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Monthly Insights: April Outlook

# Healthcare Sector

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# Sector Price Action & Performance Review: Healthcare Sector



The Healthcare sector delivered a notably mixed performance in March, occupying an ambiguous middle ground between the clean defensive haven of Utilities and the growth-oriented pressure facing Technology and Communication Services. The Health Care Select Sector SPDR (XLV) posted a YTD return of approximately -4% to -6% through late March — broadly tracking the SPY's 5–6% YTD decline but with meaningfully higher internal dispersion than the headline number suggests. The sector's traditional defensive characteristics attracted some rotation capital from growth equities, but a uniquely hostile policy environment — combining drug pricing pressure, Medicaid restructuring risk, and the specter of pharmaceutical tariffs — prevented healthcare from playing the clean safe-haven role it typically occupies in equity market stress periods.

The result was a sector that neither led the market lower alongside Technology and Financials, nor meaningfully outperformed SPY in the way Utilities did. Healthcare's March narrative is best characterized as defensive qualities undermined by policy risk — a combination that left the sector rangebound while investors debated whether the policy headwinds were already discounted or still being priced in.

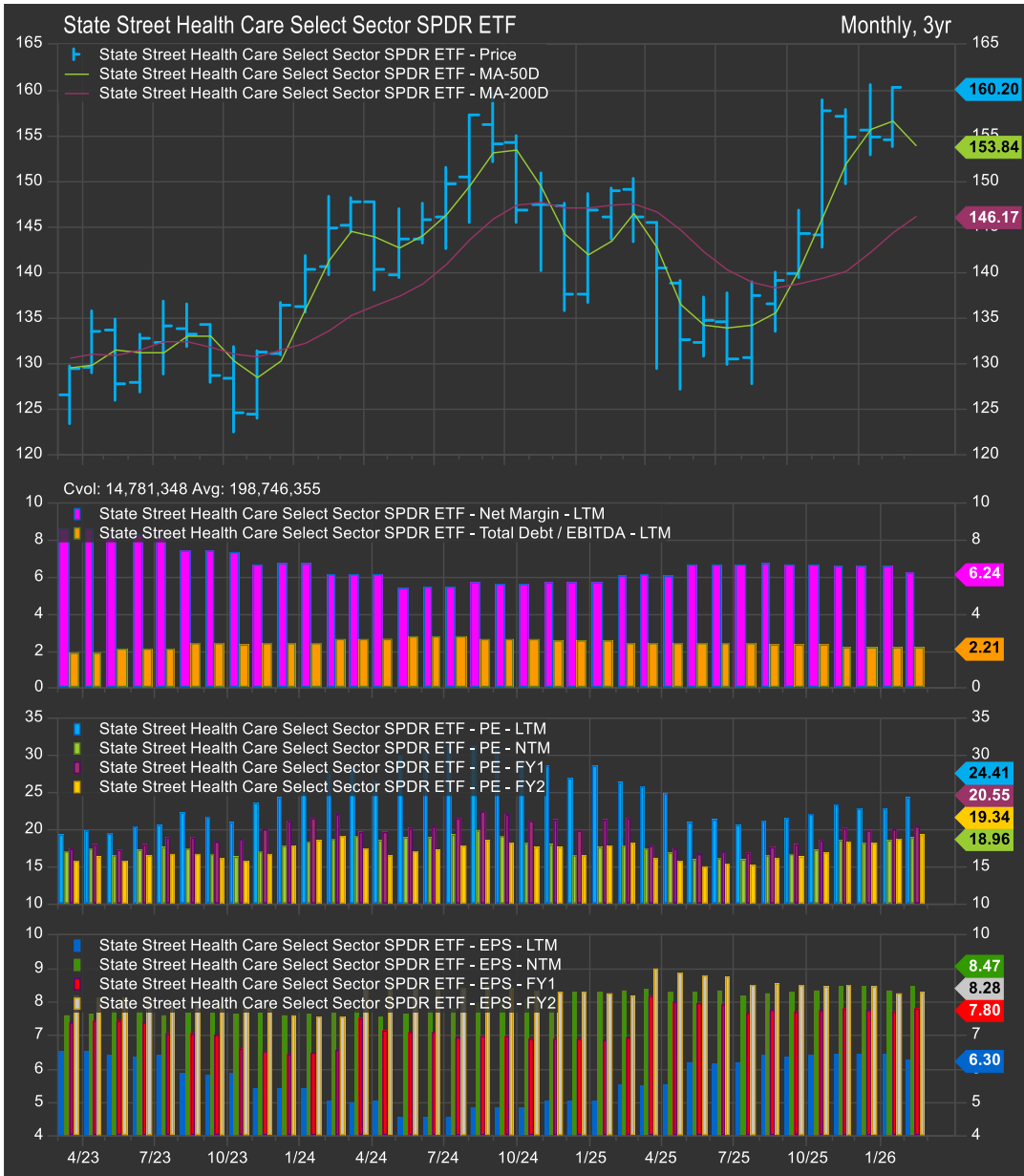
XLV's technical picture through March reflected its fundamental ambiguity — a chart structure that is neither cleanly broken nor constructively trending, but rather grinding sideways in a pattern that suggests institutional indecision rather than directional conviction. The ETF remains above its 200-day moving average, which distinguishes it favorably from XLF and provides a longer-term structural floor, but it has been trading below its 50-day moving average for most of the month following a break in late February driven by the initial wave of pharmaceutical tariff headlines.

Key levels for April: the 200-day moving average is critical structural support — XLV has respected it throughout Q1 and a break below it would be a meaningful deterioration signal. The 50-day moving average represents overhead resistance on any recovery attempt. A sustained reclaim of the 50-day on above-average volume — likely requiring either a policy clarity catalyst or a strong Q1 earnings beat from a major constituent — would be the first technically constructive signal the sector has generated in 2026. Until then, XLV's chart is consistent with continued range-bound consolidation rather than directional resolution.

Healthcare enters April 2026 as a sector with genuine defensive foundations obscured by an unusually active and hostile policy environment. The structural demand drivers — aging demographics, GLP-1 adoption, medical technology innovation, and managed care enrollment growth — are intact and compelling on a multi-year view. But pharmaceutical tariff risk, Medicaid restructuring uncertainty, and IRA drug pricing implementation have collectively created a policy overlay that is preventing the sector from functioning as the reliable equity market hedge it has historically been. Medical device names and GLP-1 pure plays offer the cleanest fundamental stories with the least direct policy exposure. Large-cap pharma at 10–14x earnings with 3–5% dividend yields offers value with a policy option embedded — if tariff threats recede, these names re-rate quickly from a low base. Managed care requires policy clarity before the risk/reward is compelling; accumulating into Medicaid uncertainty is a high-conviction bet that legislative outcomes will be less severe than feared — possible, but not a base case position. For investors seeking healthcare exposure in a stressed equity environment, selectivity by subsector is essential — the headline XLV masks a dispersion of outcomes that makes broad index exposure a less efficient expression than targeted positioning in the sector's most policy-insulated names.

**We start April with an UNDERWEIGHT allocation of -1.51% to the Healthcare Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Healthcare Sector



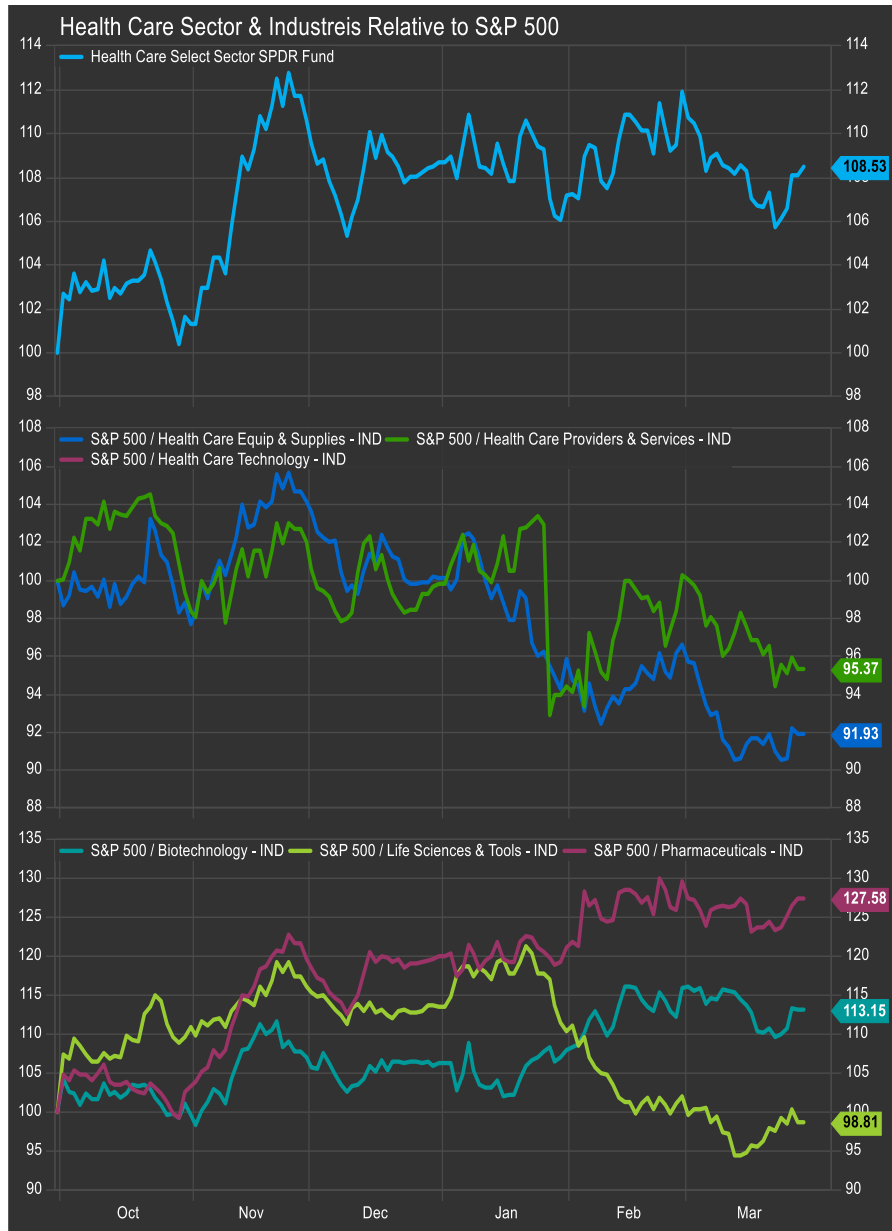
The chart (left) shows S&P 500 Healthcare Sector Margins, Debt/EBITDA, Valuation and Earnings

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, though we've seen consensus out year projections come in steadily.

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



**Healthcare Industries** (chart, left): Drug pipeline stocks continue to lead though the Tools industry has fallen on hard times. Equipment and providers have continued to struggle.

The upside case for the sector is that it's a historically defensive exposure with many deeply oversold stocks and could be a safety trade beneficiary

**Healthcare Sector Internals** (chart, right): The short-term series is at a wash-out levels and price is now at deeply oversold levels.

# 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
HOLX	Hologic, Inc.	Acquisition	16,892.9	0.84	10.1	0.00	0.86	7.7
DVA	DaVita Inc.	Bullish Reversal	10,315.9	0.54	28.0	0.71	1.52	6.1
PFE	Pfizer Inc.	Bullish Reversal	153,756.7	0.47	14.5	4.22	0.28	5.1
MRK	Merck & Co., Inc.	Bullish Reversal	295,772.3	0.98	23.3	1.77	0.21	4.6
JNJ	Johnson & Johnson	Bullish Reversal	579,460.2	1.04	20.8	1.43	0.43	4.1
BIIB	Biogen Inc.	Bullish Reversal	26,980.1	0.59	14.0	0.00	0.27	3.2
WST	West Pharmaceutical Services, Inc.	Consolidation	17,526.4	1.51	-1.7	0.19	1.18	3.0
REGN	Regeneron Pharmaceuticals, Inc.	Bullish Reversal	76,650.0	0.80	8.7	0.23	0.43	1.7
BMJ	Bristol-Myers Squibb Company	Bullish Reversal	119,215.2	0.48	16.8	2.77	0.33	1.2
MRNA	Moderna, Inc.	Bullish Reversal	19,573.2		53.1	0.00	0.74	-0.2

Strength in Pharma continues to build with Biotech also in favor.

HOLX got taken out at a slight premium and may introduce a bit of an M&A bid for other down and out equipment stocks

Providers and Equipment names continue to make up the laggard list

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	15,736.7	0.50	-14.5	0.00	0.12	-21.4
BAX	Baxter International Inc.	Downtrend	8,216.4	0.42	-14.0	0.38	0.86	-14.3
GEHC	GE Healthcare Technologies Inc.	Downtrend	31,551.6	0.68	-8.0	0.11	1.18	-10.5
COO	Cooper Companies, Inc.	Downtrend	13,613.1	0.74	-5.2	0.00	1.07	-9.3
LLY	Eli Lilly and Company	Bullish Reversal	829,777.7	1.24	-3.2	0.52	0.22	-9.2
COR	Cencora, Inc.	Bullish Reversal	60,781.1	0.86	-1.8	0.50	0.41	-8.7
PODD	Insulet Corporation	Downtrend	14,657.8	1.57	-18.3	0.00	2.49	-8.3
SYK	Stryker Corporation	Consolidation	125,307.6	1.08	-3.6	0.70	0.92	-8.2
SOLV	Solventum Corporation	Consolidation	10,888.4	0.49	-11.4	0.00	0.54	-8.1
DXCM	DexCom, Inc.	Downtrend	23,957.8	1.22	-3.0	0.00	1.86	-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

**Equity Market Stress — Partial Haven Characteristics** Healthcare's defensive characteristics are real but conditional in the current environment. The sector's earnings — driven by pharmaceutical volumes, hospital utilization, and managed care enrollment — are largely independent of the economic cycle, which should make it an attractive haven when SPY is under tariff-driven growth pressure. In practice, the policy risk overlay has partially neutralized this characteristic in 2026: investors seeking pure safety have rotated into Utilities (no policy overhang) rather than Healthcare (significant policy overhang), leaving the sector with a partial haven bid rather than the full defensive premium it might otherwise command. As policy uncertainty resolves — in either direction — Healthcare should reassert its defensive correlation to SPY more cleanly.

**Interest Rates** Healthcare is less rate-sensitive than Utilities or Financials but not entirely immune. Large pharmaceutical companies carry substantial long-term debt used to finance R&D pipelines and acquisitions — rate stability reduces refinancing costs and supports the M&A activity that drives pipeline replenishment. Managed care companies are essentially financial intermediaries between government payors and healthcare providers, and their investment portfolios are modestly rate-sensitive. The Fed's hold at **3.50–3.75%** is broadly neutral for the sector — not a tailwind strong enough to drive re-rating, but not a headwind either.

**Tariffs — A Sector-Specific and Underappreciated Risk** Pharmaceutical tariffs represent the most direct and immediately actionable macro risk for Healthcare in 2026. The Trump administration has signaled intent to impose tariffs on pharmaceutical imports, with the stated rationale of incentivizing domestic drug manufacturing. The practical consequences for the sector are significant and nuanced:

**Large-cap pharma** (Eli Lilly, Johnson & Johnson, AbbVie, Pfizer) manufacture a substantial portion of active pharmaceutical ingredients (APIs) and finished drug products outside the United States — primarily in Ireland, India, Singapore, and Puerto Rico. Tariffs on imported pharmaceuticals would either compress margins or require domestic price increases that would face immediate political resistance

**Generic drug manufacturers** are particularly exposed, given their reliance on Indian and Chinese API production and the cost-competitive nature of their business model — tariff-driven cost increases are much harder to absorb on thin generic margins than on branded drug economics

**Medical device companies** (Abbott, Medtronic, Boston Scientific) face a similar supply chain exposure, with significant component sourcing from Asia

The tariff risk is binary in nature — if pharmaceutical tariffs are implemented as threatened, the earnings impact on affected names could be substantial and rapid. If the administration uses the threat as a negotiating tool without implementation, the sector re-rates quickly on relief. This binary dynamic is a key reason why institutional positioning in healthcare has been cautious rather than aggressively defensive in Q1.

**Drug Pricing and IRA Implementation** The Inflation Reduction Act's Medicare drug price negotiation provisions are now in active implementation, with the first cohort of negotiated prices taking effect. For the pharmaceutical companies with products subject to negotiation — including names like Bristol-Myers Squibb, Merck, and AstraZeneca — the revenue impact is becoming visible in forward guidance. The market has been absorbing this dynamic since 2022, meaning it is not a new shock, but the ongoing rollout of successive negotiation cohorts keeps the pressure active rather than resolved.

# Economic & Policy Drivers: Healthcare Sector (cont'd)

## Sector-Specific Drivers

**GLP-1 and the Obesity Drug Supercycle** The GLP-1 agonist category — anchored by **Eli Lilly's Mounjaro/Zepbound** and **Novo Nordisk's Ozempic/Wegovy** — remains the most consequential single product cycle in the pharmaceutical industry. Demand continues to substantially outpace supply, with manufacturing capacity expansion the binding constraint on revenue growth. The obesity and diabetes treatment market addressable by GLP-1 drugs is measured in the hundreds of billions of dollars, and penetration rates remain at single digits despite the category's cultural prominence. For Eli Lilly in particular — XLV's second-largest holding — the GLP-1 cycle provides a revenue growth trajectory that is largely independent of the broader policy and tariff headwinds affecting the rest of the sector.

The downstream consequences of GLP-1 adoption are equally significant for the sector: reduced cardiovascular events and hospital admissions over a multi-year horizon may structurally reduce managed care medical loss ratios, while medical device companies serving obesity-related conditions (joint replacement, sleep apnea) face potential demand headwinds as the drug category matures.

**Managed Care — Medicaid and Medicare Pressure** Managed care companies — UnitedHealth, Elevance, CVS Health, Humana — are navigating a particularly difficult policy environment in 2026. Congressional budget discussions around Medicaid restructuring and work requirements have introduced meaningful enrollment and reimbursement uncertainty for Medicaid managed care plans, which represent a significant and growing revenue stream for several of the major MCOs. Medicare Advantage rate updates for 2026 were also less favorable than the industry sought, compressing margins in a business line that had been a reliable earnings grower. UnitedHealth — XLV's largest constituent at approximately 10% of index weight — has been a specific source of sector-wide underperformance given its concentrated exposure to both of these policy headwinds.

**Biotechnology** The biotech subsector has had a particularly difficult Q1 2026. The combination of a risk-off equity environment, higher-for-longer rates that compress the present value of long-dated clinical pipeline assets, reduced appetite for speculative risk premium, and specific clinical trial disappointments has weighed heavily on XBI (the biotech ETF) relative to XLV. Large-cap biotech names — Amgen, Gilead, Regeneron — have held up better given their near-term earnings visibility and dividend programs, but the mid-cap and small-cap biotech space has seen significant drawdowns. M&A from large pharma names seeking pipeline replenishment remains a structural support for the space, but deal activity has slowed alongside the broader capital markets stall.

**Medical Devices and Technology** Medical technology companies — Abbott, Medtronic, Boston Scientific, Edwards Lifesciences — occupy a relatively more constructive position within XLV than pharma or managed care in the current environment. Their demand drivers — an aging population requiring cardiac, orthopedic, and minimally invasive surgical interventions — are structurally robust and largely independent of the policy cycle. Procedure volumes recovered fully from COVID-era deferrals and have maintained solid growth into 2026. The primary risks are tariff-related supply chain costs and any macro-driven hospital capital budget freezes, both of which are manageable rather than structural threats.

**Hospitals and Health Systems** Hospital operators (HCA Healthcare, Tenet) are navigating a complex intersection of strong underlying utilization and policy-driven reimbursement uncertainty. Medicaid restructuring would be a direct negative for hospitals with high uncompensated care exposure — a meaningful concern for safety-net and community hospital systems. The large investor-owned chains with diversified geographic footprints are better insulated, and their strong post-COVID utilization recovery has rebuilt balance sheet strength. Near-term, the primary risk is policy rather than operational.

# 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.