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Monthly Insights: January Outlook

# Healthcare Sector

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# Sector Price Action & Performance Review: Healthcare Sector



S&P 500 Healthcare stocks followed up a strong November consolidating those gains in December. Profit-taking kicked in at the beginning of the month followed by a pivot to more accumulation.

From a technical perspective the setup remains constructive at the sector level. Oscillator studies are pulling back from cycle-high overbought conditions. These are potentially “good” overbought conditions that indicate positive trend change with confirmation on the XLV moving above \$160.

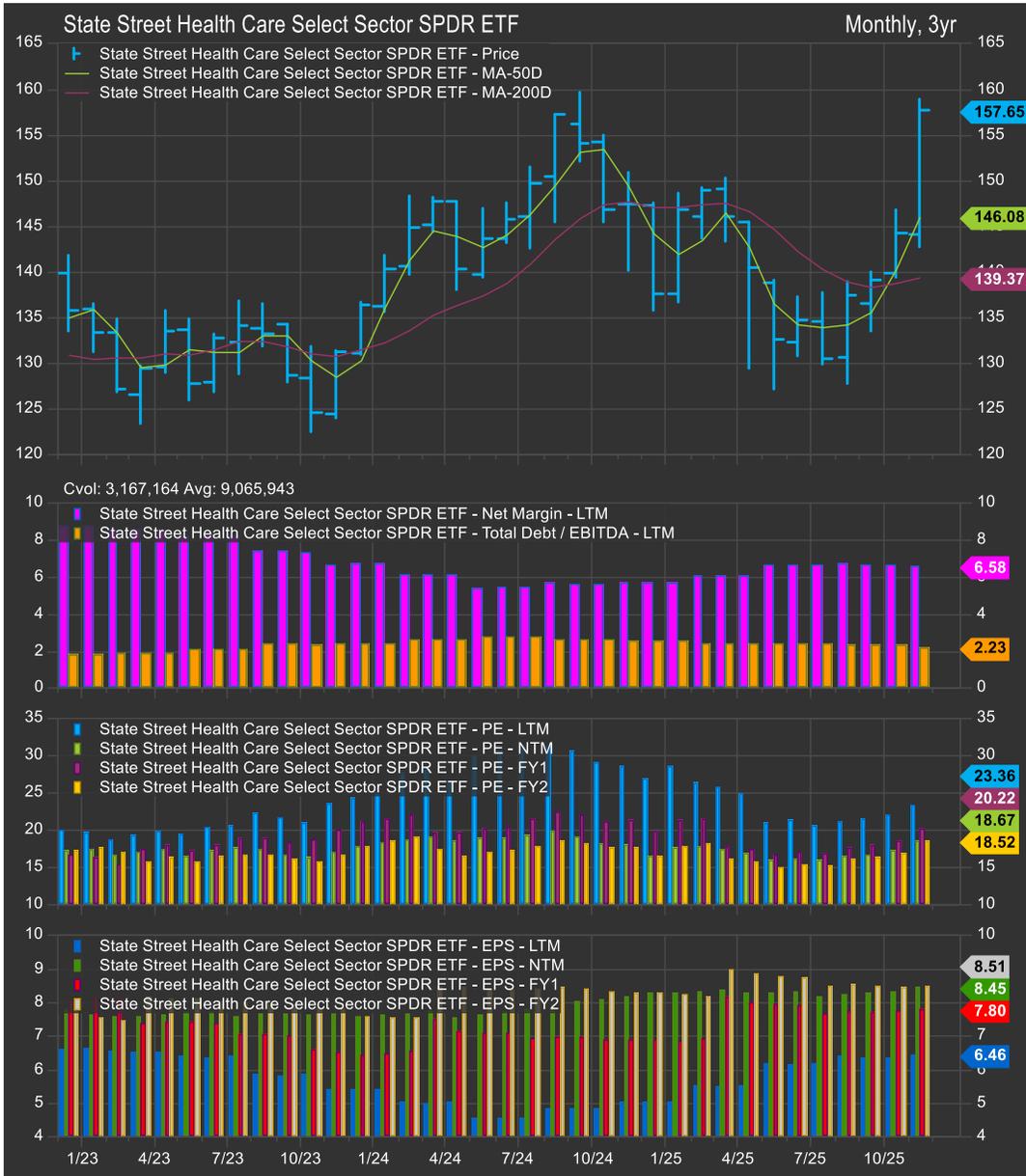
From a fundamental perspective, renewed earnings strength from LLY and other GLP1 purveyors has combined with renewed investor interest in BioTech and Tools stocks. With the Fed attempting to guide rates lower, Pharma stocks have also caught a bid and the net result is a clear bullish reversal at the sector level on strong stock level participation.

Headwinds remain as ACA subsidies are set to expire imminently. Patient outcomes remain under scrutiny and Medical Equipment stocks remain persistent underperformers.

In sum, Healthcare stocks have distinguished themselves as the best performing tranche of the historically low volatility group of sectors. We would expect outperformance on a market level correction, but recent strength may signal broader reflation in the near-term.

**We start January long the Healthcare Sector with an **OVERWEIGHT** allocation of **1.40%** 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 lost ground in December after expanding in the first half of the year (chart, panel 2),

Valuation (chart, panel 3) reversed a contractionary trend over the past 2 months, and we think there is potential that this represents more durable bear-to-bull trend change based on the technical characteristics

Forward guidance continues to reflect strong growth expectations for the sector.

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



**Healthcare Industries** (chart, left): Profit-taking was the theme in December after a strong November surge. Pharma stocks did the best job holding on to previous month's gains

Equipment stocks remain laggards at the industry level

**Healthcare Sector Internals** (chart, right): Both breadth series back-tracked after making 6-month highs in November

# 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
MRNA	Moderna, Inc.	Bullish Reversal	12,171.4		15.6	0.0	0.90	19.0
VTRS	Viatis, Inc.	Bullish Reversal	14,247.4	0.20	23.0	2.6	0.91	14.8
CRL	Charles River Laboratories International, Inc.	Bullish Reversal	9,998.6	0.74	25.6	0.0	1.83	13.1
MOH	Molina Healthcare, Inc.	Downtrend	8,560.2	0.49	-16.7	0.0	0.20	11.4
BMJ	Bristol-Myers Squibb Company	Bullish Reversal	110,154.6	0.36	14.3	3.0	0.59	9.0
ALGN	Align Technology, Inc.	Consolidation	11,325.0	0.58	6.6	0.0	2.21	6.3
DXCM	DexCom, Inc.	Downtrend	26,314.4	1.10	-6.5	0.0	1.49	5.4
VRTX	Vertex Pharmaceuticals Incorporated	Consolidation	116,654.8	0.91	6.0	0.0	0.63	5.1
COO	Cooper Companies, Inc.	Consolidation	16,109.4	0.72	10.7	0.0	0.95	4.5
HUM	Humana Inc.	Consolidation	31,071.3	0.84	-0.8	1.0	0.38	4.5

December saw a rally in previously out of the money stocks led by MRNA, VTRS and CRL.

The laggard list was a mixed bag across industries with some stronger names like COR and UHS seeing near-term profit taking after a strong November

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	Consolidation	20,214.9	1.85	-13.8	0.0	2.01	-13.1
A	Agilent Technologies, Inc.	Consolidation	39,103.0	0.92	1.3	0.5	1.44	-11.1
IDXX	IDEXX Laboratories, Inc.	Bullish Reversal	54,928.9	1.91	3.1	0.0	1.66	-9.6
TECH	Bio-Techne Corporation	Consolidation	9,230.3	1.13	2.5	0.4	1.48	-9.1
MDT	Medtronic Plc	Bullish Reversal	123,265.7	0.65	-3.0	2.0	0.80	-9.0
COR	Cencora, Inc.	Bullish Reversal	66,006.3	0.76	1.0	0.4	0.48	-8.7
DGX	Quest Diagnostics Incorporated	Consolidation	19,525.3	0.68	-10.3	1.2	0.24	-8.2
ZBH	Zimmer Biomet Holdings, Inc.	Downtrend	17,941.4	0.43	-10.9	0.7	0.54	-8.1
UHS	Universal Health Services, Inc. Class B	Bullish Reversal	12,488.9	0.39	4.8	0.2	0.95	-8.0
RVTY	Revvity, Inc.	Consolidation	11,009.9	0.74	0.7	0.2	1.05	-7.9

## 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

In 2025, **large-cap Healthcare underperformed the broader S&P 500 on a relative basis**, particularly during periods of strong risk-on rotation into AI, cyclicals, and momentum. December trading highlighted this dynamic clearly: Healthcare lagged on multiple high-beta rallies (e.g., mid-December risk-on sessions) but **outperformed selectively when rates fell or macro uncertainty increased**, underscoring its mixed defensive/duration profile.

## Big Pharma: Earnings Visibility and Pipeline Credibility Drove Returns

Large-cap pharma performance hinged on confidence in **post-Covid revenue replacement and patent-cycle management**:

**Pfizer** weighed on sector sentiment late in the year after guiding to **essentially flat 2026 sales and EPS below consensus**, reinforcing investor concern around Covid erosion and near-term patent headwinds. The market reaction illustrated that “defensive” status alone was insufficient without a convincing medium-term growth bridge.

In contrast, diversified pharma names with **clearer pipeline optionality and steadier earnings profiles** were more resilient during periods of macro volatility.

## GLP-1 Leadership Became the Core Large-Cap Growth Engine

Among large caps, the most consistent positive driver was the **obesity / cardiometabolic platform trade**:

**Eli Lilly** stood out in 2025 on continued clinical progress and expanding indications tied to next-generation GLP-1/dual-agonist therapies. December updates reinforced investor confidence that obesity drugs are evolving into a **multi-year therapeutic platform**, extending beyond weight loss into cardiovascular and metabolic disease management.

## Managed Care and Providers: Defensive, but Policy-Sensitive

Large-cap managed care and hospital operators periodically outperformed during risk-off stretches, but gains were capped by **policy and utilization uncertainty**. December recaps showed these names holding up better than biotech and cyclicals on down days, yet they failed to attract sustained inflows when growth leadership rotated back to Technology and AI.

## Macro and Rates: Why Large-Cap Healthcare Lagged in Risk-On Tape

Healthcare’s large-cap cohort oscillated between **defensive equity and duration-sensitive growth**:

Falling Treasury yields and dovish Fed interpretations supported large-cap pharma multiples at times (e.g., post-FOMC relief rallies in December).

However, when yields backed up or equity leadership narrowed to megacap tech, Healthcare **lagged due to slower top-line growth and weaker earnings momentum** relative to AI-exposed sectors.

This pattern explains why Healthcare failed to fully participate in the late-2025 equity melt-up despite stable fundamentals.

## Policy and Regulatory Backdrop

Policy remained a **persistent overhang** for large-cap Healthcare in 2025 and is likely to remain so in 2026:

December headlines flagged potential expiration of **ACA-related subsidies**, raising questions about coverage, utilization, and payer mix—particularly relevant for large managed-care and hospital operators.

Ongoing scrutiny around **drug pricing, reimbursement, and FDA oversight** continued to influence valuation multiples, even when no immediate policy changes were enacted.

The key takeaway from 2025 is that **policy uncertainty limited multiple expansion**, even as earnings held up reasonably well.

## 2026 Outlook

**Tailwinds: Platform growth leaders** (notably GLP-1 franchises) should continue to command premium valuations as indications broaden and real-world demand remains strong.

A **stable or modestly easing rate environment** would benefit large-cap pharma and innovative Healthcare stocks via lower discount rates.

If AI-led equity leadership narrows or faces ROI scrutiny, investors may rotate back toward **quality large-cap Healthcare cash flows**.

**Headwinds:** Patent cliffs and post-Covid normalization remain a drag for select large-cap pharma names without visible pipeline offsets.

Policy uncertainty (coverage, reimbursement, pricing) is unlikely to clear fully in 2026, constraining upside for managed care and providers.

Relative underperformance may persist if equity markets remain dominated by high-growth Technology themes.

## Investment Implications

**Overweight large-cap platform leaders** with durable growth runways and expanding therapeutic scope.

**Be selective in Big Pharma:** prioritize balance-sheet strength and credible late-stage pipelines over headline yield or defensive labels.

**Treat managed care as tactical, not structural:** useful in risk-off periods but vulnerable to policy shifts.

Expect **continued dispersion within large-cap Healthcare**, with returns driven by company-specific execution rather than sector-wide beta

# 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.