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Monthly Insights: May Outlook
Healthcare Sector

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Sector Price Action & Performance Review: Healthcare Sector



XLV's April tape was defensive in name only. The ETF started the month near \$147–148, pushed to an intramonth high of \$150.21 on April 9, then rolled over into month-end, with the April 29 data showing a \$142.62 price and \$142.16 intraday low. That left XLV down roughly **2.7% month-to-date on price** from the March 31 close of \$146.61, despite a broader equity tape that remained supported by AI, earnings momentum, and systematic re-risking.

The technical damage matters because XLV is no longer simply consolidating above support. Barchart data show XLV below its 5-, 20-, 50-, 100- and 200-day moving averages, with the 50-day near \$149.83, the 100-day near \$152.73, and the 200-day near \$146.85. RSI readings were weak but not fully capitulatory, with the 14-day RSI near 35. In practical terms, XLV enters May with a **bearish short-term setup**, an oversold-but-not-yet-repaired momentum profile, and a key reclaim zone around the mid-\$146s to \$150. A recovery above the 200-day and 50-day moving averages would improve the technical picture; failure to hold the low-\$142 area would keep the sector vulnerable to further relative underperformance.

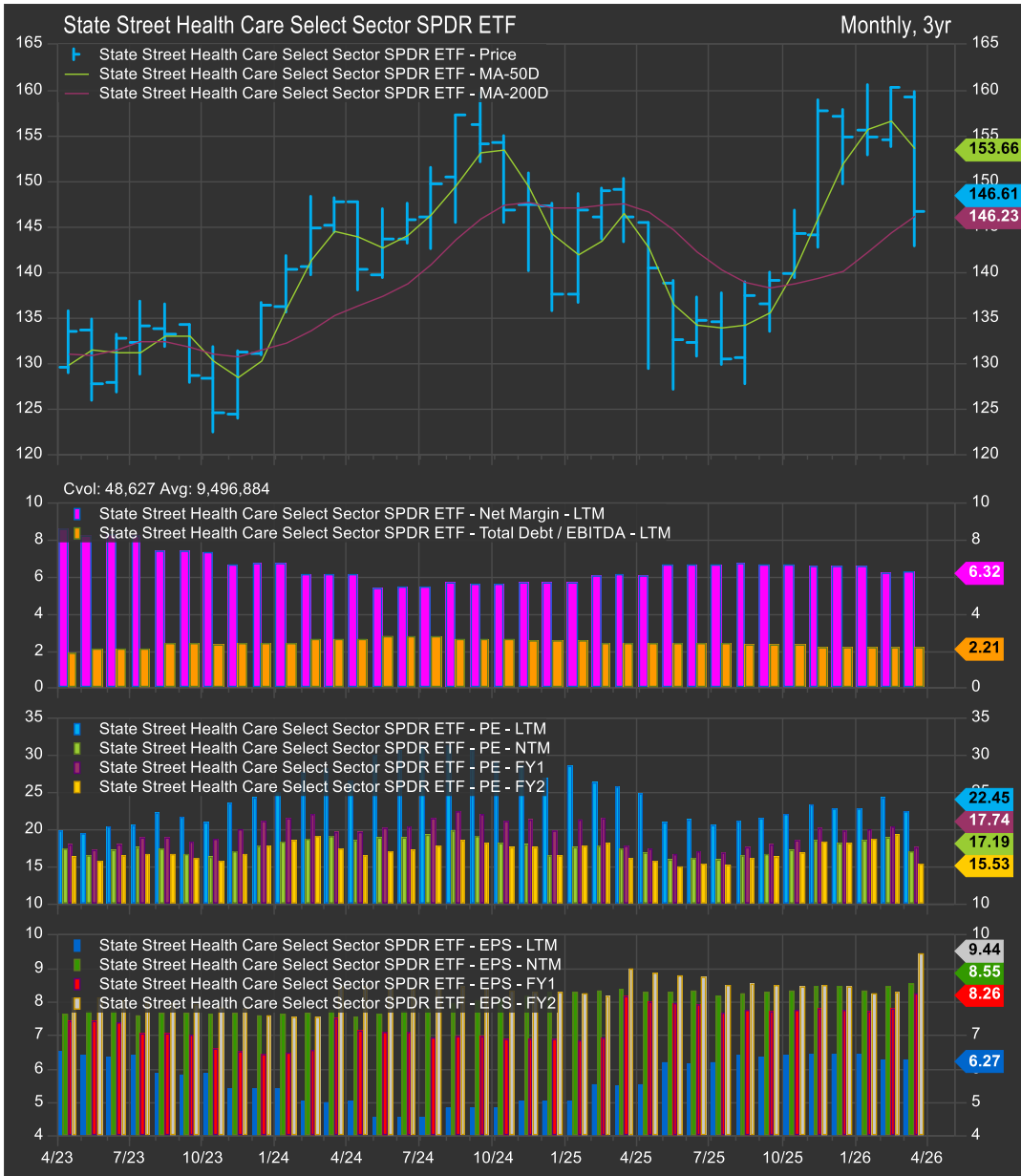
The sector's composition also explains why XLV struggled to capture the market's April upside. State Street data show XLV remains dominated by **Pharmaceuticals at 35.8%**, followed by **Health Care Providers & Services at 19.1%**, **Health Care Equipment & Supplies at 18.3%**, **Biotechnology at 18.1%**, and **Life Sciences Tools & Services at 8.7%**. The top holdings remain Eli Lilly, Johnson & Johnson, AbbVie, UnitedHealth, Merck, Amgen, Thermo Fisher, Intuitive Surgical, Abbott, and Gilead. That mix gave XLV exposure to MCO rebounds and large-cap pharma stability, but also to drug-pricing uncertainty, GLP-1 launch scrutiny, weak life-science tools, and device/lab volatility.

For May allocation, a reasonable positioning matrix would be: **Overweight Managed Care, market weight diversified Pharma and profitable Biotech, selectively own best-in-class MedTech, and underweight Life Sciences Tools/CROs and diagnostics until order trends improve**. A bullish upgrade for XLV would require price recovery back above the 200-day moving average, continued MCO earnings follow-through, and signs that Pharma/MedTech earnings revisions are stabilizing. A bearish break would come from renewed rate pressure, another wave of FDA/policy headlines, GLP-1 disappointment, or further life-science tools guide-downs.

Healthcare enters May with a **negative sector outlook**, but with meaningful dispersion underneath. The sector's defensive characteristics have not translated into leadership because investors are still being rewarded for AI, cyclical, and earnings acceleration elsewhere. XLV's technical profile is weak, relative strength has deteriorated, and the sector needs to reclaim the \$146–150 zone before momentum investors are likely to re-engage. Given renewed evidence of firm investor risk appetite, we think it's likely the sector remains down and out in the near-term.

We start May out of the Healthcare Sector with an UNDERWEIGHT allocation of -8.58% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Healthcare Sector

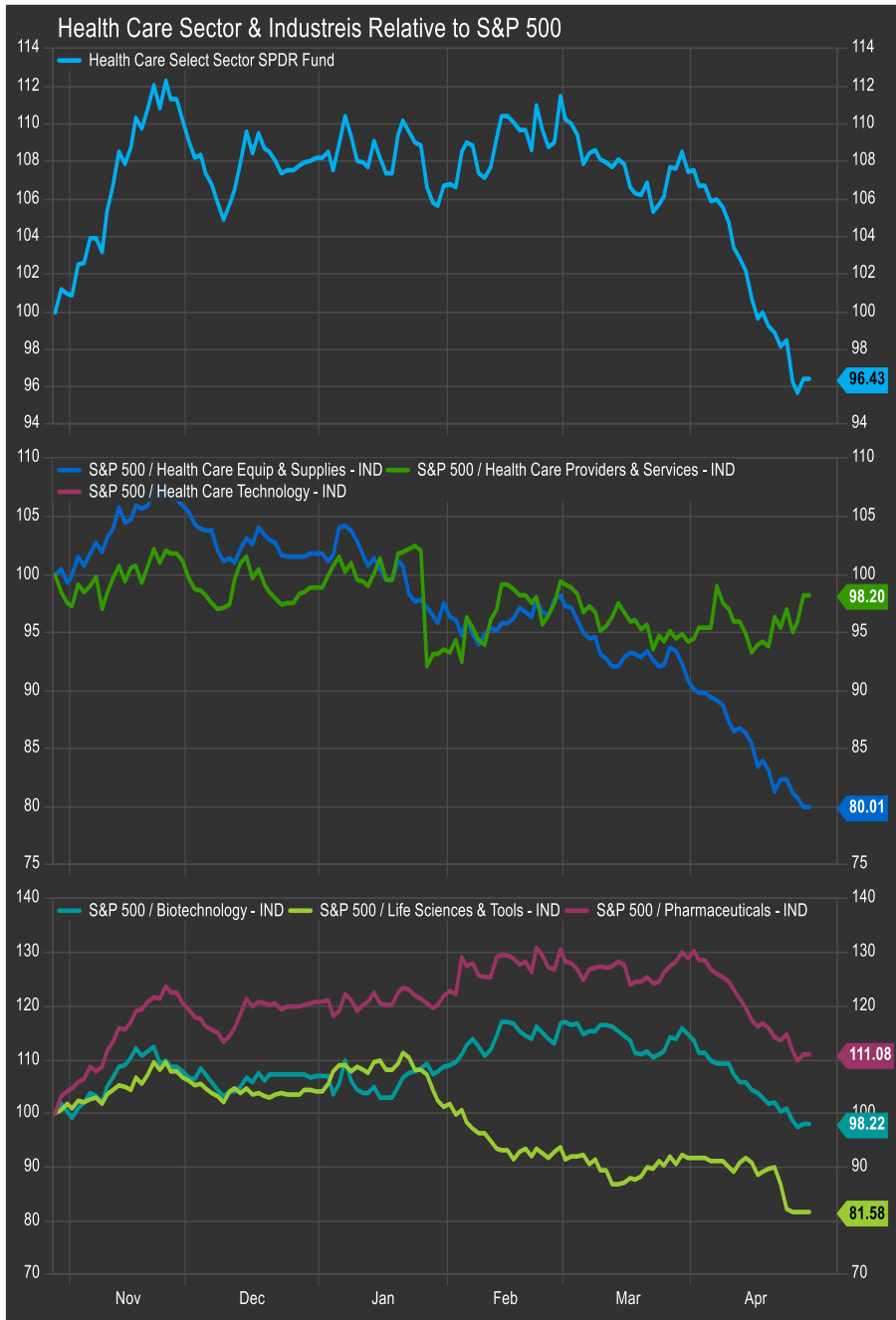


Healthcare fundamentals were mixed: revenue trends were respectable, but earnings quality and relative revisions were not strong enough to overcome policy and company-specific concerns. FactSet’s April 24 Earnings Insight showed S&P 500 Q1 blended EPS growth of 15.1%, but Healthcare was one of the sectors reporting a year-over-year earnings decline. FactSet attributed Healthcare’s **-8.7% earnings decline** primarily to Pharmaceuticals, where earnings were down 31%, while Life Sciences Tools & Services, Health Care Equipment & Supplies, and Biotechnology were still expected to show positive earnings growth. Healthcare revenue growth improved to **6.2% from 5.8%** as UnitedHealth and Elevance beat revenue expectations.

Recent performance points to a sector where earnings beats were not enough to drive broad rerating. In the week ended April 25, the S&P 1500 Health Care earnings scorecard showed **88.24% EPS beat rate** and **88.24% sales beat rate** among early reporters, yet the sector still underperformed as Managed Care strength was offset by weakness in Pharma, Biotech, MedTech, and Services.

Large-cap company fundamentals were also bifurcated. Johnson & Johnson reported Q1 sales growth of 9.9% to \$24.1B, adjusted EPS of \$2.70, and raised its 2026 outlook, supported by Innovative Medicine and MedTech execution. AbbVie also beat expectations and raised adjusted 2026 EPS guidance to \$14.08–\$14.28, with newer immunology and neuroscience assets helping offset Humira erosion. By contrast, GE HealthCare cut adjusted EPS guidance to \$4.80–\$5.00 from \$4.95–\$5.15 as inflation, tariffs, supplier issues, and Patient Care Solutions weakness pressured margins.

The most constructive fundamental story was Managed Care. Centene’s April 28 report delivered an MLR-driven beat, with Q1 adjusted EPS of \$3.37 versus StreetAccount’s \$2.22, revenue of \$49.94B versus FactSet’s \$47.53B, MLR 170 bps better than expected, and raised FY26 EPS and revenue guidance. Humana’s April 29 report also showed adjusted EPS of \$10.31 and a benefit ratio of 89.4%, slightly favorable to guidance, while the company affirmed FY26 benefit-ratio guidance.



Industry / Group	What Drove Performance in April	Representative Themes / Company Examples
Managed Care	Strength was driven by improving sentiment around Medicare Advantage, supportive CMS rate developments, and strong earnings from payers with better-than-feared medical loss ratios. Investors increasingly viewed pricing as catching up with utilization trends.	UNH, HUM, CNC, ELV, CVS, MOH; MLR-driven beats, Medicare Advantage reprieve, improved reimbursement backdrop
Pharmaceuticals	Large-cap pharma was supported by selective earnings strength and defensive demand, but performance was held back by drug-pricing uncertainty, obesity-drug competition, patent concerns, and uneven product-specific news.	JNJ and ABBV were steadier; LLY faced scrutiny around obesity-drug launch metrics; PFE lagged; NVS delivered a mixed report
Biotechnology	Biotech benefited from mid-month risk-on sentiment, clinical data, IPO reopening, and M&A interest, but remained vulnerable to regulatory setbacks, safety disclosures, and sharp single-stock moves.	XBI rallied mid-month; RVMD surged on pancreatic cancer data; REPL, ERAS, and gene-editing names showed the downside of event risk
MedTech / Medical Devices	Some device names held up well on procedure-growth optimism and earnings beats, but broader performance was pressured by margin concerns, hospital spending sensitivity, and uneven earnings reactions.	EW and ISRG were relative bright spots; ZBH, ABT, and GEHC showed more mixed or weaker setups
Life Sciences Tools & CROs	This group was hit by concerns around bookings, research spending, macro softness, pharma budgeting, China exposure, and weaker order visibility. Even with some earnings beats, investor confidence remained low.	TMO, DHR, BRKR, RVTY, IQV, CRL, MEDP all faced varying degrees of weakness and estimate pressure
Diagnostics / Lab Services	Diagnostics were pressured by policy concerns around CMS initiatives, reimbursement-related uncertainty, and spillover weakness from healthcare services and tools. National lab stocks joined the group's late-April weakness.	LH, DGX, GH, GRAL, CDNA, NTRA all faced pressure tied to reimbursement and utilization concerns
Hospitals / Providers / Facilities	Providers benefited earlier in April from CMS payment support, but earnings later showed challenges tied to a weak respiratory season, admissions mix, and volume variability.	HCA, THC, UHS, EHC; early reimbursement support offset by weaker earnings reactions in parts of the group
Healthcare Services / Distributors	Performance was uneven, but distribution and services names were helped in spots by defensive positioning and company-specific developments. Still, the group did not emerge as a major leadership area.	CAH, MCK, COR and related services/distribution exposure
Specialty Pharma / SMID-cap Pharma	This area benefited from M&A speculation, pipeline updates, and a more constructive risk appetite in certain periods, though performance was uneven and heavily event-driven.	OGN surged on takeover speculation; AMRX, VTRS, and other specialty names saw selective gains
Healthcare Equipment & Supplies (broad equipment subset)	A mix of stable procedural demand and defensive qualities helped, but company-level earnings and guidance mattered more than macro sector flows.	BSX, BAX, ALGN, PODD, COO; some names rebounded while others remained in downtrends

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	Bullish Reversal		0.65	29.7	0.00	0.56	42.7
UNH	UnitedHealth Group Incorporated	Bullish Reversal		0.91	19.8	1.74	0.16	29.4
HUM	Humana Inc.	Consolidation		1.01	10.2	1.23	0.40	23.7
ELV	Elevance Health, Inc.	Consolidation		0.62	7.2	1.38	0.30	14.5
WST	West Pharmaceutical Services, Inc.	Bullish Reversal		1.55	12.8	0.18	1.04	7.9
CVS	CVS Health Corporation	Consolidation		0.51	4.3	2.43	0.73	4.4
VTRS	Viartis, Inc.	Bullish Reversal		0.28	15.3	2.51	0.97	1.4
BAX	Baxter International Inc.	Downtrend		0.44	-10.6	1.33	1.01	0.2
CI	Cigna Group	Consolidation		0.43	-1.9	1.57	0.16	-3.4
INCY	Incyte Corporation	Bullish Reversal		0.58	-3.7	0.00	1.15	-3.9
SOLV	Solventum Corporation	Retracement		0.48	-10.4	0.00	0.77	-4.6

The big rebound has come from previously down-and-out managed care names. UNH, HUM, ELV and CNC led the sector in April.

Most Healthcare stocks skewed sharply negative on performance with Med Equipment names bearing the brunt of the selling.

Pharma names sold off in April as well, but the charts look more constructive longer-term.

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
BSX	Boston Scientific Corporation	Retracement		0.79	-37.7	0.00	0.92	-27.7
PODD	Insulet Corporation	Downtrend		1.25	-32.8	0.00	2.42	-24.3
UHS	Universal Health Services, Inc. Class B	Consolidation		0.32	-24.4	0.37	1.31	-23.8
COO	Cooper Companies, Inc.	Downtrend		0.62	-21.9	0.00	1.13	-21.7
ABT	Abbott Laboratories	Downtrend		0.79	-19.0	1.83	0.94	-21.3
HCA	HCA Healthcare Inc	Consolidation		0.66	-15.7	0.46	1.06	-20.6
MRK	Merck & Co., Inc.	Bullish Reversal		0.80	-0.7	2.09	0.24	-20.2
ZBH	Zimmer Biomet Holdings, Inc.	Downtrend		0.45	-12.8	0.79	0.73	-18.4
MDT	Medtronic Plc	Downtrend		0.64	-18.8	2.45	1.01	-18.2
JNJ	Johnson & Johnson	Bullish Reversal		0.90	-2.4	1.66	0.44	-17.4
MRNA	Moderna, Inc.	Bullish Reversal			12.0	0.00	0.67	-17.0

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

Healthcare's April performance was shaped by the tension between **defensive sector fundamentals** and a broader market that continued to reward higher-beta leadership. Investors were focused on artificial intelligence capital spending, strong large-cap earnings, systematic re-risking, and hopes for geopolitical de-escalation. Healthcare, by contrast, was driven by more sector-specific issues: Medicare Advantage reimbursement, medical-cost trends, drug-pricing policy, Food and Drug Administration (FDA) decisions, reimbursement scrutiny, and life-science funding pressure. That left the sector unable to fully participate in the mid-month risk-on rally and more exposed when sentiment weakened near month-end.

The interest-rate backdrop remained an important headwind. A higher-for-longer rate environment tends to pressure the more duration-sensitive areas of Healthcare, including Biotechnology, early-stage Pharma, high-growth Medical Technology, Diagnostics, and Life Sciences Tools. These groups rely more heavily on future earnings, external financing, or long-cycle research and development (R&D) spending. As discount rates rise, valuation support weakens. By contrast, Managed Care Organizations (MCOs), distributors, and diversified large-cap Pharma held up better because their cash flows are more visible and less dependent on capital markets.

Geopolitics mattered through both risk appetite and inflation. The April recaps repeatedly tied market direction to United States-Iran headlines, Strait of Hormuz risk, oil-price volatility, and confidence around a potential de-escalation path. Early in the month, investors were focused on a shaky ceasefire and limited Strait traffic; by mid-month, hopes for a nuclear deal and reopening of the Strait helped support a broader rally. By late April, however, energy disruption was back in focus, with West Texas Intermediate crude moving toward \$100 per barrel, shortage concerns rising, and higher yields partly reflecting the same inflationary impulse. For Healthcare, higher energy prices can pressure hospital operating costs, freight, logistics, supply chains, and margins for device, diagnostics, tools, and capital-equipment companies.

The most important positive policy catalyst was the final 2027 Medicare Advantage (MA) and Part D rate announcement from the Centers for Medicare & Medicaid Services (CMS). The April 10 recap described the final rate announcement as a meaningful reprieve for MA-leveraged insurers, noting that the final rate improved substantially from the late-January proposal and exceeded analyst expectations. The investment implication was straightforward: Managed Care moved from policy overhang to policy relief. UnitedHealth, Humana, CVS Health, Centene, Molina, and Elevance benefited from better reimbursement visibility, improving Medical Loss Ratio (MLR) performance, and the view that pricing may finally be catching up with utilization trends.

However, CMS was not a universal positive. Diagnostics and lab-services names were pressured by investor concern around CMS waste, fraud and abuse initiatives, including the CRUSH Request

for Information (RFI) and the Wasteful and Inappropriate Service Reduction (WISeR) model. The April 10 recap noted that diagnostics weakness expanded to national lab stocks, with Labcorp and Quest Diagnostics under pressure. This keeps Diagnostics, national labs, and some Healthcare Services companies in a cautious bucket heading into May, unless companies can show that reimbursement risk is narrower than feared.

Drug-pricing policy also remained a persistent overhang. The April recaps highlighted Regeneron becoming another major drugmaker to reach a Most Favored Nation (MFN) agreement with the White House. While negotiated agreements can reduce worst-case political uncertainty for individual companies, they also reinforce the idea that United States drug pricing remains a policy target. That can cap valuation multiples for large-cap Pharma, Specialty Pharma, and Biotechnology companies with high-priced therapies. For May, Pharma looks selectively defensive, but not immune from policy risk.

The FDA was another major performance driver. April highlighted both innovation support and binary risk. Replimune was pressured after a second Complete Response Letter (CRL) for RP1 in melanoma. Eli Lilly faced scrutiny around Foundayo post-marketing requirements and early prescription trends. Erasca fell sharply after disclosing a grade 5 adverse event. The takeaway is that Biotechnology and Specialty Pharma remain stock-picker's markets: positive data, approvals, or merger and acquisition activity can drive sharp rallies, but negative regulatory or safety events can quickly overwhelm fundamentals.

Life Sciences Tools and Contract Research Organizations (CROs) were among the weakest groups because their demand cycle remains uncertain. The April 10 recap cited a disappointing National Institutes of Health (NIH) budget proposal as a headwind for research-exposed Healthcare groups, while the April 25 recap noted that Medpace book-to-bill weakened versus both the prior quarter and year-ago period. If rates stay high, Biotechnology funding remains selective, NIH budget risk persists, and large Pharma keeps R&D budgets disciplined, the earnings-revision cycle for Tools and CROs may remain under pressure.

For May, the macro and policy backdrop argues for a **selective Healthcare stance**, not a broad defensive overweight. The best alignment is in **Managed Care**, where reimbursement visibility and MLR performance improved. The most challenged areas remain **Life Sciences Tools, CROs, Diagnostics, and high-duration Biotechnology**. Large-cap Pharma and high-quality Medical Technology sit in the middle: investable, but only where earnings visibility, product-cycle strength, and policy exposure are manageable.

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.