

Candriam Equities L Biotechnology

Market Overview

In December, biotech stocks underperformed both the broader Healthcare sector and general markets, pressured by rising long-term interest rates and a challenging funding environment. This macroeconomic pressure exacerbated challenges within the sector, including regulatory uncertainties and mixed clinical outcomes from key players. However, the sector continued to showcase innovation, with notable successes from companies such as NewAmsterdam, Viridian, Neurocrine or Verona Pharma.

Portfolio Highlights

The fund performed in line with the Nasdaq Biotech Index (NBI) benchmark over December. NewAmsterdam emerged as the top performer for the month, driven by robust Phase 3 results showcasing not only a significant reduction in LDL cholesterol but also a 21% reduction in major adverse cardiovascular events (MACE) at one year. Positive clinical data updates came from Viridian, which completed a successful trial in chronic thyroid eye disease, outperforming a competitor's drug (Tepezza) and establishing a differentiated profile.

Verona Pharma continued its strong performance as the rapid uptake of Ohtuvayre, a novel PDE3/4 nebulizer for COPD launched in August, suggests it could become one of the most successful COPD drug launches in history. Regulatory wins contributed to gains for Neurocrine Biosciences, which secured FDA approval for Crenessity to treat congenital adrenal hyperplasia, a rare endocrine disorder, and Ionis Pharmaceuticals, which gained approval for Trygonlza to address familial chylomicronemia syndrome, a severe triglyceride disorder.

Obesity treatments remained in the spotlight, with Eli Lilly's Surmount-5 trial demonstrating superior weight loss for Mounjaro compared to Novo Nordisk's Wegovy. Novo later released data for CagriSema, its weight-loss candidate, which also showed strong efficacy, comparable to Mounjaro in cross-trial comparisons. Despite this, Novo's stock traded down due to higher market expectations. Both companies remain dominant players in the competitive obesity market.

Among the detractors, Agios Pharmaceuticals saw weakness following updates for mitapivat at the ASH conference. Keros Therapeutics also declined after voluntarily halting high-dose arms of its pulmonary arterial hypertension (PAH) trial due to an unexpected side effect relatively late in its phase III study. Vertex Pharmaceuticals faced challenges following disappointing results for suzetrigine, its pain therapy, which failed to outperform placebo in lumbosacral radiculopathy. However, the company's stock recovered slightly after securing approval for a novel triple-combination therapy in cystic fibrosis, offering improved dosing and efficacy.

Fund Outlook

2024 was a difficult year for Healthcare and Biotechnology equities. The uncertainty cast from the new US Administration has led many investors that can, to invest elsewhere. And although consensus is starting to converge that the expected appointments across US government healthcare roles may not prove as bad as initially feared for the sector it could well cast a shadow for some time in the early part of the year. M&A which often acts as a support for the sector was off its highs in 2024 and the R&D innovation from China was seen as a competitive threat to the US based listed biotech companies. There was however, some very strong clinical data released during the year which was rewarded in share price appreciation and capital markets were healthy and largely “open for business” in terms of supporting secondary cash issues. Further, although off the recent all-time highs US drug approvals remain consistently high and robust. Valuations across the sector now appear extremely compelling and in light of the continued innovation in R&D across the sector, healthy capital markets for access to funding and some significant commercial opportunities for drugs that make an impact to patients we can see an opportunity for share price appreciation; especially as the uncertainty on the US political side clears throughout the first half of the year.

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