

Biotech Improves its Long-term Position by Providing Hope Today

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Thesis: Coming into 2020, health care sector stocks were dampened by concerns that the sector was an easy target for the populist impulses of both political parties in an election year, and that some version of price controls could follow. However, as the nation pulls together to battle COVID-19, health care stocks—especially biotechnology—are taking a leading role in providing solutions. In the near term, hopes of producing anti-viral treatments, vaccines, and testing kits for the COVID-19 virus will buoy these stocks. But perhaps more importantly, in the long-run, we believe biotechnology and other health care stocks will become less likely political targets, having proven their importance to society, which may support the multiple expansion that has been lacking over the past few years.

Recent Developments Related to COVID-19

Vaccine development: Moderna set a new record by bringing a potential COVID-19 vaccine into phase 1 testing in just over 9 weeks after the virus' genetic code had first been sequenced.¹ Other companies are also hard at work to develop a COVID-19 vaccine—many in partnerships—such as BioNTech and Pfizer, which signed a new partnership agreement on March 16, 2020.²

Anti-Viral Treatments: While vaccines are designed to prevent people from getting sick, anti-viral treatments are designed to help people that have already become infected. Successful anti-viral treatments may have the earliest impact on easing the COVID-19 crisis.

One of the anti-viral treatments that has shown early promise is remdesivir from Gilead Sciences,³ which is currently undergoing 5 separate clinical trials for COVID-19. This treatment has an early lead because it has been around for a decade, has shown promise in fighting other coronaviruses, and has been shown to be generally safe for humans, since it was also tested to treat Ebola.⁴ On March 19, 2020, President Trump and the FDA signaled that remdesivir is “very close” to being approved for use on COVID-19 patients.

Regeneron—the company that developed a successful treatment for Ebola—is also working on treatments for COVID-19. On March 17, 2020, Regeneron announced that it had identified hundreds of COVID-19 virus-neutralizing antibodies, and had plans to start large-scale manufacturing by mid-April with the intent of beginning clinical trials by early summer. If successful, Regeneron says that hundreds of thousands of doses per month could be produced by the end of summer.⁵ Regeneron also announced the initiation of a clinical trial to evaluate a separate treatment called Kevzara, which is intended to reduce the inflammatory response in the lungs of critically ill COVID-19 patients.

Many other companies, including Biogen and Eli Lilly are working to develop other antibody treatments, with various new partnerships forming.

Testing: The shortage of COVID-19 testing in the US has clearly been a huge problem. To address this problem, the private sector has been unleashed. On March 16, 2020, the FDA provided regulatory relief for private companies to develop diagnostic tests without submitting them for federal review, and without obtaining official emergency clearance.⁶ This was in addition to the emergency clearance that was provided to Roche and Thermo Fisher on March 13, 2020,⁷ which has already resulted in the production and shipping of hundreds of thousands of test kits.⁸ Competition is solving the COVID-19 testing shortage.

Longer Term Implications for Biotech

On the other side of the COVID-19 crisis, we believe there are good reasons to suspect the long-term fortunes of biotechnology stocks may shift upward.

One important outcome to the crisis could be permanent improvements in regulatory efficiency for the health care industry. In a White House press conference on March 19, 2020, President Trump announced that he had directed the FDA to eliminate outdated rules and bureaucracy, and to allow treatments to be deployed rapidly. While these steps are being taken amid a crisis, they allow the public to witness the speed at which regulatory approvals can take place. Consequently, we believe the FDA may face increased pressure to improve regulatory efficiency in the future for other potentially life-saving treatments.

The COVID-19 crisis has also fostered a wave of new partnerships between biotechnology companies, as well as other health care companies. In our view, this may open the door for future industry consolidation, particularly as the fundamentals for big pharma and biotech companies may be less impacted by the COVID-19 crisis, while valuations have come down, and many larger companies have ample cash on their balance sheets. Historically, merger & acquisition (M&A) activity has been an important source of returns for biotechnology stocks.

Lastly, as we emerge from the COVID-19 crisis, we believe the public perception of biotechnology stocks will have improved dramatically, making them much less likely to be targeted for political gains. A direct line can be drawn between the speed at which the private sector has responded to the COVID-19 crisis and their ability to make profits. As these companies embrace new technologies, including cloud computing, AI learning, and big data analytics, the increased pace at which they bring new treatments and medicines to the market may serve to further bolster the public trust in the years ahead.

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¹Source: Yahoo! Finance. “Moderna Up as First Human Trial of Coronavirus Vaccine Begins.”

²Source: CNBC. “Hopes of a coronavirus vaccine mount as three key biotech players make progress.”

³Source: The Wall Street Journal. “Experimental Drug Helps Some Americans Ride Out Coronavirus, NIH Doctor Says.”

⁴Source: STAT. “As the coronavirus spreads, a drug that once raised the world's hopes is given a second shot.”

⁵Source: Regeneron. “REGENERON ANNOUNCES IMPORTANT ADVANCES IN NOVEL COVID-19 ANTIBODY PROGRAM.”

⁶Source: FDA. “Coronavirus (COVID-19) Update: FDA Issues Diagnostic Emergency Use Authorization to Hologic and LabCorp.”

⁷Source: Evaluate. “FDA authorises Covid-19 tests from Roche and Thermo Fisher.”

⁸Source: CNBC. “Thermo Fisher ships coronavirus tests, aims to produce 5 million tests a week by April.”