

Candriam Equities L Biotechnology

Market Overview

August was a volatile month in equity markets, starting with a brutal risk-off trade which reverted rapidly to end with equity markets in positive territory. Healthcare played its role as a defensive sector, it resisted well in the downturn and joined in the uptrend over the rest of the month, outperforming the general equity markets over the month driven largely by pharmaceuticals. The first results of the government negotiation on the prices of certain drugs came out, this is part of the inflation reduction act (IRA). The results are in line or even somewhat better than companies had already factored in their guidance, triggering a strong pharma performance. Biotech underperformed as a sector during the month.

Portfolio Highlights

The fund outperformed the Nasdaq Biotech Index NR[®] (NBI) benchmark during August.

In terms of stocks held in the fund that contributed to this relative performance we would highlight the following:

Second-quarter earnings continued with solid results, particularly in the obesity space, where Eli Lilly stood out with strong sales and a subsequent stock rally after ramping up production. Regeneron delivered strong results with revenue and EPS coming in ahead of consensus, Dupixent continuing on its growth trajectory, and switching in the wet AMD franchise from Eylea to high dose Eylea on track. Ultragenyx delivered a solid earnings beat, with their lead product Crysvida beating expectations. BeiGene product sales continued beating expectations in both Q2 2024 and H1 2024 while the company achieved non-GAAP profitability, benefiting from the rapid growth in product revenue. SpringWorks Therapeutics delivered a strong performance in Q2, driven by progress with Ogsiveo, drug for desmoid tumours. The company's pathway to profitability is now within sight, supported by its strategic focus on this key asset.

From the notable clinical updates Avidity Biosciences announced positive initial data in Duchenne Muscular Dystrophy (DMD) patients with mutations amenable to exon 44 skipping. The significant increase in normal dystrophin production and decrease in muscle damage biomarker indicate restoration of muscle health. Alnylam had good performance throughout the month as it approached the release of full data from HELIOS-B trial at the European Society of Cardiology Congress. Despite causing some temporary stock weakness the presentation highlighted robust and consistent benefits for vutrisiran in ATTR amyloidosis with cardiomyopathy supportive of approval.

Regulatory milestones included Ascendis Pharma approval of Yorvipath, a treatment for a hormone disorder hypoparathyroidism. Additionally, Syndax Pharmaceuticals and Incyte gained approval for Niktimvo for the treatment of chronic graft-versus-host disease, providing a new therapeutic option for this challenging condition. On top of that Verona Pharma saw a positive market response following the early August launch of Ohtuvayre, a novel PDE3/4 nebulizer for lung disease COPD. This launch marks a significant step forward in addressing this chronic respiratory condition.

Fund Outlook

The upcoming US presidential election in November might introduce some additional investor caution in the coming months. However, in our view, in contrast to previous elections healthcare is not really a theme in this election so far, and we don't expect a major impact on healthcare stocks. Interest rate cuts are likely to support the equity markets, and biotech typically performs well in an environment of declining rates. Fundamentally our long term positive stance on the sector is based on the high level of innovation combined with the demographic trends remains unchanged.

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