

Candriam Equities L Biotechnology

Market Overview

In September the biotech sector underperformed the broader market. The general market ended the month up following the 50bps interest rates cut by the Fed. The result was a reduction in short term rates with a yield curve that is now no longer inverted suggesting that a soft landing scenario is on the line. This outlook will boost investor appetite towards a move up the risk curve and therefore towards sectors like biotechnology.

The biotechnology sector has therapeutic innovation as its engine for growth and over the last few weeks the sector did not disappoint on clinical trial data. We saw highly compelling data from Summit in lung cancer and from Gilead in HIV prevention. Viridian posted positive phase III data in Thyroid Eye Disease and Ascendis with late stage data for its once weekly product in achondroplasia. This economic backdrop and strong sector fundamentals has led to decent share price momentum.

Portfolio Highlights

The fund preformed in line with the Nasdaq Biotech Index (NBI) benchmark during the month. BioNTech has expanded meaningfully beyond vaccines in our view, developing a promising oncology pipeline. At the European Society of Clinical Oncology (ESMO) meeting, BioNTech presented impressive results, including its new PDL1-VEGF bispecific antibody in the treatment of triple-negative breast cancer (TNBC) and EGFR-mutant non-small cell lung cancer (NSCLC). This mechanism was heralded with much enthusiasm after data in NSCLC was also presented by Summit Therapeutics and its partner. BeiGene had strong performance, driven by the success of Brukinsa, its flagship drug which exceeded sales expectations and the company reached profitability during Q2 2024, earlier than anticipated by investors. Viridian saw its stock rise, fuelled by positive clinical trial updates for its thyroid eye disease (TED) programme. Alnylam continued its strong run following the release of positive Phase 3 data for vutrisiran in ATTR amyloidosis with cardiomyopathy with details disclosed in September, including new data reinforcing the drug's benefits. Ascendis saw its stock rise after its candidate for achondroplasia demonstrated positive results, particularly in annual growth velocity. Its weekly injection regimen could be considered an improvement over Biomarin's competing product, Voxzogo, which requires daily injections. While Ascendis contributed positively, Biomarin's performance was negative.

On the downside, September was challenging for obesity-focused companies, with both Eli Lilly and Novo Nordisk declining. This was partly due to sector rotation away from healthcare, where top performers saw some profit-taking. Novo Nordisk also faced disappointment from clinical data for its novel obesity drug, Monlunabant (a CB1 antagonist), though this drug was not expected to be a major value driver. Finally, Regeneron faced some pressure after Amgen won a legal battle, paving the way for an earlier launch of biosimilar Eylea. While this presents a small challenge, Regeneron is proactively switching patients to a higher efficacy high-dose version of Eylea. The stock recovered somewhat by the end of the month, supported by the approval of Dupixent for chronic obstructive pulmonary disease (COPD).

Fund Outlook

We continue to believe that innovation is robust in the sector, many new drugs hitting the market and in development offer compelling efficacy for patients and therefore will continue to be prescribed and paid for. Drug development news flow will continue to drive share prices irrespective of the interest rate outlook but the mid-term outlook here is more accommodative of the biotechnology sector. We expect M&A to continue at a pace as larger cap companies look to smaller and mid cap biotechnology companies to fill R&D pipelines.

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