

# Candriam Equities L Biotechnology

## Market Overview

Markets closed the month of June in green, with technology stocks once more leading the pack and the other sectors remaining significantly behind. In fact, within the S&P 500, most other subsectors closed the month with a negative performance, with healthcare as one of the few exceptions. Reflecting some signals that the economy is losing some speed, the 10-year US government yield also trended slightly down. That provides a minor tailwind for longer duration sectors, especially those with limited sensitivity to the state of the economy. That translated in the movements of the healthcare subsectors, with biotechnology as one of the leading healthcare subsectors over the month. However, more than rates, positive clinical and regulatory data have driven the biotechnology sector higher. Several large cap biotechnology companies, such as Vertex Pharmaceuticals and Regeneron Pharmaceuticals, continued to show strong performances with Vertex leading the sector over the month, while small-cap stocks faced some volatility.

## Portfolio Highlights

June was a month filled with significant clinical updates across various therapeutic areas. Starting with much awaited positive topline data of Alnylam Pharmaceuticals from its Phase 3 HELIOS-B study of vutrisiran, RNAi therapy for the treatment of cardiomyopathy due to ATTR amyloidosis. The study achieved statistical significance on all primary and all secondary endpoints, demonstrating a significant reduction in the composite of all-cause mortality and recurrent cardiovascular events, according to the best case scenario.

The momentum in the obesity names continued, with Eli Lilly and Novo Nordisk's good performance backed by strong script data, suggesting upside to estimates and continued positive news from the clinic. At the European Association for the Study of the Liver (EASL) Congress Eli Lilly's diabetes and obesity drug tirzepatide showed promising results also in the treatment of metabolic dysfunction-associated steatohepatitis (MASH), including fibrosis improvement and MASH resolution. Zealand Pharma's MASH drug candidate also demonstrated a strong fibrosis improvement. Additionally, their amylin analog, petrelinitide, has shown a strong weight reduction and a favorable tolerability profile compared to market dominating GLP-1 receptor agonists, offering potentially better-quality weight loss, with more preserved lean mass. In the space of rare diseases, Mirum Pharmaceuticals provided a positive update for their bile acid transporter inhibitor drug in primary biliary cholangitis (PBC) and primary sclerosing cholangitis (PSC) and in oncology, Nurix's data at the European Hematology Association (EHA) meeting highlighted a stellar overall response rate in late line leukemia subtype (CLL).

Positive news came from the FDA, which approved Argenx' Vyvgart in CIDP a rare autoimmune neurological indication, opening a second large market for Argenx' lead product. Sarepta achieved full approval for their Duchenne muscular dystrophy (DMD) treatment for ambulatory patients and accelerated approval for non-ambulatory patients, a best-case scenario for the patients and the company, especially as competitor's gene therapy faced setbacks. Verona Pharma received approval for maintenance treatment of chronic obstructive pulmonary disease (COPD), marking the first therapy with a new mechanism of action to win approval for COPD in more than two decades.

## Fund Outlook

The macroeconomic news flow has had a significant impact on markets over the past couple of quarters, and although the healthcare sector performed well since the beginning of the year, it is lagging the market in which technology names dominate the performance. Relative outperformance of the healthcare sector will be more likely in a situation where the economy cools down. There are some signs of this with reduced consumer sentiment, inflation moderating and the number of job openings per unemployed being back at pre-covid levels. At the same time, the market is only pricing in very modest rates cuts, which creates an interesting setup where a positive surprise is more likely. Fundamentally our long-term positive stance on the healthcare sector based on the high level of innovation combined with the demographic trends remains unchanged.

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