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Monthly Insights: May Outlook
Healthcare Sector

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Sector Price Action & Performance Review: Healthcare Sector



The Healthcare Sector started April strong and ended meekly, losing ground to the S&P 500 despite lower prices for the index. Oscillators recently ticked higher from oversold levels, but given deteriorating relative strength, Healthcare grades as the weakest low vol. sector in our selection methodology

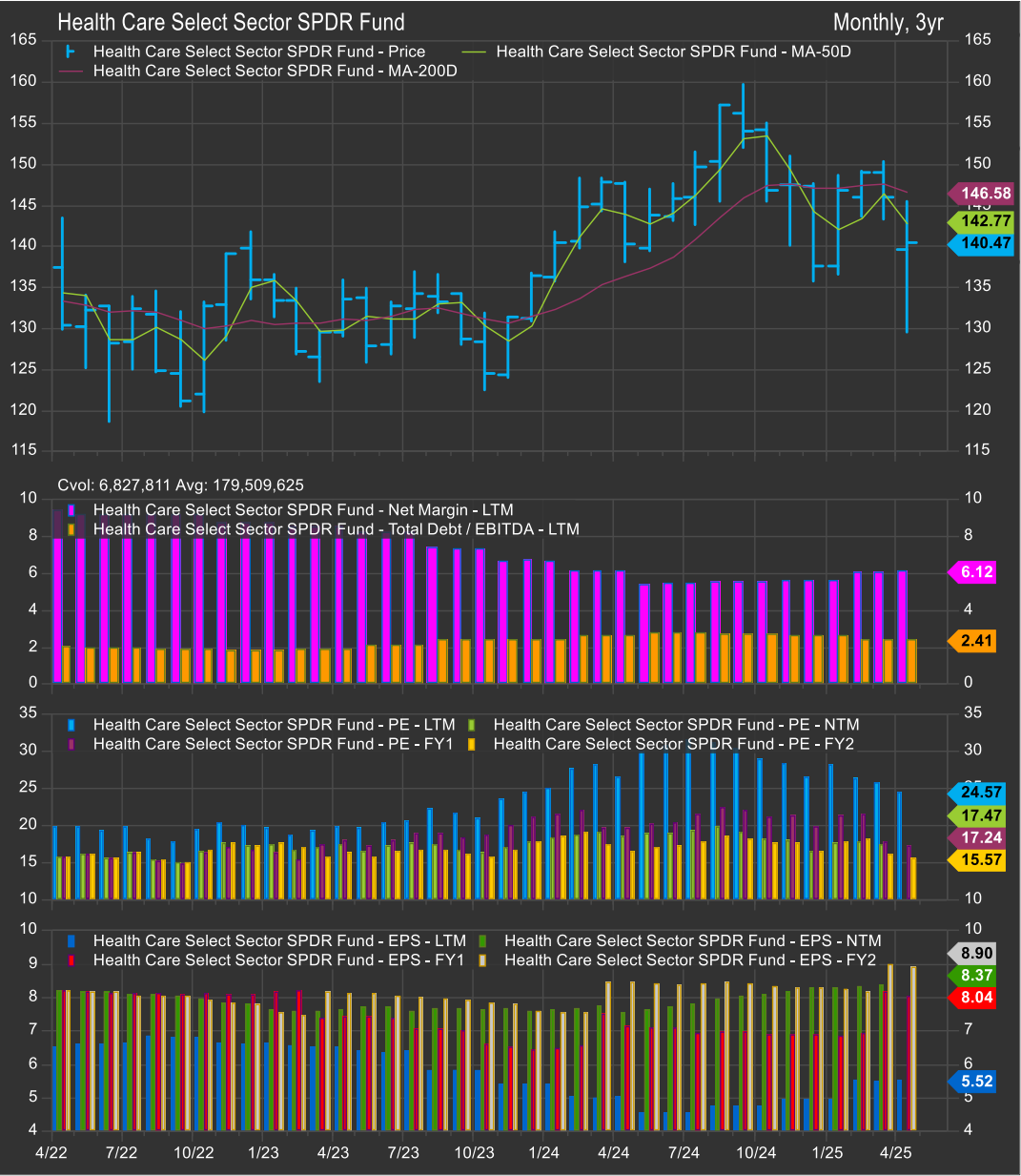
We're seeing rotation back into some higher beta areas of the market, notably Info Tech. and Discretionary sectors in the near-term on optimism that equities went too far to the downside in April. With signs of conciliation on global trade, investors are leaving havens including Healthcare stocks.

Weak earnings from big cap. names like UNH haven't helped the matter as the sector faces its own potential slate of policy risks as the Trump Administration looks to trim federal expenditures to pave the way for tax cuts.

Deteriorating technicals in the near-term and a complicated fundamental outlook have us pessimistic on the sector for May

We start May out of the Healthcare Sector with an **UNDERWEIGHT allocation of **-11.10%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Healthcare Sector

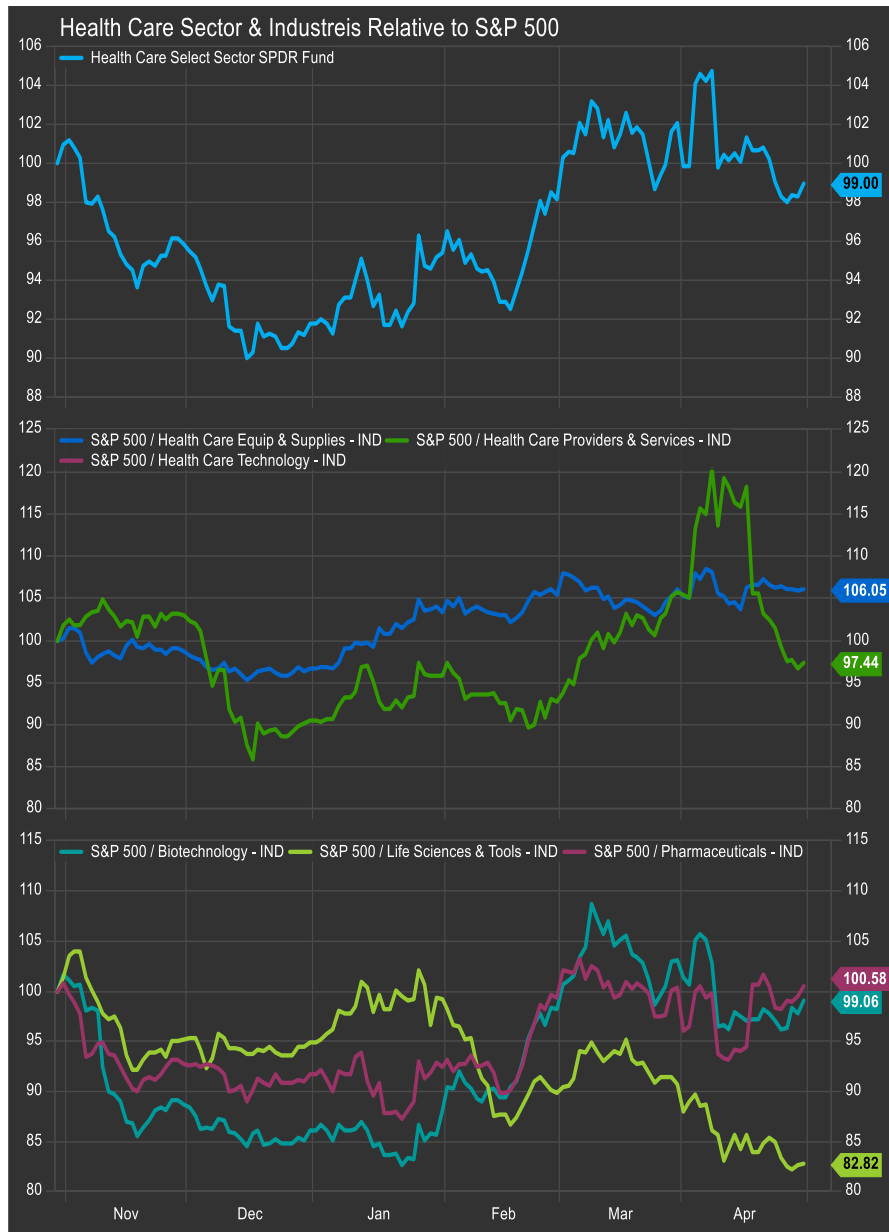


The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins contracted in the 2nd half of 2024 (chart, panel 2), but ticked higher through the earnings season.

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...Recent softness sets up a potential bearish pivot to begin May

Industry/Sub-Industry Performance and Breadth: Healthcare Sector



Healthcare Industries (chart, left): Equipment and Supplies stocks continue to lead the sector while Managed Care stocks rotated sharply from winner to lower

Retracements in Biotech and Pharma stocks are showing signs of abating while Life Sciences and tools stocks hit fresh 6-month lows in the near-term and are the clear laggard within the sector

Healthcare Sector Internals (chart, right): Not a lot to get excited about on the technical front as the sector couldn't sustain outperformance through April despite continued turbulence

Top 10/Bottom 10 Stock Level Performers: Healthcare Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
▼	▼	▼	▼	▼	▼	▼	▼↑	▼
ALGN	Align Technology, Inc.	Downtrend	13,013.1	0.70	-18.1	0.0	11.9	NT OVERBOUGHT
RMD	ResMed Inc.	Consolidation	34,859.2	0.92	2.1	0.6	8.4	
LLY	Eli Lilly and Company	Bullish Reversal	839,160.0	1.45	9.2	0.5	7.9	
EW	Edwards Lifesciences Corporation	Consolidation	44,681.4	1.20	6.6	0.0	7.8	
DGX	Quest Diagnostics Incorporated	Bullish Reversal	19,926.9	0.72	19.6	1.1	7.5	
MCK	McKesson Corporation	Bullish Reversal	88,640.8	0.77	31.0	0.2	6.1	
COR	Cencora, Inc.	Bullish Reversal	56,268.9	0.72	21.2	0.5	5.7	
DXCM	DexCom, Inc.	Consolidation	27,957.3	1.33	-12.0	0.0	5.5	
IDXX	IDEXX Laboratories, Inc.	Consolidation	35,411.6	1.41	0.0	0.0	5.3	
ISRG	Intuitive Surgical, Inc.	Uptrend	184,546.0	2.54	6.7	0.0	5.0	

High momentum names rallied in April with LLY showing signs of exiting its correction

On the downside, UNH turned in an awful quarter and joined Life Sciences & Tools stocks on the naughty list for April

Several Pharma names including BMY fell out of bullish reversals

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
▼	▼	▼	▼	▼	▼	▼	▼↑	▼
CRL	Charles River Laboratories International, Inc.	Downtrend	5,760.8	0.50	-33.2	0.0	-24.3	NT OVERSOLD
UNH	UnitedHealth Group Incorporated	Downtrend	374,327.7	0.59	-20.9	1.4	-20.4	NT OVERSOLD
BMY	Bristol-Myers Squibb Company	Consolidation	100,166.7	0.30	-3.1	3.3	-16.8	NT OVERSOLD
GEHC	GE Healthcare Technologies Inc.	Downtrend	31,174.5	0.56	-19.0	0.1	-14.6	NT OVERSOLD
TMO	Thermo Fisher Scientific Inc.	Downtrend	161,389.3	0.75	-20.8	0.3	-14.2	NT OVERSOLD
TECH	Bio-Techne Corporation	Downtrend	7,983.4	0.96	-24.0	0.3	-13.7	NT OVERSOLD
IQV	IQVIA Holdings Inc	Downtrend	27,055.5	0.51	-24.8	0.0	-13.2	NT OVERSOLD
BIIB	Biogen Inc.	Downtrend	17,589.9	0.32	-27.1	0.0	-12.9	NT OVERSOLD
SOLV	Solvantum Corporation	Consolidation	11,461.4	0.47	-6.3	0.0	-11.1	NT OVERSOLD
REGN	Regeneron Pharmaceuticals, Inc.	Support	60,845.8	0.62	-27.0	0.3	-10.5	

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Healthcare Sector

1. Macroeconomic Conditions: Defensive Strength in a Volatile Market

Healthcare's relative outperformance early in the month gave way to more modest gains as risk-on sentiment returned across broader markets, particularly tech and industrials. That said, the sector remained supported by:

Falling long-term Treasury yields, which improved valuations for dividend-paying large-cap pharma and medtech.

Macro resilience, with hard data (e.g., March durable goods, April jobs market) showing strength despite softening sentiment indicators, reinforcing the need for steady healthcare demand.

Unlike cyclical sectors, Healthcare continues to benefit from its **non-discretionary nature**, with consistent spending across most subsectors, even amid recession fears or inflation uncertainty.

2. Fed Policy & Rates: Supportive but Indirect

While Healthcare is not as rates-sensitive as Utilities or Real Estate, the **ongoing expectation for Fed cuts (~85bp in 2025)** has supported valuations for capital-intensive medtech and services names. More importantly:

The sector benefits indirectly from **credit stability and access to funding**, particularly for smaller biotech firms that rely on external capital to sustain R&D.

Flattening Treasury curves and subdued inflation data, particularly in services, also helped medtech and life sciences companies reliant on elective procedures or capital equipment spending.

3. Drug Pricing & Regulation: Persistent Headwinds

Policy risk remained front and center in April:

The Trump administration reiterated intentions to **cut prescription drug costs to "international reference pricing" levels**, intensifying concerns around price caps and reimbursement cuts.

Ongoing implementation of **Inflation Reduction Act (IRA)** provisions continues to pressure margins in the pharmaceutical supply chain, especially for traditional small-molecule drugs.

Several pharma and biotech CEOs, including those from Pfizer (PFE) and AbbVie (ABBV), highlighted that **tariff uncertainty and regulatory risk** were deterring additional R&D and manufacturing investment in the U.S.

In addition, there was renewed debate in Congress around **Medicaid funding, PBM transparency, and biosimilar pricing**, all of which could impact payer and manufacturer economics.

4. GLP-1 and Weight Loss Drug Dynamics

GLP-1 weight-loss drugs such as Wegovy (NVO) and Mounjaro (LLY) continued to dominate the narrative:

HIMS & Hers Health (HIMS) surged after announcing a direct-to-consumer partnership with Novo Nordisk, expanding access to Wegovy on its telehealth platform.

Analysts remain positive on the **massive TAM expansion**, though reimbursement headwinds and political scrutiny over cost continue to temper long-term margin optimism.

Meanwhile, managed care organizations such as **Centene (CNC)** and **UnitedHealth (UNH)** flagged higher utilization and medical loss ratio (MLR) pressures partially tied to increased GLP-1 adoption.

5. Q1 Earnings Highlights: Mixed but Resilient

April brought a mix of strong earnings beats and cautious forward guidance:

Winners

AbbVie (ABBV): Beat earnings, raised FY guidance. Immunology (Skyrizi, Rinvoq) and Neuroscience strength highlighted.

Thermo Fisher (TMO), Edwards Lifesciences (EW), Boston Scientific (BSX): All delivered above-consensus results and saw solid growth in diagnostics and cardiovascular devices.

Tenet Healthcare (THC): Beat and raised FY guidance on strength in both hospital and ambulatory segments; expense control highlighted.

Neutral

Pfizer (PFE): Sales slightly light, but beat on EPS due to cost control. Reiterated FY guidance amid GLP-1 competition and pricing risk.

Gilead Sciences (GILD): Product sales missed on Veklury softness, though HIV franchise held up and FY guide unchanged.

Underperformers

Regeneron (REGN): Missed on both revenue and EPS; flagged competitive pressures and affordability issues with Eylea.

Centene (CNC): Beat on revenue but left EPS guide unchanged. Analysts expressed concern over flu-related cost uptick and Marketplace enrollment mix.

6. Trade & Tariffs: Soft Impact, Rising Concerns

While healthcare is not a direct target of tariffs, the sector is not immune to global trade disruption:

Medtech firms flagged rising shipping costs, port delays, and longer procurement cycles for key imported materials (plastics, metals, electronics).

Biologics and active pharmaceutical ingredients (APIs) often sourced from China and India—companies warned of **potential bottlenecks** if trade tensions escalate further.

Pfizer's CEO noted that trade uncertainty was already impacting capital planning, and other execs (Merck, Abbott) made similar comments in earnings calls.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

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.