

Candriam Equities L Biotechnology

Market Overview

April was a difficult month for the equity markets, with the S&P 500 down the most since September 2023. The culprit? Inflation combined with continued strength in the economy, which, especially in the US, is reducing the probability of any near term rate cuts. A setup that is unfortunately not the most favourable for Healthcare to thrive with significant exposure to longer duration names, although on the ground the sector remains in good shape, with overall good initial first quarter results.

In terms of Healthcare subsectors the trend of the last months reverted, with managed care providers outperforming the broader Healthcare sector. The fear that Healthcare utilisation would be higher than expected didn't materialise. It remains high, but this is factored in the pricing. The logical other side of that trade are healthcare facilities and medical equipment, despite very healthy numbers those lagged the sector, mainly due to high expectations. Small cap biotech names lagged given their long duration nature and high sensitivity to interest rates, creating interesting opportunities for investors but also for strategics.

Portfolio Highlights

April has been a month of numerous clinical and regulatory updates across various disease areas. In cardiology, Cytokinetics presented additional long-term data from their clinical study of Aficamten at the American College of Cardiology. The investigational therapy resulted in substantial improvements in symptoms of obstructive cardiomyopathy. Alynham Pharmaceuticals announced positive results from the Phase 2 study evaluating Zilebesiran in patients with inadequately controlled hypertension, showing clinically and statistically significant reductions in blood pressure. In the area of oncology, at the American Association for Cancer Research (AACR) Meeting, AstraZeneca's novel PARP1 inhibitor has shown promising results in a subtype of breast cancer (ER+ TNBC), with almost half of the patients achieving an objective response and a progression-free survival benefit over the standard of care treatment (Lynparza, another product of Astra). AstraZeneca's Enhertu has shown very promising results in patients with HER2-low and HER2-ultralow breast cancer. This positions the drug as a potential new standard of care for patients with these challenging disease characteristics. In the respiratory disease space, Amgen and AstraZeneca announced encouraging data from the Phase 2 trial for Tezspire in chronic obstructive pulmonary disease (COPD). The drug demonstrated a reduced annualised rate of disease exacerbations, with more reductions observed in patients with higher baseline eosinophil counts. In the mental health space, Neurocrine Biosciences reported positive Phase 2 data for an investigational first-in-class AMPA positive allosteric modulator in adults with depression. The study demonstrated a statistically significant and clinically meaningful change in symptom scores.

In terms of business development activity, some significant transactions have taken place across various therapeutic areas. Vertex Pharmaceuticals has announced the acquisition of Alpine Immune Sciences at a high premium. Alpine's lead product, povetacicept, has demonstrated best-in-class potential in patients with IgA nephropathy and will complement Vertex's kidney disease franchise. Genmab has acquired a private company to gain rights to the clinical-stage drug candidates, including a promising antibody drug candidate (ADC) targeting folate receptor alpha (FR α) in development for ovarian cancer and other solid tumours. Incyte has agreed to acquire a private company active in the area of autoimmune skin disorders, with lead assets targeting the novel target MRGPRX. These strategic moves highlight the ongoing efforts by these companies to strengthen their portfolios and expand their presence in various therapeutic areas.

Regarding regulatory updates, several therapies have received regulatory green lights. Legend's Carvykti received FDA approval for the treatment of multiple myeloma patients in the second line of therapy. This important label extension positions Carvykti as a promising treatment for much broader range of patients. AstraZeneca's Enhertu was approved as the first ever tumour-agnostic HER2-directed therapy for previously treated patients with metastatic HER2-positive solid tumours. Genmab's Tivdak received full approval for the treatment of patients with recurrent or metastatic cervical cancer with disease progression on or after chemotherapy, positioning Tivdak as a potential new standard of care for these patients.

In recent earnings announcements, several biotech companies have reported their financial performance and progress. Eli Lilly posted Q1 results with revenues slightly below consensus but up 26% year-over-year. The total anti-obesity medicines franchise sales missed expectations due to supply constraints, but full-year guidance was raised as demand remains very high. AstraZeneca reported a high single-digit revenue beat across products except for one product. The company reiterated its guidance, indicating confidence in its future performance.

Fund Outlook

The macro backdrop has evolved materially since last month, with inflation turning out to be more sticky and healthy economic growth still in the loop. The probability of rate cuts reduced materially and this was priced in the market in April. It is difficult to anticipate how inflation and the interest rate path will continue from here, but from a bottom-up perspective we did see very healthy first quarter numbers so far. This combined with a reduction in stock prices stems us optimistic as investors, but we acknowledge that the macro environment needs to become more clear for the sector to work. Our long term positive stance on the sector based on the high level of innovation we observe combined with the demographic trends remains unchanged.

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