Healthcare Sector Update

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At the moment, the healthcare sector is operating within an extremely complicated and volatile macroenvironment. The coronavirus epidemic came on very quickly and has changed the way that America and the world function. This impact may ultimately reverse but, at best, is here for some time.

It would have been hard to imagine, just a few weeks ago, that we would be in the clutches of a worldwide pandemic, sheltering in place, headed toward near-record unemployment and almost certainly in a significant recession. The economic and social situations are dire, people are sick and a significant number are dying.

From a macro perspective, it's true that we have seen and will likely continue to see staggering new jobless claim numbers. We will also almost certainly see an historic swing from robust growth to contraction/recession over just a few weeks' time. That is the bad news. It is surely bad, and I expect it will echo through the U.S. and the world for years to come.

But there is also some good news, generally and specifically for the healthcare sector. From a macro perspective, this tsunami of bad news has been met with a remarkable response locally by the U.S. government and the private sector, as well as globally by a host of other nations.

In the U.S., the Federal Reserve has provided an enormous, stimulatory response that was both rapid and large. In addition, the U.S. executive and legislative branches of government have been no less remarkable. An enormous $2T bailout package was passed by Congress and signed by the U.S. President in just a couple of weeks, remarkably fast given prior experience. There is little doubt that this rapid reaction was necessary to stabilize the economy as well as the equity and bond markets. And while the process wasn't pretty, and may have downstream consequences, the magnitude and timing of the response was up to the considerable task at hand.

One could make a similar analysis of the clinical/medical situation associated with the coronavirus epidemic. The first confirmed U.S. COVID-19 case was thought to have occurred approximately ten to twelve weeks ago (in mid January 2020) and occurred at a time when the U.S. was embroiled in a remarkably partisan atmosphere surrounding the impeachment/trial of the U.S. President. Views can and certainly do differ, but approximately six to eight weeks later, the government has come together (at least a little bit) and much of the U.S. is sheltering at home. And now, a further six to eight weeks later there is hope that we have or will soon reach peak coronavirus case and death rates and may soon have the worst health crisis in a hundred years in some kind of initial control. If this is true, while we mourn the death of every person we have lost to coronavirus, we may now begin to think about the future in a constructive way.

So where does the healthcare sector fit into the current coronavirus situation? As has been widely reported, the U.S. stock market and nearly all subsectors including healthcare have been wildly volatile over the last eight to ten weeks. In that time frame the biotechnology sector exhibited a sudden and dramatic over 25% drop from its most recent high, only to reverse and recover almost all of the earlier drop. Remarkably, the biotechnology sector was only down 3% year to date as of April 16, 2020. This compares favorably to the broad S&P 500 Index which exhibited a similar path but was down approximately 13% in the same timeframe. There is little doubt that we will have some bad days (and hopefully some good days) ahead, but, given the enormous psychological and physical impact of the coronavirus epidemic, we would not have expected such a limited market drawdown.

We think it is interesting and instructive that healthcare has performed relatively well so far. We think this is due to several factors. It probably helps that the sector has traditionally been thought of as defensive. But more importantly, in a world where commerce has all but shut down, we think that healthcare is positioned to prevail. People will almost certainly continue to take, and pay for, their life saving medicines. Initial observations suggest this is occurring; the economic benefit of this will likely stabilize the healthcare industry in the short-term.

More importantly, it seems to us that healthcare will be a major part of the solution to the current crisis. Sheltering in place will help to "flatten" the services utilization curve. There are and will be many heroes to thank when this crisis is over. But it is the doctors and nurses and other medical professionals working diligently in the hospitals and other facilities that will directly save lives, often in the face of personal health risk. And while this effort is admirable in its own right, the fact of the matter is that most of the healthcare sector is working full time as many other sectors are waiting for the crisis to pass.

It is commonly accepted that, in the short-term, "testing" is what will get the economy back on its feet. And of course, it is the diagnostic healthcare companies that will create these tests, while it is other healthcare sector companies that will distribute and administer the tests.

Perhaps most significantly, in the intermediate-term, it is therapeutic medicines created by biotech and pharmaceutical companies that will improve the timing and outcomes for patients diagnosed with Covid-19. And of course, it will be vaccines produced by these same companies that will keep the world well and working long-term. It is amazing to note that upwards of a hundred companies are working to develop therapies or vaccines to address coronavirus just a couple months after the first U.S. case. For example, there is now promising initial data that suggest that Gilead's drug, remdesivir, may improve outcomes for hospitalized Covid-19 patients.

No one would ever wish that we had gotten to our current situation, but we really think it is the people and companies in the healthcare sector that, along with many others, will play an important role in solving, or at least reducing, the severity of the crisis in which we find ourselves. From firsthand experience I can tell you that this is fulfilling work for the inventors, scientists, physicians, manufacturing, sales and other individuals who do this work, especially at a time like this. But, somewhat sheepishly (due to the gravity of the current situation), I also note that is also a decent place to invest.

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