Biotechnology Stocks Look Cheap Relative To Past Decade

View from the Observation Deck

1. From 12/31/07 through 12/29/17 (past decade), the S&P 500 Biotechnology Index posted a cumulative total return of 353.77%, compared to 184.46% for the S&P 500 Health Care Index and 126.03% for the S&P 500 Index, according to Bloomberg.

2. Year-to-date through 3/14/18, the S&P 500 Biotechnology Index posted a total return of 7.71%, compared to 3.95% for the S&P 500 Health Care Index and 3.27% for the S&P 500 Index.

3. The all-time closing high for the S&P 500 Biotechnology Index is 4,488.38, set on 1/29/18, according to Bloomberg. As of 3/14/18, the index stood 6.58% below its all-time closing high.

4. As indicated in the chart, the year-end 2018 and 2019 P/E ratio estimates for the S&P 500 Biotechnology Index were 14.88 and 13.34, respectively, as of 3/14/18, significantly below the 10-year (2008-2017) average P/E of 19.43 (not shown in chart).

5. As of 3/14/18, Bloomberg’s consensus earnings growth rate estimates for 2018 and 2019 for the S&P 500 Biotechnology Index were 19.73% and 11.49%, respectively, according to Bloomberg.

6. The annual earnings (in dollars) on the S&P 500 Biotechnology Index increased from $55.25 per share in 2008 to $235.40 per share in 2017. Bloomberg’s consensus estimates for 2018 and 2019 were $281.85 and $314.23 per share, respectively, as of 3/14/18.

7. New and potentially revolutionary drugs, such as cell and gene therapy, along with companies finding new ways to use existing drugs on larger populations, and an anticipated increase in mergers and acquisitions activity make for a healthy biotechnology market, according to Morningstar.

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 (currently 505) used to measure large-cap U.S. stock market performance.

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