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Monthly Insights: October Outlook

Healthcare Sector

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Sector Price Action & Performance Review: Healthcare Sector



S&P 500 Healthcare stocks couldn't build on their August bounce and finish September back near 52-week relative lows vs. the S&P 500. Our oscillator studies are giving mixed signals as the RSI is bouncing from an oversold condition while the MACD study remains on a tactical sell signal.

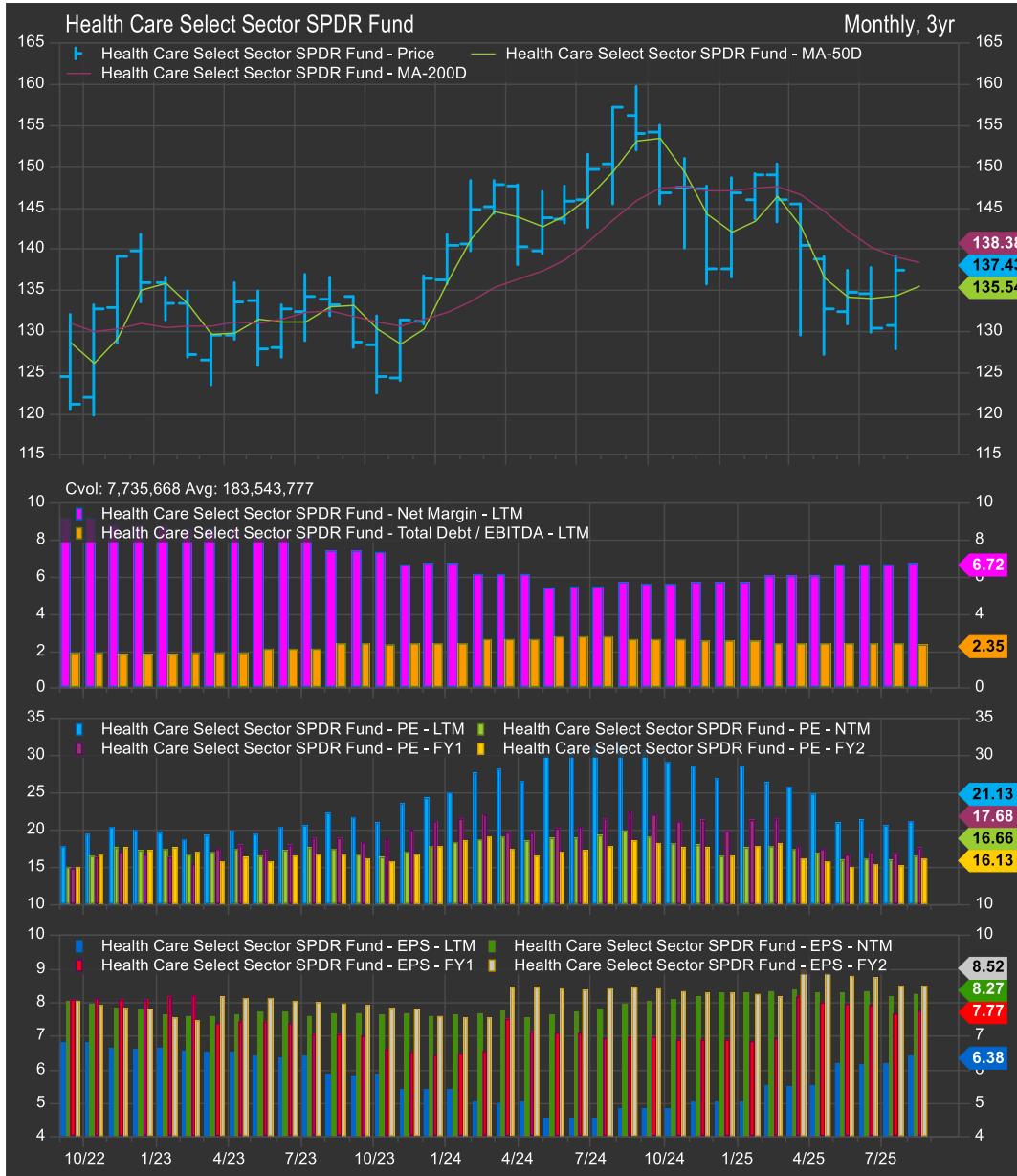
At the industry level, HC Providers remain the lone pocket of near-term strength. Berkshire's bid for UNH has sparked a bullish reversal across the industry which may hint at recognition of an improving fundamental picture for the sector as margins have been firming. However, Pharma, Biotech, Tools and Equipment stocks have all continued to lag. At a high-level investors have been rotating into AI exposures and Growth stocks which has relegated most min vol. exposures to laggard status.

Policy continues to be a headwind to the sector as tariffs are targeting brand name drugs which could set up an escalatory dynamic. An unpredictable FDA and a lack of clarity on government funding initiatives also present headwinds of a more nebulous variety.

When combining a lack of buyer interest, cost pressures from tariffs and a lack of broad catalysts, the Healthcare sector seems unlikely to pivot higher without a change in the top-line equity trend.

We start October out of the Healthcare Sector with an **UNDERWEIGHT allocation of **-8.81%** 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 continue to firm for the sector (chart, panel 2),

Valuation (chart, panel 3) continues to compress as skepticism about consensus forward earnings (panel 4) deepens. Multiples at 20x are likely still expensive given sector headwinds, but we are starting to see firmer earnings growth projections in out years with valuation fairly modest by today's standards.

Weakness in the near-term persists, but the fundamental backdrop for the sector is improving.

Industry/Sub-Industry Performance and Breadth: Healthcare Sector



Healthcare Industries (chart, left): HC Providers have continued their bullish reversal through September and are the lone outperforming industry within the Healthcare Sector

Medical Equipment stocks remain in an intermediate-term downtrend while Pharma, BioTech and Tools stocks all lost ground in September as well.

Overall investors have taken a dovish fed as a green light to load up on higher beta exposures.

Healthcare Sector Internals (chart, right): Both Breadth series are back near multi-month lows as min vol. stocks and sectors are generally out of favor

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
CNC	Centene Corporation	Downtrend	17,120.9	0.50	-27.9	0.0	0.46	20.5
UNH	UnitedHealth Group Incorporated	Bullish Reversal	311,624.2	0.80	-4.7	1.6	0.16	12.3
MCK	McKesson Corporation	Bullish Reversal	94,600.5	0.75	0.2	0.2	0.51	9.5
UHS	Universal Health Services, Inc. Class B	Consolidation	11,325.5	0.37	2.7	0.3	1.25	8.7
MOH	Molina Healthcare, Inc.	Downtrend	10,405.3	0.40	-31.5	0.0	0.23	7.6
WST	West Pharmaceutical Services, Inc.	Consolidation	18,805.2	1.43	6.7	0.2	0.91	4.3
ABBV	AbbVie, Inc.	Bullish Reversal	389,720.4	0.65	6.1	2.0	0.22	3.8
COR	Cencora, Inc.	Consolidation	59,520.5	0.71	-3.1	0.5	0.69	3.6
DGX	Quest Diagnostics Incorporated	Consolidation	21,133.5	0.75	-0.8	1.1	0.44	3.2
CVS	CVS Health Corporation	Bullish Reversal	96,101.1	0.44	1.8	2.3	0.53	2.7

Managed Care names and other HC Providers are dotting the monthly highs list as Berkshire's play for UNH has indeed spurred some interest in the industry

Life Science and Tools stocks couldn't deliver results through the recent earnings season and many lagged by double-digits this month

Providers remain a tactical buy for us

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
HUM	Humana Inc.	Consolidation	30,663.3	0.71	-10.6	1.0	0.42	-16.4
DXCM	DexCom, Inc.	Downtrend	26,313.6	1.10	-23.1	0.0	1.69	-12.9
ALGN	Align Technology, Inc.	Downtrend	9,147.1	0.48	-32.5	0.0	1.87	-12.9
DHR	Danaher Corporation	Downtrend	132,355.0	0.89	-17.0	0.4	0.70	-12.1
BAX	Baxter International Inc.	Downtrend	11,289.4	0.35	-31.8	2.6	0.83	-11.6
CRL	Charles River Laboratories International, Inc.	Consolidation	7,311.3	0.56	-12.7	0.0	1.54	-11.3
VTRS	Viatris, Inc.	Consolidation	11,099.1	0.16	-5.3	3.3	1.13	-10.8
ZTS	Zoetis, Inc. Class A	Downtrend	63,596.8	0.85	-17.0	0.9	0.91	-9.6
BSX	Boston Scientific Corporation	Retracement	145,478.4	1.20	-14.9	0.0	0.56	-9.5
ISRG	Intuitive Surgical, Inc.	Retracement	158,131.2	1.98	-21.4	0.0	1.48	-9.2

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

Health care traded through a noisy policy tape. Inflation stayed contained (**Aug core PCE +0.2% m/m, +2.9% y/y**), keeping the Fed on a gradual-easing path that supports sector multiples, while **retail sales surprised to the upside**—a mild tailwind for cash-pay categories (OTC, dental, vision). The bigger swing factor was **trade and regulation**: the White House floated—and then partially walked back—**tariffs on branded drugs (headline 100% unless U.S. manufacturing under way; later guidance implied ~15% for EU pharma)**. The administration also launched **Section 232 probes** touching **medical devices and robotics**, raising procurement and supply-chain questions for large med-tech names.

Fedspeak diverged: some officials argued for cautious cuts (inflation risk), others highlighted labor softness; for health care, slower wage growth helps provider labor lines, while lower short rates ease managed-care investment income headwinds.

Demand & Sub-sector Trends

Pharma / Biotech. GLP-1 momentum persisted—new data showed **Ozempic cutting major cardiac events by ~23%**—reinforcing broad payer and physician adoption narratives. Oncology capacity expansion (e.g., **>\$5B new plant buildouts**) underscored durable specialty pipelines. Biotech sentiment was volatile but punctuated by **select clinical wins** and **M&A**, sustaining funding for late-stage assets.

Managed Care. Mixed signals: Headlines around **Stars/quality metrics disputes** and **potential policy shifts** kept multiples capped, but the factor bid favored **Medicaid MCOs** at times as defensive growth. Labor-cooling is a modest positive for medical cost trend.

Providers / Services. Procedure volumes remained steady; payer mix and wage normalization aided operating leverage. **Retail health and telehealth** saw regulatory scrutiny (e.g., **FDA warning letters**) that may temper the most aggressive DTC models.

Med-Tech / Tools. Elective and cardio volumes were resilient, but **trade probes** and **tariff chatter** created overhangs for **diagnostics/imaging** and capital equipment. AI-enabled clinical decision support is moving from pilots to early scale, but budget timing (and ROI proof) remains a gating factor.

Margins, Input Costs, Capex & Utilization

Margins: Drug makers benefited from **mix (biologics/GLP-1s)** and continued, but moderating, net price realization; med-tech margins were supported by supply-chain normalization, partly offset by tariff uncertainty and FX. Providers improved staffing ratios and premium labor reliance fell, aiding EBITDA.

Costs: Wage inflation cooled from 2024 peaks but remains above pre-COVID trend for clinical

roles; freight and APIs more stable q/q, with **tariff pass-through** a watch-item in 2026 contract cycles.

Capex: Pharma/biotech ramped **biologics and GLP-1 capacity**; med-tech kept **targeted capex** on digital/automation. Providers focused on **revenue cycle modernization** and site-of-care shifts.

Utilization: Volumes steady to modestly better in procedures; specialty drug days-on-therapy elevated; screening rates normalizing.

Evidence from September Policy: Tariff package flagged **100% on branded drugs** (with U.S.-manufacturing carve-outs); **Section 232 probes** named **medical devices/robotics**.

Pipelines & capacity: **GLP-1 CVOT read-through (+23% MACE reduction)**; **big-ticket oncology manufacturing investment** announcements.

Corporate/regulatory: FDA warning to a DTC telehealth platform; **managed-care litigation over Stars**; **med-tech equities** moved on device-related tariff headlines.

M&A/Capital: **Large biopharma acquisition prints** (e.g., obesity and oncology assets); multiple upgrades/downgrades across **biotech, diabetes/obesity, and tools** reflecting pipeline visibility and valuation.

Risks & Watch-Items for October

Tariffs & Trade: Scope, timing, and carve-outs for **drug/device tariffs**; inbound component exposure in med-tech; payor/manufacturer negotiations on pass-through.

Policy/Payment: CMS Stars updates, IRA implementation mechanics, Medicaid redeterminations, and any **OTC labeling/safety actions** (e.g., acetaminophen discourse).

Utilization & Trend: Claims data for **Q3 cost trend**; procedure pipelines into year-end; GLP-1 supply/demand balance and formulary dynamics.

Capital & FX: USD strength and European demand; funding conditions for small/mid-cap biotech; pace of capacity ramps for biologics.

Data cadence: **JOLTS/ISM/Payrolls/PCE** path—soft-landing contours that would be **constructive for defensives** without pressuring utilization.

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.