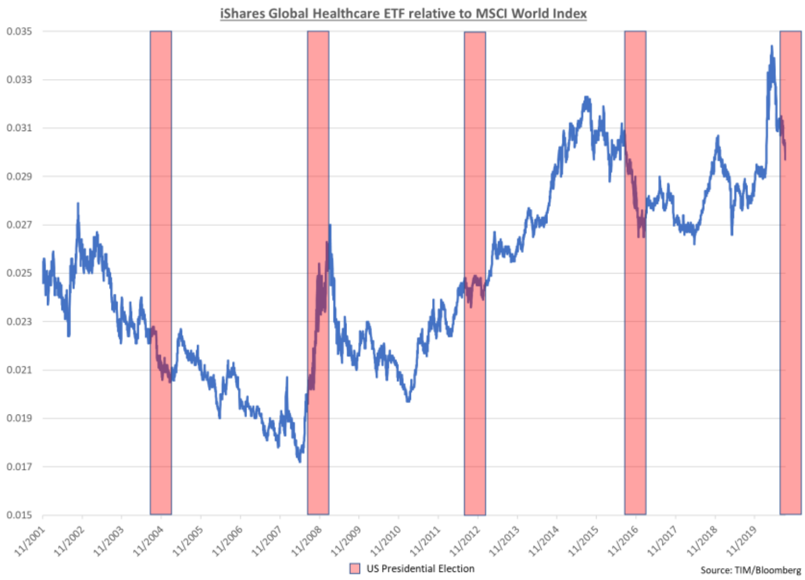
One for the Brave: Pharma in an Election Year

It is a common belief that healthcare stocks underperform in US Presidential election years, and this year is likely to see healthcare spending and reforms as one of the key battlegrounds between President Trump and Joe Biden. Should investors shun healthcare stocks given this unfavourable backdrop?



The obvious outlier in the chart above is 2008, which was in the middle of the Global Financial Crisis, so the defensive billing of the healthcare sector was deemed to outweigh the consequences of the election of President Obama with his pledge to introduce 'Obamacare'.

Healthcare cost inflation in the US has led to medical costs being far in excess of those in the rest of the world, and both candidates seek to address this imbalance. Joe Biden will probably come under pressure from certain parts of his party to expand Obamacare to a wider audience, albeit that Medicare for All is now probably off the agenda now that Bernie Sanders and Elizabeth Warren failed to secure the nomination.

Over the past five years the pharmaceutical industry has started to address the issue of drug price inflation, with the average price increase falling each year, from over 13% in 2014 to under 5% in 2019, and this trend seems likely to continue. Despite this moderating inflation, health care expenditure accounts for 17.8% of national GDP, so the topic remains high on voter priorities. By way of comparison Switzerland pays 12.2% of GDP on health care, and the UK 9.8%. We believe that although the pharmaceutical sector is in the spotlight for maximising their revenues through higher drug prices, the blame mainly lies with the healthcare insurers and hospitals who often undertake large mark ups on list prices to then give optical discount offers to clients. Legislation over price transparency may well become law to give patients greater visibility.

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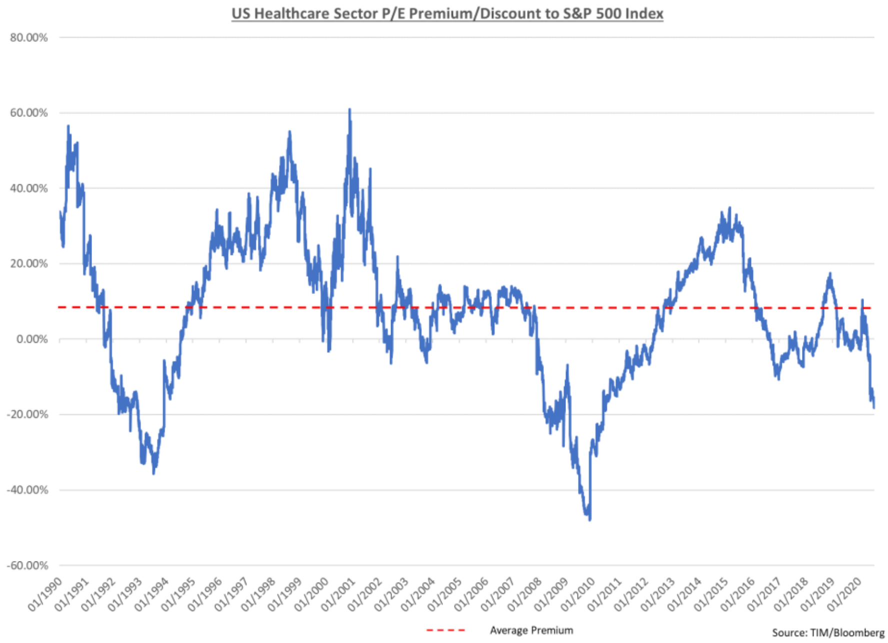
Weekly Commentary 4th September 2020

Despite the pandemic leading to bonus testing revenues and orders for prototype vaccines, since the market bottom on March 23rd this year the US Healthcare Sector has underperformed the S&P 500 by 12.8% and on a P/E basis the sector trades at the largest discount for 10 years.



We believe that pressure on the sector over the coming months may well give investors opportunities to invest in world class franchises that offer superior growth regardless of which party wins the Presidency. We also believe that companies that are exposed to areas such as gene sequencing, animal health, medical devices, biotech and robotic surgery should be resilient to the pressure on the sector given the increase in demand for their products and services. Therefore, for long-term investors, it may well prove beneficial to start to look at the sector once again.

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