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Monthly Insights: February Outlook

# Healthcare Sector

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# Sector Price Action & Performance Review: Healthcare Sector



S&P 500 Healthcare stocks continued to consolidate in January and end the month on a sour note with a big miss from UNH after investors had begun accumulating the stock over the past 6-months.

From a technical perspective the setup calls into question the emerging bullish reversal that had been developing since September. There are clear pockets of strength in the Pharma and Biotech industries, but overhanging weakness in managed care along with a continued slump in Medical Equipment stocks make it hard for the sector sustain outperformance.

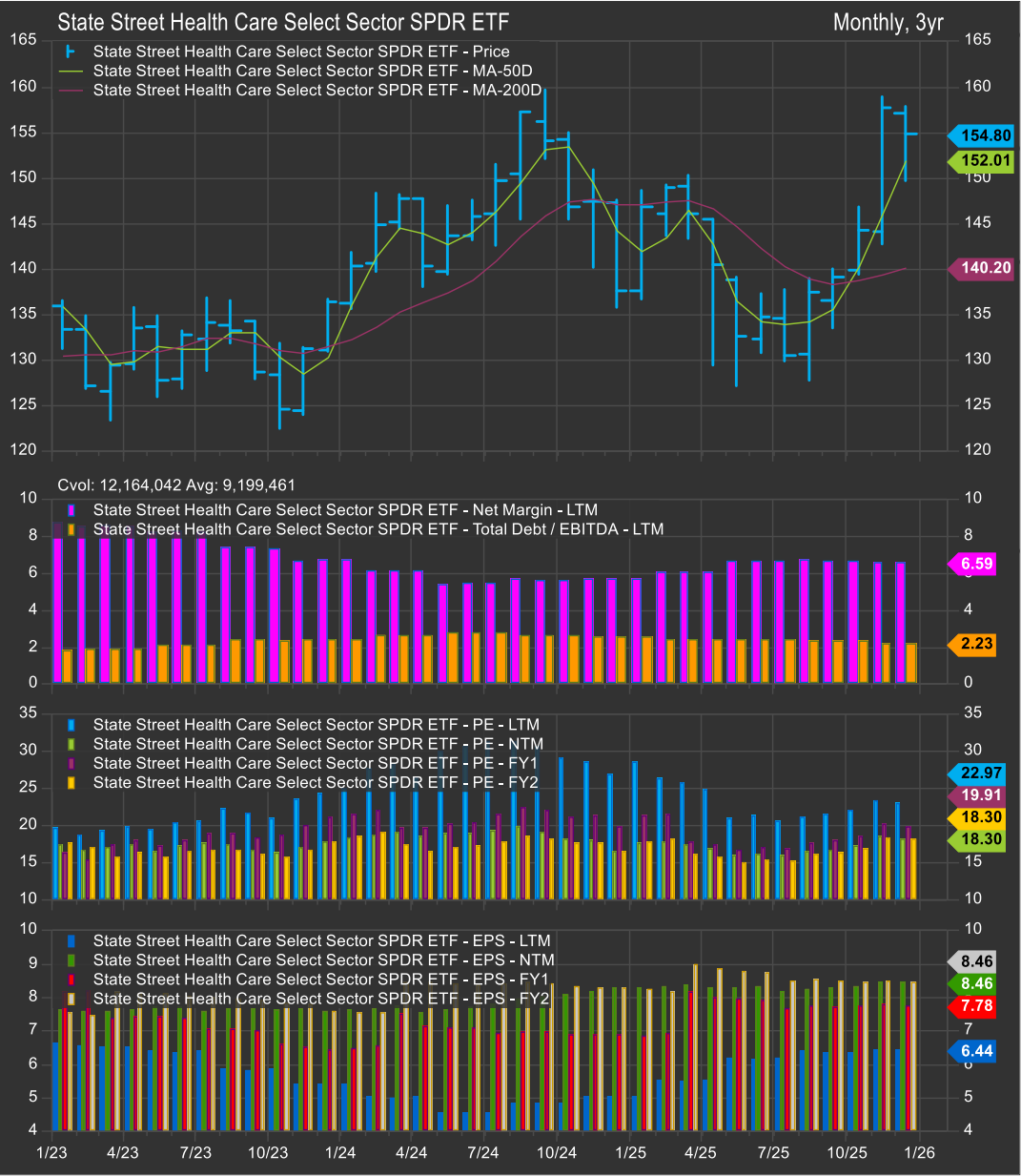
From a fundamental perspective, renewed earnings strength from LLY and other GLP1 purveyors has combined with renewed investor interest in BioTech and Tools stocks. With the Fed attempting to guide rates lower, Pharma stocks have also caught a bid. However, those bullish planks have been counter-balanced by rising interest rates and a renewed cap-ex. Cycle that has also put upwards pressure on commodities prices. From our perspective this looks like a market where cyclical stocks should do well, and we're expecting some bearish reversion from Healthcare stocks as a result.

Headwinds remain as ACA subsidies are set to expire imminently. Patient outcomes remain under scrutiny and Medical Equipment stocks remain persistent underperformers. With "Affordability" emerging as a key political issue, we expect a ramp in regulatory "jawboning" around Healthcare Sector profits. This isn't a salubrious background for outperformance.

Inflation pressures and interest rate pressures have remains nearby in this bull market. That's kept low vol. stocks and sectors from asserting sustained outperformance. We see rotation into commodity stocks as yet another blow to the low vol. complex.

**We start January out of the Healthcare Sector with an UNDERWEIGHT allocation of -9.37% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Healthcare Sector



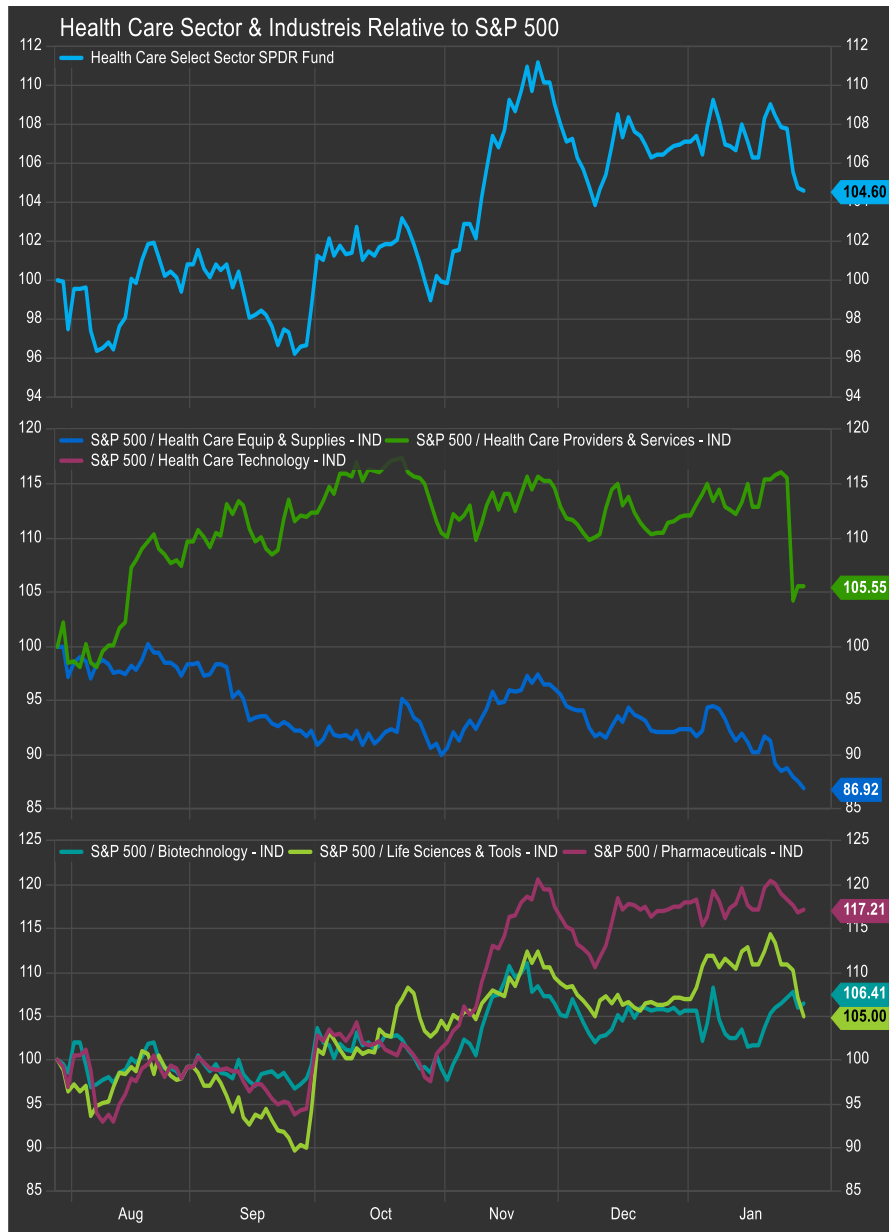
The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

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 but rising rates, inflation dynamics and “affordability” as an emerging political issue have challenged that idea in the near-term.

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

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



**Healthcare Industries** (chart, left): Drug pipeline stocks continue to lead despite some earnings misses in the Life Sciences & Tools industry.

Providers took on water when UNH pooched its earnings while equipment stocks remain in a deep slump.

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

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	17,700.2		56.6	0.0	1.06	44.4
RVTY	Revvity, Inc.	Bullish Reversal	12,599.4	0.83	12.5	0.2	1.23	14.2
MOH	Molina Healthcare, Inc.	Consolidation	9,611.8	0.54	11.2	0.0	0.14	12.7
GILD	Gilead Sciences, Inc.	Bullish Reversal	173,347.8	0.63	15.3	1.6	0.13	11.3
TECH	Bio-Techne Corporation	Consolidation	10,215.1	1.25	4.0	0.3	1.67	9.9
JNJ	Johnson & Johnson	Bullish Reversal	548,644.6	0.79	19.0	1.5	0.43	8.9
DXCM	DexCom, Inc.	Consolidation	28,611.6	1.17	-1.1	0.0	1.63	7.8
CRL	Charles River Laboratories International, Inc.	Bullish Reversal	10,673.9	0.79	10.9	0.0	1.93	5.7
IQV	IQVIA Holdings Inc	Bullish Reversal	40,831.1	0.74	7.9	0.0	1.54	4.9
LH	Labcorp Holdings Inc.	Consolidation	22,220.5	0.61	1.0	0.7	0.96	4.8

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.	Downtrend	23,334.2	0.62	-30.6	1.3	0.31	-25.8
ABT	Abbott Laboratories	Downtrend	184,407.4	0.74	-18.3	1.5	0.87	-15.4
WST	West Pharmaceutical Services, Inc.	Downtrend	16,970.7	1.20	-17.1	0.2	1.07	-14.7
UNH	UnitedHealth Group Incorporated	Consolidation	266,334.7	0.66	-15.1	2.0	0.05	-12.2
UHS	Universal Health Services, Inc. Class B	Bullish Reversal	11,213.5	0.35	-3.7	0.3	1.22	-11.6
PODD	Insulet Corporation	Consolidation	18,163.6	1.63	-18.7	0.0	2.28	-11.3
ISRG	Intuitive Surgical, Inc.	Consolidation	185,061.1	2.07	-6.9	0.0	1.36	-10.4
DVA	DaVita Inc.	Downtrend	7,475.1	0.33	-19.7	1.0	1.76	-7.9
CVS	CVS Health Corporation	Consolidation	93,976.1	0.41	-4.3	2.4	0.55	-7.0
EW	Edwards Lifesciences Corporation	Consolidation	47,503.4	1.12	-4.1	0.0	0.94	-6.5

Pharma, select Biotech and Life Sciences stocks were outperformers with MRNA on a notable heater over the past 2 months

Providers and Equipment stocks were loss leaders in December with the UNH tape-bomb off its recent earnings a headwind

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

## Macro Backdrop and Policy Transmission

Health Care entered 2026 positioned as a classic defensive allocation, but January price action made clear that **policy risk—not rates—is the sector’s dominant driver**. While easing financial conditions, a weaker dollar, and moderating wage pressures would normally support XLV multiples, persistent Washington headlines have limited sustained defensive inflows. As a result, Health Care has traded less like a bond proxy and more like a **policy-sensitive dispersion trade**, with returns diverging sharply across subsectors.

Government reimbursement policy remains the primary macro transmission channel. CMS guidance for Medicare Advantage continues to exert outsized influence on earnings visibility, utilization assumptions, and capital return confidence for insurers. Even modest changes in rate outlook have materially altered forward estimates, reinforcing investor caution. More broadly, the administration’s affordability agenda has kept **drug pricing, payer margins, and healthcare costs** firmly in focus, muting the valuation support typically provided by falling rates.

## Subsector Performance and Fundamental Drivers

Performance dispersion across Health Care has been pronounced. **Managed care remains the sector’s weakest link**, with Medicare Advantage reimbursement risk overwhelming otherwise stable balance sheets and benign credit trends. Valuation recovery has been elusive, and sentiment remains fragile heading into February.

Large-cap Pharmaceuticals have shown relative resilience, supported by durable cash flows, strong dividend coverage, and balance-sheet flexibility. However, upside has been constrained by ongoing pricing rhetoric and election-year scrutiny, keeping the group more defensive than offensive in nature.

Biotechnology continues to trade on **idiosyncratic catalysts**, including clinical data, regulatory milestones, and M&A speculation. Macro inputs have had limited influence, reinforcing biotech’s role as an opportunistic rather than core exposure.

MedTech and Life Science Tools occupy a middle ground. Procedure normalization and easing labor pressures are supportive, but hospital capital discipline and uneven demand visibility have capped multiple expansion. Stock selection remains critical.

Health Care Providers and select Services names have held up comparatively better. Improving staffing dynamics and moderating labor costs have supported margins, though reimbursement uncertainty continues to limit enthusiasm and keeps expectations restrained.

## Sector Positioning and Relative Performance Outlook

Looking into February, **XLV is unlikely to emerge as a leadership sector** absent clearer signals on reimbursement policy. While the sector can still function as a volatility dampener during risk-off episodes, it is likely to **lag during broad risk-on phases**, particularly relative to Technology, Industrials, and cyclically geared Financials.

The sector’s defensive characteristics remain intact, but they are no longer sufficient to offset policy uncertainty. As a result, Health Care exposure is better approached through **selective subsector and stock positioning rather than broad index weightings**.

## Subsector Leans

**Large-cap Pharmaceuticals: Constructively bullish** as a defensive allocation with visible earnings, strong free cash flow, and balance-sheet optionality.

**Health Care Providers & Services: Moderately bullish**, favoring operators with improving labor efficiency and pricing leverage.

**MedTech & Life Science Tools: Selective bias**, emphasizing franchises tied to procedure recovery rather than discretionary hospital capex.

**Biotechnology: Opportunistic and catalyst-driven**, not suitable as a core allocation.

**Managed Care: Bearish**, with Medicare Advantage reimbursement risk likely to suppress sentiment and cap valuation recovery into February.

## Bottom Line

Health Care remains a source of portfolio stability, but **it is structurally positioned to lag the S&P 500 in the near term**. Investors should emphasize **policy-insulated earnings streams, balance-sheet durability, and selective exposure**, while treating managed care tactically until reimbursement clarity materially improves.

# 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.