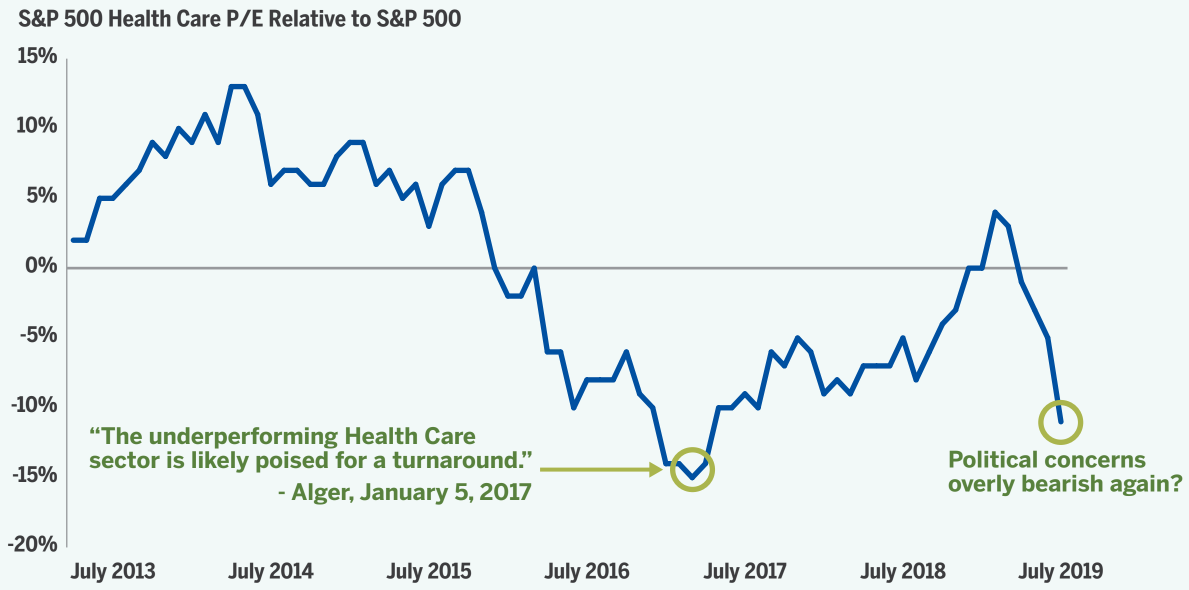
ALGER

Alger On the Money

Déjà vu Again?

When it comes to the stock market, sentiment can change quickly—sometimes regardless of fundamentals—and affect performance. The Health Care sector has historically delivered attractive investment opportunities but may be succumbing to negative sentiment today. Savvy investors should consider the current opportunity in Health Care.

Political Concerns Drive Health Care Relative P/E Lower



Source: FactSet as of April 30, 2019.

- Over the past 20 years, the Health Care sector has traded at an average 4% premium to the broader market, but its relative valuation has come under pressure around three political events: 1) the debate and implementation of the Affordable Care Act in 2009/2010, 2) the health care discussion around the 2016 presidential election and 3) the current "Medicare for All" debate.
- In January of 2017, we wrote in an Alger On the Money that "The underperforming Health Care sector is likely poised for a turnaround." We noted, "The last time the sector's valuation discount to the market was this wide, it outperformed the S&P 500 by over 700 basis points (bps) annually over the subsequent five years." Indeed, after our last note in the beginning of 2017, the sector went on to outperform the broader market by more than 900 bps over the next two years.
- Health Care's current double-digit discount compared to the broader market may be another attractive entry point. The sweet spot may be companies less reliant on pricing power that is dictated by politics, and those more driven by volume gains as a result of innovative products and services.

Inspired by Change, Driven by Growth.