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Monthly Insights: March Outlook

# Healthcare Sector

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# Sector Price Action & Performance Review: Healthcare Sector



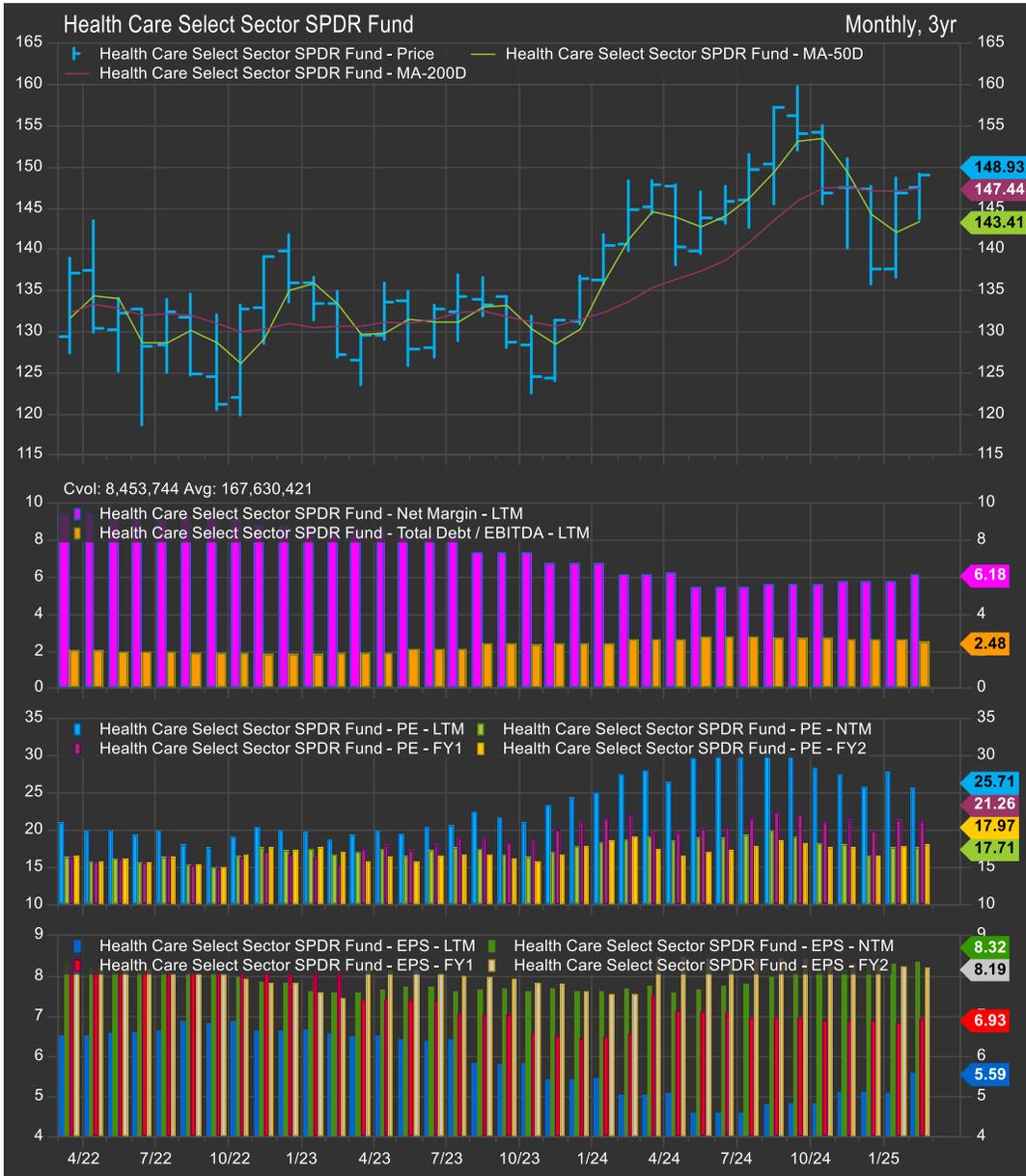
The Healthcare Sector is executing a bullish reversal in absolute and relative terms. with the MACD finishing February on a near-term buy signal and the RSI study in a bullish position.

Oscillator studies remain constructive with the MACD study finishing February on a buy signal, while market internals are showing some signs of fraying as we discuss later in this report.

The structure of our sector rotation discipline has us allocating across Real Estate, Utilities and Staples while being short Healthcare. The kicker is the open question around the Trump administration's policy plans for the sector...while we know that Healthcare stocks are generally defensive, de also know that no one likes uncertainty mixed into their defense.

**We start March out of the Healthcare Sector with an UNDERWEIGHT allocation of -12.32% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Healthcare Sector



The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins contracted in the 2<sup>nd</sup> half of 2024 (chart, panel 2) leading to a near-term trough in earnings

Valuation (chart, panel 3) is at a premium to the S&P 500 at present due to lackluster near-term earnings, but the sector projects robust EPS growth over the next 2 years...while that is in itself a good thing, we worry uncertainty over federal healthcare policy could cloud those bullish projections

# Industry/Sub-Industry Performance and Breadth: Healthcare Sector



**Healthcare Industries** (chart, left): Equipment and Supplies stocks continue to lead the sector while Pharma and Biotech stocks have also caught a bid.

The Life Sciences & Tools Industry continues to make new intermediate-term relative lows despite the sector in aggregate turning around over the past 3-months. Providers are also having trouble developing any positive performance

**Healthcare Sector Internals** (chart, right): % of stocks above their 50-day moving average have retraced to below the 50% level after a strong surge in January...as a sector currently in a long-term downtrend, we need to see more from the average stock to believe

# Top 10/Bottom 10 Stock Level Performers: Healthcare Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
GILD	Gilead Sciences, Inc.	Bullish Reversal	142,460.6	76.85	126.2	3.49	35.2	23.5	25.1	40.9	NT OVERBOUGHT
ABBV	AbbVie, Inc.	Bullish Reversal	369,012.1	15.99	22.5	6.43	8.0	21.3	15.7	1.7	NT OVERBOUGHT
CVS	CVS Health Corporation	Bullish Reversal	82,859.5	2.36	5.1	3.89	3.7	16.4	11.4	10.4	NT OVERBOUGHT
LLY	Eli Lilly and Company	Bullish Reversal	872,913.7	3.72	2.3	1.26	3.6	16.3	17.4	-9.8	
AMGN	Amgen Inc.	Consolidation	165,491.4	6.71	10.6	3.07	-1.1	12.5	11.3	-12.2	
JNJ	Johnson & Johnson	Consolidation	397,304.9	3.20	4.9	4.94	-1.2	12.4	7.4	-4.9	
DGX	Quest Diagnostics Incorporated	Bullish Reversal	19,188.1	1.03	1.4	1.81	9.7	11.8	6.8	5.5	
VRTX	Vertex Pharmaceuticals Incorporated	Consolidation	123,205.2	-37.27	-33.5	0.00	-2.9	10.6	3.7	-9.2	
ABT	Abbott Laboratories	Bullish Reversal	239,354.0	-1.26	-1.1	1.34	12.3	10.1	17.0	16.3	
SOLV	Solventum Corporation	Bullish Reversal	13,777.4	3.90	6.4	0.00	#N/A	8.2	10.4	25.6	

Big moves to the upside and downside among individual Healthcare Sector stocks

GILD and ABBV led in February while LLY halted its intermediate-term retracement posting a strong quarter

CVS and ABT are new bullish reversals in our work

On the downside, Life Sciences & Tools stocks continue to face headwinds to earnings and are among the weakest charts in the S&P 500

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
WST	West Pharmaceutical Services, Inc.	Downtrend	16,799.1	-0.34	-0.2	0.15	-33.7	-30.5	-27.7	-29.0	NT OVERSOLD
MRNA	Moderna, Inc.	Downtrend	11,944.9	0.27	#N/A	0.00	-55.9	-29.4	-28.2	-67.7	NT OVERSOLD
TFX	Teleflex Incorporated	Downtrend	6,165.4	33.55	86.1	0.55	-44.4	-25.0	-30.4	-52.2	NT OVERSOLD
VTRS	Viatis, Inc.	Support	11,017.7	-21.09	-128.0	3.41	-30.3	-15.9	-29.8	-28.9	NT OVERSOLD
ALGN	Align Technology, Inc.	Support	13,962.4	3.05	3.9	0.00	-28.9	-15.6	-18.2	-26.2	NT OVERSOLD
TECH	Bio-Techne Corporation	Downtrend	9,761.9	3.16	2.5	0.18	-22.2	-15.4	-17.6	-20.8	NT OVERSOLD
DHR	Danaher Corporation	Downtrend	148,488.1	1.71	1.5	0.35	-24.3	-14.4	-12.5	-28.9	
A	Agilent Technologies, Inc.	Downtrend	36,494.2	1.00	1.1	0.36	-14.8	-13.2	-6.8	-16.2	
DVA	DaVita Inc.	Consolidation	11,830.4	0.12	0.2	0.57	-9.3	-12.9	-10.3	-10.9	
UNH	UnitedHealth Group Incorporated	Support	434,451.8	3.54	5.3	3.28	-22.2	-10.7	-21.2	-25.9	

Metrics:

(Formulas are in the appendix at the end of the report)

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

# Economic & Policy Drivers: Healthcare Sector

## Healthcare Spending and Inflation Pressures:

- January's core PCE inflation rose 0.3% m/m, keeping the y/y rate at 2.6%, reinforcing concerns about rising healthcare costs.
- UnitedHealth (UNH) and CVS Health (CVS) flagged continued medical cost pressures, particularly in Medicare Advantage (MA) plans, as utilization rates remain high.
- Hospital operators like Universal Health Services (UHS) reported better-than-expected patient volumes, but labor shortages and wage inflation remain key concerns.

## Regulatory and Policy Developments:

- Trump administration signaled plans to overhaul Medicaid block grant funding, raising concerns for managed care organizations (MCOs) like Centene (CNC) and Humana (HUM) that rely on Medicaid expansion.
- FDA considering new price transparency rules for prescription drugs, which could increase pricing scrutiny on pharma companies like Pfizer (PFE), Merck (MRK), and Eli Lilly (LLY).
- Senate inquiry launched into UnitedHealth's billing practices, increasing regulatory risk for health insurers and pharmacy benefit managers (PBMs).

## Impact of Trade Policy on Healthcare Costs:

- Trump administration confirmed 25% tariffs on Canadian and Mexican imports (effective March 4), along with a 10% tariff on Chinese medical goods.
- Medical device companies like Medtronic (MDT) and Abbott Laboratories (ABT) flagged concerns over increased costs for imported components, which could pressure margins.
- Tariffs could also raise costs for hospitals and outpatient facilities, impacting capital expenditures in the sector.

## Pharmaceuticals and Biotech Developments:

- Eli Lilly (LLY) lowered prices of its Zepbound weight-loss drug to expand market penetration, signaling a more competitive pricing landscape in the obesity drug market.
- Moderna (MRNA) under pressure after reports surfaced that Trump administration may reconsider a \$590M contract for bird flu vaccine development.
- Biotech stocks struggled as capital market conditions remained tight, with higher borrowing costs and cautious investor sentiment weighing on small-cap names.

## Healthcare Services and Insurance:

- Health insurers (UNH, HUM, CNC) faced mixed sentiment as concerns about rising medical costs offset premium growth.
- Teladoc (TDOC) tumbled on weaker-than-expected guidance, citing headwinds in telehealth adoption and declining growth in behavioral health services.
- Hospital and outpatient care providers saw strong patient volumes, but cost pressures remained a headwind.

## Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

### Valuation Adjusted Earnings Growth

Higher scores with positive momentum preferred

*Valuation Adjusted Earnings Growth (simple mean)*

**Relative Earnings Growth Multiple** (vs. Benchmark)

*Divided by*

**Rel. Valuation Multiple** (vs. Benchmark)

*Relative Earnings Growth Multiple:*

**Company Earnings Growth:**

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) /  
Restated LTM Annual Earnings

*Divided by*

**Benchmark Earnings Growth:**

Benchmark consensus mean EPS NTM / Restated Annual Benchmark  
EPS

*Relative Valuation Multiple*

Company NTM P/E / Index NTM P/E

### Volatility Adjusted Income

Higher score preferred when equities and yields are moving  
lower

*Volatility Adjusted Income (simple mean)*

**Dividend Yield Multiple**

*Divided by*

**3yr Beta Vs. S&P 500**

*Dividend Yield Multiple*

**Stock Dividend Yield (Consensus NTM)**

*Divided by*

**S&P 500 Dividend Yield (Consensus NTM)**

# Appendix: Metric Interpretation/Descriptions

## Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

### Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings \* weight of each company in the universe 1-n

## Momentum

Long higher scores, short lower scores

### Momentum (simple mean)

**1-Month Excess Total Return (vs. S&P 500) \* 0.1**

*Plus*

**3-Month Excess Total Return (vs. S&P 500) \* 0.3**

*Plus*

**6-Month Excess Total Return (vs. S&P 500) \* 0.4**

*Plus*

**12-month Excess Total Return (vs. S&P 500) \* 0.2**

# Metric Interpretation/Descriptions

## Price Structure

We categorize stock chart patterns into 7 categories

**Uptrend**—Stock exhibits sustained outperformance

**Bullish Reversal**—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

**Consolidation**—Sideways price action, generally a bearish pattern in a bull market

**Retracement**—A sharp move lower in a previously strong chart

**Distributional**—A topping pattern

**Downtrend**—Sustained underperformance, lagging the benchmark by >15% per year

**Support**—Price has reached a level where major bottom formations or basing has occurred in the past

**Basing**—A protracted consolidation at long-term support

## Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

## Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

## Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.