



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)

Sector	% Outperform - Overall	Avg Relative Return (%)	DEM WIN (76, 92, 96, 08, 12)		REP WIN (72, 80, 84, 88, 00, 04, 16)	
			% Outperformance	Average Rel Return (%)	% Outperformance	Average Rel Return (%)
Communication Services	83	78	80	92	86	66
Health Care	75	4.8	60	-12	86	91
Financials	67	35	80	5.0	57	24
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

Ned Davis Research

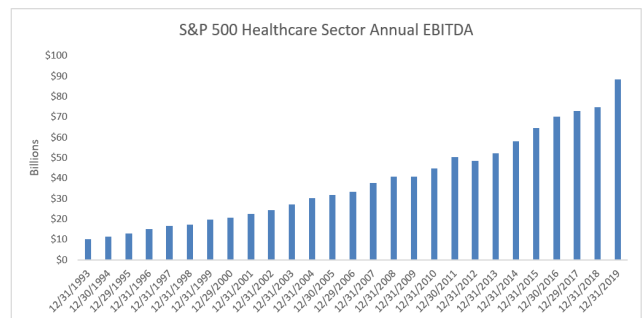
T_SP20200714.4

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.



The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

S&P 500®: The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P® Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks. *The volatility of an index varies greatly; investments cannot be made directly in an index.*

The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees.

The opinions contained in the preceding commentary reflect those of Sterling Capital Management LLC, and not those of Truist Financial Corporation or its executives. The stated opinions are for general information only and are educational in nature. These opinions are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of Truist Financial Corporation, Truist Bank or any affiliate, are not guaranteed by Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.

Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.