Halloween Horrors

October was a tough month for healthcare amidst a rocky macro picture. In the US markets, it was the worse month year-to-date on a relative basis, globally, the second worse. A large part of this underperformance can be attributed to huge moves in specific sub-sectors of the healthcare space, as explained below.

Overall, we continue to be positive on the sector, as the underlying demand remains strong, and there are winners for many of the losers.

Medicare Mayhem

The managed care companies with exposure to governmental health insurance programs were the largest contributors to this month's sector underperformance. There are 3 reasons for this: First is the sustained high rate of healthcare utilization in the US for Medicare patients, now for the 7th quarter in a row. Second, upcoming changes to reimbursement laws have led to large increases in drug volumes for seniors. Third, with the redetermination of eligibility of Medicaid coverage – which was paused during COVID - the acuity mix of the population has shifted without being reflected in the state insurance rates. **Overall,** these effects mean stronger demand for healthcare, which is positive for other companies.

CRO Chaos

The Life Science Tools & Services space was also under severe pressure, in large part due to weakness in contract research organisation (CRO) names.

These companies are highly dependent on small but also large biotech and pharmaceutical companies outsourcing a part of their clinical trial operation to them. Despite the relative pick-up in the Biotech funding environment over the past 12 months, this has so far not been translating into increased CRO business. In addition, the book of large-cap business also seems to be slowing.

Overall, it seems the shifting end market demand is still misunderstood by markets and companies.

Performance Overview

	1M	3M	YTD	12M
Healthcare	-4.8%	-3.4%	8.6%	19.4%
Medtech	-2.9%	4.6%	10.0%	28.8%
Services	-7.2%	-6.8%	0.4%	4.2%
Pharma	-5.0%	-4.3%	11.7%	18.7%
Biotech	-1.1%	-2.1%	12.1%	24.1%
Tools	-9.9%	-10.8%	1.8%	26.5%
World	-2.0%	4.0%	16.5%	32.3%

Top 5 this month

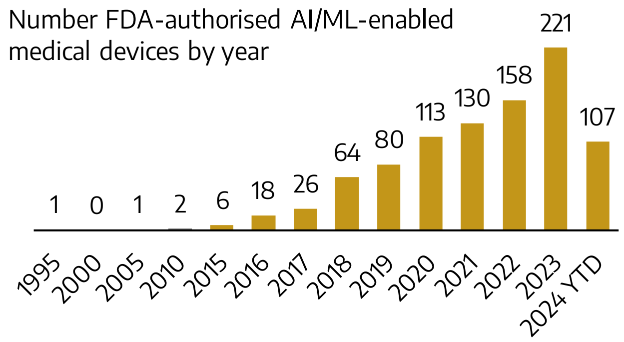
1	Incyte	12%	Earnings
2	Illumina	11%	
3	Sandoz	9%	Earnings
4	Argenx	9%	Earnings
5	Otsuka	8%	Trial data

Bottom 5 this month

1	Eurofins	-23%	Earnings, guidance cut
2	Elevance	-22%	Medicare pressure, miss
3	Carl Zeiss	-21%	Fears around biz in China
4	Smith & Nephew	-20%	Earnings, guidance cut
5	Bayer	-20%	No news

Source: Bloomberg Finance L.P., Kieger

Chart of the Month



AI is rapidly making its way into medtech.

Since 1995 and through August of this year, the FDA has authorized 950 AI and machine learning-enabled devices. But after 2015, the authorisations grew dramatically. Reasons for the uptick include the rise of connected devices, higher investments in AI and growing understanding of regulations. Notably, the radiology sector accounted for 76% of the approvals. These devices offer functionalities, for example, to interpret and enhance image quality or to help position patients for scans. Check out our video on this subject here.

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