Health Care Stocks Are Mending Slowly

View from the Observation Deck

1. Since the price of crude oil hit its multi-year low on 2/11/16, the U.S. stock market has been in rally mode. The S&P 500 Index closed at an all-time high of 2,137.16 on 7/11/16. Its previous record high was 2,130.82 (5/21/15), according to Bloomberg.

2. The S&P 500 Health Care Index registered its all-time closing high of 892.26 on 7/20/15. As of 7/11/16, the index stood 5.04% below that all-time closing high, according to Bloomberg.

3. The health care sector, particularly pharmaceutical and biotechnology companies, tend to make good wedge issues for politicians running for office, in our opinion.

4. As indicated in the chart, on 9/21/15, presidential candidate Hillary Clinton spoke out on drug pricing practices after two companies were called out for “price gouging,” according to Forbes. Her pledge to keep therapeutic costs in check if elected has been a bit of a drag on the performance of health care stocks, particularly the drug makers. While drug prices make for good wedge issues, innovation tends to win out in the end, in our opinion.

5. From 9/21/15 through 7/11/16, the S&P 500 Health Care Index ranked 9th out 10 sectors based on total return performance. The index was up 6.45% during that period, compared to 10.60% for the S&P 500 Index, according to Bloomberg.

6. The slower recovery pace could be an opportunity for investors. The S&P 500 Health Care Index’s 2016 and 2017 estimated price-to-earnings ratios were 16.52 and 14.95, respectively, as of 7/13/16, well below the three-year average of 21.55, according to Bloomberg.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Health Care Index is a capitalization-weighted index comprised of S&P 500 constituents operating in the health care sector. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.