The Health of Healthcare Stocks

Health Care and Com Services most consistent winners 6 months after elections

S&P 500 Sector Relative Performance 6 Months After Presidential Elections (12 Cases Since 1972)

			DEM WIN (76, 92, 96, 08, 12)		REP WIN (72, 80, 84, 88, 00, 04, 16)	
Sector	**% Outperform - Overall**	**Avg Relative Return (%)**	**% Outperformance**	**Average Rel Return (%)**	**% Outperformance**	**Average Rel Return (%)**
Communication Services	83	7.8	80	9.2	86	6.6
Health Care	75	4.8	60	-1.2	86	9.1
Financials	67	3.5	80	5.0	57	2.4
Energy	67	4.8	80	6.1	57	3.8
Consumer Staples	50	4.0	40	1.7	57	5.6
Industrials	50	4.0	60	5.2	57	3.2
Consumer Discretionary	50	3.4	60	4.3	43	2.9
Utilities	42	3.3	40	3.0	43	3.5
Information Technology	42	0.4	60	6.8	29	-4.3
Materials	42	5.6	40	2.8	57	7.7

Sources: Ned Davis Research Inc, S&P Dow Jones Indices
Key: Red = <34% Outperformance Green = >66% Outperformance

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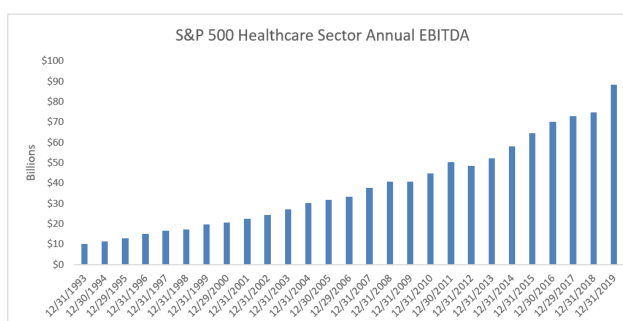
Source: Ned Davis Research, July 2020

The S&P 500® Index was up 14% at the end of November, but healthcare was one sector that did not fully participate. The sector underperformed the S&P 500 by (4.8%) year-to-date, despite the Center for Disease Control and Prevention noting that close to 80% of Americans ages 65 and older use at least one prescription drug per month, and this population group is growing in size. The lack of appreciation for healthcare stocks appears to discount many of their favorable attributes at present.

As seen in the chart to the right, despite multiple elections and the Great Recession, cash flows from pharmaceutical companies, medical device firms and managed care companies have proved remarkably resilient and remained in an upward growth trajectory. Granted, due to the sector's exposure to government reimbursement, it makes sense that there's concern regarding the potential continuation of this impressive, compounding cash flow growth track record.

However, we would note that in many instances, underperformance ahead of presidential elections tends to be followed by outperformance. In fact, Ned Davis Research traced back to 1972 and found that in the past 12 cases, healthcare was among the most consistent outperformers of any S&P 500 sector (75% of the time) after a presidential election, as seen in the far left column of the chart above.



Source: Bloomberg

Relative Sector Gain Per Annum Presidential and Congressional Party Combinations

Sector	Democrat President, Republican Congress	Democratic President, Split Congress	Democratic President, Democratic Congress	Republican President, Republican Congress	Republican President, Split Congress	Republican President, Democrat Congress
Energy	-5.1	-9.3	7.4	1.8	-11.5	2.9
Materials	-11.2	-5.1	4.8	0.0	3.1	-1.5
Industrials	-0.4	-0.6	3.8	-0.3	-2.6	-1.1
Consumer Discretionary	-2.4	1.6	-3.6	5.1	7.7	0.0
Consumer Staples	-4.1	1.6	-7.7	-6.0	9.8	12.5
Health Care	2.3	8.5	-3.5	-2.1	3.3	5.6
Financials	4.2	-3.2	1.3	-0.7	0.0	-13.1
Technology	9.4	0.2	2.9	2.4	-2.8	-5.2
Communication Services	0.6	3.1	-6.0	-2.4	1.5	-0.5
Utilities	-7.2	-1.0	-11.4	1.3	-4.1	0.4
Days %	**16.7**	**8.3**	**16.7**	**12.1**	**20.8**	**25.0**
Median Broad Cyclical Sectors	**-0.4**	**-0.6**	**2.9**	**0.0**	**0.0**	**-1.1**
Median Defensive Sectors	**-4.1**	**1.6**	**-7.7**	**-2.1**	**3.3**	**5.6**

Data starts in 1972. Days % = the percent of time spent with each combination.
Source: S&P Dow Jones.

Source: Ned Davis Research, September 2020

Moreover, as the chart above demonstrates, the healthcare sector tends to be among the most consistent in terms of generating positive returns in a variety of political party leadership combinations at the national level. For the Equity Opportunities portfolios, we have been "putting our money where our mouth is" with our Equity Income, Special Opportunities, Insight, Smid Opportunities and Global Leaders portfolios. We added healthcare stocks to these strategies in 2020 in anticipation of brighter days ahead, as several stocks in the healthcare sector appear to offer a prescription for potential increased returns in the future.

As always, thank you for your interest and trust in managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is an equity portfolio manager. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation.