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| **Subsector** | **Dec '22** | | | | **4Q TD %** | | **YTD %** | | **Sentiment, Themes, and Single Name Thoughts** | |
| Managed Care (S15MANH) | | 13.50 | | 25.79 | | | 39.35 | | | 25%+ rally in 4Q catalyzed by solid 3Q results (better MLR management after some 2Q noise) as well as increased confidence in 2022 guidance/consensus at both quarterly results as well as the handful of investor events in the last month.  The conversation with investors has once again gone from “do I want to own managed care” to “how many/which managed care names should I own?”  Generalists have also shown increased interest here, given the better visibility into 2022, and rotation out of some other growth sectors with mgd care still providing LT double digit EPS growth.  Favorite name UNH retains that position while investors jockey between HUM, ANTM (a 2021 favorite) and CNC (recently increasing long), and CI sentiment turning more sour over the last couple months as investors see a longer term path to turnaround (and potential needs for M&A here).  Overall, group remains well positioned into 2022 with management teams focused on profitable growth, good MLR management/pricing, COVID already factored into guides, and growing end markets.  2022 Picks: UNH, HUM, CNC |
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| Tools / CROs (S15LSTS) | 4.41 | 9.36 | 37.97 | Steady outperformance throughout 2021, with some “COVID off” jitters throughout the year on incremental fears that COVID testing revenue would drop off, overall, sentiment has remained largely unaltered throughout the year.  Strong, sustainable growth remains key here, along with consistent M&A across the group, as companies diversify revenue streams and end markets (biopharma an increasingly appealing end market – which has also kept the strong overweight in the CRO group).  While there is some apprehension around EPS step-down post COVID, the strong LT growth guides at DHR and TMO recent investor days suggests companies will manage through it well, and have significant opportunity on the other side of it (most believe consensus already overly modeling this, with upside over the medium to LT to numbers).  A quick November straw poll of investor found most HFs don’t see risk to 2022 numbers in the group, and trading here will remain relative, while any sellers of leaders TMO & DHR are likely to regret the sales rather than be applauding themselves at year-end.  While diagnostic names don’t make the S&P500 grouping, the steep post-ARK mania sell-off here has caused a lot of dislocation, continuing to hear inbounds of people taking a look at these names for 1 or 2 “long-term winners” at these valuations.  2022 Picks: TMO, BRKR, IQV, CTLT, GH, NSTG |

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| Facilities (S15HCFA) | 13.34 | | 0.47 | | 32.95 | | Is COVID good or bad? A lot of hedge fund debate here, while hospitals enter 2022 with the best balance sheets they have had in quite some time, managing the mix of headwinds (staffing, elective volumes, costs) and tailwinds (backlogs, ASCs, diversified rev, balance sheet) remains complex; all key topics during our [Nov Nashville Bus Tour](https://neo.ubs.com/shared/d2DPfV36GK).  Overall hospitals remain more a debate on valuation than anything else, although there is some debate around 2022 EBITDA depending on how COVID plays out (HCA modeling 3-5% of admits from COVID), leaving HCA among the most debated names into the start of the year.  Meanwhile, home health names (LHCG, AMED) have significant fallen out of favor in 2021, and that shows no signs of turning in 2022 as investors have thrown out pervious valuation constructs, and see a challenging path to any EBITDA upside as cost increases look increasingly permanent (will potentially additional pain), especially on the labor side, while EHC remains tricky for folks with a lack of clarity on HH&H timing/move. Overall, investors not expecting a similar 30%+ rally in 2022, with MUCH more selective positioning.  2022 Picks: THC, ACHC, SGRY |

What a 4Q turnaround for the group, which overall also helped turn momentum for the XLV.  Pharma has slowly become cool again, a trend we saw late in 3Q as investors increasingly called around asking for “1-2 large biopharma names one can own for 3 years” indicating a sentiment change for the first time in the last couple of years.  The positioning trade has quickly followed, with quite a bit of COVID volatility in the middle (LLY, PFE, MRK), while some of this has also been spurred by increasing headlines around biopharma deployable capital ($300bn, $500bn, it’s a lot!) and increasingly aggressive mgmt. commentary around deploying it (along with a handful of 4Q deals).  Drug price reform remains a muted topic (in my mind had never been the gating factor for ownership), and the group has slowly re-rated as LT growth prospects have improved with M&A adding to revenue / pipelines, although there is more lifting to do here to get the names to move higher from these levels.  Generalists still not at market weight in the group, pharma has some potential to possibly outperform next year, while investors are focused on both 2022-2023 earnings as well as late in the decade growth.

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| **Subsector** | **Dec '22** | **4Q TD %** | **YTD %** | **Sentiment, Themes, and Single Name Thoughts** | |
| Med Tech (S15HCEP) | | 9.14 | 3.18 | 18.75 | 2H21 has been less kind to the group, as visibility/credibility took a hit after management commentary and overall performance for 3Q did not align, while investors grew concerned that COVID disruptions may take longer to work through (procedure staffing, supply chain, increased costs); overall leading to quite a bit of LO supply following 3Q results.  Positioning the group became much more “core” or disruption safe for the bulk of 4Q, and some of those have remained in place (ISRG, EW, ABT), while investors overall yearn for barbelled exposure to electives (With HFs increasingly itching to get more elective names in the book w/ fear of missing a quick rebound here, but picking the right name remains difficult), while others have been focused on LT Growth winners here (DXCM, EW, TNDM), and getting a fair amount of longer term money taking a look at some laggards (more BAX than BDX, less ZBH or NUVA), while HFs debate potential shorts in 2021 aesthetic outperformers (INMD, ESTA). Expect that med tech sentiment turns increasingly positive by mid-year, setting up for a year of outperformance and more consistent returns.  2022 Picks: BSX, EW, GMED, DXCM, TNDM, MASI |

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| **Subsector** | | **Dec '22** | **4Q TD %** | **YTD %** | **Sentiment, Themes, and Single Name Thoughts** | |
| HCIT / SMID Providers (RGUSHSHS) | | | 5.34 | -9.58 | -8.49 | Painful 4Q for SMID growth, and healthcare was very much wrapped up in.  Quite frankly, it has been difficult since 1Q, as the ARK driven rally was never going to be backed up by fundamentals as these stories continue to play out rather than some rapid step function higher in 2021.  Overall, everything has turned into a show-me story, following significant IPO and SPAC activity that has added plenty of new names into the mix (increasing amounts of work being done on value based cared names, with investors looking to pick winners/losers sooner than later), and many companies failing to deliver on initial promises.  Meanwhile, names that had COVID tailwinds saw those stall out quicker than other subsectors, putting significant pressure on valuations and EPS (especially with many left out of the M&A fray, as larger peers/tech co’s have opted for build your own or smaller bolt-ons).  SMID providers of course hit from all angles as COVID ratcheted up costs that were increasingly difficult to manage.  Overall, sentiment remains in wait and see mode, with investors very selective here, and don’t expect material reversion higher until at least mid-year.  2022 Picks: CANO, HCAT, APR, RCM |
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| Biotech (XBI) | 0.96 | -10.27 | -19.58 | Explaining 2021 is as simple as <https://www.fiercebiotech.com/topic/failed-trials>, needless to say, there were a lot of pipeline failures this year, a lot of pushed out read-outs/FDA decisions (FDA backlogs for decisions, site visits, etc), lackluster M&A for much of the year, and a ton of capital required to support the [100+ IPOs](https://endpts.com/ipo-tracker/) this year.  Yet, as we leave a very challenging 2021 environment, which saw material supply mid-year (funds freeing up capital for core longs/new IPOs) and end of year (some capital calls), sentiment isn’t quite as bad as some would expect (and it still feels like generalist interest could turn on a dime given the amount of times I’ve been asked for M&A lists or “is XBI a good trade here” over the last month).  While some names have been abandoned (some of these biotech failures left for dead), the overall view exiting the year is that you ***will still get paid if companies deliver good data / launches, etc***. As such, there is reason to embrace core positions here (even if “screaming longs” are still not everywhere in the group – aka, the XBI trade is still tbd even as some leg into single names), while investors also look for M&A to get off to a quicker start in 2022.   Not to mention, there is still significant money in the venture capital space here, that continues to fund further innovation.  2022 Picks: ARWR, ASND, KYMR, RAPT, FOLD, INSM, NBIX, IMUX, HZNP |