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Monthly Insights: March Outlook

Healthcare Sector

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Sector Price Action & Performance Review: Healthcare Sector

S&P 500 Healthcare stocks continued to consolidate in February as cross-currents continued to boost certain industries and de-rate others.

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.

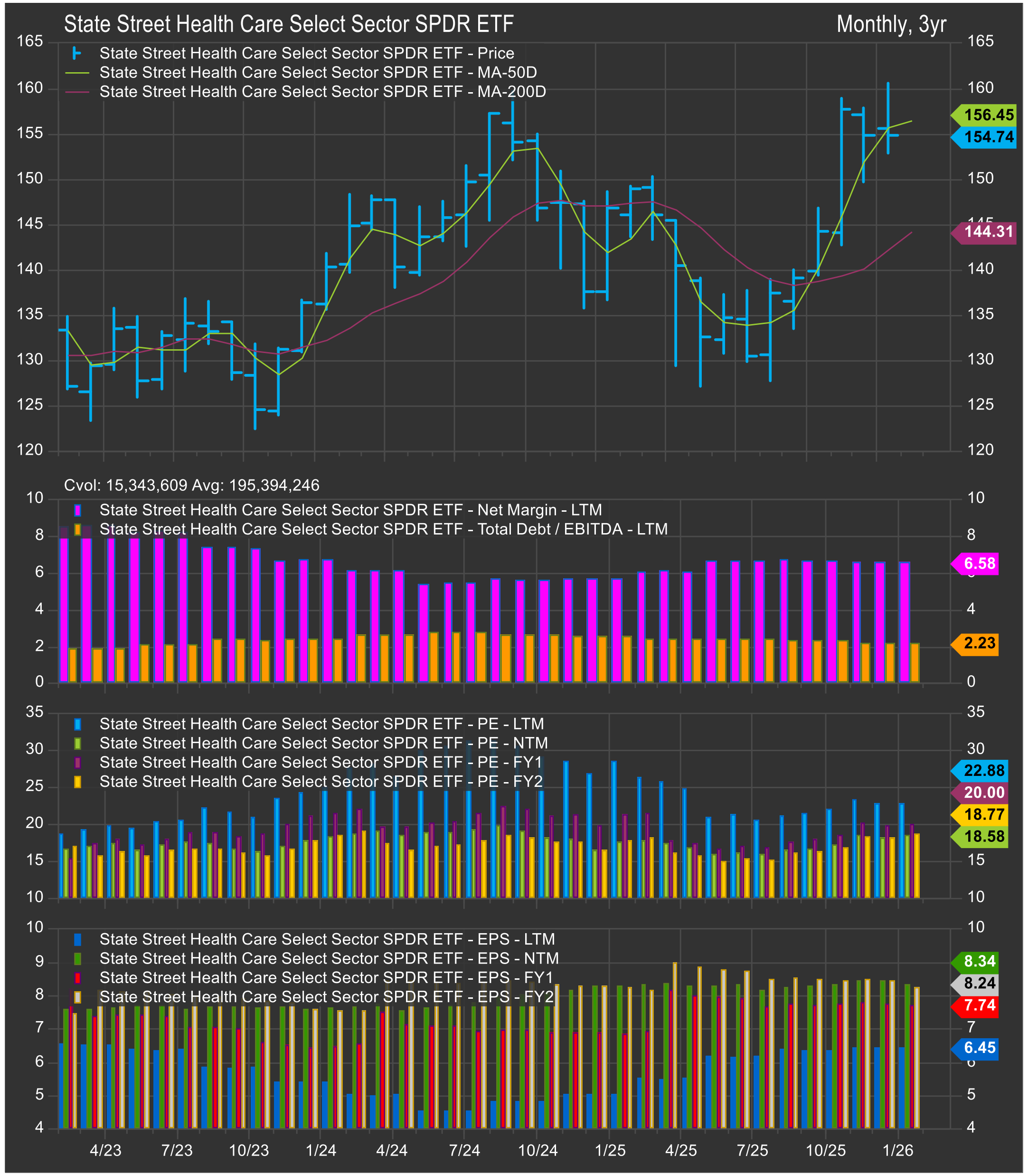
From a fundamental perspective, renewed earnings strength from LLY and other GLP1 purveyors has combined with renewed investor interest in BioTech stocks. However the Life Science and Tools industry stumbled through a disappointing earnings season and was promptly de-rated.

Headwinds remain as ACA subsidies have expired without a clear path towards a workable alternative. 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. With some weakening eco data prints in February, we may get some continued rotation into low vol. exposures moving forward, but we are playing it primarily through other low vol. sectors.

We start March with an UNDERWEIGHT allocation of -4.05% to the Healthcare Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Healthcare Sector



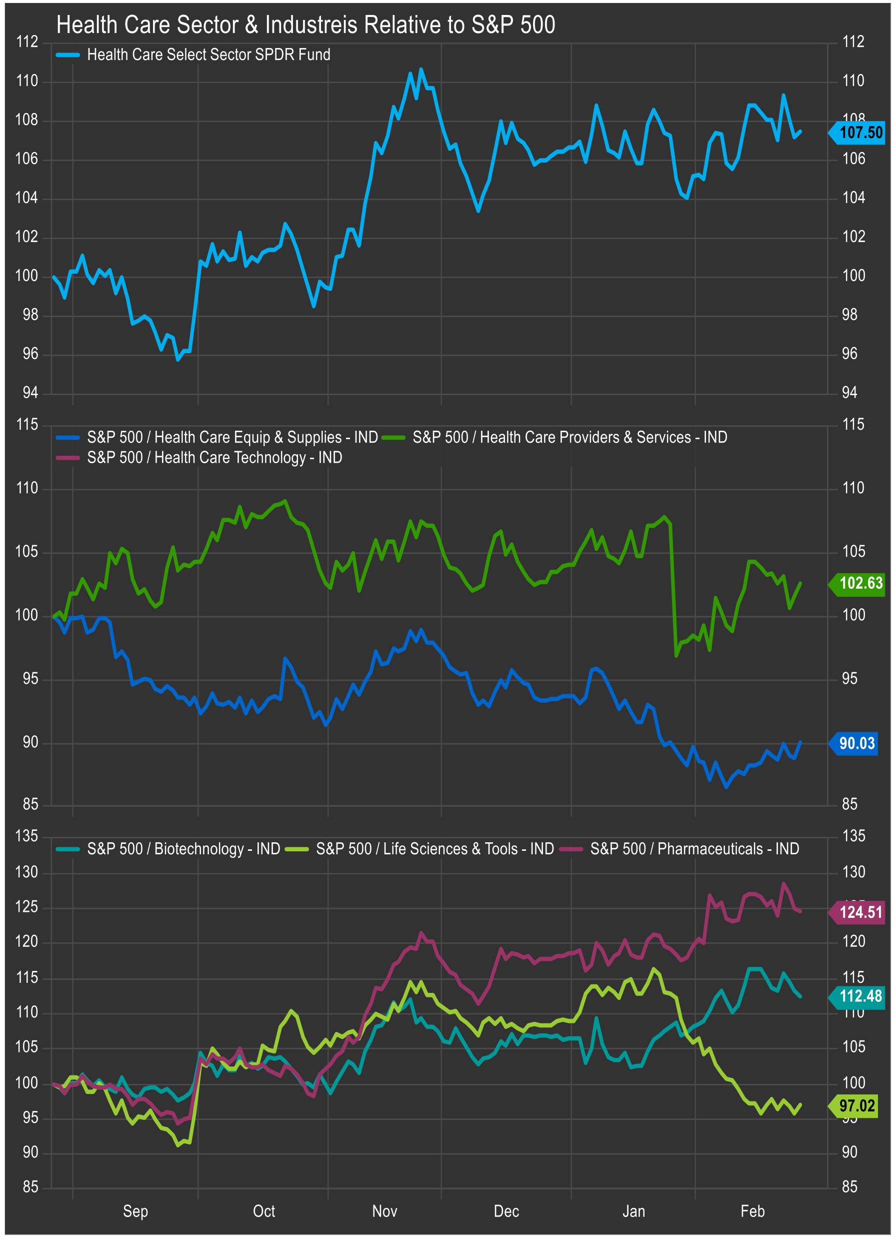
The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

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, however renewed political headwinds threaten progress as the ACA framework is now up in the air without a clear path forward.

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 though the Tools industry couldn't deliver on earnings expectations

Medical Equipment stocks continue to be faded over the longer-term

Healthcare Sector Internals (chart, right): Both breadth series made ytd lows in February, a tough month that started with a promising setup.

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
DVA	DaVita Inc.	Consolidation	9,987.3	0.42	21.5	0.73	1.75	37.7
VTRS	Viatris, Inc.	Bullish Reversal	18,520.5	0.25	40.1	2.18	0.92	21.2
MCK	McKesson Corporation	Uptrend	117,984.8	0.88	14.5	0.21	0.40	16.9
ZBH	Zimmer Biomet Holdings, Inc.	Consolidation	19,535.9	0.47	1.5	0.61	0.79	14.8
HCA	HCA Healthcare Inc	Bullish Reversal	120,883.5	0.71	10.5	0.34	1.06	14.3
DGX	Quest Diagnostics Incorporated	Consolidation	23,116.2	0.78	8.8	1.38	0.43	14.2
BDX	Becton, Dickinson and Company	Consolidation	51,526.9	0.56	14.0	1.26	0.21	13.6
MRK	Merck & Co., Inc.	Bullish Reversal	302,769.1	0.84	18.3	1.79	0.29	12.7
UHS	Universal Health Services, Inc. Class B	Bullish Reversal	12,744.1	0.39	2.9	0.26	1.25	12.0
AMGN	Amgen Inc.	Bullish Reversal	207,179.9	0.68	14.1	1.80	0.13	11.7

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	21,232.1	0.67	-34.5	1.43	0.33	-34.5
IQV	IQVIA Holdings Inc	Downtrend	27,476.1	0.50	-30.6	0.00	1.49	-31.7
MOH	Molina Healthcare, Inc.	Downtrend	7,495.8	0.80	-15.5	0.00	0.20	-28.5
CRL	Charles River Laboratories International, In	Downtrend	8,248.6	0.60	-13.0	0.00	1.90	-24.2
BSX	Boston Scientific Corporation	Retracement	109,035.9	0.84	-29.3	0.00	0.57	-21.1
UNH	UnitedHealth Group Incorporated	Downtrend	257,439.3	0.63	-16.7	2.05	0.11	-20.8
WAT	Waters Corporation	Consolidation	31,337.7	0.87	-18.8	0.00	1.45	-19.1
TMO	Thermo Fisher Scientific Inc.	Consolidation	192,993.7	0.83	-14.8	0.23	1.12	-18.5
RVTY	Revvity, Inc.	Consolidation	10,908.3	0.71	-10.8	0.19	1.30	-17.0
TECH	Bio-Techne Corporation	Downtrend	9,054.0	1.10	-13.4	0.37	1.80	-15.5

HC providers remain bifurcated with UNH, HUM and MOH on the lows list while MCK, HCA and DVA led the sector in February

Strength in Pharma continues to build while Tools stocks got hammered during the month.

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

Macro Backdrop: Defensive Flows Amid Slower Growth and Sticky Inflation

February data reinforced a mixed macro environment supportive of defensive positioning. Q4 GDP printed at **1.4%**, below consensus expectations near 1.9%, while December core PCE rose **0.4% m/m and 3.0% y/y**, keeping inflation concerns alive. The combination of softer growth and still-elevated price pressures sustained a bid for defensive sectors during broader equity drawdowns.

On risk-off sessions highlighted in February headlines, Health Care outperformed meaningfully (e.g., +1.15% on a day the S&P 500 fell over 1%), with Treasuries rallying and precious metals sharply higher. This reflects the sector's traditional role as a cash-flow stabilizer when macro clarity fades and policy uncertainty rises.

At the same time, the Fed's posture—officials signaling patience and "higher-for-longer" optionality—limited upside for longer-duration biotech exposures, which remain sensitive to real-rate expectations.

ACA Negotiations and Policy Overhang

A significant undercurrent in February was renewed focus on Affordable Care Act (ACA) negotiations. Reports indicated ongoing Congressional discussions around subsidy extensions and institutional homeownership reforms that intersect with healthcare affordability themes. While no immediate legislative reset occurred, the debate reintroduced uncertainty around exchange enrollment stability and insurer reimbursement assumptions.

For managed care organizations and Medicaid-focused names, this matters in two ways:

Rate visibility risk — uncertainty around subsidy permanence can affect enrollment forecasts.

Utilization optics — elevated utilization trends across certain provider channels have already pressured MCO margins in prior quarters.

Although CMS projected a favorable **+5% Medicare Advantage rate increase for 2026**, negotiations around broader ACA funding and budget offsets kept investors cautious. Headlines repeatedly cited managed care and Medicaid MCOs as laggards on mixed macro days, underscoring how policy visibility—not just fundamentals—remains the gating factor for the payer cohort.

Pharma and Biotech: Pricing, Negotiation, and Clinical Dispersion

Drug pricing policy remained a structural theme. The Medicare Drug Price Negotiation Program continues expanding its framework, and while implementation remains gradual, the negotiation cadence compresses forward margin expectations for certain large-cap pharma portfolios.

Biotech performance in February was highly dispersion-driven. Clinical updates produced outsized moves both directions. Meeting endpoints was not always sufficient; magnitude versus investor expectations drove outcomes. M&A activity (including large-cap bolt-ons for pipeline depth) provided episodic support, reinforcing that capital allocation remains an important secondary engine of sector performance.

Overall, large-cap pharma maintained relative stability versus mid-cap biotech, reflecting balance-sheet strength and dividend defensiveness in a volatile macro setting.

Why Medical Equipment Names Remain Under Pressure

Medical equipment and device manufacturers faced a more nuanced set of headwinds in February:

Capital spending caution: Hospitals and health systems are managing tighter operating margins after elevated labor costs and uneven reimbursement trends.

Procedure mix normalization: COVID-era backlog tailwinds have largely faded, normalizing growth rates in certain categories.

Input cost pressures: Components, memory pricing, and supply chain costs remain volatile, squeezing gross margins.

Reimbursement uncertainty: ACA and Medicare policy discussions create ambiguity around long-term equipment procurement budgets.

Valuation sensitivity: Many med-tech names trade at premium multiples relative to slower growth profiles, making them vulnerable in a higher real-rate environment.

Headlines during the month flagged mixed earnings takeaways across device makers, with margin commentary and guidance resets driving several underperformance episodes. Even on broader risk-on days, equipment names often lagged relative to pharma and managed care, suggesting investors are differentiating between defensive cash-flow models and capex-sensitive growth franchises.

March Setup

Heading into March, the key swing variables for Health Care include:

Further clarity (or escalation) in ACA negotiations.

Medicare Advantage rate confirmation and payer margin guidance.

Inflation data influencing real-rate expectations and biotech valuation sensitivity.

FDA decision cadence and clinical readouts.

If macro volatility persists and policy uncertainty remains elevated, Health Care should continue attracting defensive allocation flows. However, sustained outperformance likely requires stabilization in payer utilization trends and improved visibility into equipment spending, while biotech will remain catalyst-driven and rate-sensitive.

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.