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Monthly Insights: June Outlook

# Healthcare Sector

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# Sector Price Action & Performance Review: Healthcare Sector



The S&P 500 Health Care sector has a **complicated but investable** June setup. It offers high-quality balance sheets, durable end-market demand, innovation optionality and historically defensive characteristics, but it is not aligned as cleanly with the current market regime as Technology, Industrials, Energy, Materials or selected Real Estate. Investor risk appetite remains strong, the S&P 500 is being led by AI and nominal-growth beneficiaries, and Health Care is still dealing with policy uncertainty, managed-care margin questions, drug-pricing pressure and mixed earnings momentum.

Using VHT as the reference ETF, the sector's near-term price action has improved but does not yet justify a broad overweight. In the 5/28 return and flow data you provided, VHT is up **2.89% over one week** and **1.90% over one month**, but remains down **3.31% over three months** and **2.03% over six months**. Its **65.4 RSI** shows a near-term rebound, but not a durable leadership trend. Flow data remain a constraint: approximately **-\$44 million over one month**, **-\$264 million year to date** and **-\$642 million over one year**. That means investors are tactically re-engaging, but they have not yet rebuilt sustained sector sponsorship.

Flows are the key technical concern. Negative flows over one month, year to date and one year suggest that investors are still using strength to reduce or rebalance exposure. Until those flows stabilize, it is difficult to argue for a sector-wide overweight. The sector can outperform tactically if volatility rises or policy news improves, but a durable relative move likely requires better earnings breadth, managed-care stabilization and continued GLP-1 momentum.

## The June outlook

Health Care is **bearish relative to the broader S&P 500**, with a recommended **underweight** sector stance. The sector is unlikely to lead unless the market rotates sharply into defensives, volatility rises meaningfully, or policy headlines become unexpectedly favorable. None of those conditions is currently the base case.

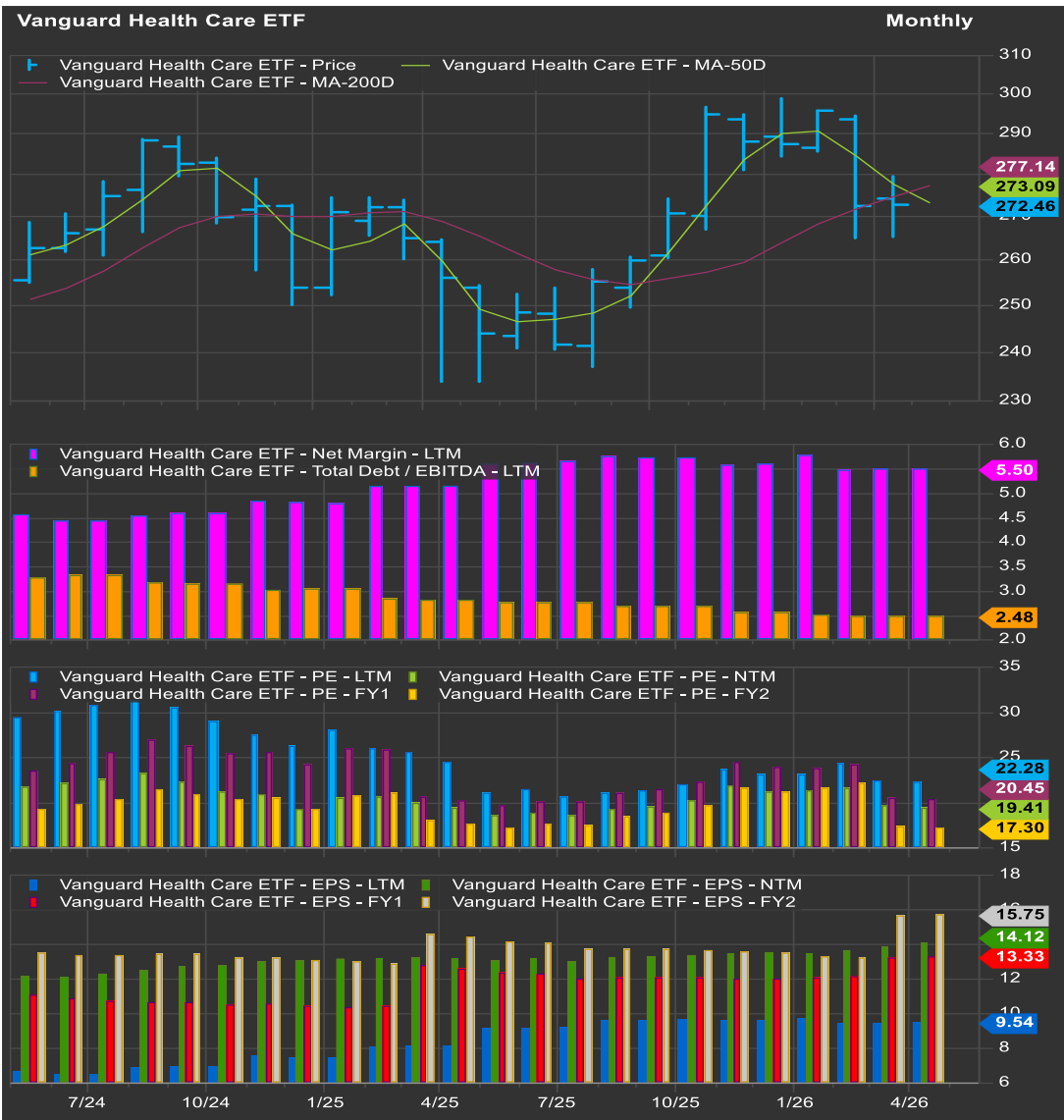
The recommended implementation is to **underweight VHT** and maintain only selective exposure. Keep exposure to large-cap pharma with visible growth and strong pipeline durability, obesity/metabolic leaders, select medtech companies with procedure-volume support, and tools companies only where expectations have already reset. Avoid broad managed-care exposure until medical-cost trends are clearer. Be cautious on biotech without near-term catalysts, pharma with concentrated patent or Medicare negotiation exposure, and provider/facility businesses with labor and reimbursement pressure.

The upside risk to the underweight is a defensive rotation. If the S&P 500 consolidates sharply, if Technology corrects, or if investors seek lower-beta quality, Health Care could outperform tactically. But that would likely be a relative safety trade, not a sector-specific fundamental re-rating.

Bottom line: Health Care is not broken, but it is not attractive enough for June leadership. The sector has quality, innovation and long-term demographic support, but the near-term combination of weak earnings momentum, negative flows, policy risk, inflation cost pressure and poor macro alignment argues for an **underweight**.

**We start June out of the Healthcare Sector with an UNDERWEIGHT allocation of -8.40% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Healthcare Sector



VHT is a broad Health Care exposure, but it is heavily influenced by large-cap pharma and biotech. Vanguard's March 31 profile shows VHT with **407 stocks**, a **25.9x P/E**, **4.1x P/B**, **19.7% return on equity** and a **9.0% earnings-growth rate**. Those are respectable quality metrics, but the earnings-growth rate is well below Technology and below several cyclical sectors currently benefiting from stronger nominal growth and earnings revisions.

The fund's concentration is meaningful. The top ten holdings account for **50.6%** of assets, led by Eli Lilly at **11.9%**, Johnson & Johnson at **9.4%**, AbbVie at **6.2%**, Merck at **4.8%**, UnitedHealth at **4.0%**, Amgen, Thermo Fisher, Abbott, Gilead and Intuitive Surgical. This makes the sector partly a large-cap pharma and obesity-drug story, partly a medtech/procedure-volume story, and partly a managed-care/utilization story.

The subindustry mix also argues for selectivity. Pharmaceuticals represent **33.4%** of VHT, Biotechnology **23.3%**, Health Care Equipment **16.9%**, Life Sciences Tools & Services **8.6%**, Managed Health Care **5.9%**, Health Care Services **4.3%**, Distributors **3.6%** and Facilities **2.2%**. Pharma and biotech are therefore more than half of the fund, meaning patent cliffs, drug pricing, pipeline data and FDA decisions dominate the sector narrative.

The highest-quality fundamental exposure remains large-cap pharma with visible growth, especially obesity, immunology, oncology and select specialty franchises. The risk is that pharma faces simultaneous pressure from patent cycles, Medicare negotiation and political scrutiny around drug affordability. Biotech has attractive innovation optionality, but it remains sensitive to rates, funding conditions and trial outcomes. Medtech is comparatively attractive because procedure volumes, robotics, devices and innovation can support organic growth, but hospitals' capital budgets and reimbursement still matter. Life-sciences tools are a recovery candidate, but they need stronger biopharma funding, research spending and China-related visibility.

Managed care is the most sentiment-sensitive group. The final CMS rate update was better than the January proposal, but investors still need confirmation that medical-cost ratios, Medicare Advantage margins and Medicaid/ACA exposures are stabilizing. Health Care Facilities and Services have durable demand, but labor, reimbursement and bad-debt pressure make the group more operationally complex than the sector's defensive label implies.

Ticker	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VHT	\$279.27	+0.99%	+2.89%	+1.90%	-3.31%	-2.03%	65.4	-\$44.2M	-\$263.9M	-\$641.5M

5/28/2026

# Industry/Sub-Industry Performance: Healthcare Sector



Industry	Approx. Fund Weight	Fundamental Read	Macro / Policy Sensitivity
Pharmaceuticals	33.4%	Large-cap cash flows, pipelines and obesity/immunology franchises dominate.	Medicare drug pricing, patent cliffs, FDA, litigation, M&A.
Biotechnology	23.3%	Innovation upside, but funding and rates matter.	FDA, trial data, M&A, patent policy, rates, risk appetite.
Health Care Equipment	16.9%	Procedure volumes and innovation support growth.	Hospital capex, utilization, reimbursement, tariffs.
Life Sciences Tools & Services	8.6%	Recovery depends on biopharma funding and R&D budgets.	Biotech capital markets, pharma R&D, China exposure, rates.
Managed Health Care	5.9%	Sentiment improved, but utilization and reimbursement are swing factors.	CMS rates, Medicare Advantage, Medicaid, utilization.
Health Care Services	4.3%	Durable demand, but labor and reimbursement matter.	Wage costs, payer mix, utilization, regulation.
Health Care Distributors	3.6%	Stable, low-margin cash flows.	Drug pricing, reimbursement, opioid litigation.
Health Care Facilities	2.2%	Volumes recovering; labor still a constraint.	Staffing, reimbursement, bad debt, utilization.
Supplies / Technology	1.7%	Innovation and adoption drive dispersion.	Reimbursement, FDA, hospital budgets.

# Top 10/Bottom 10 Stock Level Performers: Healthcare Sector

Symbol	Name	GICS Sector 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.	Health Care	Bullish Reversal	36,771.2	1.25	38.5	0.87	1.02	32.0
CNC	Centene Corporation	Health Care	Bullish Reversal	29,045.1	0.72	27.4	0.00	1.62	30.3
DVA	DaVita Inc.	Health Care	Bullish Reversal	12,513.9	0.59	25.3	0.61	1.20	25.0
LLY	Eli Lilly and Company	Health Care	Bullish Reversal	1,019,830.6	1.29	0.2	0.46	0.32	20.0
CVS	CVS Health Corporation	Health Care	Consolidation	117,474.6	0.56	8.3	2.09	0.88	12.6
DXCM	DexCom, Inc.	Health Care	Consolidation	27,111.4	1.20	-3.9	0.00	1.50	9.5
WAT	Waters Corporation	Health Care	Consolidation	33,597.2	1.06	-3.9	0.00	1.32	9.2
RVTY	Revvity, Inc.	Health Care	Support	10,797.9	0.84	-7.3	0.20	1.09	6.6
VTRS	Viatis, Inc.	Health Care	Bullish Reversal	18,970.6	0.30	11.2	2.34	0.97	5.8
ELV	Elevance Health, Inc.	Health Care	Consolidation	85,012.6	0.67	9.4	1.30	0.78	5.0

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

LLY was another big bouncer while on the downside Med Device makers couldn't beat low expectations and BioTech stocks continued to be faded by investors

Symbol	Name	GICS Sector 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
ZTS	Zoetis, Inc. Class A	Health Care	Downtrend	33,320.3	0.53	-45.3	1.97	0.89	-37.5
PODD	Insulet Corporation	Health Care	Downtrend	10,113.3	0.97	-46.7	0.00	1.72	-27.4
BSX	Boston Scientific Corporation	Health Care	Retracement	75,001.5	0.68	-40.4	0.00	0.61	-20.8
REGN	Regeneron Pharmaceuticals, Inc.	Health Care	Retracement	64,671.0	0.60	-26.9	0.46	0.17	-20.5
MTD	Mettler-Toledo International Inc.	Health Care	Downtrend	22,103.9	1.07	-28.0	0.00	1.17	-19.1
UHS	Universal Health Services, Inc. Class B	Health Care	Downtrend	8,221.7	0.30	-32.6	0.41	0.97	-19.0
COR	Cencora, Inc.	Health Care	Retracement	51,949.8	0.66	-32.1	0.65	0.48	-18.7
TECH	Bio-Techne Corporation	Health Care	Downtrend	7,529.4	1.11	-26.5	0.45	1.63	-17.5
HCA	HCA Healthcare Inc	Health Care	Consolidation	86,994.5	0.59	-29.8	0.53	0.71	-17.0
ALGN	Align Technology, Inc.	Health Care	Downtrend	11,665.2	0.66	-17.1	0.00	2.08	-16.8

## 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

The macro backdrop is mixed for Health Care. Demand is structurally durable: aging demographics, chronic disease prevalence, insurance coverage, procedure volumes and pharmaceutical innovation support long-term revenue. The labor market also underscores how central Health Care is to the U.S. economy. BLS reported that Health Care added **37,000 jobs in April**, in line with its 12-month average gain of **32,000**, with gains in nursing/residential care and home health services. That is demand-supportive, but from an equity perspective it also highlights labor intensity and wage-cost pressure in providers and facilities.

Inflation is less directly beneficial to Health Care than to Energy or Materials. April CPI showed the medical-care index down **0.1%** month over month, hospital services down **0.3%**, physician services up **0.6%**, and prescription drugs unchanged. On a 12-month basis, medical care rose **2.5%**, below headline CPI of 3.8%. This means Health Care is not a clean inflation beneficiary. Reimbursement and price realization do not automatically adjust upward with commodity inflation, while labor, supplies, energy, freight and facility costs can still rise.

Rates are also important. The Fed maintained the target range at **3.50% to 3.75%** and said inflation remains elevated, partly reflecting higher global energy prices. A higher-for-longer rate environment is a headwind for long-duration biotech assets, early-stage innovation, life-sciences tools and M&A financing. It is less problematic for large-cap pharma with strong free cash flow, but even there it affects discount rates and acquisition economics.

Policy risk is the sector's defining variable. Managed care is exposed to Medicare Advantage rates, star ratings, utilization, prior authorization rules, Medicaid redeterminations and potential benefit reductions. Pharma is exposed to Medicare drug negotiation, FDA decisions, patent litigation, PBM reform, importation rhetoric and affordability politics. Medtech and equipment are exposed to reimbursement, hospital capex, FDA approvals and tariffs on components. Life-sciences tools are exposed to biopharma funding cycles, China policy, academic and government research budgets, and procurement scrutiny.

The political backdrop therefore argues against a broad overweight. Health Care typically benefits when investors seek defensiveness, but the current market is risk-on and inflationary. Defensive quality is not scarce when Technology and Industrials are generating stronger revisions, and Health Care policy headlines can quickly overwhelm valuation support. The sector is more attractive as a source of stock-specific opportunity than as a top-down beta allocation

## Other Important Narratives:

The first major narrative was that Health Care lagged the broader earnings cycle. FactSet's latest Q1 earnings update showed a very strong S&P 500 backdrop, with 28.4% blended year-over-year earnings growth and 81% of companies beating revenue estimates. But Health Care was the notable exception: FactSet identified it as the **only S&P 500 sector reporting a year-over-year earnings decline**. That contrast is central to the June view. In a market paying for earnings acceleration, Health Care's defensive quality is less compelling when the sector is not delivering comparable profit growth.

The offset is that Health Care revenue trends were better than the earnings line suggests. FactSet noted that positive revenue surprises from CVS, Centene, UnitedHealth, Eli Lilly, Cigna and Elevance helped lift Health Care's blended revenue-growth rate to **7.0% from 5.9%** since March 31. It also showed that **89%**

**of Health Care companies reported earnings above estimates**, one of the highest sector-level beat rates. The issue is therefore not demand collapse; it is that revenue is being absorbed by reimbursement pressure, medical-cost trends, patent cycles, mix, R&D, utilization and policy uncertainty.

The second narrative was GLP-1 and obesity-drug leadership. The obesity franchise remains the most important secular growth story in large-cap Health Care. In April, the FDA approved Eli Lilly's oral weight-loss drug orforglipron, to be sold as Foundayo, after clinical trials showed roughly **12% to 15% body-weight reduction**. Reuters also reported in May that Lilly's next-generation obesity drug retatrutide helped patients lose more than **28% of body weight over 80 weeks** in a late-stage trial, potentially giving Lilly another major growth asset if approved.

The GLP-1 access narrative also improved late in May. CVS said it would restore coverage of Lilly's Zepbound and add Foundayo to its commercial formulary, with all three major U.S. pharmacy benefit managers now covering Lilly's full obesity portfolio. CVS also said its negotiations could produce **10% to 15% savings** across the therapy class for clients. This is supportive for Lilly and for the long-term obesity-drug market, but it also highlights a key sector tension: the growth opportunity is enormous, but PBMs, employers and insurers are aggressively negotiating economics.

The third narrative was regulatory protection for branded GLP-1 manufacturers. The FDA proposed excluding Novo Nordisk and Eli Lilly weight-loss drugs from a key compounding list, a move that could limit large-scale bulk production by outsourcing facilities and support the branded manufacturers' commercial position. That is positive for the leading obesity franchises, but it also reinforces that Health Care equity narratives are highly policy- and regulator-dependent.

The fourth narrative was managed care. Earlier in the year, insurer shares sold off sharply after the preliminary 2027 Medicare Advantage rate proposal was much weaker than investors expected, with Reuters reporting that UnitedHealth, CVS and Humana fell significantly and that the move was on track to erase roughly **\$80 billion** in market value. CMS later finalized a 2027 Medicare Advantage and Part D Rate Announcement projected to increase payments by **2.48%**, or more than **\$13 billion**, which was a meaningful improvement from the initial shock.

That final rate notice helped stabilize the managed-care narrative, but it did not remove the broader overhang. Reuters' company-level healthcare feed in May noted that strong Q1 insurer results signaled more stable medical costs, but analysts still wanted another quarter of confirmation before declaring the pressure over. The issue is that Medicare Advantage profitability remains sensitive to reimbursement, utilization, star ratings, risk adjustment, supplemental benefits and network design.

The fifth narrative was drug-pricing policy. CMS continues to implement Medicare drug-price negotiation under the Inflation Reduction Act framework. CMS states that negotiations with participating drug companies will occur in 2026, with negotiated prices becoming effective in 2028 for the relevant cycle. This is not necessarily an immediate earnings shock for every large-cap pharma company, but it remains a persistent multiple constraint because investors must discount future U.S. price pressure on high-spend drugs.

## Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- **Reuters: Lilly oral weight-loss pill approval** — GLP-1 / obesity-drug growth narrative.
- **Reuters: CVS restores Lilly obesity-drug coverage** — formulary access and obesity-drug reimbursement narrative.
- **CMS 2027 Medicare Advantage and Part D Rate Announcement** — managed-care reimbursement and policy backdrop.
- **CMS Medicare Drug Price Negotiation Program** — drug-pricing-policy overhang for large-cap pharma.
- **BLS Employment Situation** — health-care hiring and labor-cost / demand backdrop.
- **BLS CPI** — medical-care inflation and health-care services inflation context.

# 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.