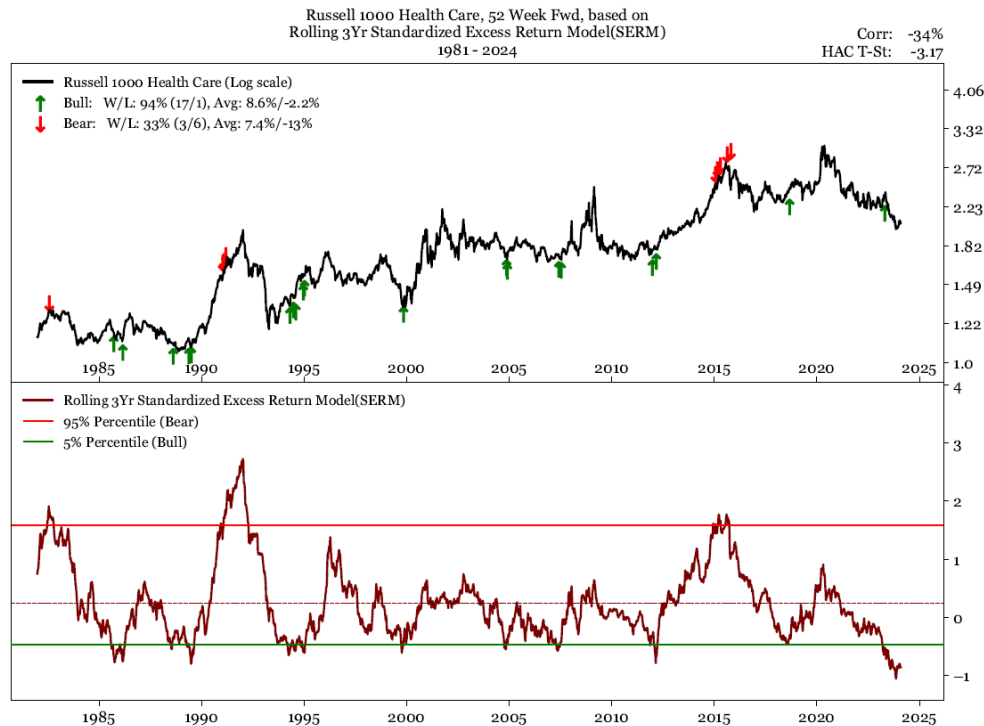




HEALTH CARE DEEP DIVE

February 5, 2024

Absolute trends in Health Care are firming up, but relative performance still lacks the momentum needed to signal an official bullish trend change in our work. That said, the sector is setting up for outperformance as our rolling alpha model SERM suggests a long runway for excess gains. ETF outflows are also at extremes, providing further tailwinds. Historically, seasonal strength doesn't start to pick up until Q2 gets underway, which implies a pause here, but we'd use any pullbacks/consolidation to add to relative strength winners as we start to see more leadership emerge. Biotech and pharma are two groups that are in bullish consolidation phases, especially when we look at the price action in XBI and XPH. Biotech is also attractive on our contextualized valuation model, providing additional support to the group which is on the cusp of a bullish breakout signal. Favorite large-cap longs include ABBV, AMGN, and VRTX. However, strength isn't yet broad based; for example, we're more cautious on GILD as it breaks to new relative lows. We're also seeing green shoots in several HC equipment names; ISRG, ABT, BSX, & GKOS are among favorite longs. Providers & services are more of a mixed bag, having generated a relative breakdown signal recently; stick with strength in distributors & facilities while avoiding weakness in managed care and services.



02/02/2024

What's Topical:

- Relative still weak, large > small ([pgs. 2-3](#))
- ST uptrends softening ([pgs. 4-5](#))
- Long runway on SERM ([pgs. 6-7](#))
- Excessive ETF outflows ([pg. 8](#))
- Market Cycle ([pg. 9](#))
- Yield Impact Model ([pg. 10](#))
- Econ dashboard ([pg. 11](#))
- Valuation model ([pgs. 12-13](#))
- Profitability & quality cheap ([pg. 14](#))
- Seasonal headwinds ([pg. 15](#))
- EU HC golden cross ([pgs. 16-18](#))
- Industry overview ([pgs. 19-20](#))
- Bullish consolidation in biotech & pharma ([pg. 21](#))
- LC leaders in biotech ([pgs. 22-23](#))
- Bullish standouts in SC biotech ([pgs. 24-25](#))
- Rel b/d in GILD a concern ([pg. 26](#))
- LC pharma buys & sells ([pgs. 27-28](#))
- Bullish standouts in SC pharma ([pg. 29](#))
- Life Sci longs ([pgs. 30-31](#))
- Bullish equipment ([pgs. 32-33](#))
- Distributor longs ([pg. 34](#))
- Bullish facilities ([pgs. 35-36](#))
- Bullish & bearish services ([pgs. 37-38](#))

New Cap-Weight Absolute Highs

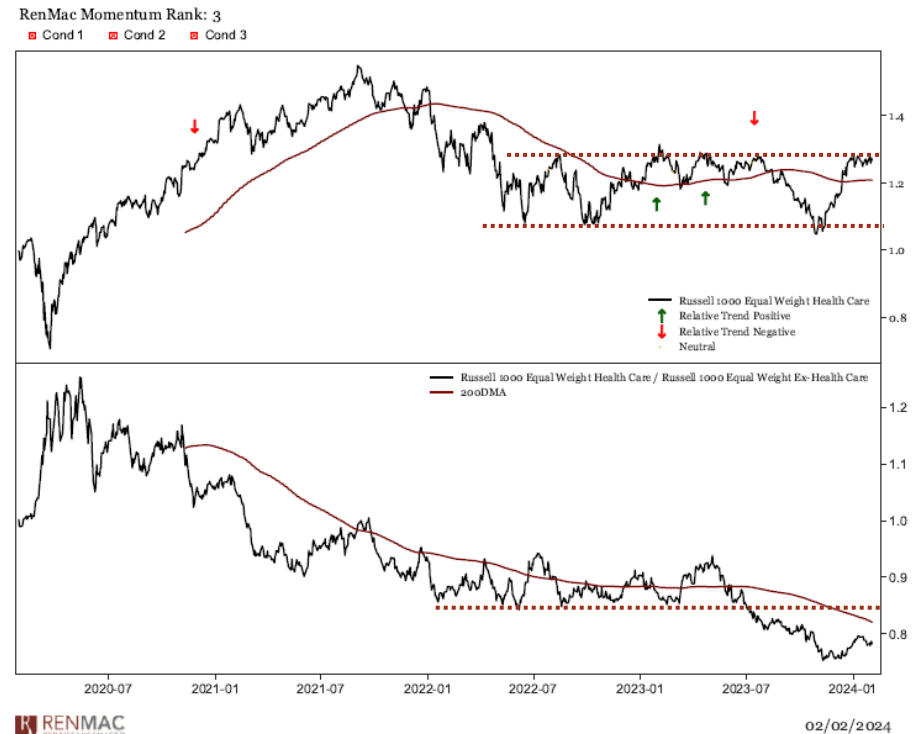


**Russell 1000 Health Care
 Relative to Russell 1000**



Cap-weight RIK Health Care is in a firm absolute uptrend, breaking out above former highs after a bullish response to the recent overbought condition, but relative performance remains muted, a testament to the strength of the broader market.

**Equal-Weight Russell 1000 Health Care
 Relative to Equal-Weight Russell 1000 ex. Health Care**



Equal-weight RIK Health Care is consolidating at absolute resistance. Relative conditions are still flagging negatively with relative performance still dull. There are pockets of strength we want to continue to endorse, but overall trends haven't officially turned bullish yet.

Small-Caps Consolidating Above 200-DMA

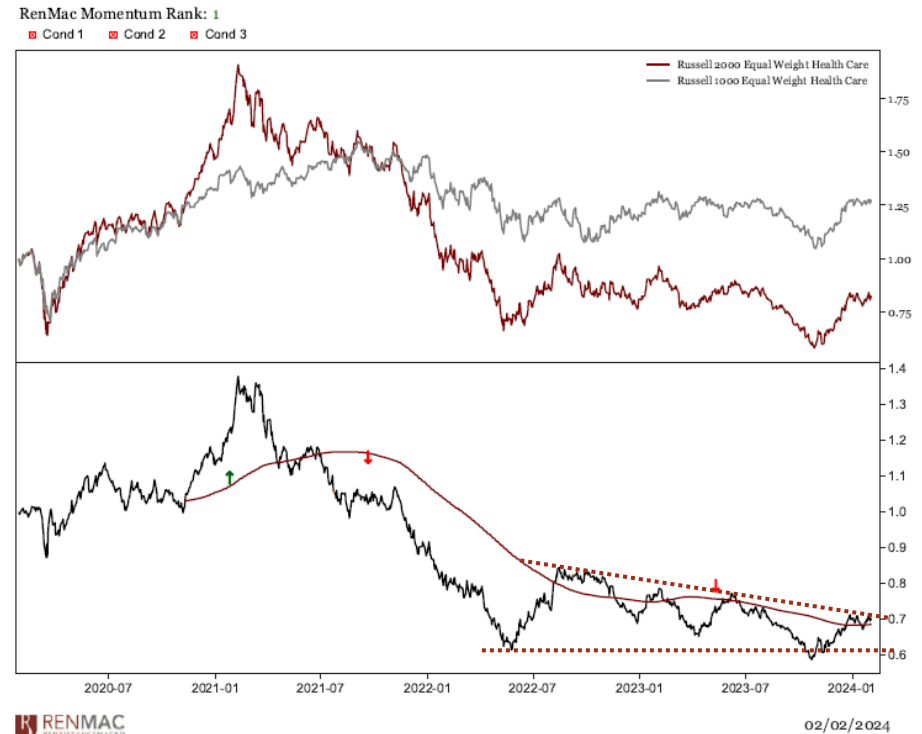


Equal-Weight Russell 2000 Health Care Relative to Equal-Weight Russell 2000



Equal-Weight Russell 2000 Health Care is consolidating above the 200-DMA and testing key downtrend resistance. Relative performance is also at the 200-DMA. We've seen an improvement in momentum, but still waiting for relative conditions to turn.

Equal-Weight Russell 2000 Health Care Relative to Equal-Weight Russell 1000 Health Care



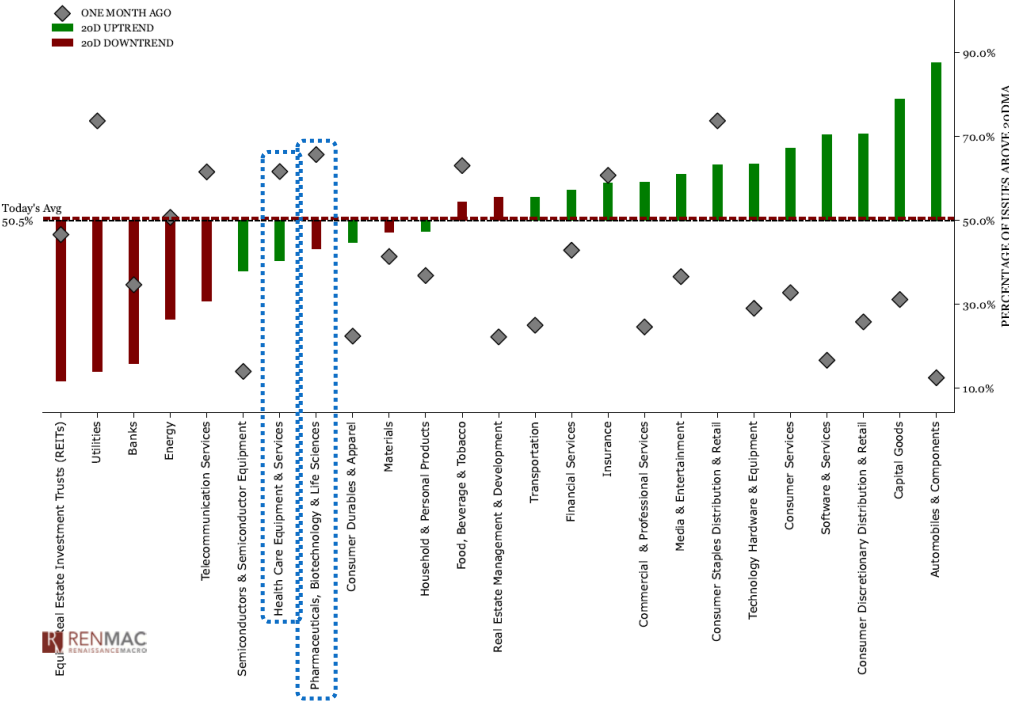
EW R2 Health Care vs EW R1 Health Care has seen an improvement in momentum but is still below downtrend resistance. Continue to stick with relative strength winners in large over small.

Short-Term Uptrends Softening



S&P 1500 Industry Groups Percentage of Issues Above 20-DMA

SP1500 Industry Group PERCENTAGE OF ISSUES ABOVE 20DMA
02/02/2024



Short-term uptrends in Pharma, Biotech, & Life Sci and in HC Equipment & Services have softened after last week's price action

S&P 1500 Health Care Percentage of Issues Above the 65-DMA

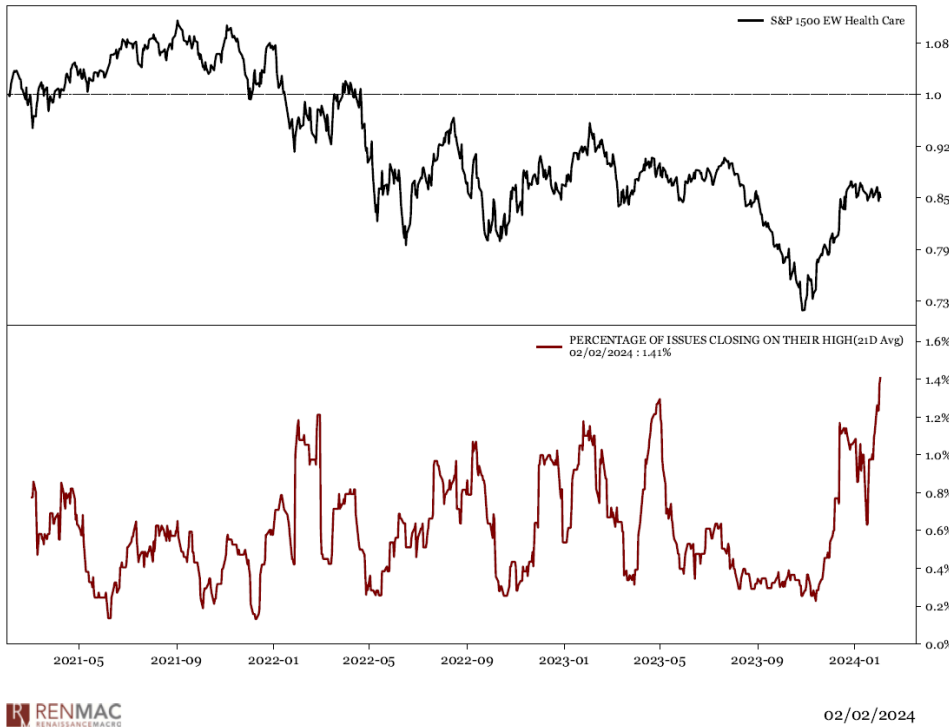


Despite the weakening in short-term momentum, the percentage of issues above the 65-DMA are firm, with 67% of issues above their respective 65-day moving averages.

% in Long-Term Uptrends Still Muted

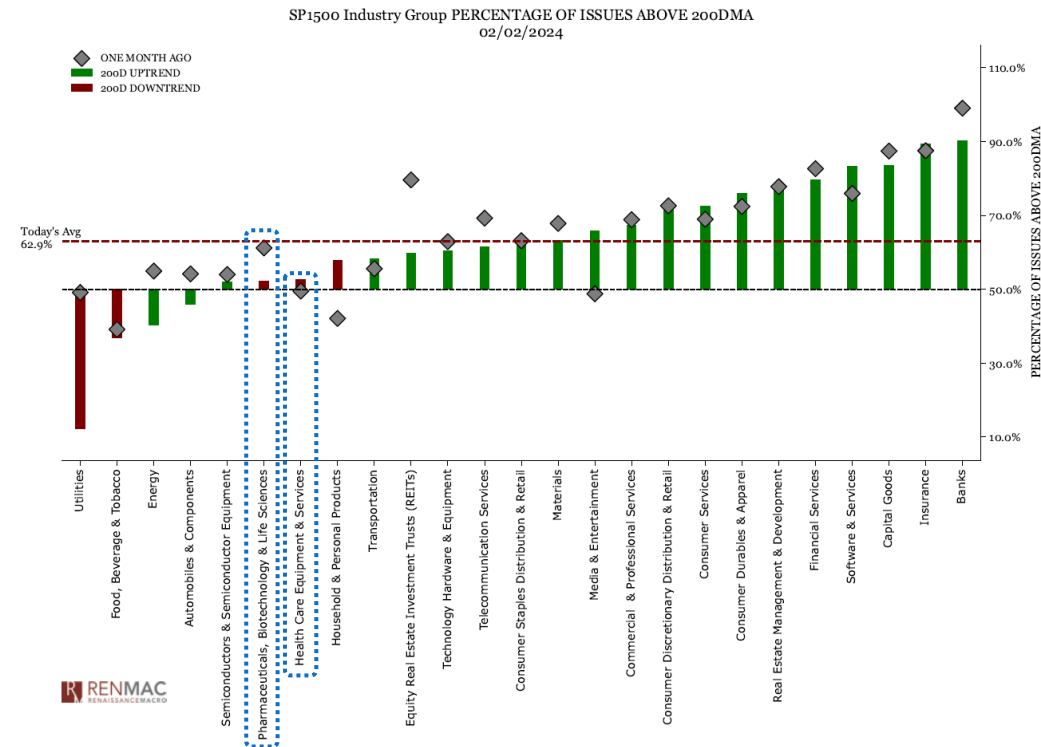


S&P 1500 Health Care Percentage of Issues Closing on their High (21D Avg)



The 21-day average of the percentage of issues closing on their highs is improving and is at the highest levels seen in the last few years.

S&P 1500 Industry Groups Percentage of Issues Above 200-DMA



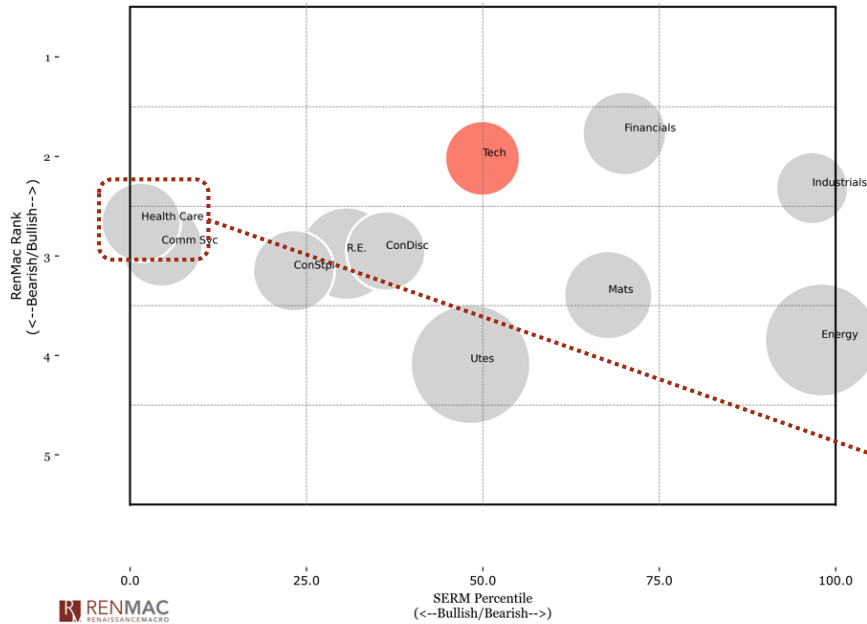
However, both industry groups are still seeing muted long-term uptrends, with both groups among the laggards when it comes to the percentage of issues above the 200-DMA, stressing the importance of relative strength.

SERM Suggests Long Runway



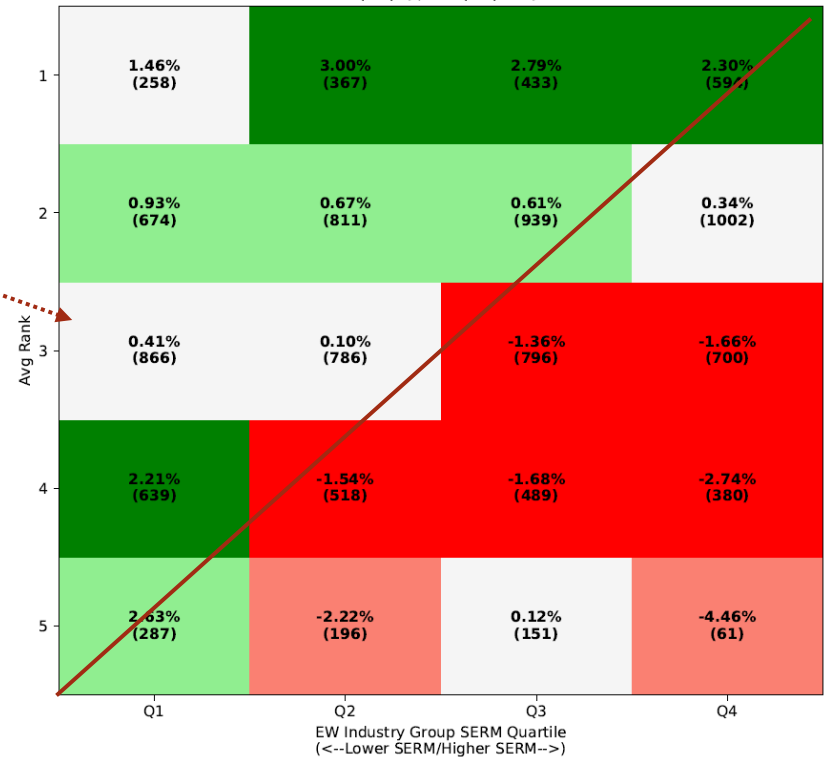
Russell 1000 Sector SERM®

RenMac Russell 1000 EW Sector Bubble Chart
02/04/2024

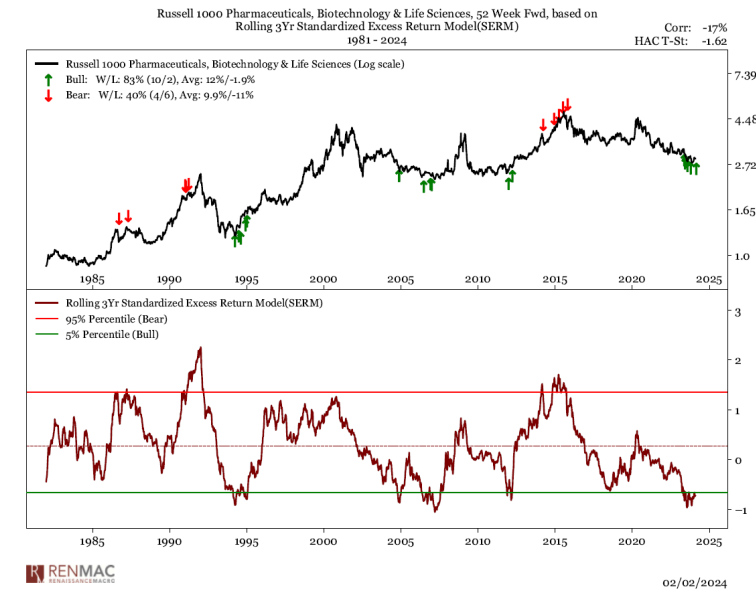
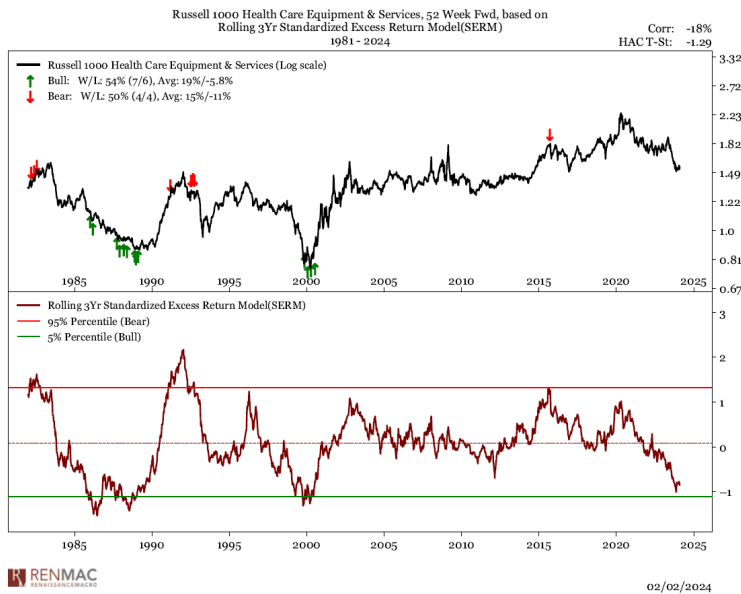
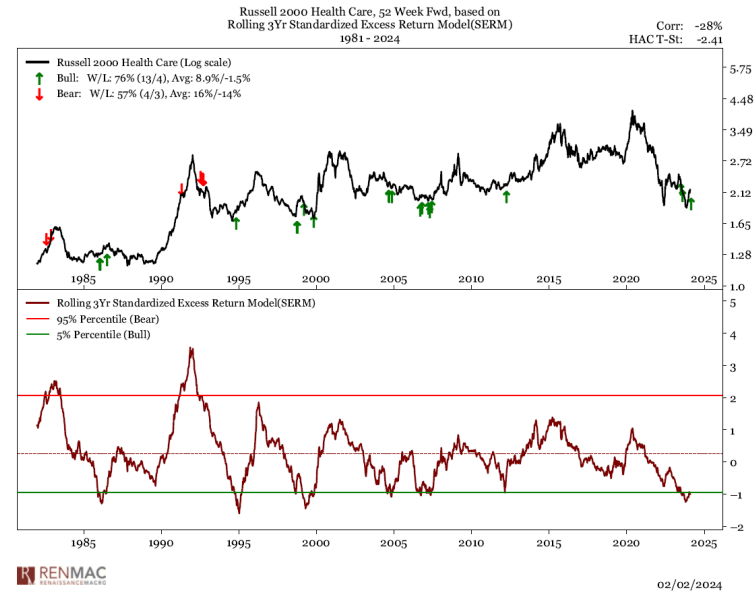
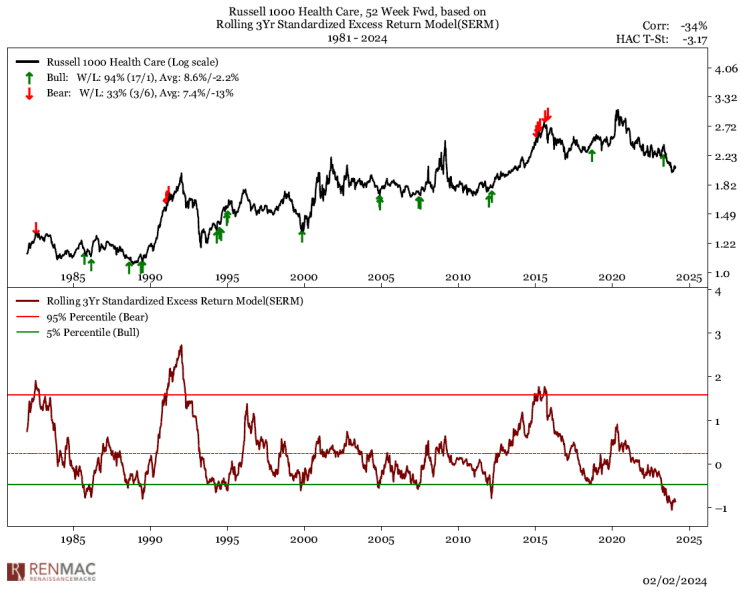


Health Care is currently in a neutral zone on our rolling alpha model SERM. Its positioning suggests a long runway of excess gains as we move through the cycle; endorse relative breakouts in this zone.

SP500 EW Industry Group SERM® & RenMac Rank Avg. 9-month Forward Excess Return over EW SP500



Excess Negative Risk-Adjusted Returns Setting Up for Mean Reversion



ETF Outflows Excessive



XLV US Equity Relative Performance, 63 Trading Days Fwd, based on
252 Day Health Care Equity ETF Flow
2009 - 2024

Corr: 6.1%
HAC T-St: 0.54

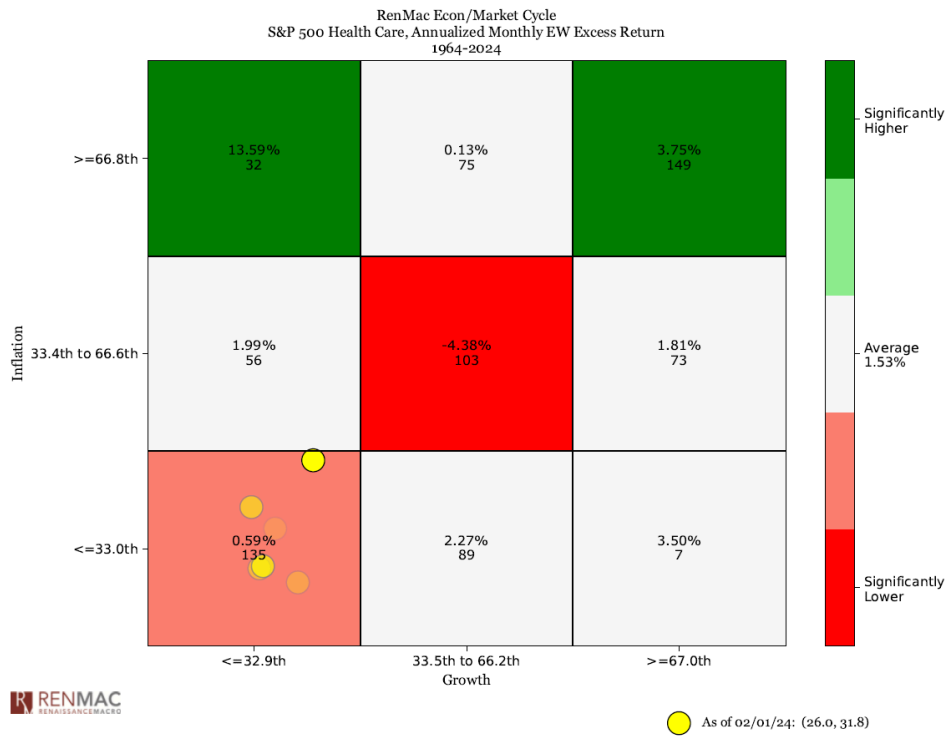


Health Care ETF outflows are excessive on a year over year basis, which is historically an indication of exhaustion, setting up for excess gains.

Market Cycle Clock

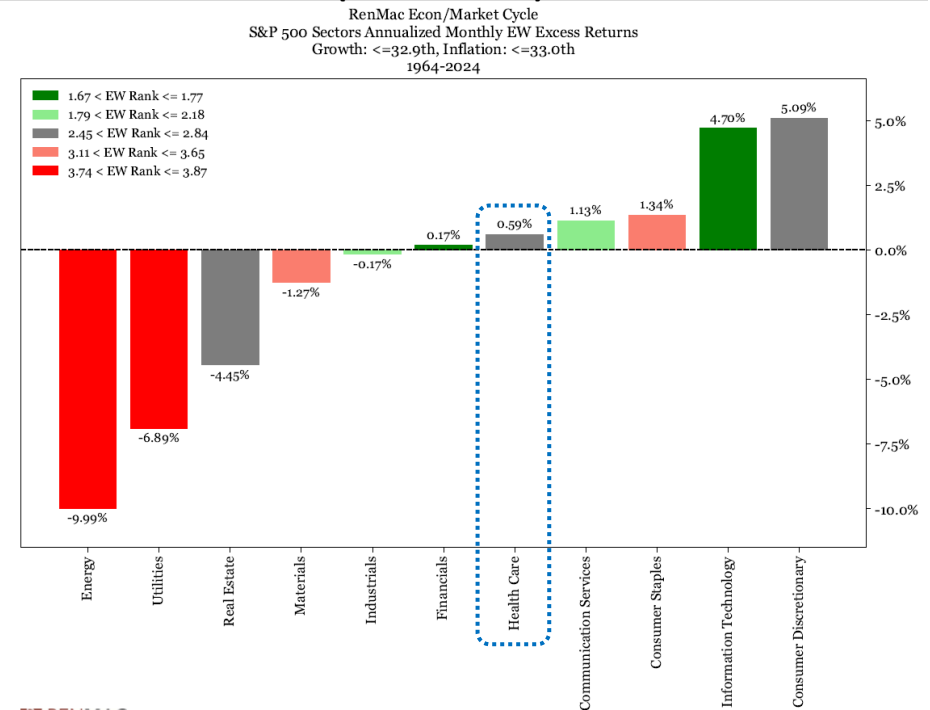


RenMac Econ/Market Cycle S&P 500 Health Care, Annualized Monthly Fwd. Excess Return EW (1964-2023)



An update to the Market Cycle continues to track in the bottom left zone, which is historically flat for Health Care. As we think of where we move to next, the probability that we travel to a zone where growth improves and inflation stays under control is high (bottom middle zone), which is more supportive of gains.

S&P 500 Sectors Annualized Monthly Fwd. EW Excess Returns Based on Current Zone of Market Cycle Clock (1964 – 2023)



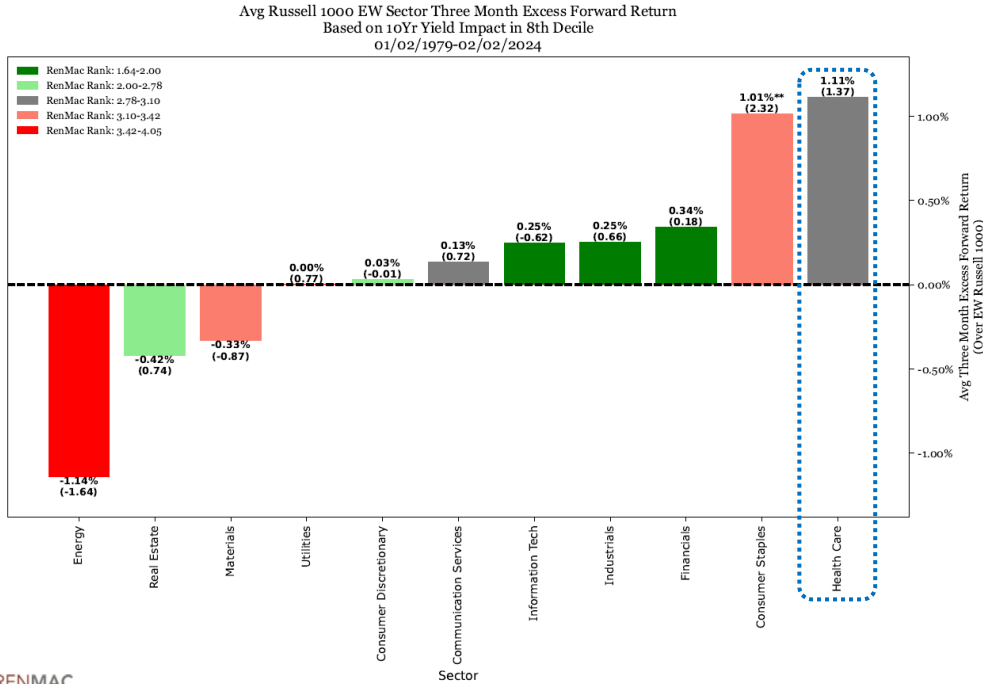
Across the broader market, trends are mixed when we look at sector performance in the current zone. Health Care trends are neutral, which is aligned with historical expectations.



Yield Impact Model Supportive



Avg Russell 1000 EW Sector 3-Month Excess Forward Return Based on 10-Year Yield Impact in 8th Decile



Our Yield Impact Model is now tracking in the 8th decile which is historically supportive of gains for Health Care.

US 10-Year Yields



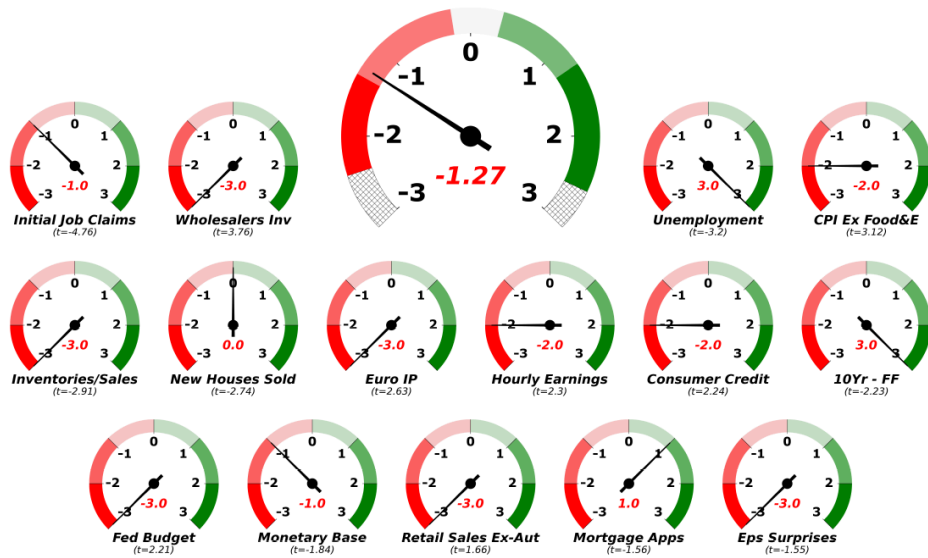
10-Year Yields recently Formed a dark cross. Support comes in around 3.75% and resistance at 4.25% in the near term as it is not yet overbought, but we believe rates ultimately go lower and settle between 3.25% to 3.75%.

Persistent Headwinds from Econ Dashboard



Health Care Economic Dashboard

Health Care Econ Dashboard



RENMAC

02/03/2024

The Equal-Weight Econ Indicator is near the 10th percentile, a zone that is historically bearish for 26-week forward returns.

Our Econ Dashboard continues to be a headwind to the sector.

S&P 500 Health Care Excess Return, 26Wk Fwd., based on EW Econ Indicator for Health Care (1968-2023)



RENMAC

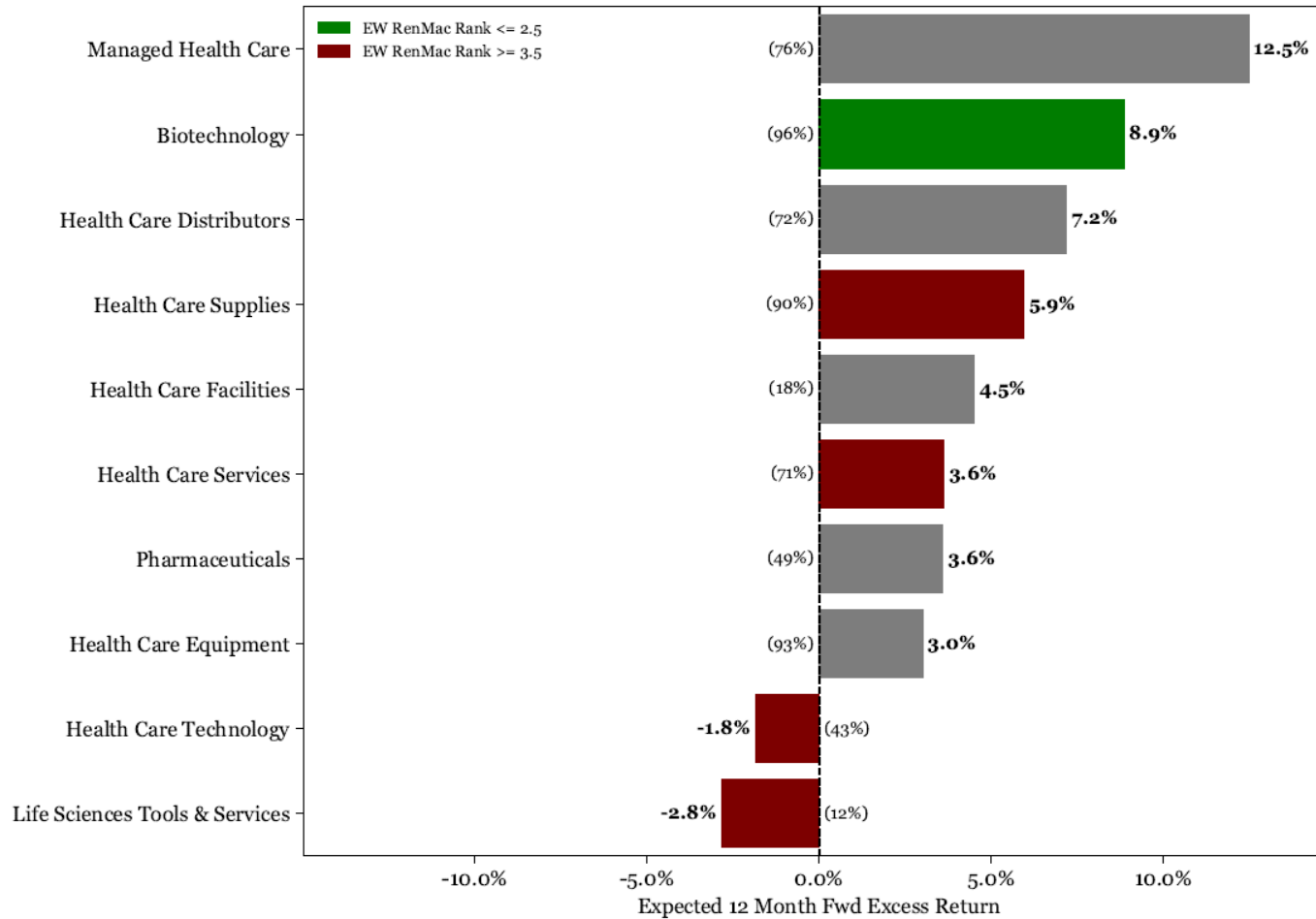
02/03/2024

Biotech Attractive on Valuation Model



Russell 3000 Health Care Sub-Industry Groups Contextualized Valuation Model

Russell 3000 Health Care Sub-Industries
RenMac Composite Value Forecast, Mixed Adjustments Factors
02/03/2024



Our Contextualized Valuation model looks at the most relevant valuation data points for a given sector or sub-industry group to determine its value vs. history and what it implies for forward returns.

Biotech is the only sub-industry group that is attractive from a valuation perspective and is in a bullish trend.

HC Equipment and HC Supplies also rank well in our valuation work, but trends are not aligned.

Life Science Tools & Services are the least attractive on our valuation model and in a bearish trend, a combination we want to continue to avoid.

Biotech Sales-to-Price Bullish



Russell 3000 Biotechnology EW Excess Return, 12 Month Fwd, based on
Biotechnology Sales to Price EW
1981 - 2024

Corr: 24%
HAC T-St: 3.07



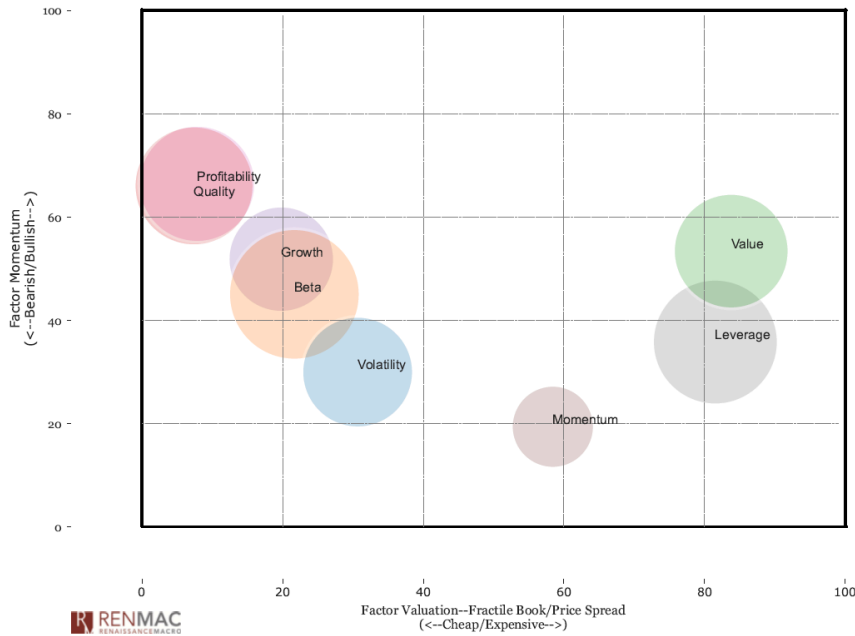
Biotech sales to price on an equal-weight basis is signaling bullishly with high statistical significance and decent forward trading stats on a 12-month basis.

Profitability & Quality Cheap w/ Bullish Factor Momentum



Russell 1000 Health Care Factor Q1-Q5 Bubbles

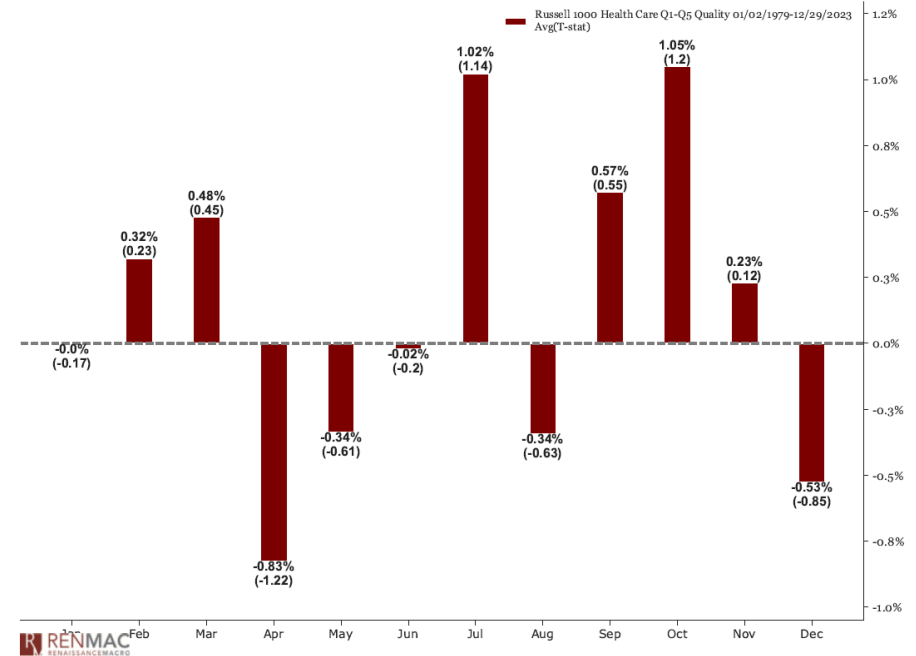
Russell 1000 Health Care Factor Q1-Q5 Bubbles
02/02/2024



Profitability and Quality are now the cheapest Factors within Health Care with bullish factor momentum.

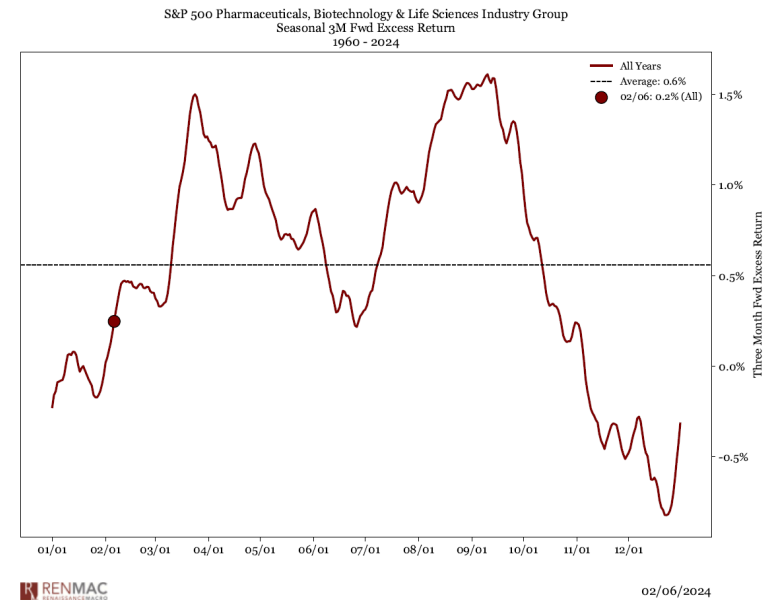
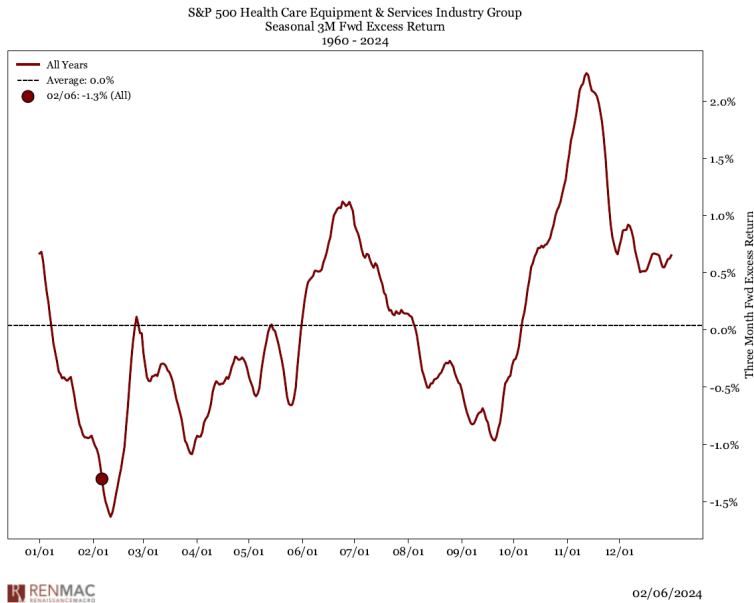
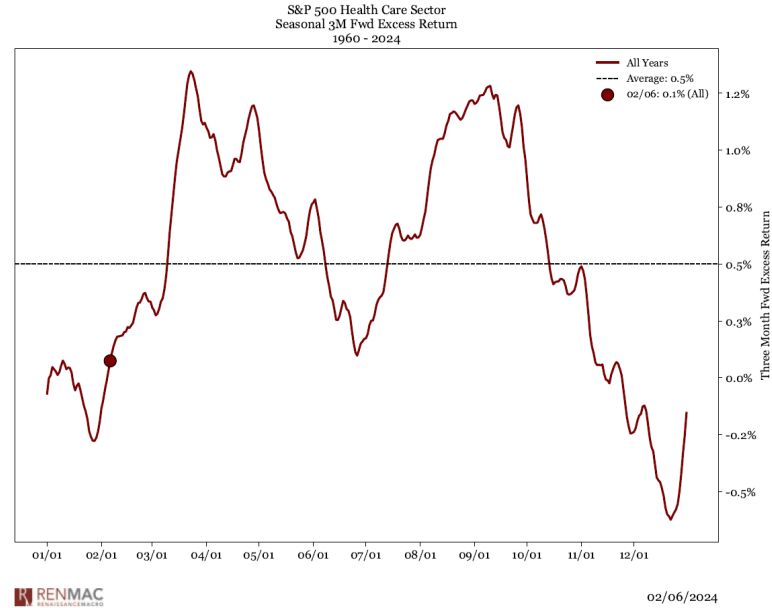
Russell 1000 Health Care Q1-Q5 Quality Monthly Seasonality Bars

Russell 1000 Health Care Q1-Q5 Quality
01/02/1979-12/29/2023



On a seasonal basis, quality tends to do modestly well in the months of February and March.

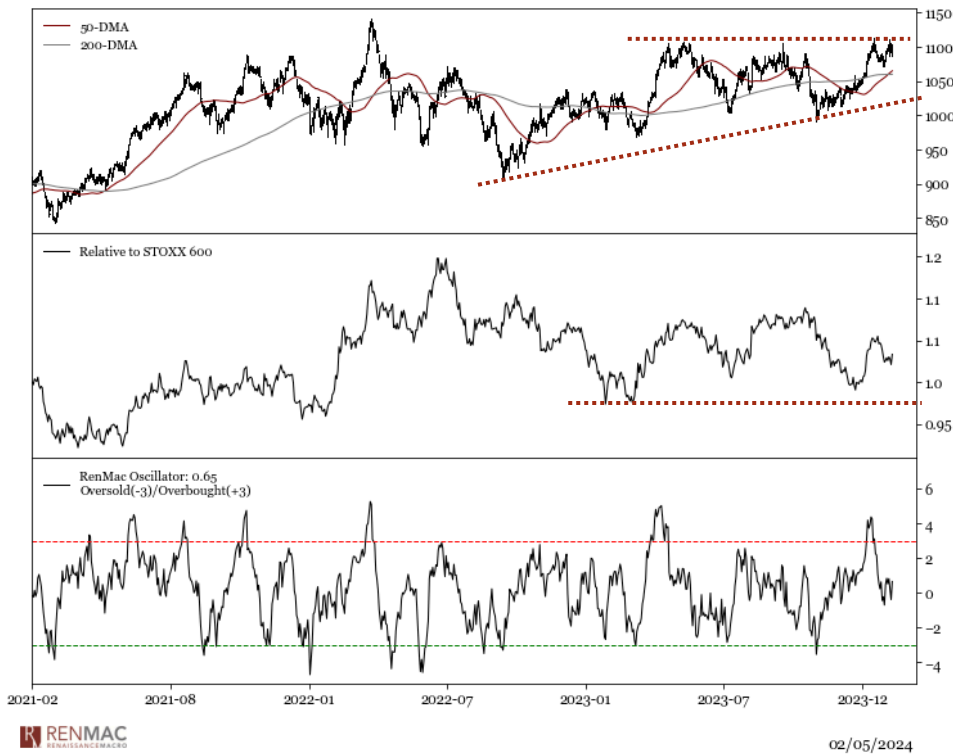
Seasonal Headwinds, Particularly for HC Equipment & Services



Golden Cross in EU Health Care



**STOXX 600 Health Care
 Relative to STOXX 600**



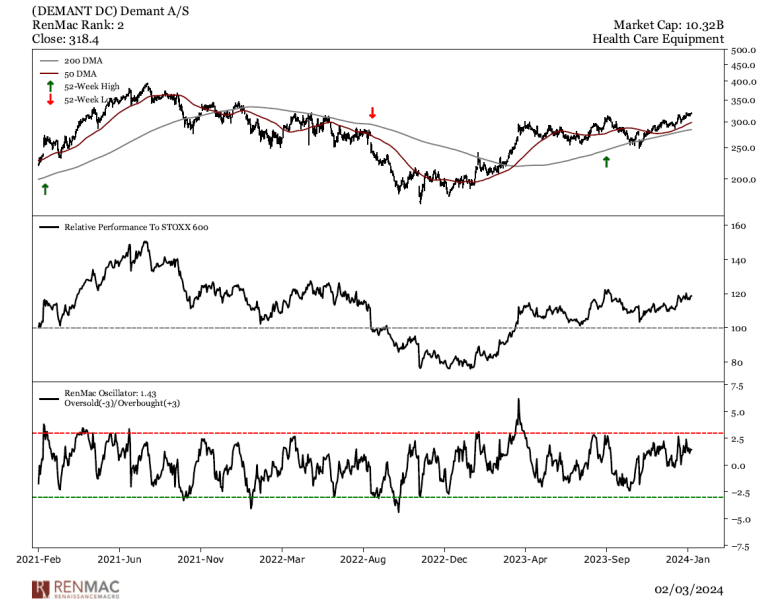
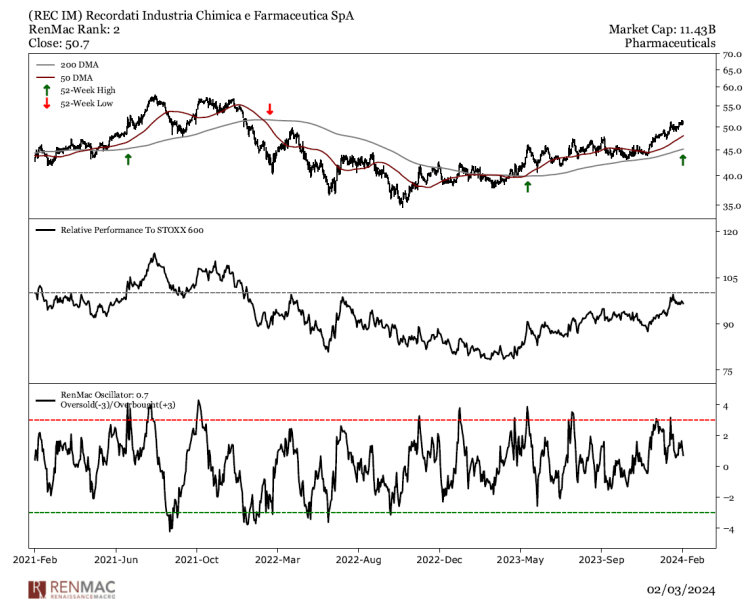
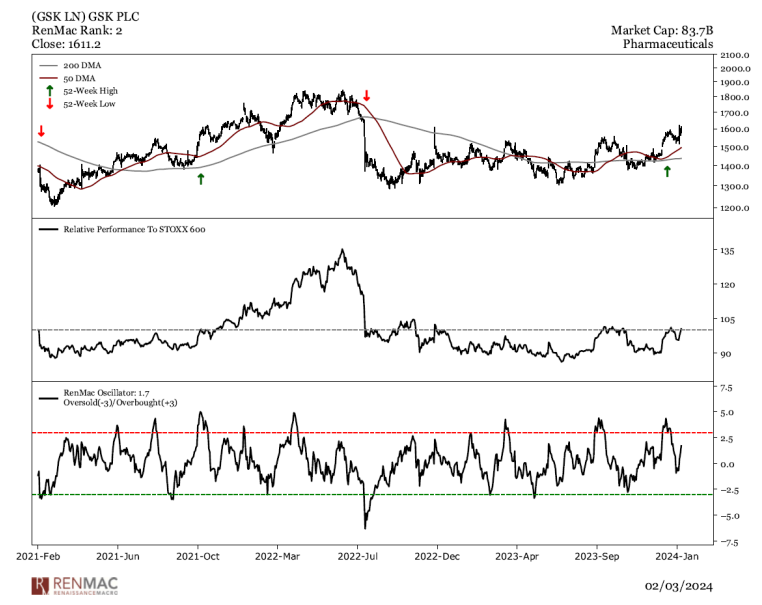
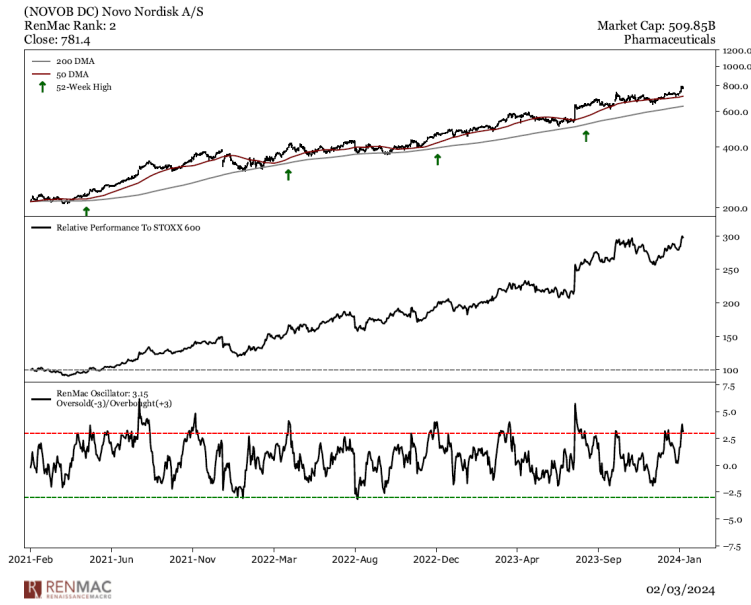
EU Health Care vs US Health Care broke to new relative lows; continue to stick with US Health Care leadership over EU Health Care stocks.

STOXX 600 Health Care recently formed a golden cross as absolute price tests former highs. Relative performance is much more muted, but it's held up well after working off the recent overbought condition. Stick with relative strength winners until we see more participation in relative price.

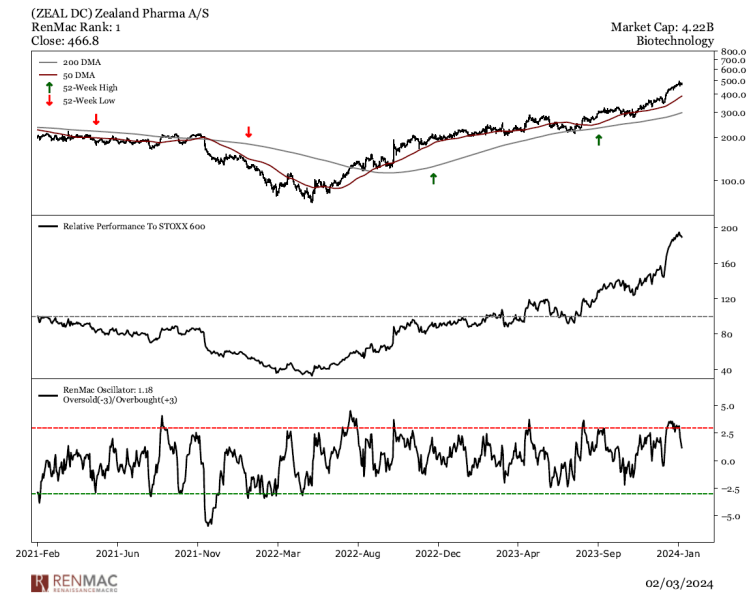
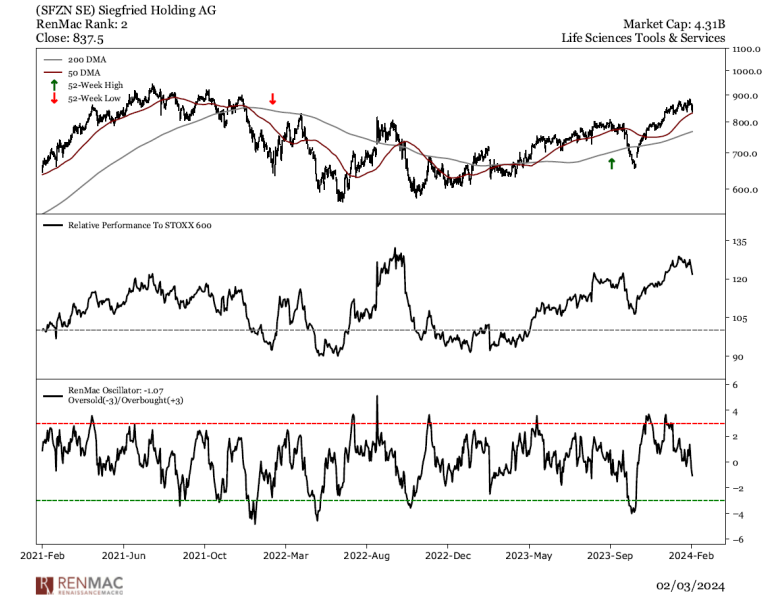
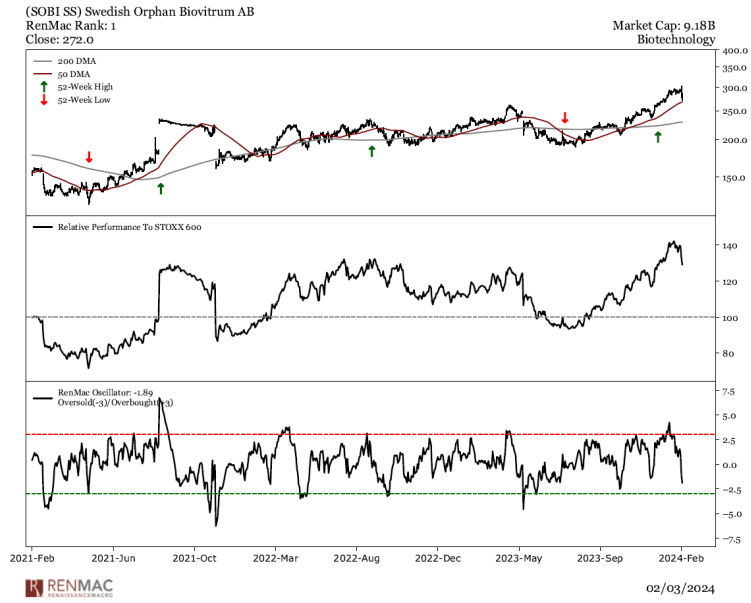
**STOXX 600 Health Care
 Relative to Russell 1000 Health Care**



EU Health Care to Stay Long: NOVOB DC, GSK LN, REC IM, DEMANT DC



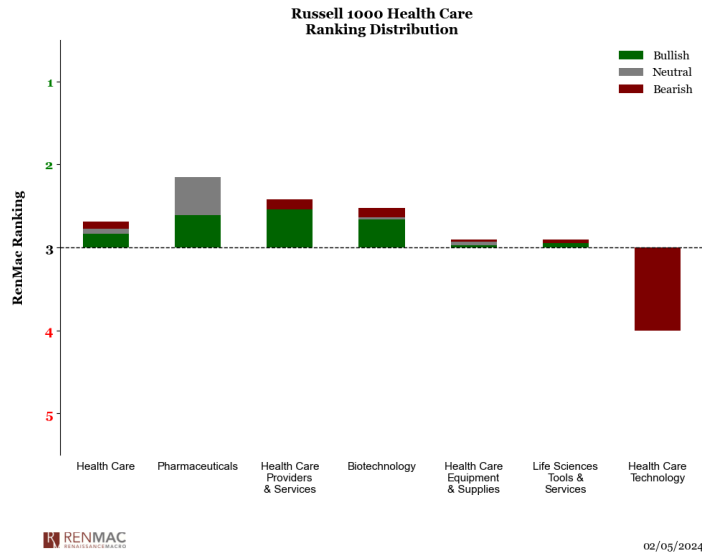
EU Health Care to Stay Long: SOBI SS, SFZN SE, ZEAL DC



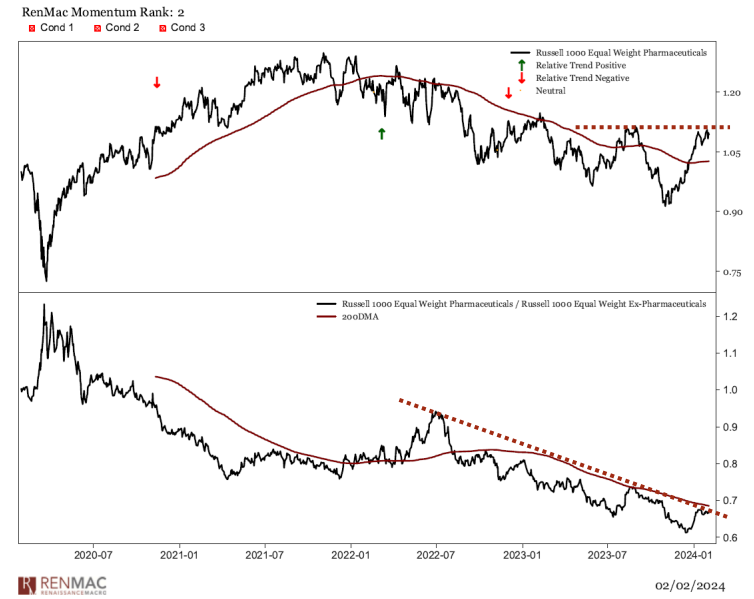
Pharma Now Leading in Best Average Ranks



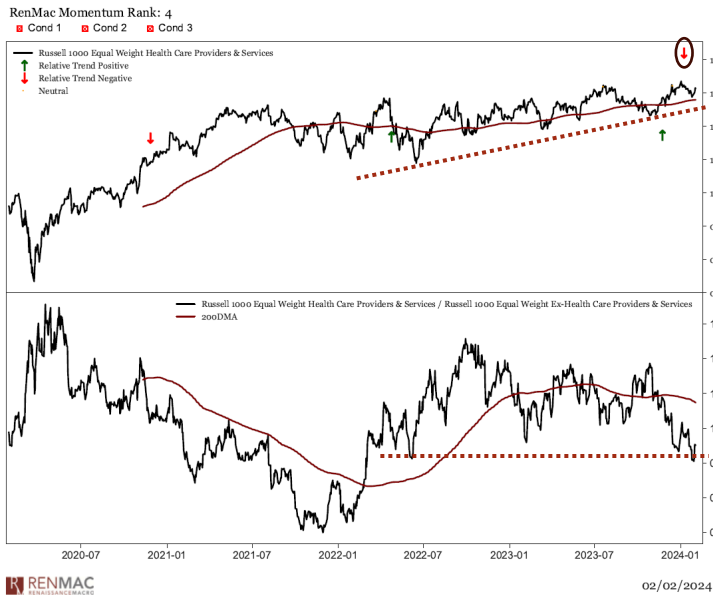
Pharma now ranks best in our work, while HC Tech now ranks the worst.



Pharma has seen improvement in momentum, but all three relative conditions remain negative as relative price stays below resistance at the 200-DMA. Focus longs on relative leadership within the group until we see more participation in overall trend.



Providers & Services recently generated a breakdown signal. While absolute price is firm, the group undercut its previous relative lows. Stick with leadership within the group, particularly in Distributors and Facilities. Steer clear of breakdowns in Managed Care.



Biotech is on the cusp of a relative breakout signal, with 2 of the 3 conditions we watch now flagging positively. The group is consolidating off extreme overbought conditions after making a new 52-week high. Endorse relative breakouts here.



HC Tech Stalling at 200-DMA



HC Equipment & Supplies is up against heavy resistance at the 200-DMA after a momentum pickup in the group. While overall trends are weak and our 3 conditions are still negative, we're starting to see green shoots in the area. Stick with relative strength leaders.



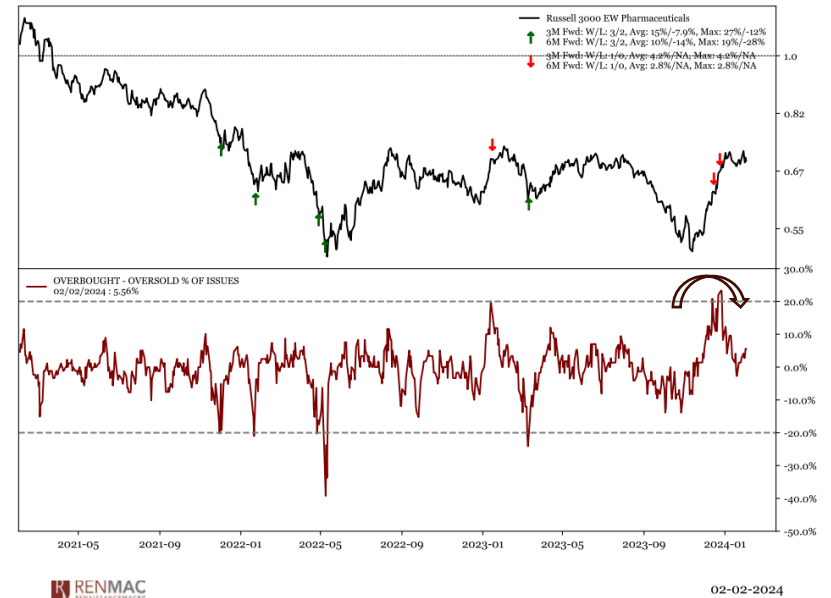
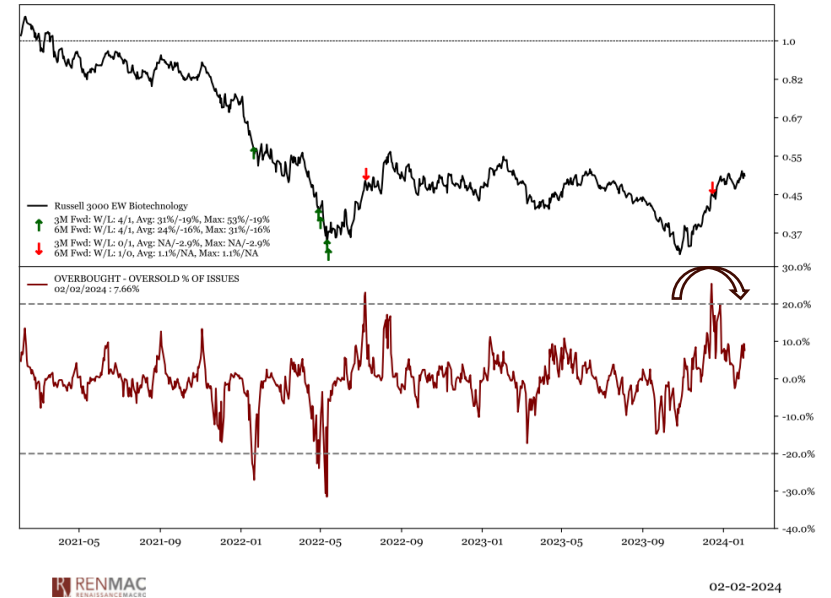
Life Science Tools & Services remain in a steady relative downtrend. Absolute price is holding above support at the 200-DMA, but still has work to do before turning bullish. Continue to avoid names that are hovering at relative lows.



HC Tech is the sector laggard as it stalls out at resistance at the 200-DMA. Relative price remains feeble, in a steady downtrend. Sell strength in the group.

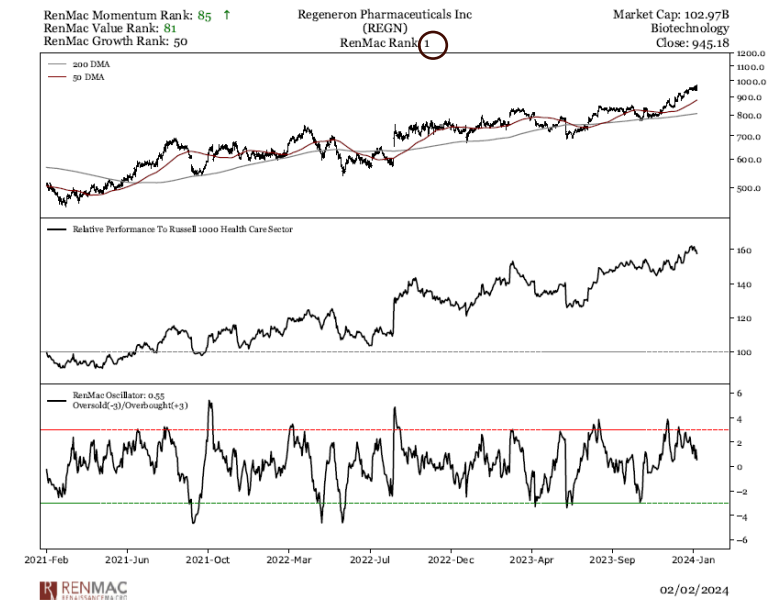
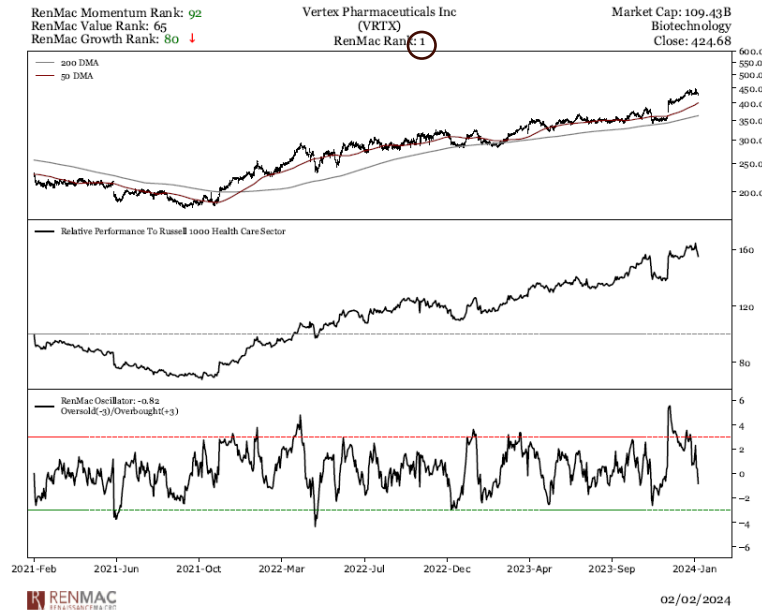
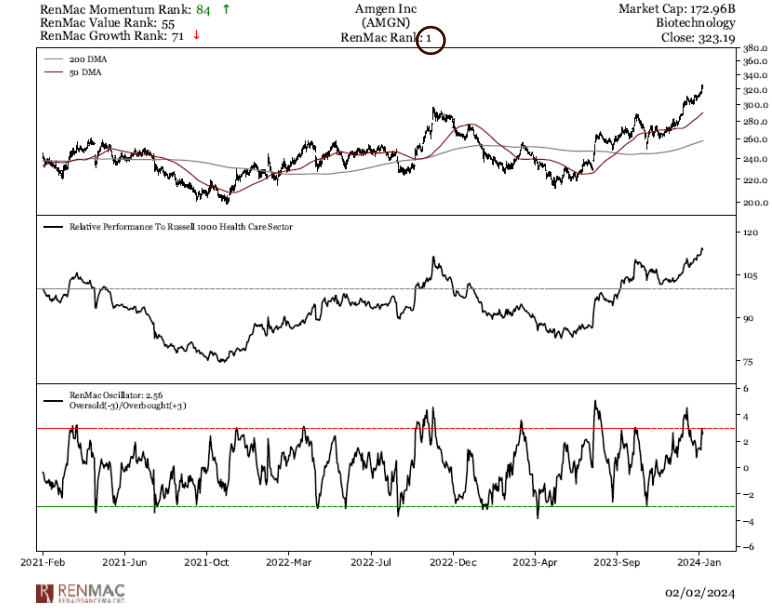
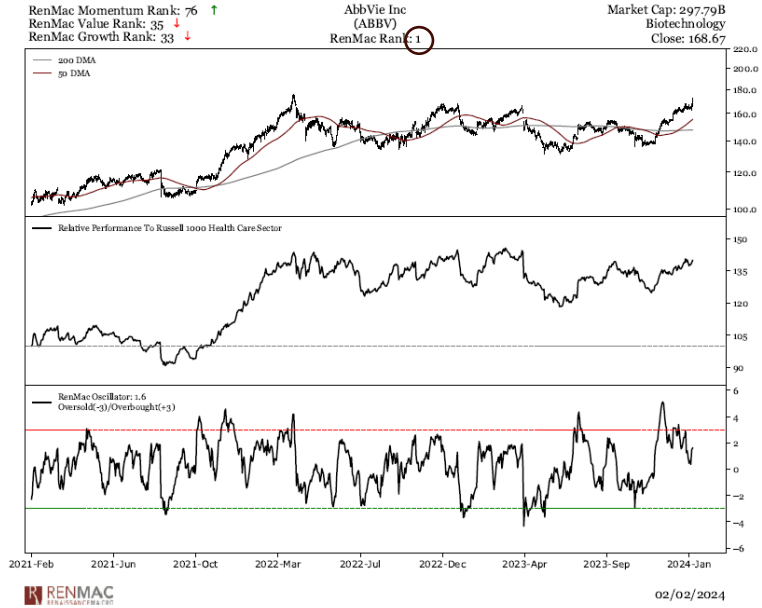


Bullish Consolidation in Biotech & Pharma as Overbought Conditions Work Off

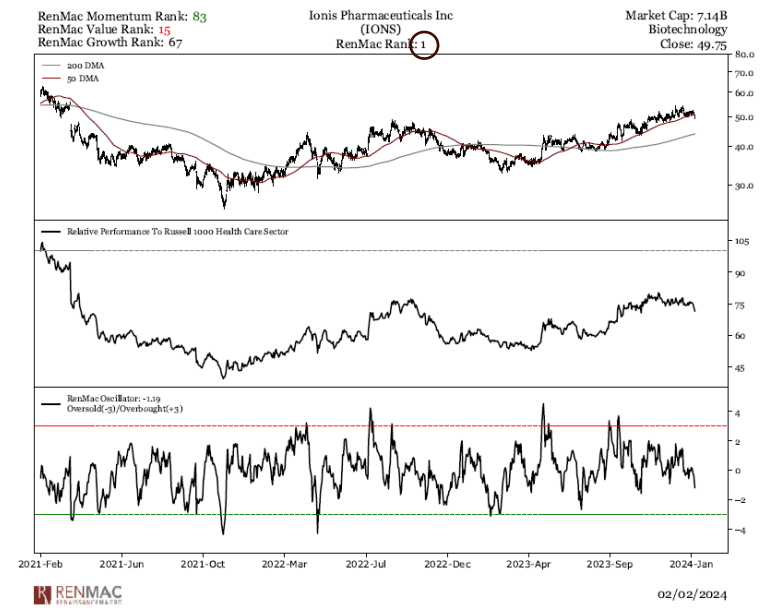
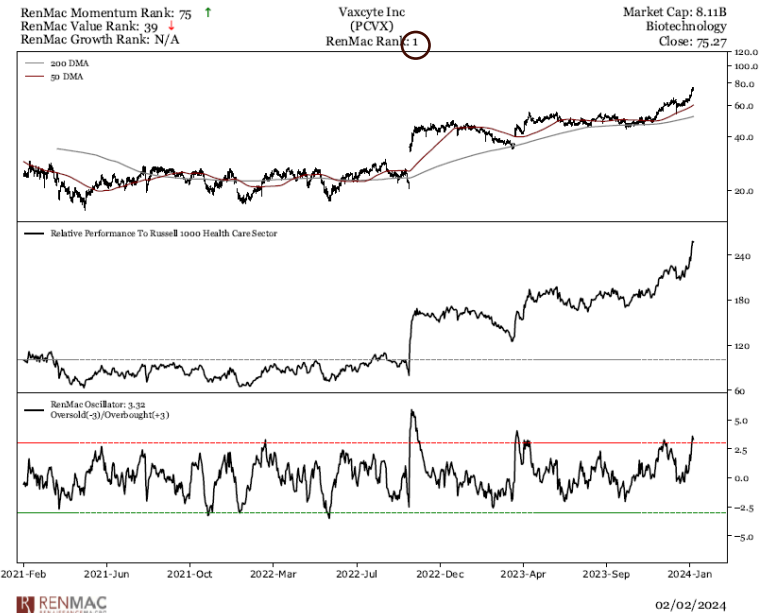
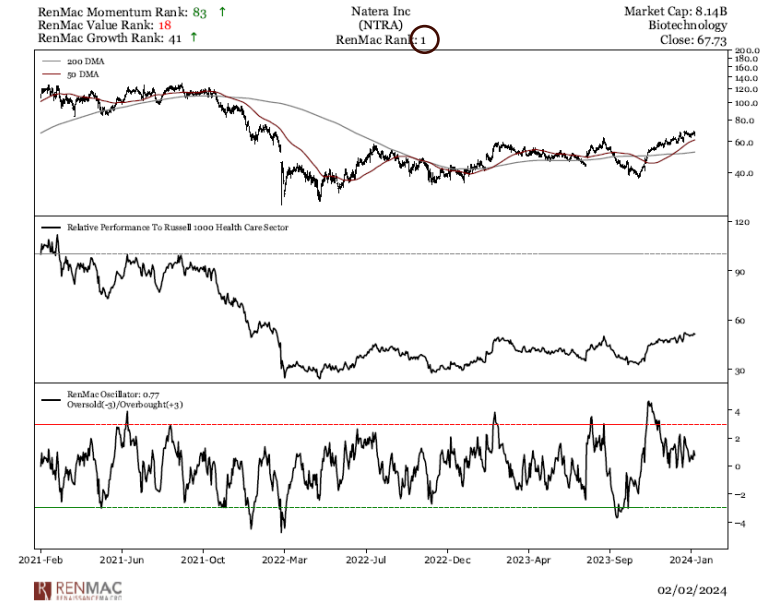
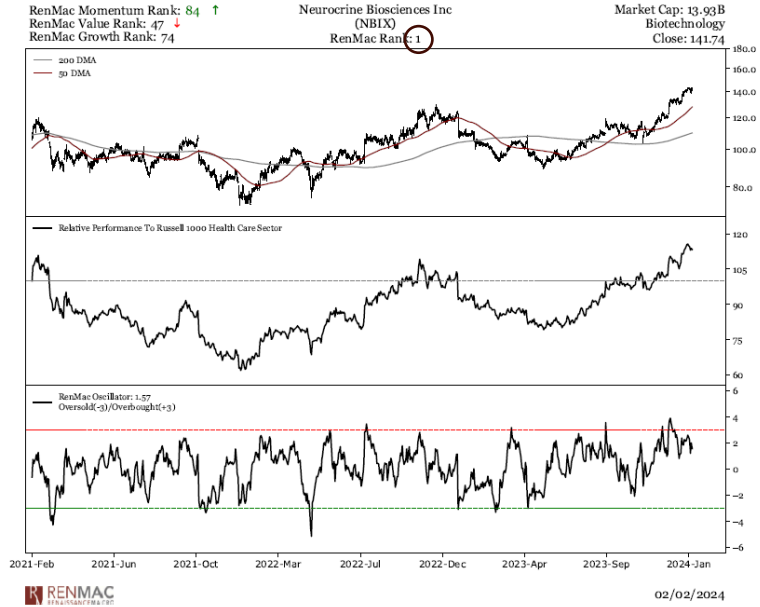


Large-Cap Leadership in Biotech to Stay

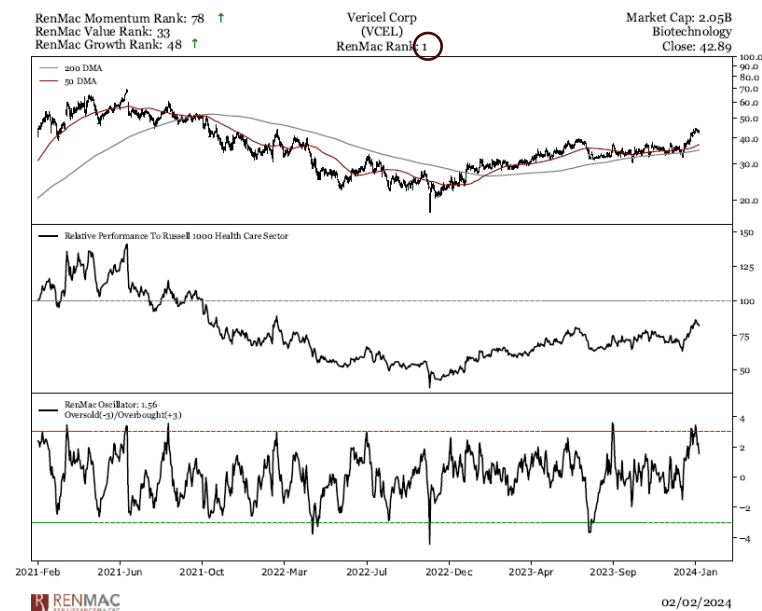
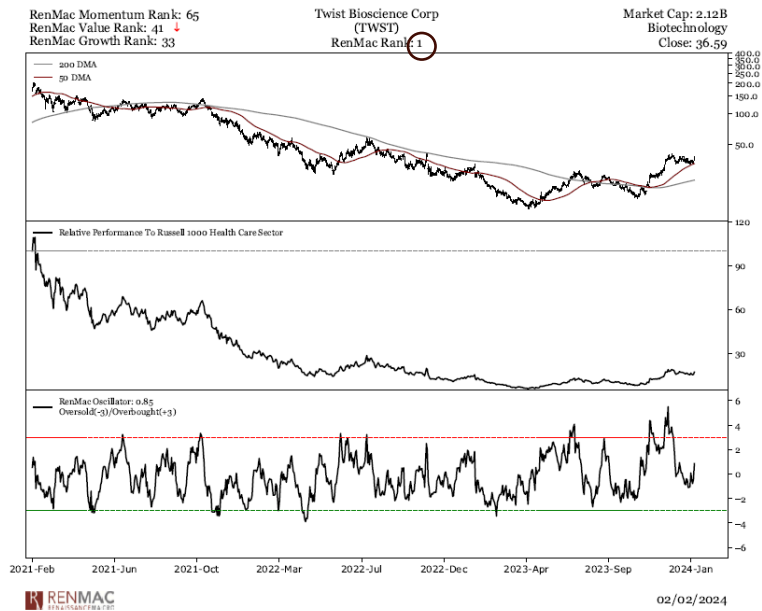
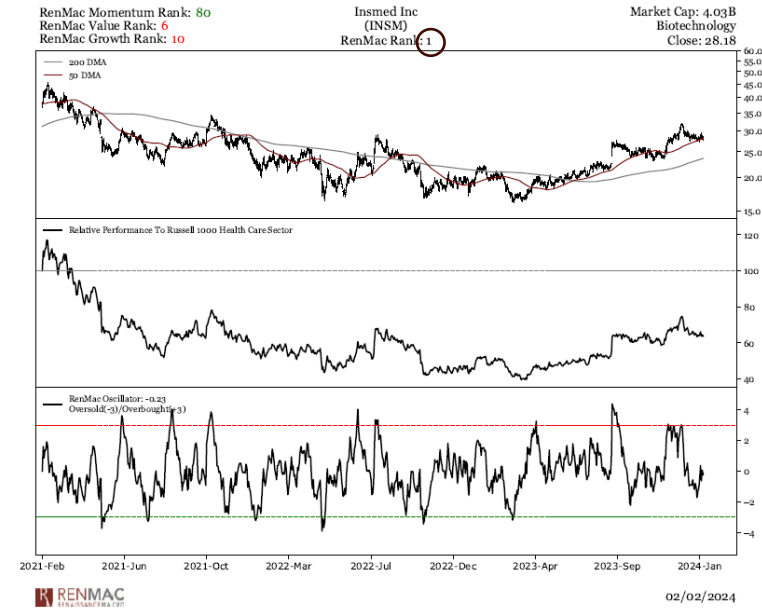
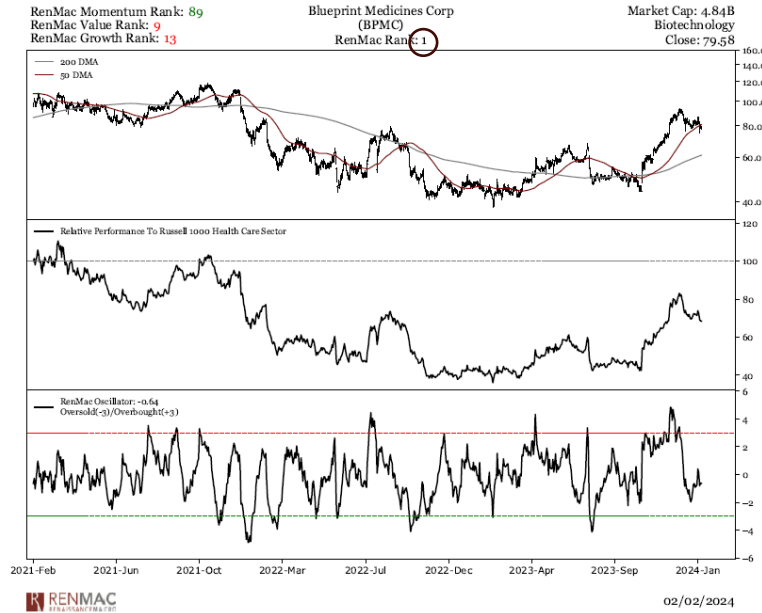
Long: ABBV, AMGN, VRTX, REGN



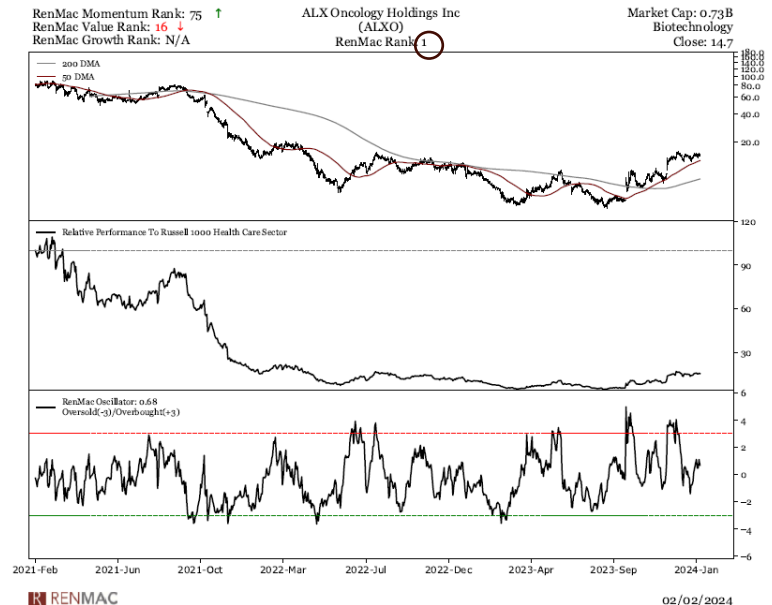
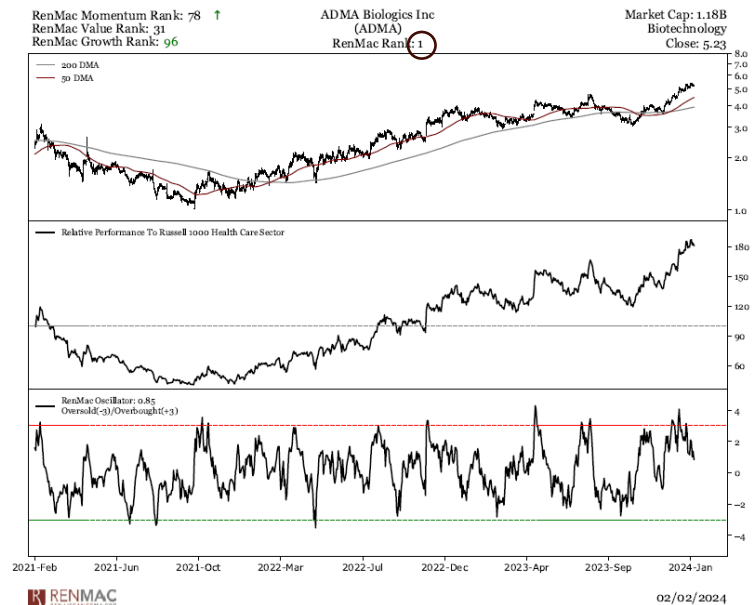
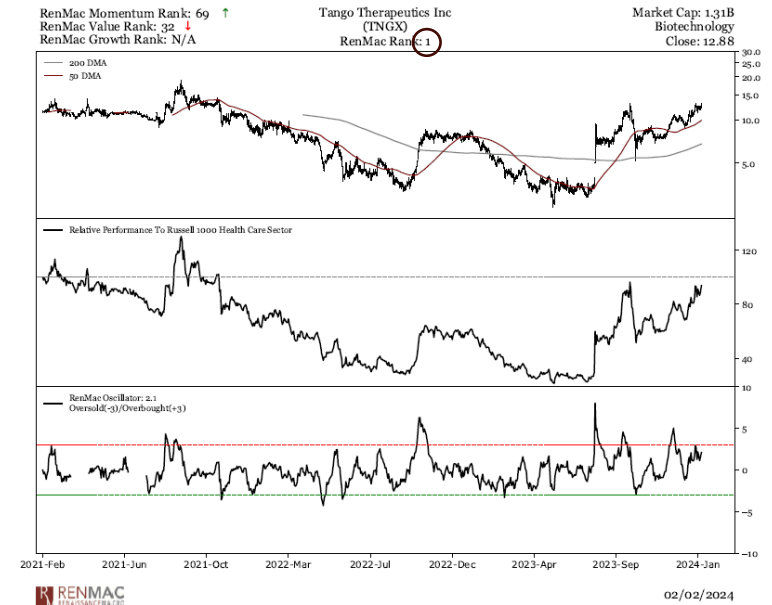
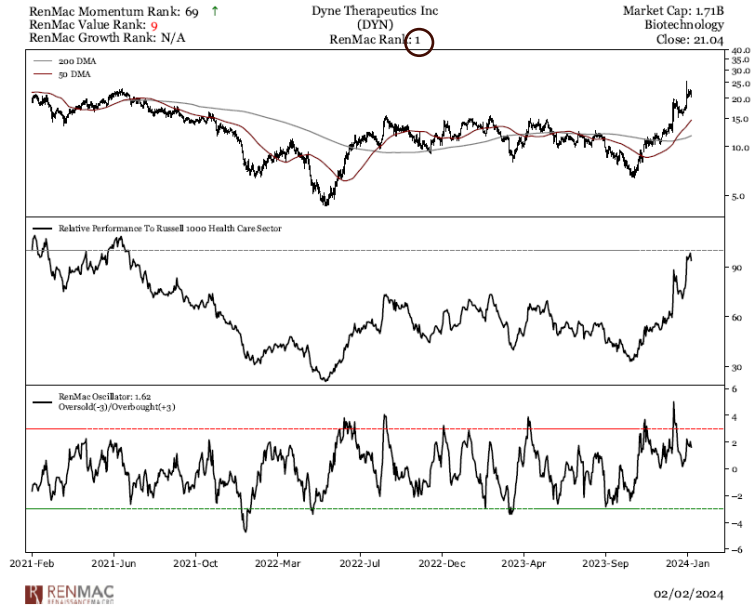
Large-Cap Leadership in Biotech to Stay Long: NBIX, NTRA, PCVX, IONS



Bullish Standouts in Small-Cap Biotech: BPMC, INSM, TWST, VCEL



Bullish Standouts in Small-Cap Biotech: DYN, TNGX, ADMA, ALXO



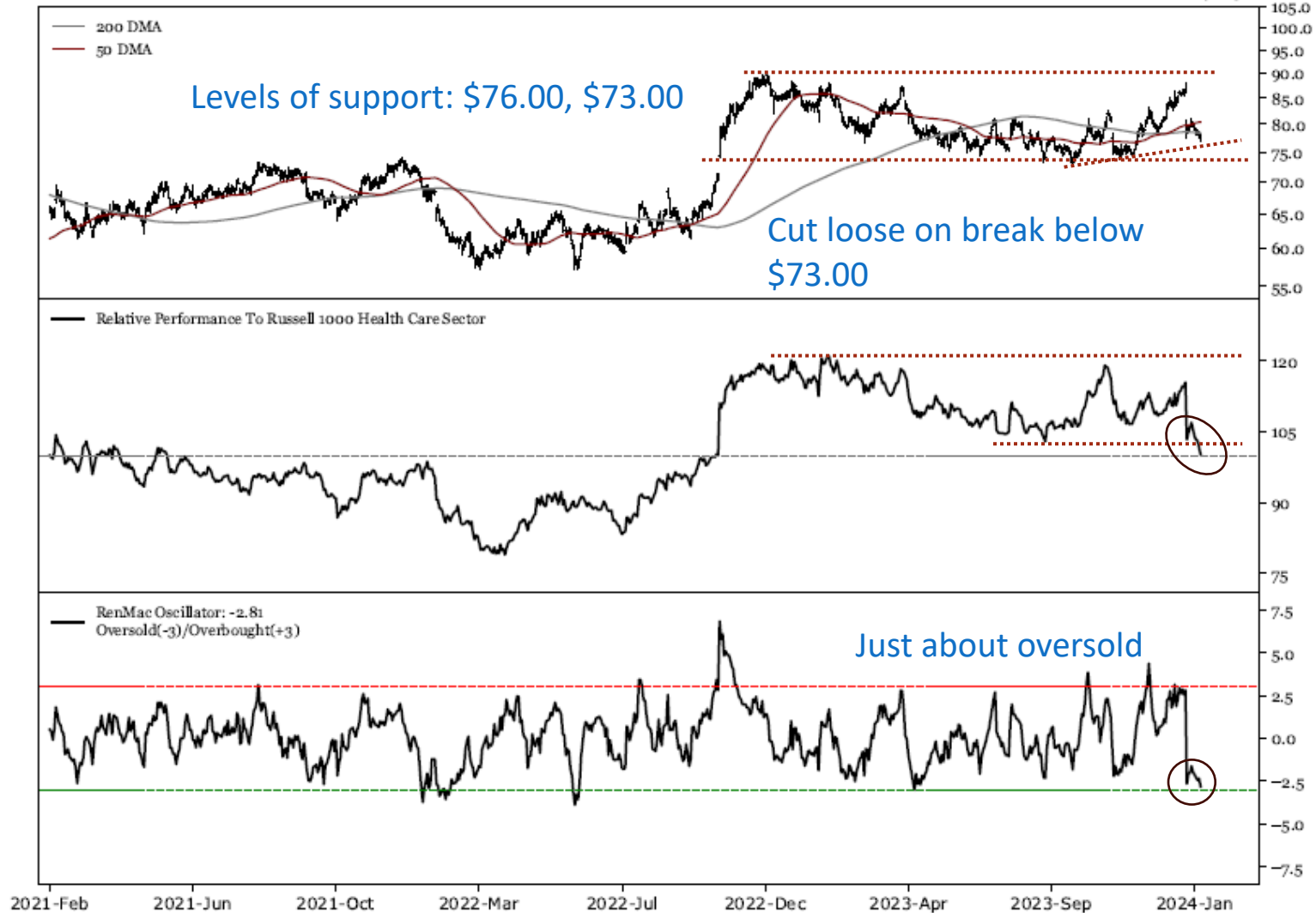
Tough Break in GILD, Still Has Potential to Recover But Relative Breakdown a Concern



RenMac Momentum Rank: 52 ↑
RenMac Value Rank: 81
RenMac Growth Rank: 64 ↑

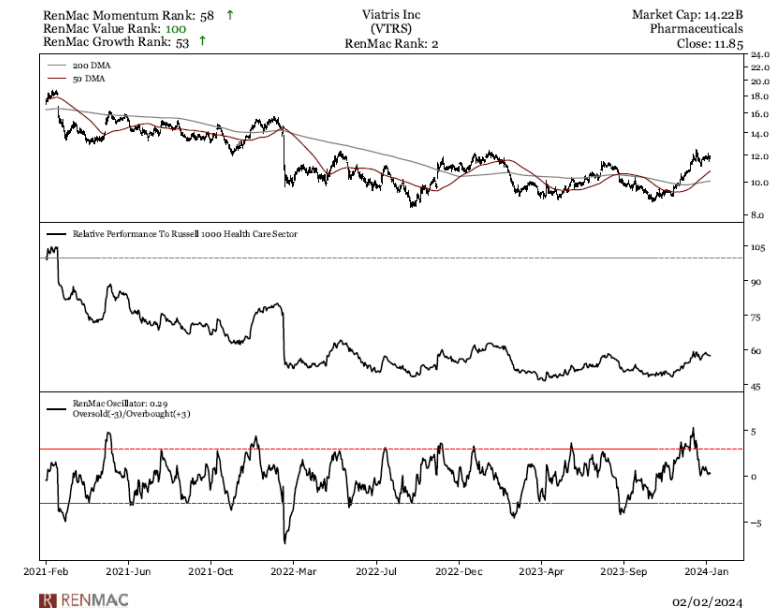
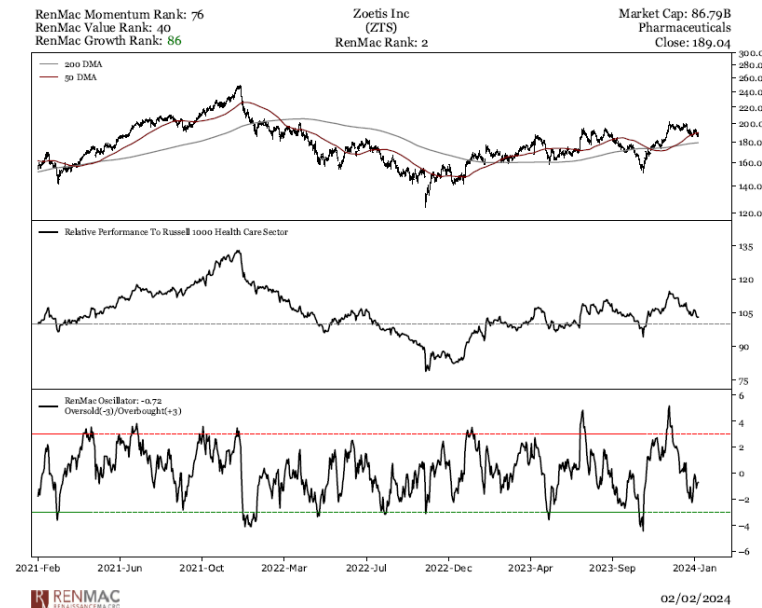
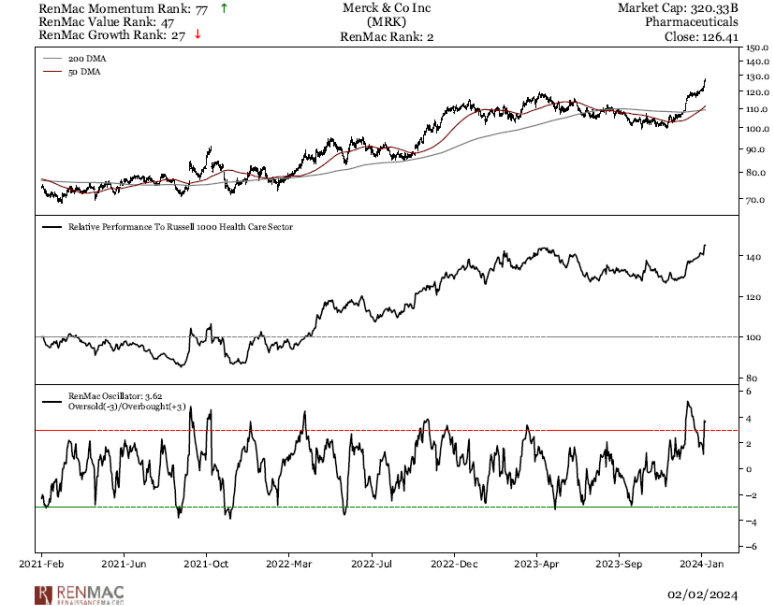
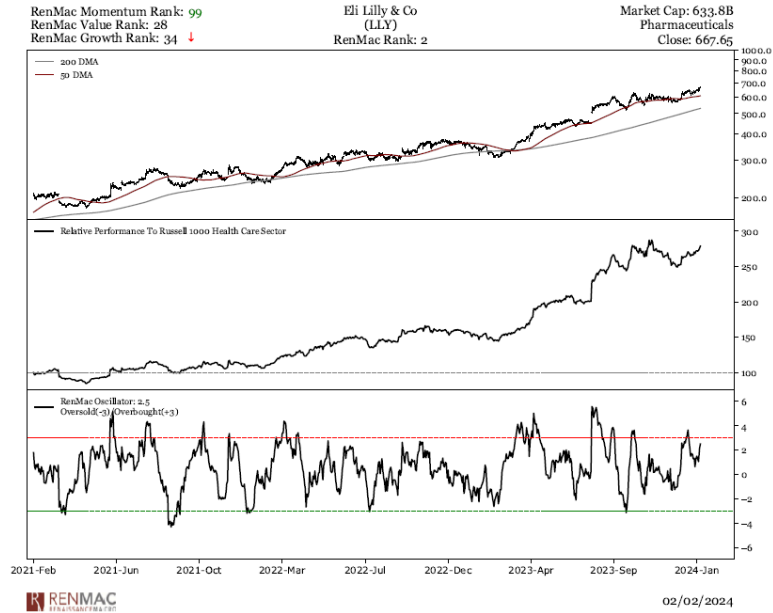
Gilead Sciences Inc
(GILD)
RenMac Rank: 1

Market Cap: 95.9B
Biotechnology
Close: 76.96

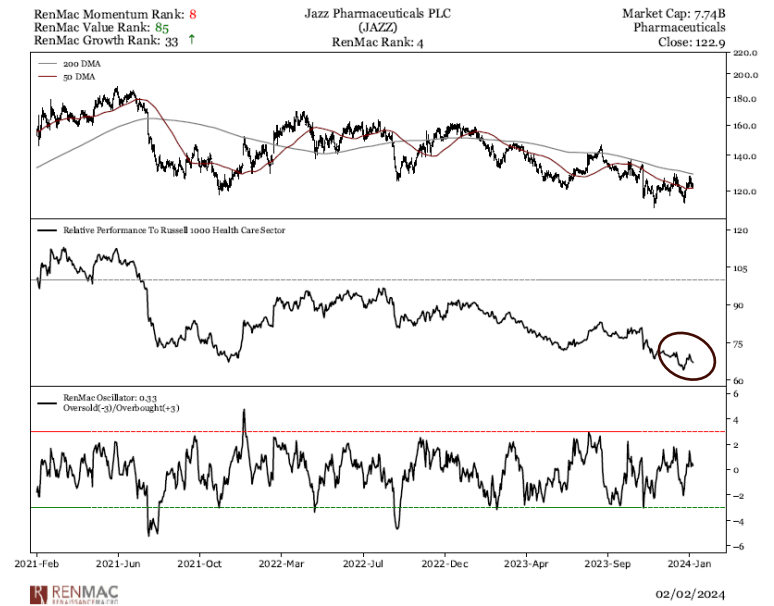
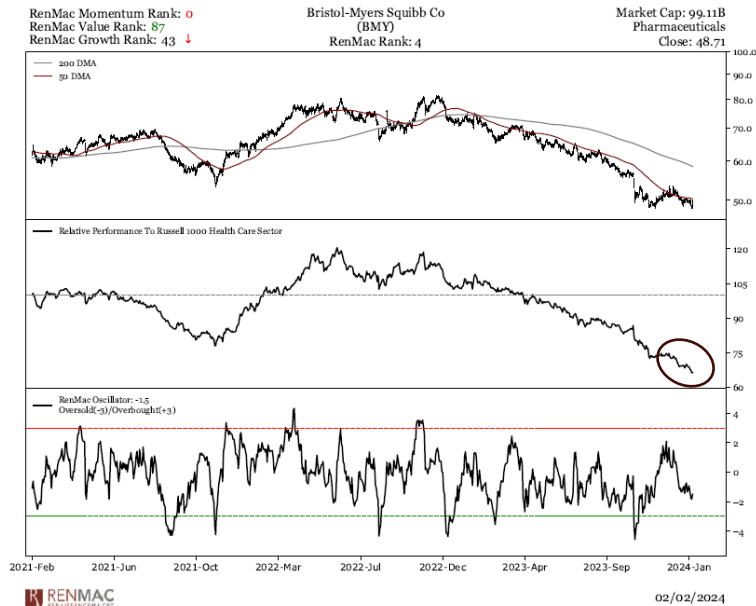
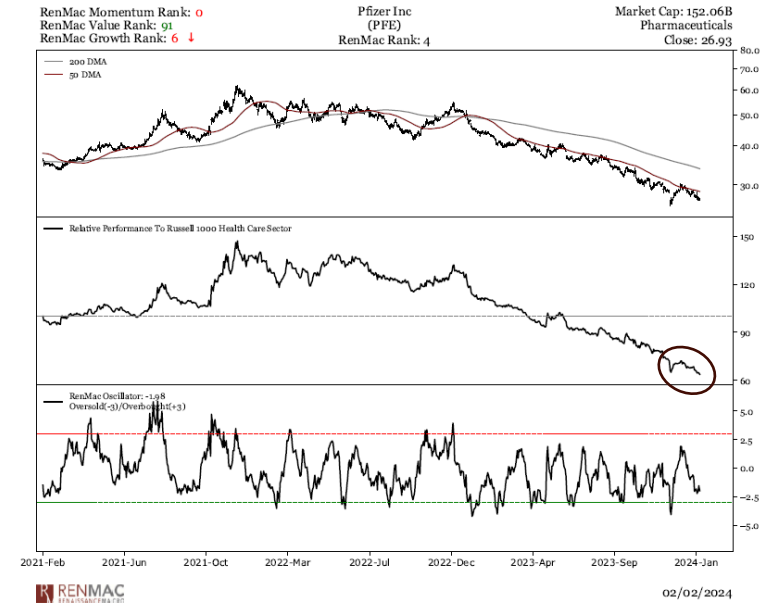
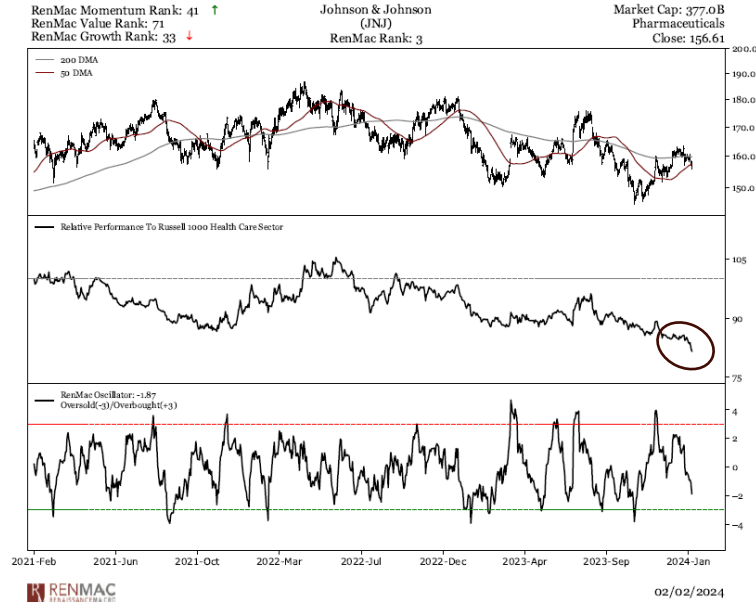


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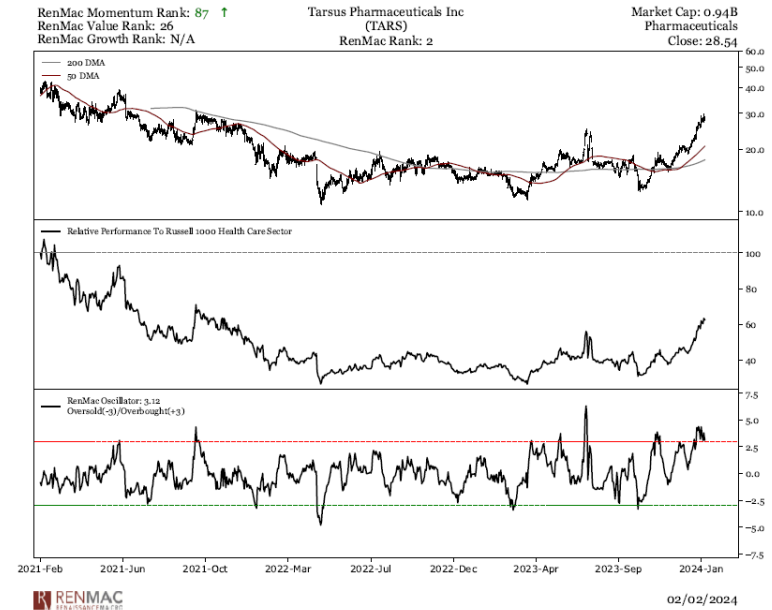
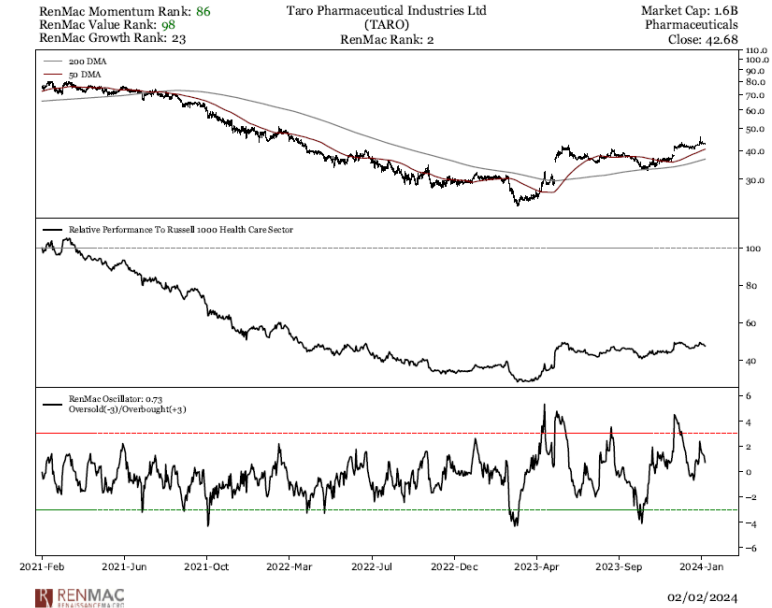
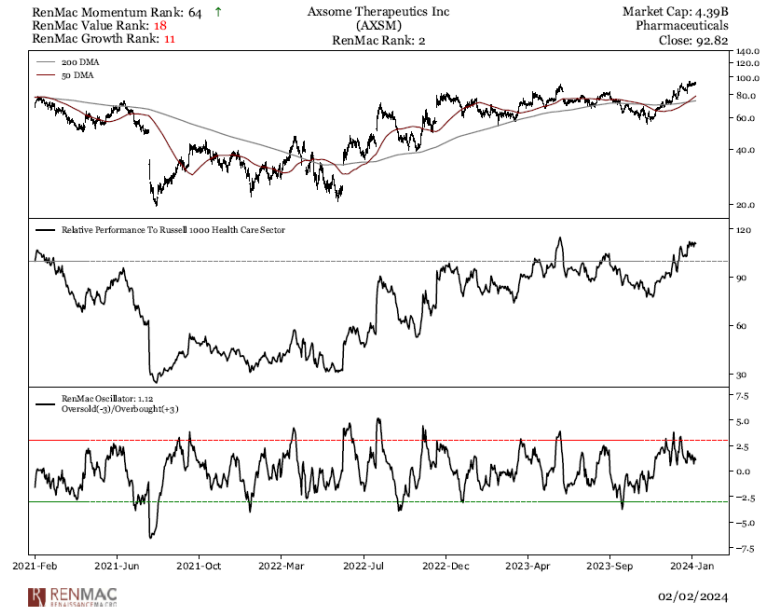
Large-Cap Pharma: Own LLY, MRK, ZTS & VTRS



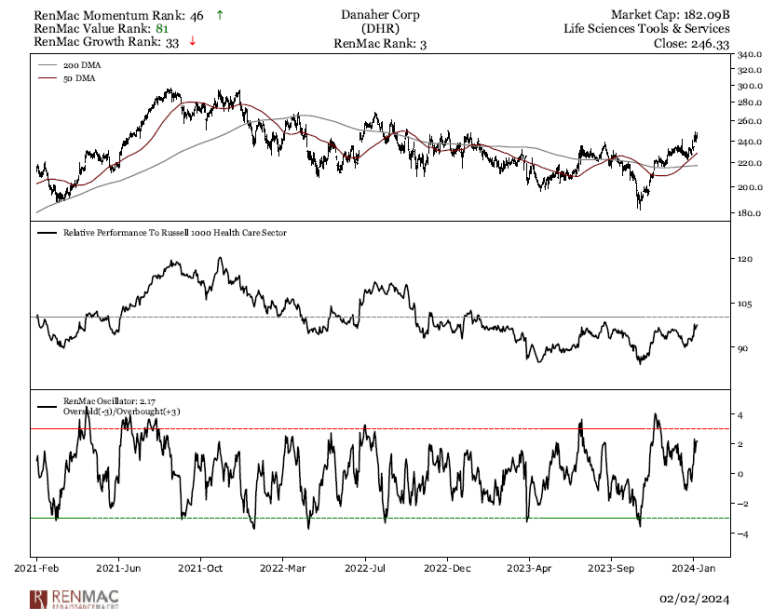
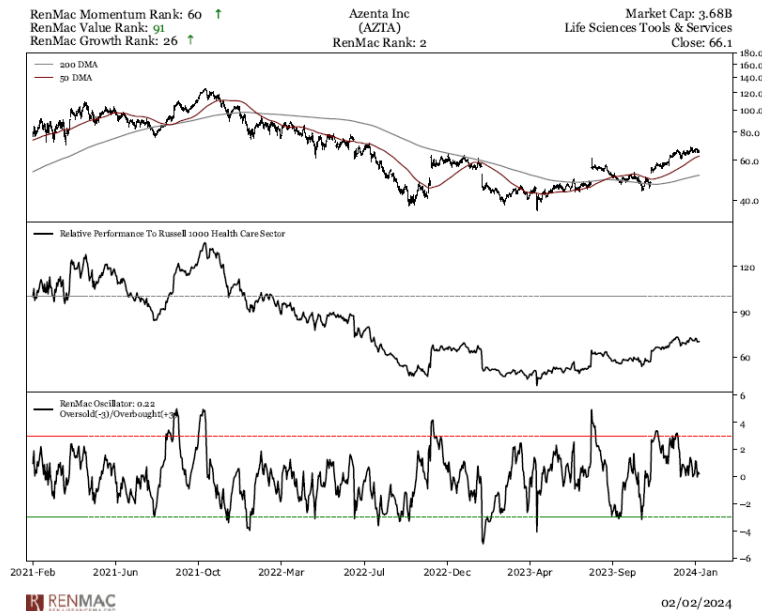
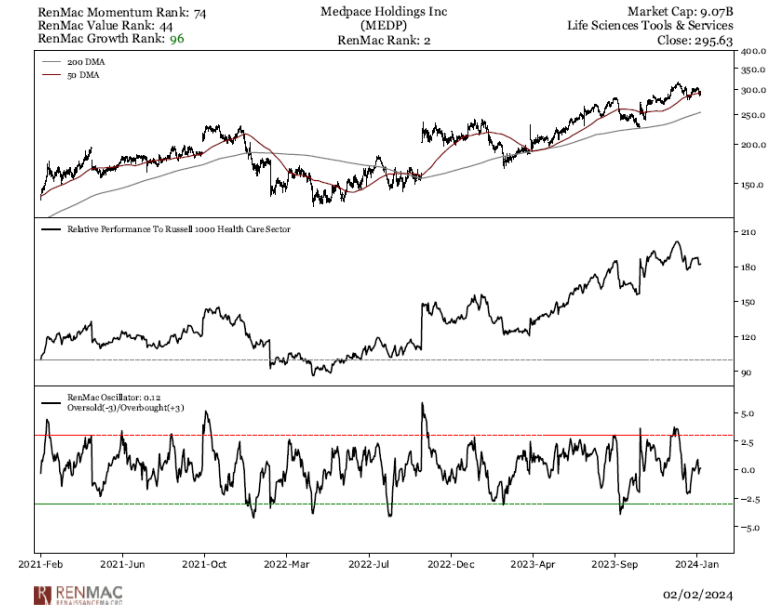
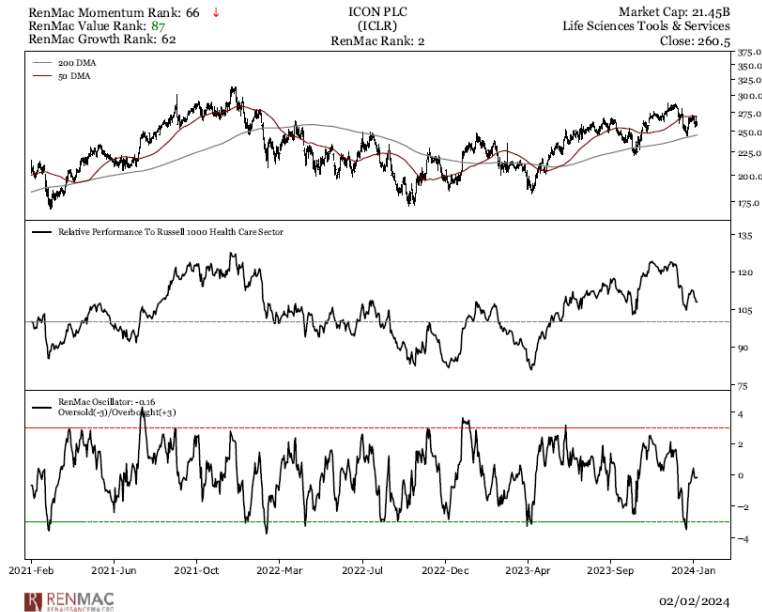
Large-Cap Pharma: Stay Short JNJ, PFE, BMY & JAZZ



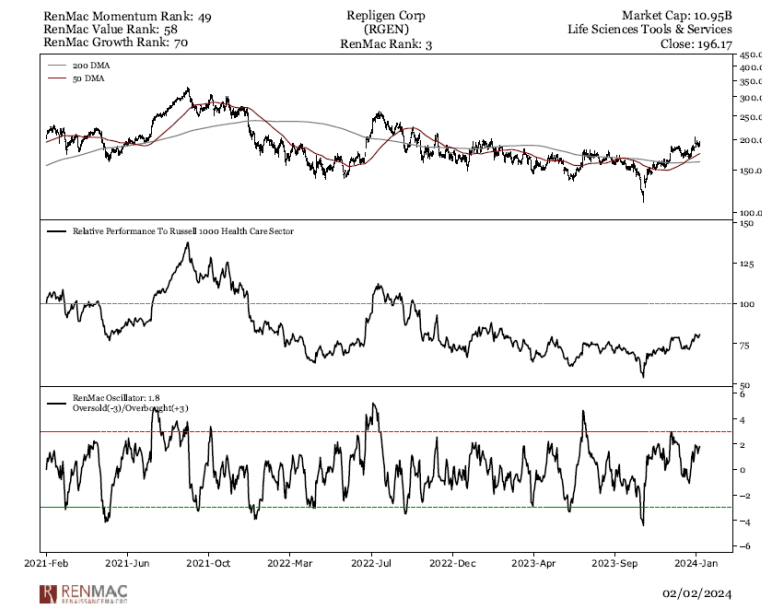
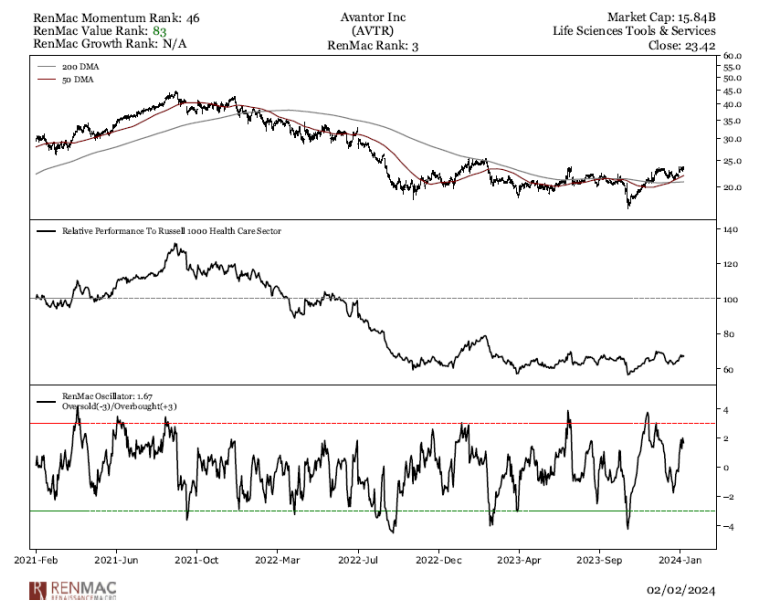
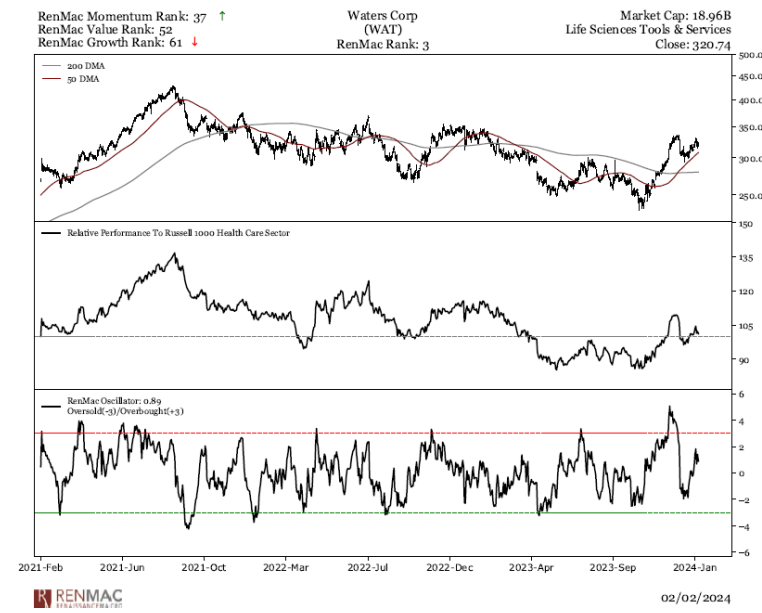
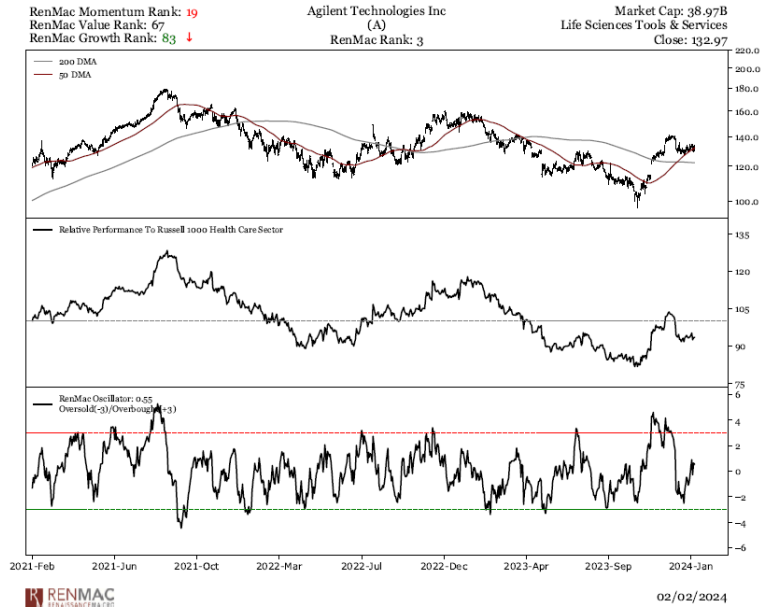
Bullish Standouts in Small-Cap Pharma: AXSM, TARO, EOLS, TARS



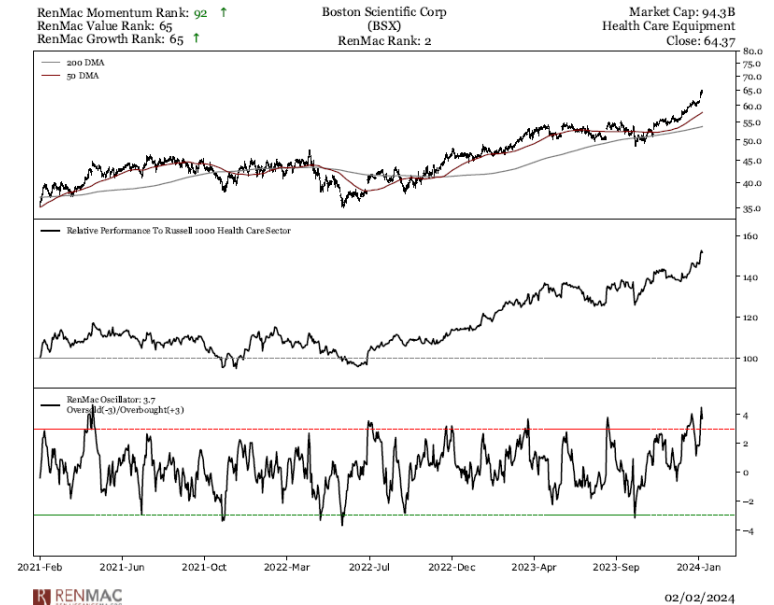
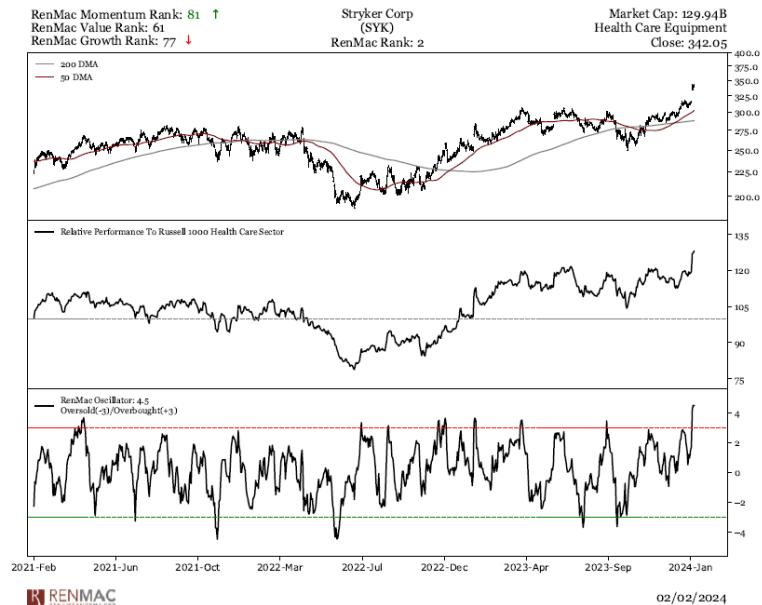
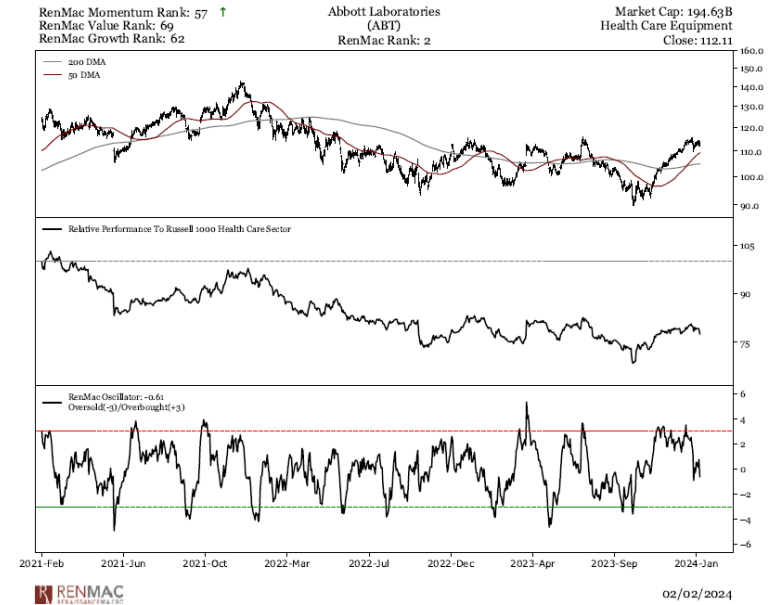
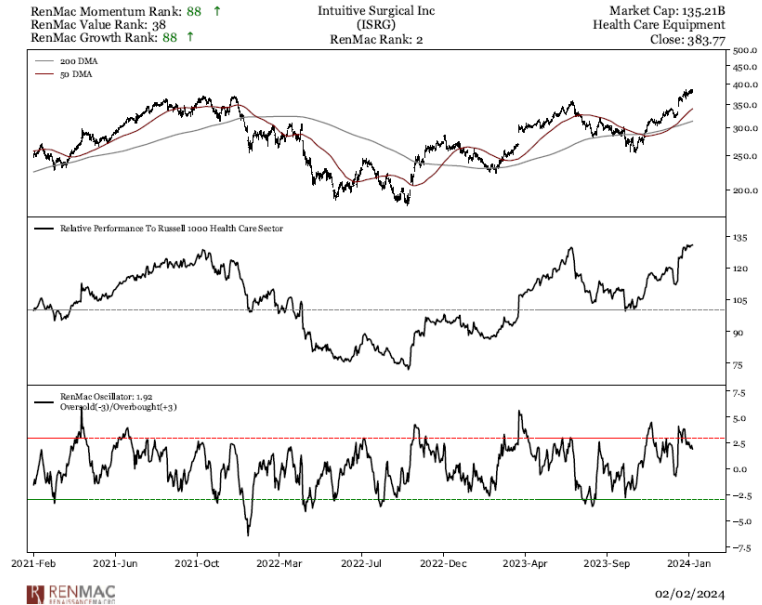
Bullish Trends in Life Sci Tools & Services: ICLR, MEDP, AZTA, DHR



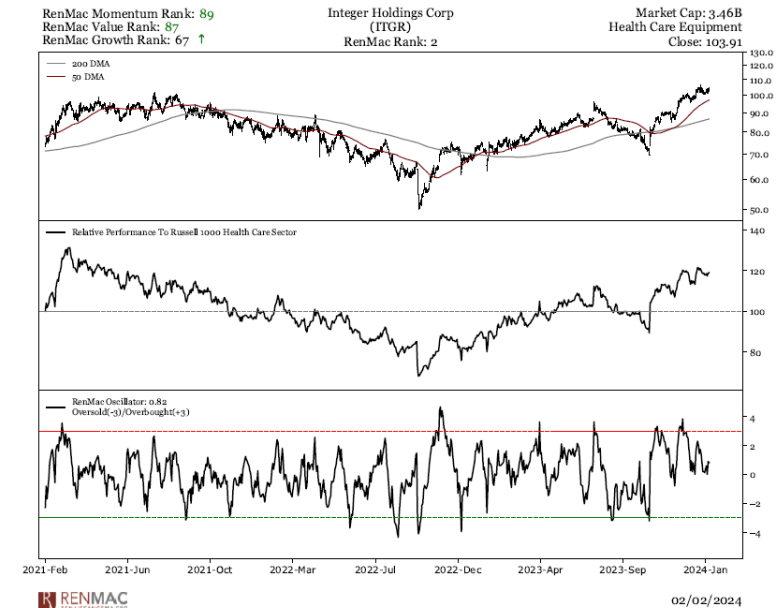
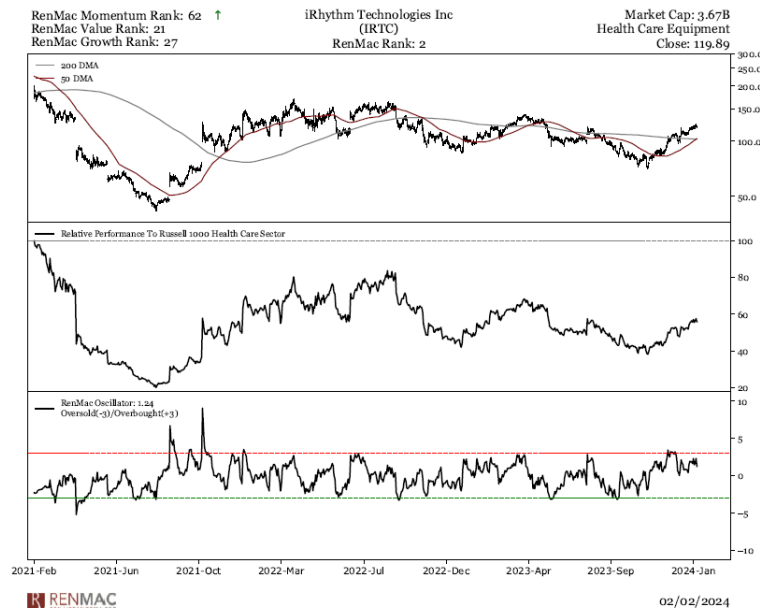
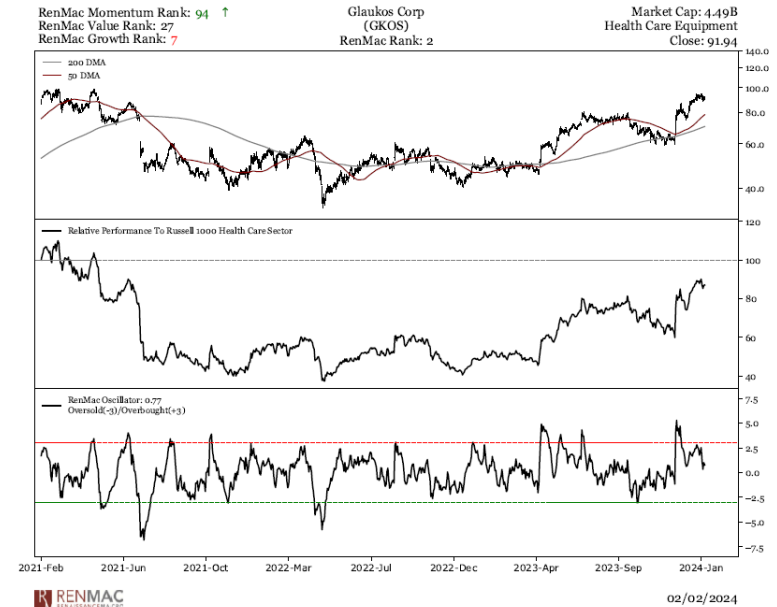
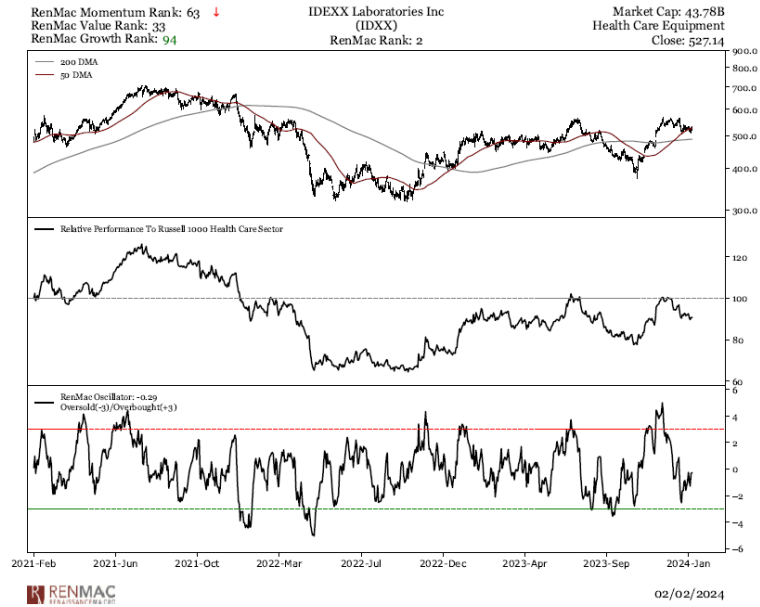
Bullish Trends in Life Sci Tools & Services: A, WAT, AVTR, RGEN



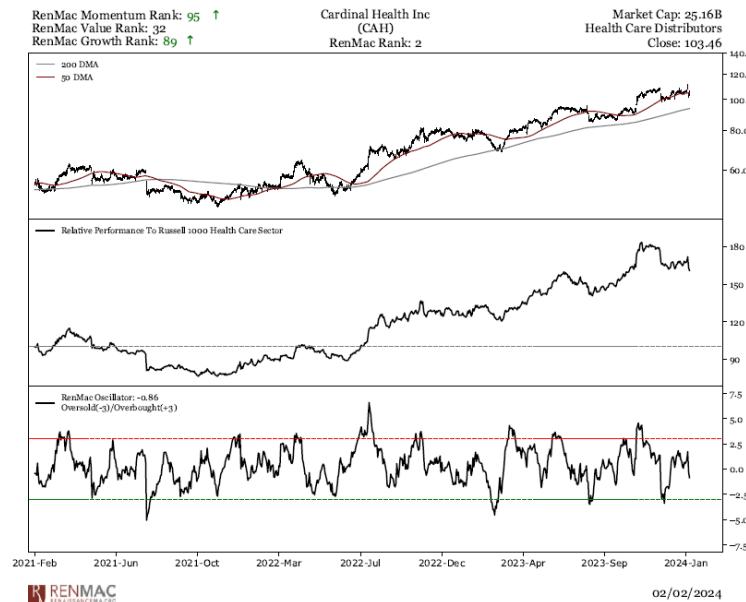
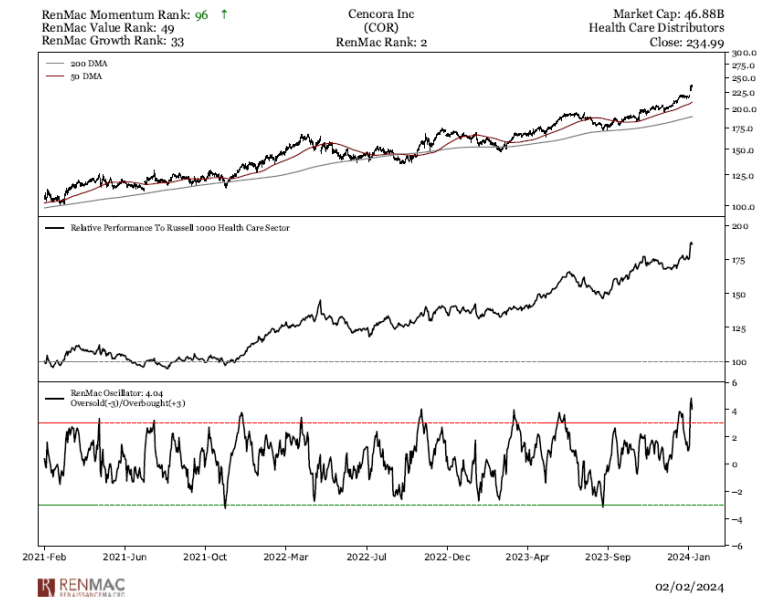
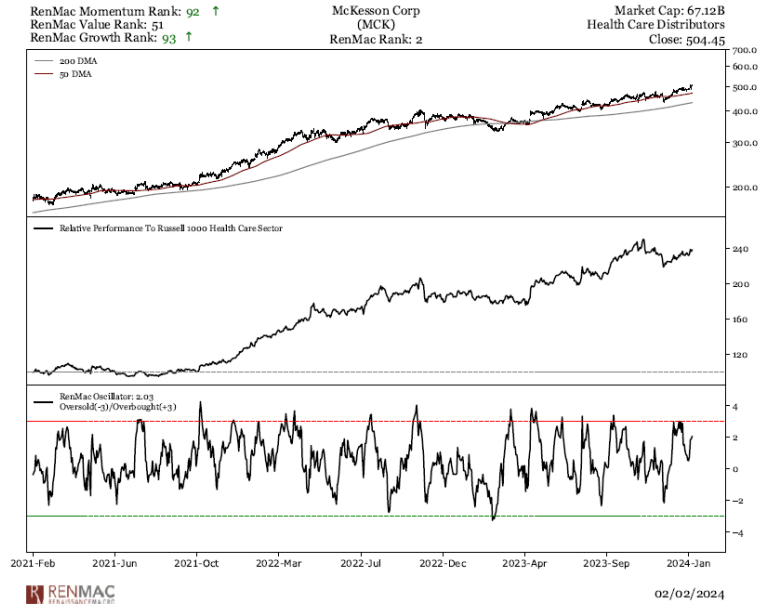
Bullish Trends in Equipment: ISRG, ABT, SYK, BSX



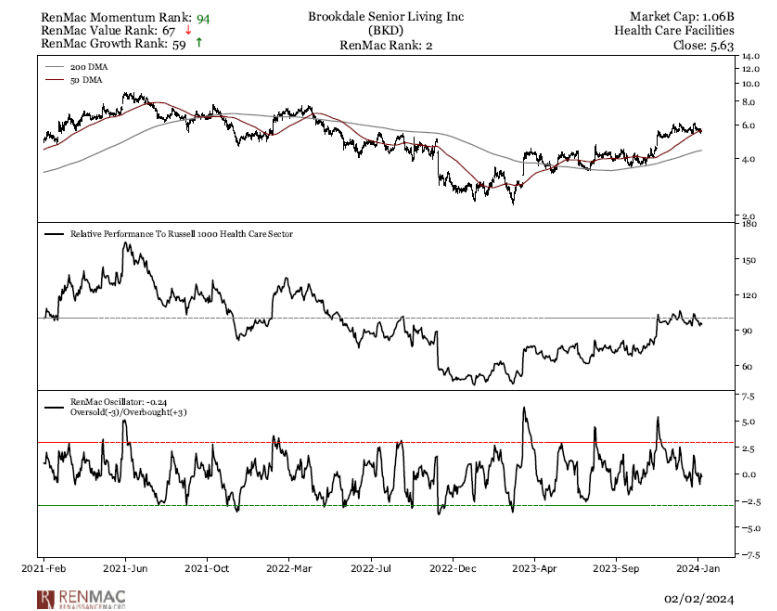
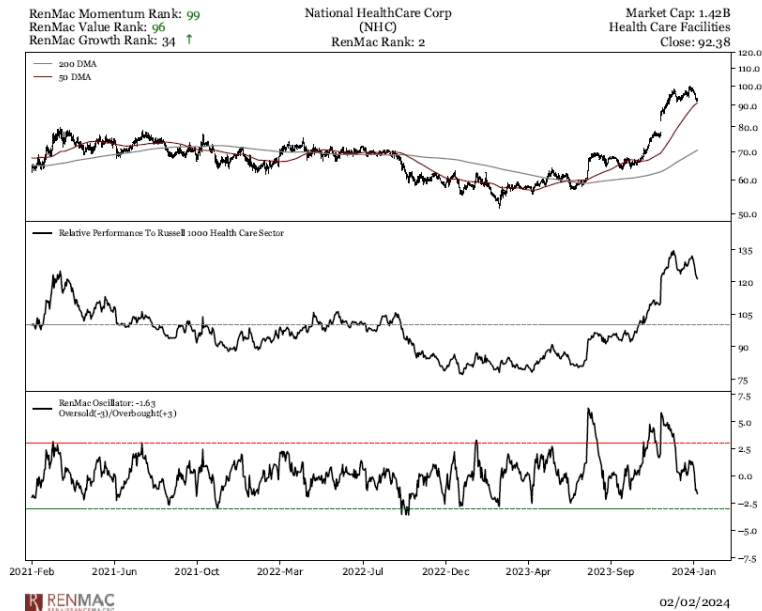
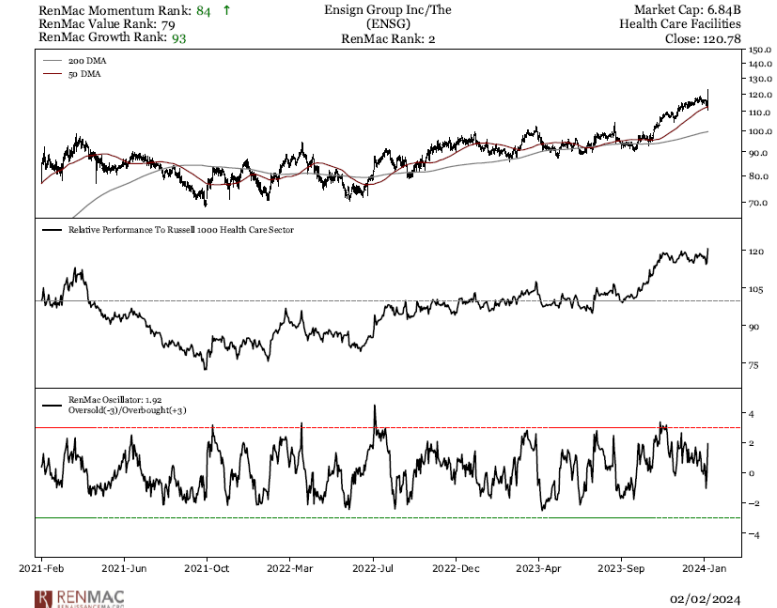
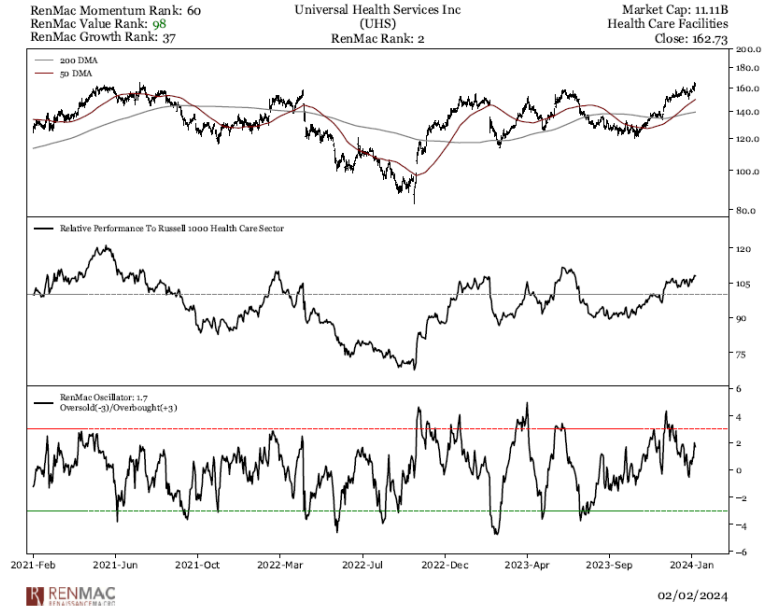
Bullish Trends in Equipment: IDXX, GKOS, IRTC, ITGR



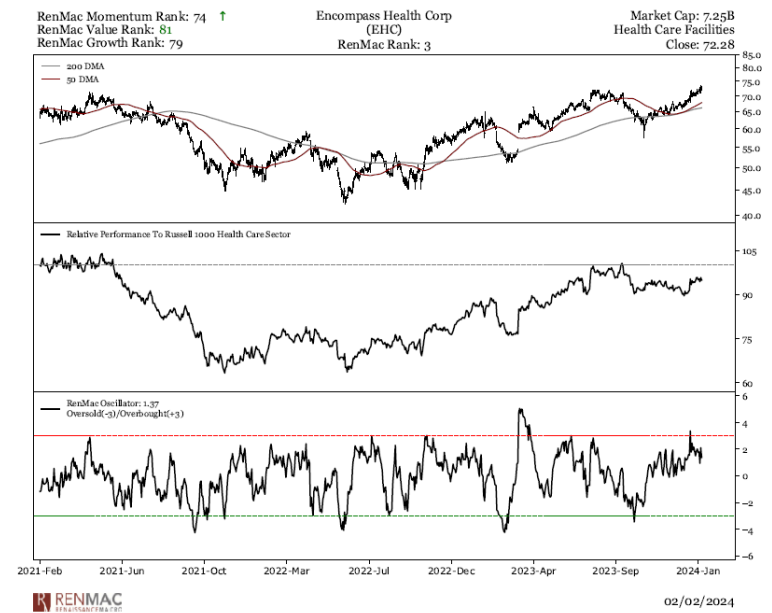
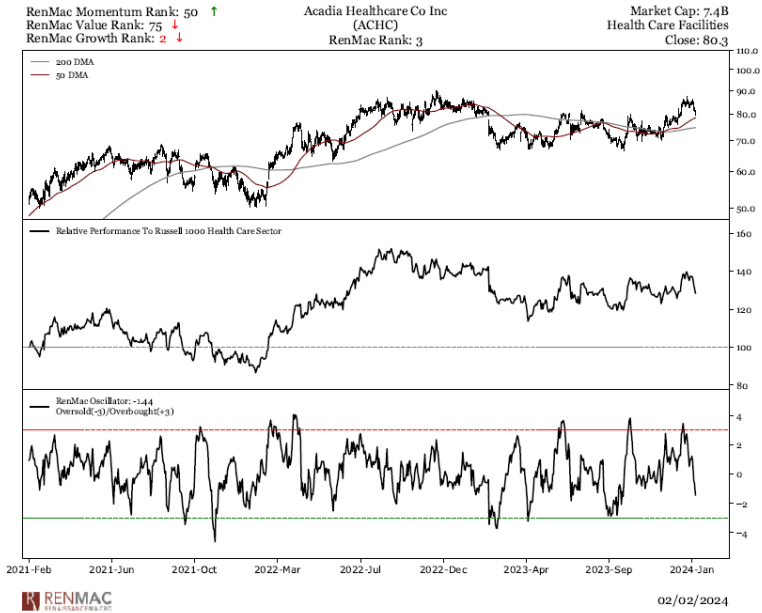
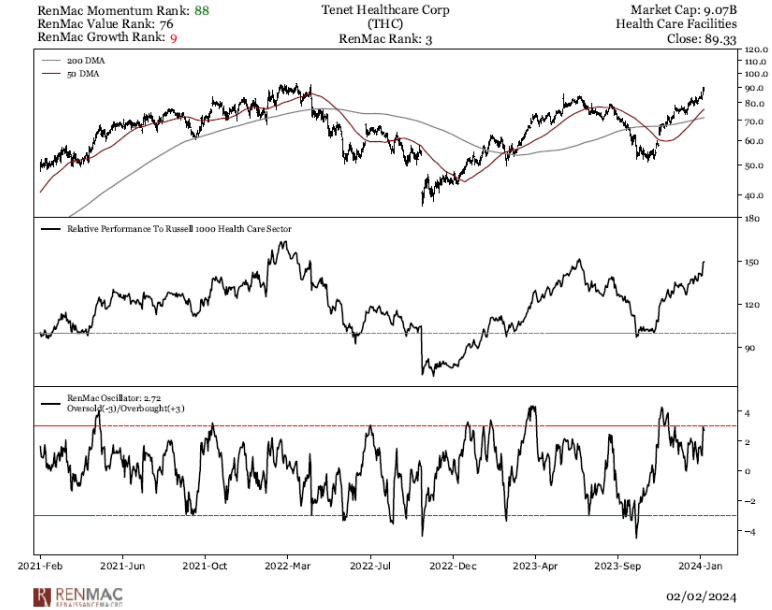
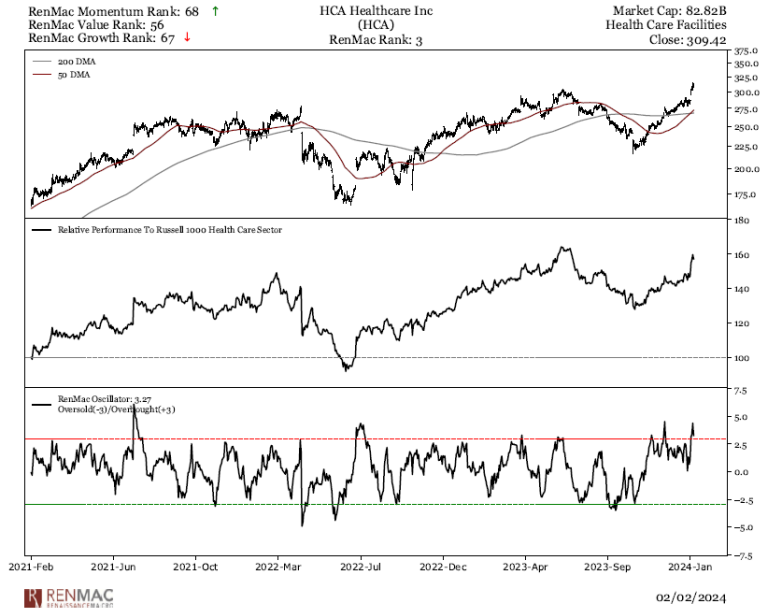
Leadership Trends in Distributors: MCK, COR, CAH



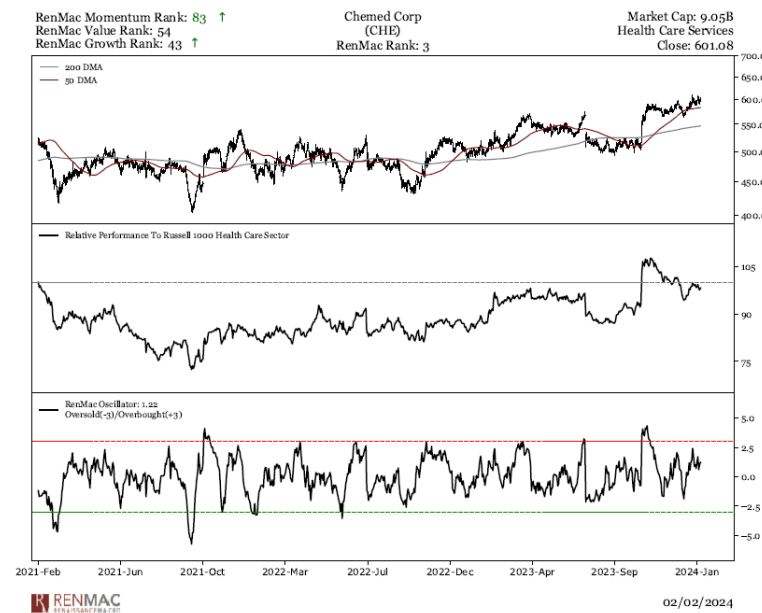
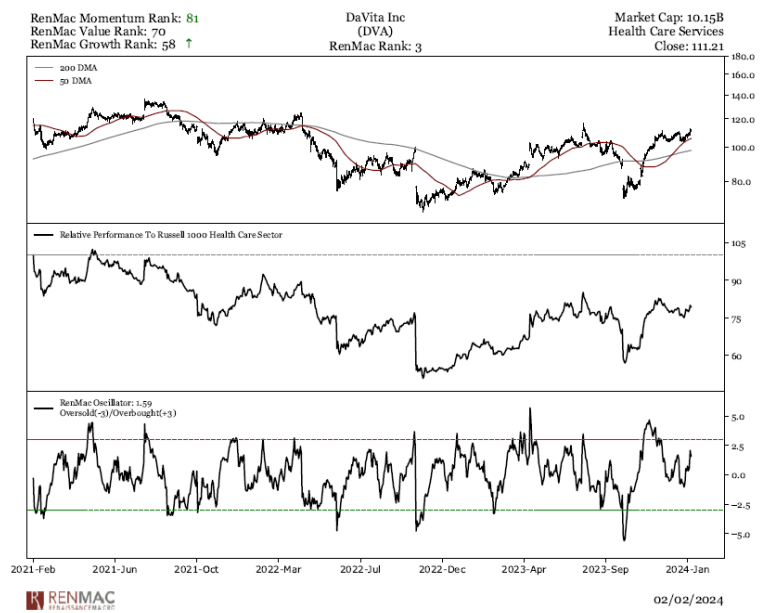
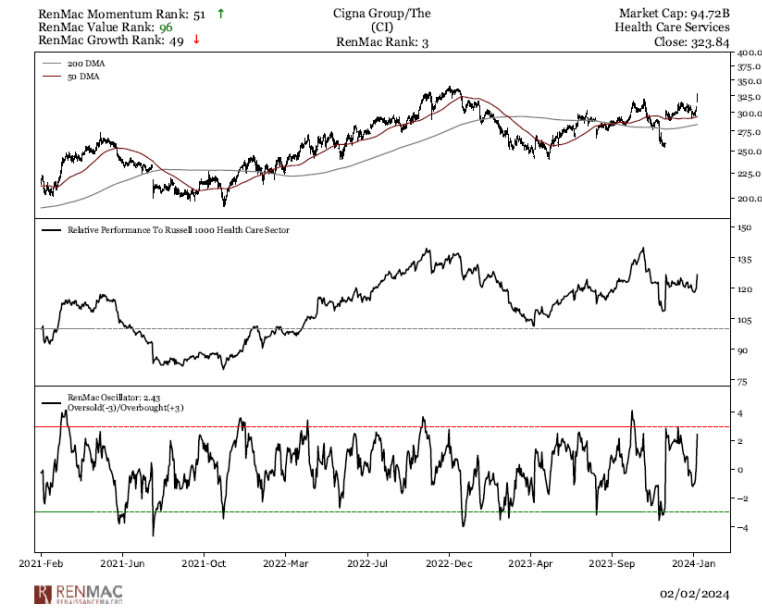
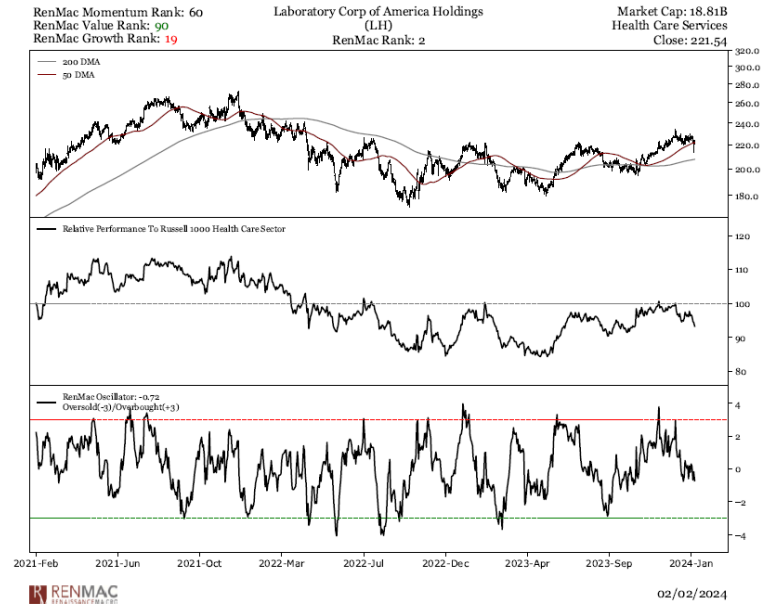
Leadership Trends in Facilities: UHS, ENSG, NHC, BKD



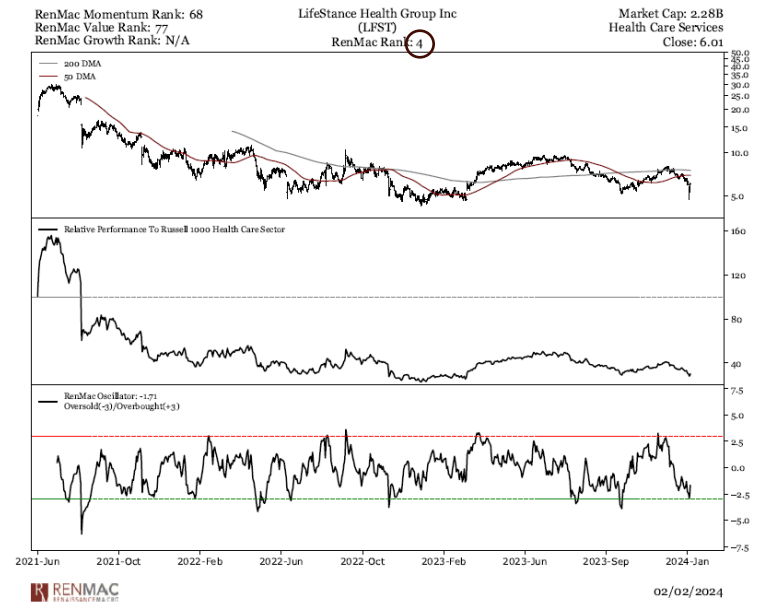
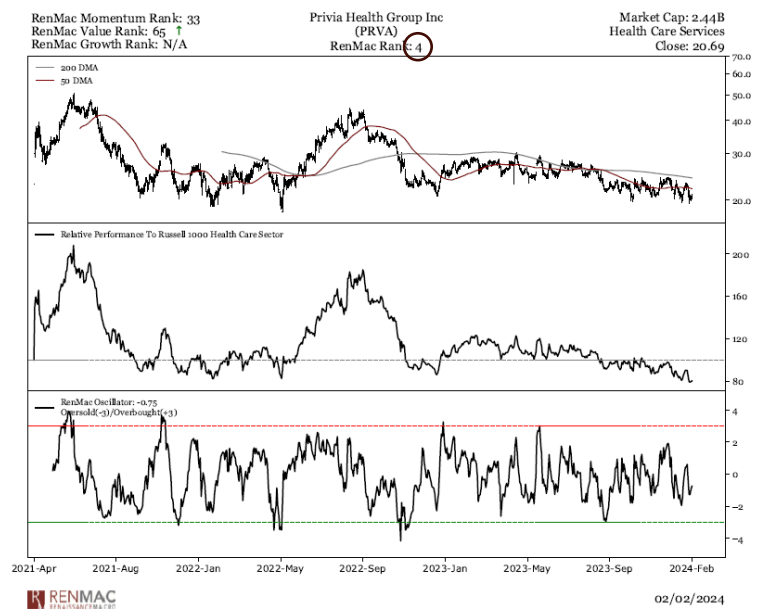
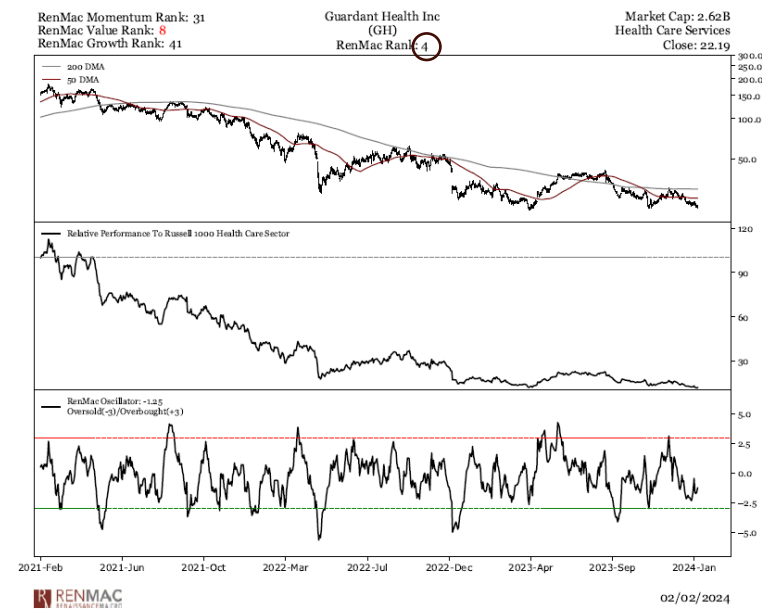
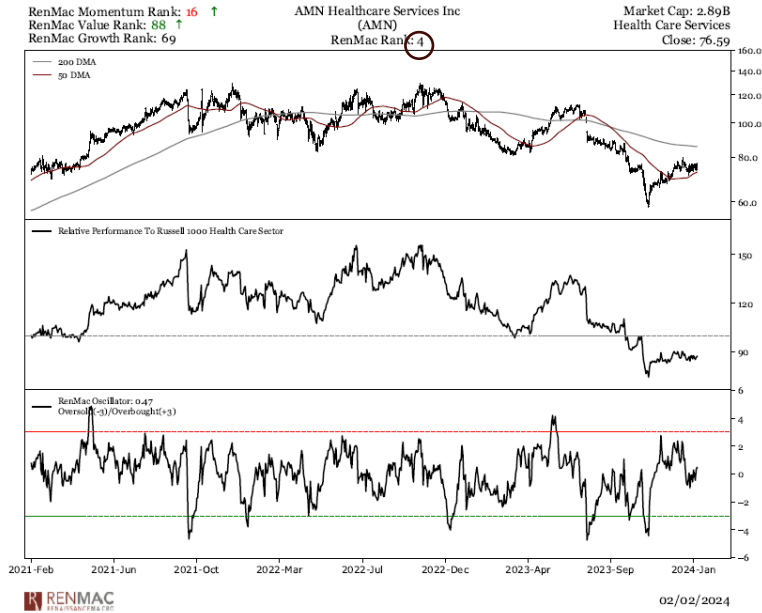
Leadership Trends in Facilities: HCA, THC, ACHC, EHC



Bullish Large-Cap Services: LH, CI, DVA, CHE



Bearish Services: AMN, GH, PRVA, LFST



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