



## Healthcare Headwinds

While the S&P 500 has advanced nearly 17% total return (at the time of this writing), the Healthcare sector has not been so lucky, rising barely over 3% year-to-date. The election of a Democratic majority in the House of Representatives was supposed to offer tailwinds to the sector. What happened? Through the first six weeks of the year, performance of the sector versus the broader market was relatively comparable with a 3% difference between the two. April 10<sup>th</sup> started a steep widening of the performance gap between Healthcare and the broader market with a 6.5% decline for the Healthcare sector within a week. Early in the year, states with newly elected Democrat governors were still negotiating expansion of Obamacare while the House had yet to have the opportunity to increase healthcare spending within the budget. These two catalysts would be positive for the sector. Unfortunately, the start of the Presidential primary election cycle has had a negative effect for the sector with near universal championing of Medicare for All by Democratic candidates. Many of the aspirants have also vocally stated support to end private health insurance and to regulate drug prices, causing a considerable downturn for the sector. If the most extreme proposals come to pass, health insurance companies and pharmacy benefit managers will be out of business, while pharmaceutical firms will be turned into utilities as the role of profit is driven from the industry.

The Healthcare sector may be oversold, as it is unlikely for these proposals to become law. Betting odds have the President with a 50% chance of re-election, while Senate Republicans have a wider margin to maintain control. Medicare for All would require a significant wave election where Democrats would have to sweep with large margins to overcome a likely filibuster in the Senate. Political candidates making promises/threats could continue “headline risks” creating headwinds for the sector’s short-term investment prospects, however, bargains could be had for medical device makers or firms specializing in animal care, which would not be affected by proposed legislation. No matter what the outcome, if you think healthcare is expensive now, wait until it’s free.



### VALICENTI ADVISORY SERVICES, INC.

400 East Water Street  
Elmira, NY 14901  
**607-734-2665**  
Fax: 607-734-6845

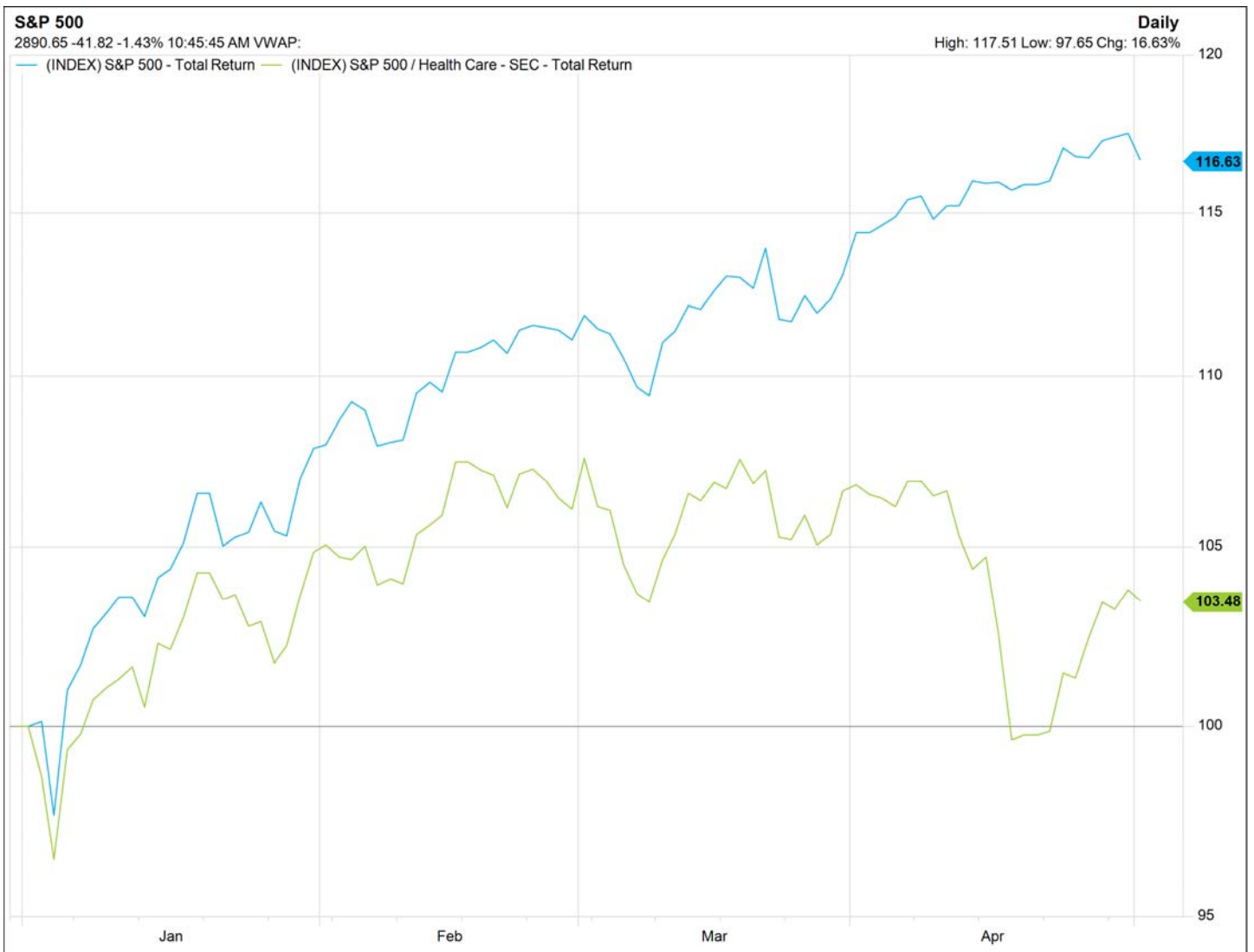
447 East Water Street  
Elmira, NY 14901  
**607-733-9022**  
Fax: 607-734-6157

24 West Market Street  
Corning, NY 14830  
**607-936-1203**  
Fax: 607-936-0213

[www.valicenti.com](http://www.valicenti.com)

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