Biotechnology Stocks Have Not Been This Cheap In A Decade

View from the Observation Deck

1. From 12/31/06 through 12/30/16, the S&P 500 Biotechnology Index posted an average annual total return of 13.92%, compared to 9.57% for the S&P 500 Health Care Index and 6.94% for the S&P 500 Index, according to Bloomberg.

2. Over that 10-year period, the average year-end P/E ratio on the S&P 500 Biotechnology Index was 19.00. As indicated in the chart, the year-end P/E estimates for 2017 and 2018 are significantly below the period average.

3. The annual earnings (in $) posted by the S&P 500 Biotechnology Index have grown from $49.12 in 2007 to an estimated $234.32 in 2016, or a gain of 377.04% (not shown in chart), according to Bloomberg. That exceeds the cumulative total return of 268.53% (13.92% average annual) posted by the index over the 10-year period.

4. Bloomberg's consensus earnings estimates for 2017 and 2018 were $283.65 and $307.49, respectively, as of 1/31/17.

5. Looking ahead, global spending on medicine will reach nearly $1.5 trillion by 2021 on an invoice price basis, up approximately $370 billion from the estimated spending target for 2016, according to QuintilesIMS. It noted that specialty medicines are expected to grow from less than 20% of global spending a decade ago to 35% by 2021.

6. On 12/13/16, President Obama signed into law sweeping bipartisan health care legislation (21st Century Cures Act) seeking to expand research and speed up the approval process for new drugs and medical devices. We believe the biotechnology sector stands to benefit from this new law.

7. 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 created a drag on the performance of the drug makers, particularly biotechnology stocks, in our opinion.

8. While drug pricing is still a topic of discussion early on in the Trump Administration, we believe that innovation and current valuation levels are two solid reasons for investors to put biotechnology stocks on their radar screens.

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. There can be no assurance that any of the projections cited will occur. Investors cannot invest directly in an index. The S&P 500 Biotechnology Index is a capitalization-weighted index comprised of S&P 500 constituents in the biotechnology sector. 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.