Biotechnology Stocks Still At Reasonable Valuation Levels

S&P 500 Biotechnology Index Price-to-Earnings (P/E) Ratios
(1-, 3-, 5-, 10- & 15-Year Averages with 2017 & 2018 Year-End Estimates)


View from the Observation Deck

1. From 3/9/09 through 9/27/17 (current bull market), the S&P 500 Biotechnology Index posted a cumulative total return of 437.45%, compared to 337.92% for the S&P 500 Health Care Index and 344.09% for the S&P 500 Index, according to Bloomberg.

2. The all-time high for the S&P 500 Biotechnology Index was established on 7/20/15 at a reading of 4,371.83. The index's P/E ratio stood at 22.80 at the end of July 2015. The index began to sell-off after it peaked on 7/20/15.

3. 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 was a bit of a drag on the performance of the drug makers, particularly biotechnology stocks (see chart), in our opinion.

4. From 9/21/15 through 11/3/16, the low for the index in 2016 and just prior to the presidential election on 11/8/16, the S&P 500 Biotechnology Index declined by 15.84% on a total return basis, according to Bloomberg. The sell-off from the peak (7/20/15) through 11/3/16 was 26.76%.

5. Donald Trump's election victory coupled with the inability of the Republicans in Congress to repeal and replace the Affordable Care Act ("Obamacare") has helped temper some of the concern over the federal government’s involvement in the issue of prescription drug prices, in our opinion.

6. From 11/8/16 through 9/27/17, the S&P 500 Biotechnology Index was up 29.73%, according to Bloomberg. While the index has rallied significantly, it closed 9/27/17 at a reading of 4,185.20, still below its all-time high of 4,371.83, according to Bloomberg.

7. The annual earnings on the S&P 500 Biotechnology Index increased from $59.63 per share in 2009 to $235.06 per share in 2016. Bloomberg's consensus estimates for 2017 and 2018 were $262.00 and $278.16 per share, respectively, as of 9/28/17.