

Sector review: Healthcare

November 2020

For a sector at the forefront of the pandemic, the crisis presents both investment opportunities and the potential for long-term behavioural shifts.

The healthcare sector has demonstrated its defensive qualities during the Covid-19 pandemic. The sector outperformed in the early months of the outbreak and subsequently underperformed as rising expectations for an effective vaccine and V-shaped recovery triggered a rotation out of the sector. During the third quarter and more recently, the US election has dominated the narrative; however, with the world seeing another spike in infections, we expect Covid-19 to come back to the fore.

Longer-term implications

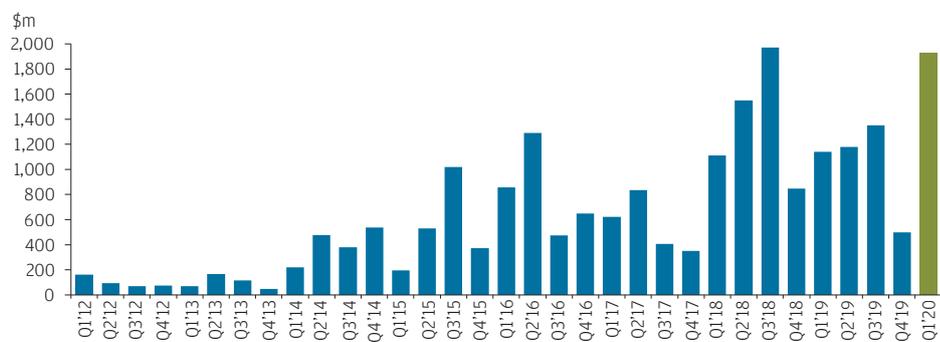
Covid-19 has caused significant disruption to healthcare stocks, as to the world more broadly. While we believe most of the impact will be transient and short term in nature - such as delays to elective procedures and limited access to healthcare professionals - there are likely to be some more lasting consequences. The wider adoption of technology and the move towards healthcare digitalisation has been accelerated by Covid-related travel restrictions. One of the most visible examples is the switch to online pharmacies and medical consultations, such as those offered by Teladoc, the multinational telemedicine and virtual healthcare company based in the US.

According to a survey published in April by technology vendor Sykes, around 67% of respondents said that Covid-19 has increased their willingness to try telemedicine in the future, while 25% of these respondents had not considered this as an option before the crisis. Another survey conducted in April by electronic health records provider Sevocity showed that 85% of medical practices were providing telemedicine visits compared to only 6% prior to the virus outbreak.

Both public and private (venture capital) funding for telemedicine services and remote patient monitoring increased substantially in the first quarter of 2020 (see chart). This change is also here to stay, as technology enables the industry and payors to reduce costs and/or improve outcomes for patients.

EXHIBIT 1: VENTURE CAPITAL FUNDING FOR TELEMEDICINE

CAD/USD FX rate



Source: CB Insights, Goldman Sachs Global Investment Research. Data as of 31 March 2020.

AUTHOR



Victoria Darbyshire,
Research analyst, European
Equity Research team

PORTFOLIO INSIGHTS

Investment opportunities

Covid-19 related headwinds were evident in the second-quarter earnings reported by pharmaceutical companies, as prescription hoarding reversed and access to physicians remained limited. Despite an easing in restrictions, activity remains below pre-Covid levels in many geographies. It is important to note that we remain focused on identifying quality companies that are innovating for the future and can weather these short-term downturns.

One of the key focus areas for pharmaceutical and biotech companies globally has been the development of effective therapeutics and the creation of a vaccine against Covid-19. Vaccine trial data has just been released by Pfizer, which is extremely promising; however, there is not enough follow up from this trial to draw firm conclusions yet. While we do not focus on this specific area when building our investment thesis, the perception of adequate safety and efficacy will have and has had broad impact on market sentiment. A word of caution: even this or other 'good data' may not mean broad availability and distribution of any vaccine well into next year.

Given the highly effective antiviral drugs that have been developed over the past three decades to treat HPV (Human Papilloma Virus) and Hepatitis C, we are also somewhat optimistic for the antiviral approaches to a Covid-19 treatment, and also for the development of effective antibody therapeutics.

A key question that remains unanswered is whether the pandemic will end with the virus disappearing completely, or whether this is a new disease that we will need to bring under control over the coming years and learn to live with for the coming decades. We look forward to the publication of more data from the early virus studies, which should give us a better understanding of the disease pathology. At this stage we view Covid-19 research as an added option to our investment case rather than central to any thesis.

NEXT STEPS

For more information, contact your J.P. Morgan representative.

For Professional Clients/ Qualified Investors only - not for Retail use or distribution.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programmes are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programmes, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research. This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our EMEA Privacy Policy www.jpmorgan.com/emea-privacy-policy. This communication is issued in Europe (excluding UK) by JPMorgan Asset Management (Europe) S.à r.l., 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000. This communication is issued in the UK by JPMorgan Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank Street, Canary Wharf, London E14 5JP.

LV-JPM52915 | 11/20 | 0903c02a829eed7e