

ETFSector.com

Monthly Insights: June Outlook

Healthcare Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Healthcare Sector



The Healthcare Sector continued to underperform in May ending the month just off worst levels in both price and relative terms as investors hit pause on the rally for some near-term profit taking

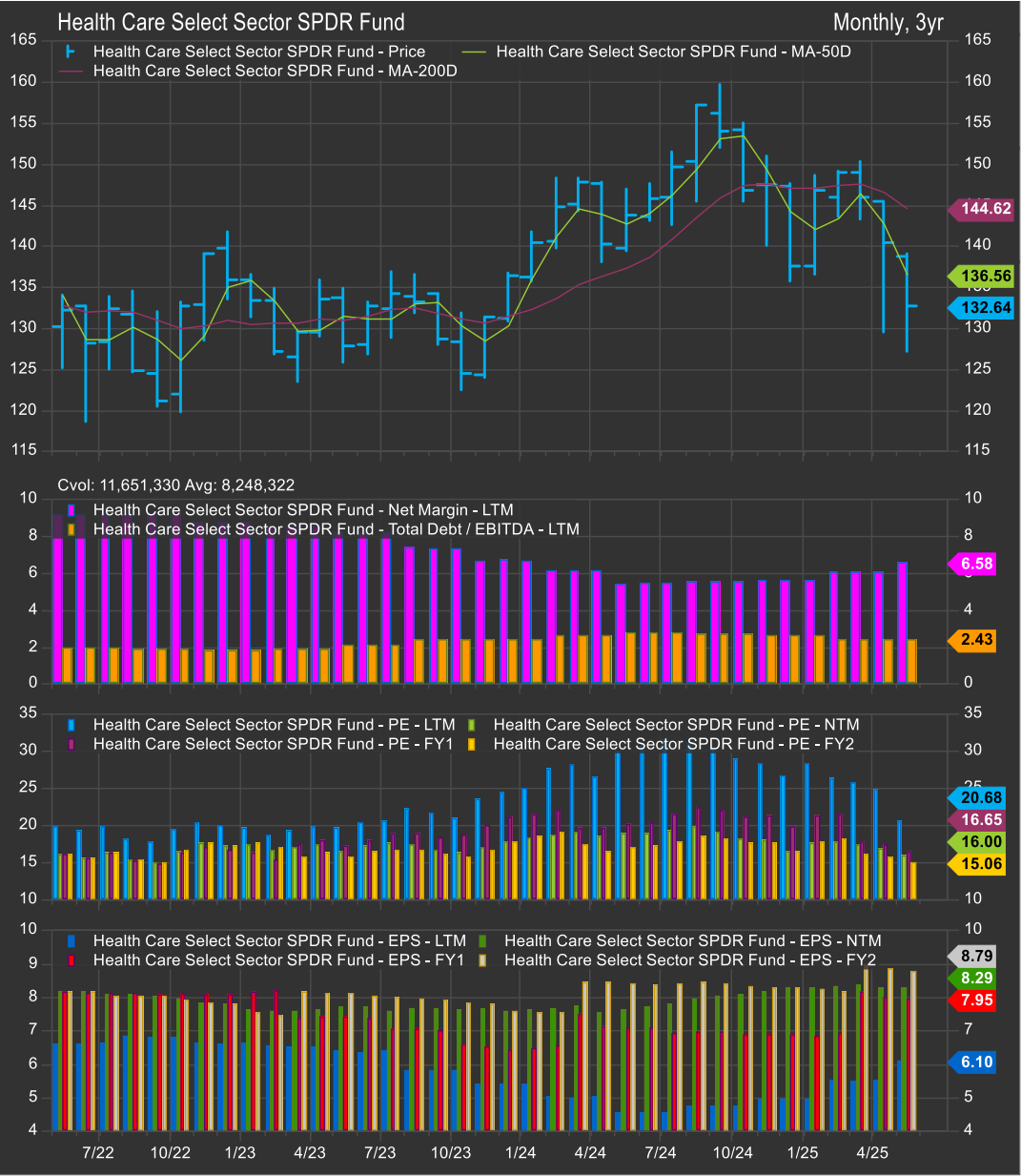
Sector heavyweights UNH and LLY each came under pressure in May. The former on concerns of offering illegal incentives amidst significant cost increases. The stock tumbled on a loss of investor confidence as the company was forced to change leadership. LLY has come under pressure due to concerns about GLP1 reimbursement levels from government programs

At the market level, reflating equities have caused rotation out of historically defensive sectors like Healthcare. We also note very weak price trends for Life Sciences & Tools stocks as well as many medical device and dental names.

We think the sector's path to outperformance would come with corrective top-line price action for equities. At the present our process is constructive on equities and we are expecting higher prices in the near-term.

We start June 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

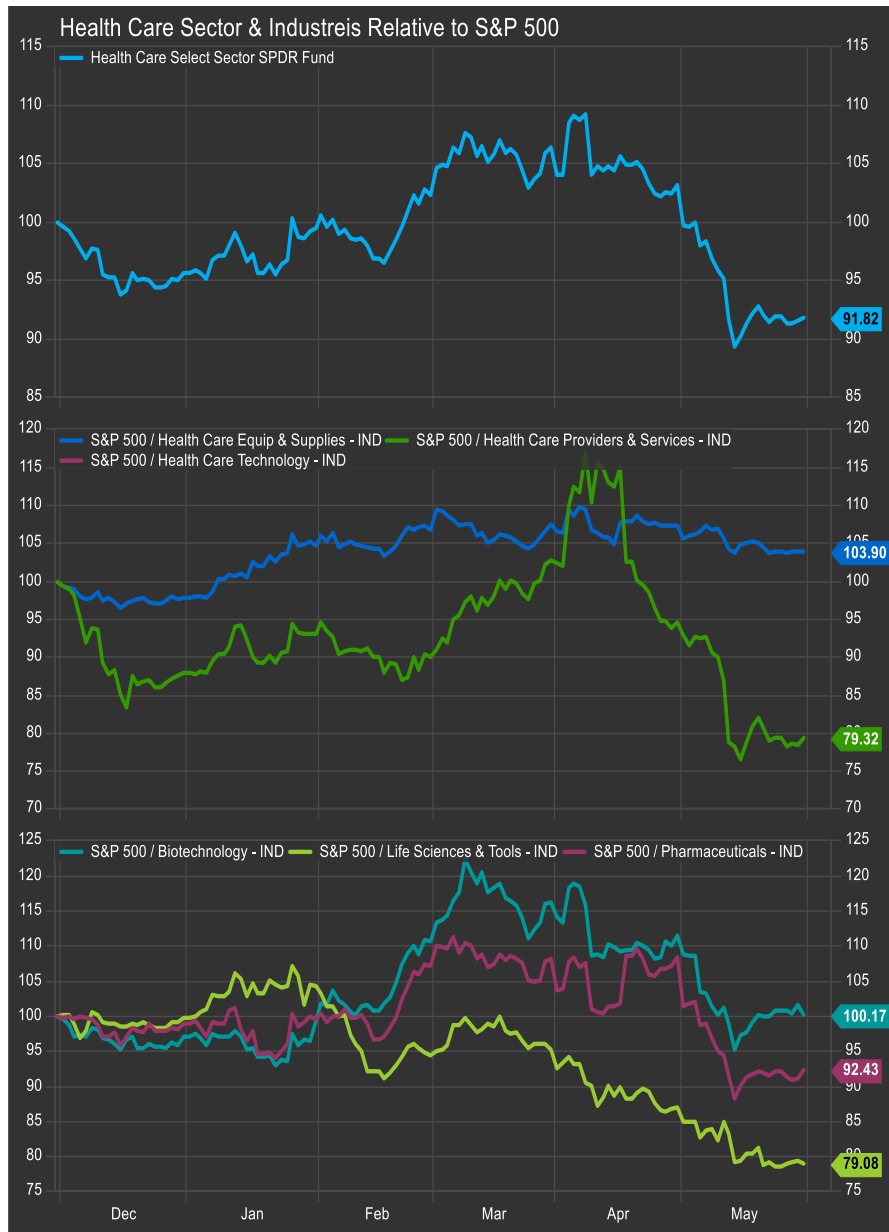


The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins are beginning to widen out based on reporting in the current earnings season(chart, panel 2),

Valuation (chart, panel 3) continues to compress as skepticism about consensus forward earnings (panel 4) deepens. UNH was flagged for a number of dubious accounting practices in addition to a weak overall quarter.

Industry/Sub-Industry Performance and Breadth: Healthcare Sector



Healthcare Industries (chart, left): Equipment and Supplies stocks continue to lead the sector over the intermediate-term while May saw rotation away from BioTech and Pharma positioning from March

Healthcare Sector Internals (chart, right): The long-term trend for the sector remains challenged and internals reflect that with less than a third of stocks within the sector above their 200-day moving average

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
PODD	Insulet Corporation	Bullish Reversal	22,790.9	2.72	32.0	0.0	1.53	22.4
DXCM	DexCom, Inc.	Consolidation	33,274.2	1.53	-5.2	0.0	1.41	12.6
IDXX	IDEXX Laboratories, Inc.	Bullish Reversal	41,461.5	1.63	14.0	0.0	1.55	11.5
CRL	Charles River Laboratories International, Inc.	Downtrend	6,763.2	0.56	-25.3	0.0	1.48	10.9
HCA	HCA Healthcare Inc	Bullish Reversal	91,093.3	0.58	15.5	0.5	1.41	4.7
UHS	Universal Health Services, Inc. Class B	Consolidation	10,926.1	0.38	-0.2	0.3	1.48	4.7
BIIB	Biogen Inc.	Downtrend	19,451.6	0.36	-17.9	0.0	-0.08	4.0
MTD	Mettler-Toledo International Inc.	Consolidation	24,381.9	1.09	-10.2	0.0	1.45	3.7
CAH	Cardinal Health, Inc.	Uptrend	36,753.9	0.69	27.5	0.9	0.75	3.7
SOLV	Solventum Corporation	Consolidation	12,562.5	0.51	0.5	0.0	0.44	3.1

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
UNH	UnitedHealth Group Incorporated	Downtrend	270,482.1	0.50	-44.3	1.9	0.31	-33.6
LLY	Eli Lilly and Company	Support	684,805.3	1.17	-16.6	0.6	0.38	-24.7
BDX	Becton, Dickinson and Company	Downtrend	49,818.1	0.48	-23.8	1.5	0.44	-22.3
HUM	Humana Inc.	Downtrend	27,769.2	0.59	-23.5	1.1	0.34	-17.7
VRTX	Vertex Pharmaceuticals Incorporated	Consolidation	114,811.5	0.94	-7.4	0.0	0.47	-17.7
MRK	Merck & Co., Inc.	Downtrend	191,842.8	0.33	-25.6	2.7	0.40	-16.3
ZBH	Zimmer Biomet Holdings, Inc.	Downtrend	18,467.1	0.46	-17.0	0.6	0.74	-15.7
IQV	IQVIA Holdings Inc	Downtrend	24,396.5	0.46	-30.5	0.0	1.39	-14.6
ELV	Elevance Health, Inc.	Downtrend	85,974.9	0.42	-11.7	1.1	0.48	-14.5
CI	Cigna Group	Consolidation	83,361.8	0.41	-6.7	1.5	0.32	-13.9

The big news at the stock level in May was to the downside where UNH and LLY both missed earnings and saw share prices fall materially

The sector as a whole remains underpressure with the strongest stock charts among HC providers (CAH, COR, HCA) and Med Equipment (BSX, ISRG)

PODD and IDXX both triggered upgrades in our stock level work while we downgraded LLY to a sell rating

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. Government Policy: Drug Pricing & Medicare Reimbursement Under Review

Medicare and Medicaid pricing dynamics remained a focus following earlier legislation aimed at controlling drug costs. May discussions emphasized **increased Congressional scrutiny** of Medicare Advantage (MA) margins and cost structures.

Analysts noted that **pressure on reimbursement rates** could emerge in 2026 policy updates, with some speculation around a push for lower government spending through capped rate increases or utilization restrictions.

Separately, **drug pricing reform efforts** gained momentum following the Biden administration's hints at expanding Medicare price negotiations beyond the original Inflation Reduction Act framework. Investors flagged the risk of future restrictions on high-margin specialty drugs, including GLP-1s and immunology treatments.

FDA timelines showed some variability this month. While there were no high-profile approvals or rejections, sentiment was dampened by talk that **regulatory timelines may face added pressure** due to budget constraints and staffing issues — a development especially impactful for small- to mid-cap biotech.

2. GLP-1 Drugs: Growth Story Intact, but Pricing Concerns Grow

Street commentary and earnings calls continued to emphasize the **durability of demand** for GLP-1s in the U.S. and abroad, citing long-term potential to reshape chronic disease care and reduce future costs.

However, multiple analysts raised concerns about the **sustainability of current pricing levels**, especially with pressure from public payers and early signs of **private insurer resistance** to blanket reimbursement.

Insurers flagged **utilization creep and higher-than-expected spend** on weight-loss medications, a trend that could lead to tighter formularies or usage controls in the second half of the year.

Several managed care names stressed the need to **balance cost containment** with patient outcomes, potentially hinting at upcoming plan redesigns for 2026.

Despite these concerns, the **GLP-1 franchise remains a top growth driver** for large-cap pharma and biotech, with investors maintaining overweight positions in leading manufacturers.

3. Insurance Premiums & Managed Care Dynamics: A Bright Spot

Managed care names were among the **relative outperformers** in May:

Sector strength was attributed to **discipline in pricing, better-than-expected medical loss ratios,** and **lower utilization in elective procedures**, which helped drive margin stability.

Premiums for 2025 appear likely to **trend higher**, with analysts expecting a mid-to-high single-digit increase in both commercial and Medicare plans.

Companies noted ongoing improvements in **digital engagement, preventative care,** and **cost-sharing adoption**, all of which support profitability in the near term.

Regulatory risk around MA profitability still lingers, but Q1 and early Q2 commentary from insurers remained optimistic, citing **solid underwriting trends and stable policyholder behavior**.

4. Company Earnings & Stock-Specific Developments

Company-level results in May offered a **mixed but generally supportive view** of the Healthcare sector:

Managed care and **biotech** names helped lead the sector. Semis and communication stocks may have garnered more attention in headlines, but **REITs (including Healthcare REITs), insurance and medical services companies** were steady contributors to sector performance.

5. UNH Under Scrutiny from Regulators and Shareholders

Guidance Withdrawal & Cost Surge: UNH stock fell sharply after suspending FY25 guidance, citing unexpectedly high Medicare Advantage utilization and rising care costs, which were roughly double initial estimates.

Leadership & Legal Pressure: CEO Andrew Witty resigned mid-month amid a DOJ investigation into Medicare billing practices and new scrutiny over alleged incentive schemes at nursing homes.

Investor Fallout: The combination of regulatory risk, leadership turnover, and peer outperformance (e.g., CVS, CI) led to a 27% drop in May—UNH's worst monthly performance since the financial crisis

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.