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## Five opportunities for healthcare investors

### **Bellevue Asset Management casts a spotlight on five major trends in the healthcare sector for 2023 and outlines their potential from an investor's perspective.**

From Dr. Cyrill Zimmermann, Head Healthcare Funds & Mandates and member of the Executive Board, Bellevue Asset Management AG

#### **Remarkable technological progress**

The way forward in developing novel therapeutics that repair defective genes or modulate gene expression levels is becoming increasingly clear. This, in turn, has increased confidence that in vivo gene therapy can produce successful results if the right R&D approach is taken. Gene editing in particular stands to garner more attention as a means of treating rare genetic diseases as well as cancer going forward.

Small-molecule drugs that target genetic disorders are increasingly being used thanks to innovations in the field of big data and AI. Researchers are also expected to achieve breakthroughs in inhibitory siRNA and antisense RNA therapies for rare diseases such as ATTR amyloidosis and hypertriglyceridemia (Lp(a)), as well as for cardiovascular diseases. Alnylam, Ionis and Arrowhead are currently the key players in this area.

2023 will also be an interesting year for combination therapy strategies based on mRNA vaccines, be it to treat COVID-19/influenza or RSV, or other infectious diseases. This same technology is also being used to develop therapeutic cancer vaccines. We are expecting data on this front, too, during the course of 2023.

#### **Neurology set to become an even more important topic in 2023**

The ongoing quest to develop effective drugs for Alzheimer's disease will enter a new round in 2023. Market potential is huge. Major clinical advances were made last year. Lecanemab, an antibody developed by Eisai/Biogen for Alzheimer's patients, was granted marketing authorization in the US on January 6, 2023. Donanemab from Lilly is likewise expected to receive regulatory approval as an Alzheimer's treatment later this year, provided the forthcoming trial results are positive. Karuna's KarXT is a new beacon of hope for schizophrenia patients.

#### **Chaff will be stripped away, revealing true gems in the digital health space**

Macroeconomic factors such as the future path of interest rates and sector rotation activity weighed on the performance of digital health stocks from 2021 to the summer of 2022. The situation has eased in the meantime and today's valuation levels are attractive.

Fundamental business trends in digital health continue to point to solid growth. Digital medtech companies in particular are expected to benefit from the normalization of patient numbers in the wake of the pandemic and the release of previously pent-up demand for non-emergency procedures.

Although our outlook for the industry is very positive, we believe stock-picking will remain crucial for investment success in 2023. We therefore expect investors to flock to top-quality companies with business

models that are definitely commercially successful and that are turning a profit or are about to do so, and that these stocks are likely to outperform.

### **Big Pharma is in a strong position**

The past has shown that pharmaceutical companies perform better when interest rates are on the rise or at high levels, and during the first half of a recessionary cycle. At present there still is a risk of further central bank rate hikes and/or a global economic slowdown, so pharma stocks might stay on investors' shopping lists for a while. The investment case for pharmaceutical stocks also remains compelling in view of their strong near-term cash flows, high profit margins, reasonable stock valuations, and strong pricing power. We expect M&A activity to pick up in 2023 given the sound balance sheets and more reasonable valuations of small and mid cap biopharmaceutical names. Divestments will likely remain an issue too, as recently seen at J&J and Novartis.

Mega-blockbuster drugs for highly prevalent diseases that are viewed as transformative treatments with huge market potential will likely capture the most attention. In addition to progress on the clinical trial front and regulatory approvals of new Alzheimer's treatments, we also expect strong obesity drug sales in 2023.

There are two other developments in the pharma subsector that we would like to comment on: Firstly, we view 2023 as a year in which biosimilars gain renewed momentum as a wave of Humira biosimilars are likely to be launched. This development can be viewed both as an opportunity and a threat to the pharmaceutical industry. Secondly, 2023 is a year in which new mechanisms of action (MOA) will have a transformative effect not only in very rare diseases, but also in major diseases (gene therapy for hemophilia/DMD, cell therapy for diabetes, RNAi for high blood pressure and Alzheimer's disease, mRNA vaccines for cancer).

### **Asia healthcare names – risk of being delisted in the US defused**

Subsiding geopolitical tension between the US and China could reduce risk premiums, especially for Chinese companies that have substantial international activities. An initial move in this direction, observed in December, was encouraging: The Public Company Accounting Oversight Board (PCAOB) announced that, in an historical first, Chinese authorities had allowed the US entity to inspect and investigate completely the audit reports of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong. This largely eliminated the acute delisting risk for Chinese ADR stocks, including those of biotech companies.

China's trilemma – zero-COVID policy, economic growth, and social stability – ultimately led to a much quicker-than-expected reopening of its economy. The vaccination rate of China's geriatric population and intensive care unit utilization rates will be closely monitored during the first few months of 2023 to determine whether the country's healthcare system can cope with the surge in COVID-19 cases. As the pandemic winds down, the growing acceptance of digital health solutions will accelerate the growth of digital healthcare companies in China.

[www.bellevue.ch/healthcare](http://www.bellevue.ch/healthcare)

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