

**Risk and Return in the Pandemic Environment**

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Global equities reacted strongly as COVID-19 continued to spread around the world. Price volatilities tripled, hitting multiyear highs<sup>1</sup> as the market fell by more than -20% during the first quarter of 2020. During this sell-off, health care held up better than other MSCI World sectors. From the market high on February 20<sup>th</sup> through the market low on March 20<sup>th</sup>, health care was down -23%, while the wider MSCI World index tumbled more than -31%. During the subsequent recovery through the end of May, health care also exhibited strong performance; in fact, it was the only sector that had positive performance from peak through the end of May with a volatility that was lower than most other sectors<sup>2</sup>.

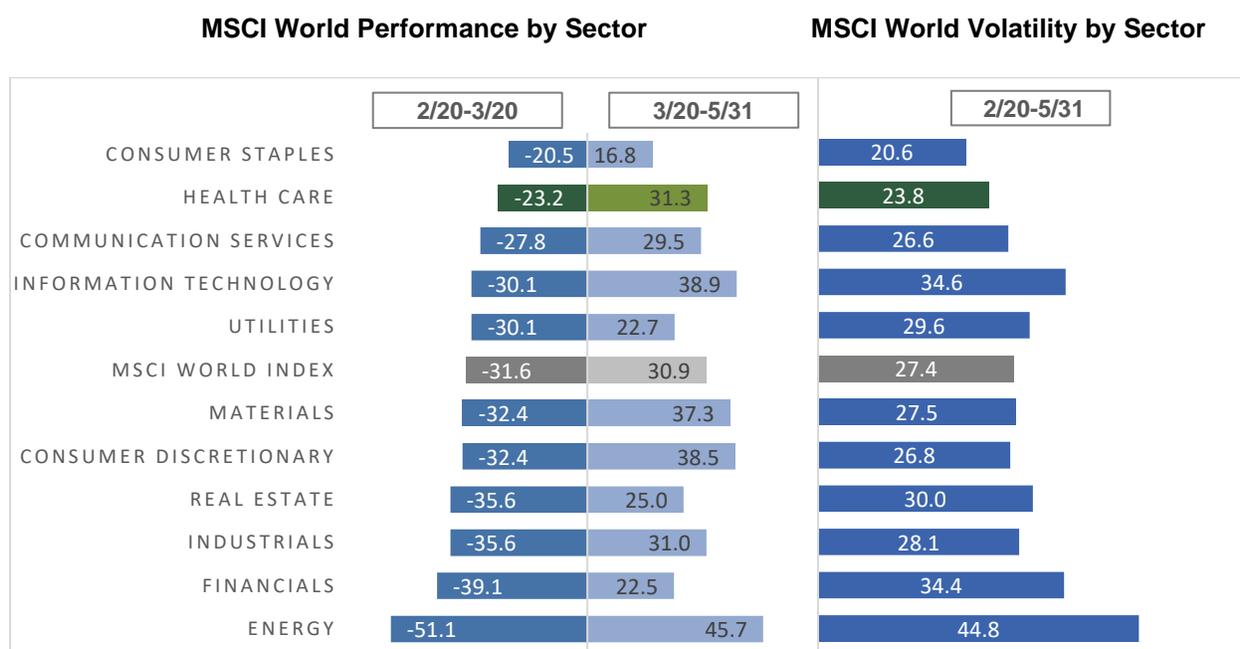


Figure 1

Source: MSCI, FactSet

However, as health care includes a wide range of sub-sectors, performance varied among them throughout this period. As illustrated in Figure 2 below, health care technology and biotechnology significantly outperformed during the drawdown, while health care facilities and services largely lagged other sub-sectors. During the subsequent recovery, health care technology continued to show robust performance and ended the period as the top performing sub-sector, followed by life sciences tools & services and biotechnology<sup>3</sup>.

<sup>1</sup> As measured by CBOE Volatility Index (VIX) and CBOE EFA ETF Volatility Index (VXEFA)

<sup>2</sup> As measured by MSCI World Index

<sup>3</sup> As measured by MSCI World Index

## MSCI World Health Care Sub-Sector Performance

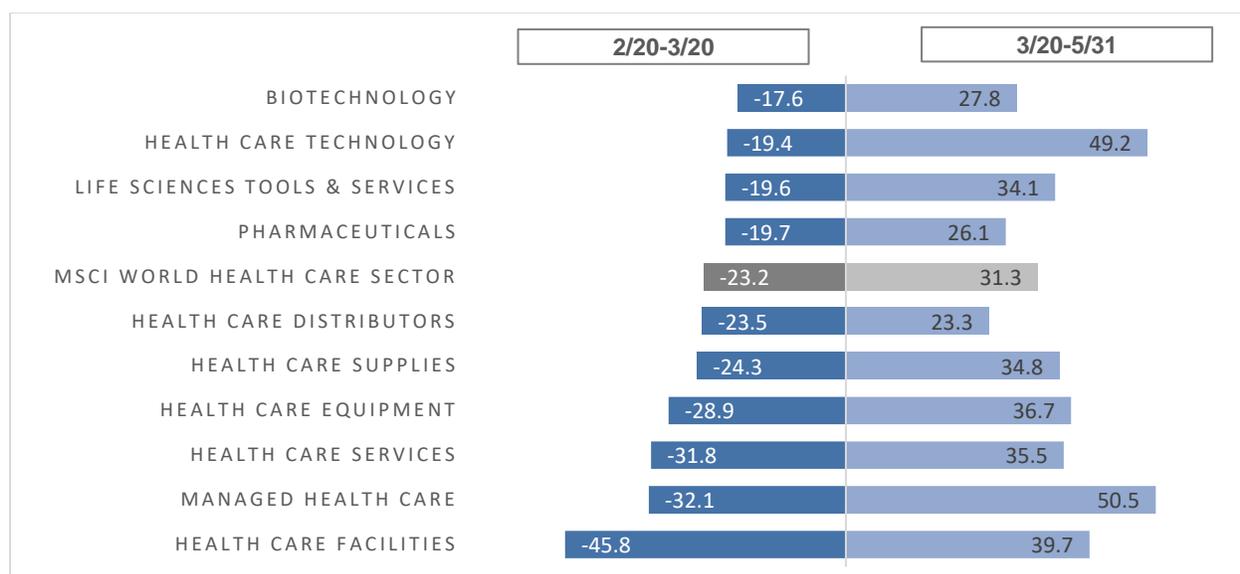


Figure 2

Source: MSCI, FactSet

During the pandemic, hospitals, services, and equipment that are tied to elective procedures bore the brunt of the impact as most of these procedures were either cancelled or postponed. Conversely, companies that are exposed to essential health care needs and the increased use of technology while patients stay home were some of the best performers.

For biopharmaceutical companies, the pandemic also created challenges. As with other industries, the pandemic heavily impacted many aspects of the manufacturing operations and supply chains. Disruptions to clinical trials and drug development also intensified with the spread of COVID-19, as companies delayed the start of new clinical trials and suspended enrollment in many ongoing studies to reduce the risk of patients' exposure to the virus.<sup>4</sup>

### Opportunities

The COVID-19 pandemic will irrevocably change our lives, as people around the world adjust to the new normal. It will also accelerate the transformation that has been taking place in the health care industry.

#### *Health care delivery and access*

Physicians have been using telemedicine for years prior to the pandemic. Telemedicine visits surged as doctors and patients were strongly urged to avoid in-person visits. According to a recent survey conducted by Merritt Hawkins in collaboration with The Physicians Foundation, "close to half of all physicians (48%) are treating patients through telemedicine, up from 18% in 2018<sup>5</sup>". In response to the pandemic, the US Department of Health and Human Services temporarily eased some of the regulations on conducting telemedicine, and the Centers for Medicare & Medicaid Services expanded Medicare coverage for telehealth services. Although some of the loosening of regulations could be temporary, with the unfolding of the pandemic, demand for this type of services could make it a new service option for patients.

<sup>4</sup> As Covid-19 spreads, disruptions to clinical trial and drug development accelerate, STAT, March 23, 2020

<sup>5</sup> <https://www.merritthawkins.com/news-and-insights/media-room/press/-Physician-Practice-Patterns-Changing-as-a-Result-of-COVID-19/>

Before the pandemic, there was a growing trend to shift care from hospitals to outpatient and ambulatory centers. This transformation has been underway for over a decade, due to lower cost and better patient outcomes. We expect this trend to accelerate during the pandemic to minimize the likelihood of elective patients comingling with COVID-19 patients. Hospitals will also be able to manage their capacity more efficiently, freeing up beds for the most serious COVID-19 patients.

*Novel, non-invasive approaches to treat disease*

Medical device companies have pioneered new and safer approaches to reduce the number of invasive procedures, promoting faster recovery times and fewer surgical complications. Reduced recovery times also mean shorter hospital stays and, as more patients receive care outside of hospitals, we believe these innovative technologies will continue to change the treatment paradigm in the post COVID-19 world.

*Drug development*

As biopharma companies and researchers around the world race to find a cure for COVID-19, we think it is important to look beyond this particular pandemic. We will continue to focus on companies that develop novel approaches to treat diseases that were previously untreatable.

**Looking forward**

COVID-19 brought both challenges and opportunities to the health care industry. As we look forward to the post COVID-19 world, transformations that were underway prior to the pandemic will resume, if not accelerate. Meanwhile, we believe it remains important to focus on fundamentals and identify quality companies that are at the forefront of these secular trends.

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