

Get healthy returns from these three healthcare stocks

Professional investor Paul Major of the BB Healthcare Trust highlights three of his favourite healthcare stocks.

by: [Paul Major](#) © 25 OCT 2021

As we look towards the post-coronavirus era, the predominant macroeconomic-investment theme is “reopening and recovery”. Investors have been flocking to pro-cyclical, inflation-sensitive and consumer-discretionary investments. Indeed, we may now be reaching the point where the focus shifts from buying the recovery to factoring in the potential risks to its continuation, such as [labour](#), [supply chains](#), and [rising energy prices](#).

The FTSE All-Share index has delivered a total return of around 13% year-to-date (YTD). A pro-growth, pro-recovery environment is not generally one in which healthcare outperforms, as it is not a cyclical sector. But the YTD total returns of the US and European healthcare indices are 11.6% and 10.5% respectively.

All is not as it seems

These impressive figures belie greater turbulence below the surface, however. Small- and mid-cap healthcare companies, especially biotechnology stocks, have fared poorly. The US Nasdaq Biotechnology index has appreciated only 3%. The US small- and mid-cap Russell 2000 healthcare index is down by 9% in 2021, and the widely followed XBI Biotech ETF has slipped by 12%.

Why is this fast-growing, innovative sector struggling and how long might this go on for? In addition to the broader macroeconomic headwinds, three factors stand out for healthcare. Firstly, in the US the Democrats’ continuing push to append some sort of drug-price reform to the budget reconciliation process is dissuading generalist investors from increasing drug-related exposure.

Secondly, the US Food and Drug Administration has become less predictable over the past nine months, prompting investors to discount any potentially significant upcoming approval decision. This will weigh more on early-stage companies than more mature ones with many approved products.

Lastly, the US Federal Trade Commission has also become harder to anticipate, leading companies to fret that mergers and acquisitions (M&A) will become more time-consuming and distracting to management. An “M&A option” premium has long bolstered market sentiment towards small- and mid-cap healthcare companies, but it has now dwindled.

The problems are in the price

None of these three problems looks likely to be solved soon. However, there comes a point when share prices have arguably discounted the obstacles and fallen to attractive entry points – especially for investors concerned about a worsening economic outlook. Two key themes for us are patients taking more responsibility for managing chronic conditions and the provision of care outside of hospitals and doctors' surgeries. We like **Option Care Health** ([Nasdaq: OPCH](#)), a specialist in home-infusion therapies allowing people to avoid hospitals.

We are also impressed by **Tandem Diabetes Care** ([Nasdaq: TNDM](#)), which offers "closed-loop" systems to manage insulin-dependent diabetes efficiently: the insulin pump communicates with the glucose monitor to adjust dosage levels automatically. Finally, we like biotechnology group, **Sarepta Therapeutics** ([Nasdaq: SRPT](#)), a gene-therapy pioneer developing solutions for rare diseases. It looks as though this technology may soon fulfil its promise.