Economic & Market Analysis from MarketDesk Research

Managed Care Industry Attractive Despite Medicare for All Proposals

- ***Analysts Forecast Growth in Earnings & Sales for Managed Care Companies; Money Flow Indicator Reversing***
- ***Managed Care Industry Oversold Based on Historical Measures; Hitting Key Support Level***

The Backdrop

Investors allocating new money at all-time highs or searching for value opportunities should look at the managed care industry. Medicare for All debates within the Democratic primaries have caused the industry to underperform over the past year. Investors are concerned a Democratic president could end private healthcare, marking the end of the managed care business model. In our view, risks to the healthcare sector are overstated because of the difficulty and cost of implementing Medicare for All.

The Catalysts

#1 Forecasted Earnings and Sales Growth

Healthcare is an attractive sector with favorable long-term demographic trends. Analysts covering the managed care industry forecast continued sales and earnings growth over the next three years. Additionally, managed care stocks provide a hedge against ongoing trade wars and global macro risks. ~97% of the managed care industry's revenue is generated within the U.S.

FIGURE 1

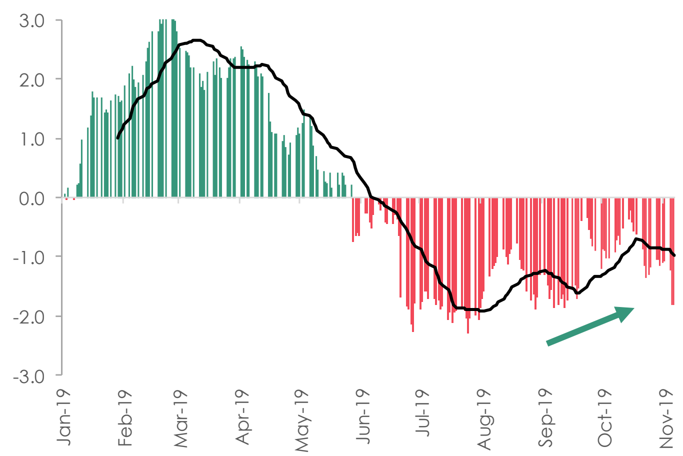
Managed Care Industry Sales Growth

#2 Improving Money Flow Indicator

The managed care industry's money flow indicator appears to have bottomed this summer. This indicates improving investor sentiment in our view. In addition, managed care stocks are outperforming over the past 1 month. Net inflows to managed care should support managed care stock prices.

FIGURE 2

Money Flow Indicator For Managed Care Industry Showing Reversal

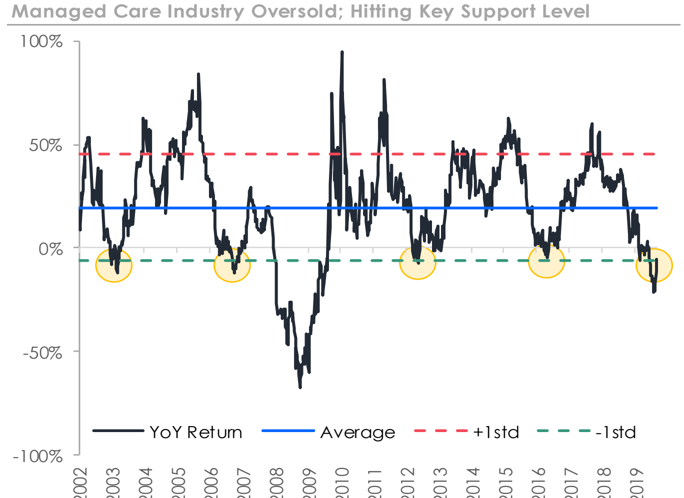


#3 Managed Care Hits Key Support Level

The managed care industry is oversold based on historical measures. Figure 3 shows managed care's rolling YoY return since 2002. The chart indicates

FIGURE 3

Managed Care Industry Oversold; Hitting Key Support Level



managed care stocks have historically found support –1 stdev below the average rolling YoY return. For example, managed care stocks headed higher after registering –1 stdev in 2003, 2006, 2012, and 2016. The industry currently sits –1 stdev below the average YoY return. This signals positive price action in our view.

#4 *Democrat Pete Buttigieg Surging in Iowa*

Pete Buttigieg is climbing the Democratic primary ranks. He surged in Iowa during October and now sits atop the polls with Elizabeth Warren, Joe Biden, and Bernie Sanders. Buttigieg's healthcare plan is not as radical as the Sanders and Warren plans, which lowers the headline risk managed care faces.

Potential Headwinds & Risks

Managed care stocks will trade based on investors' view of future healthcare policy until the 2020 election is final. The clear risk is Warren or Sanders wins the Democratic primary and defeats Donald Trump in the general election. Under that scenario, managed care stocks will sell off with the broader healthcare sector.

Regardless of the Democratic primary outcome, it's important to remember that high healthcare costs are a significant political issue today. A Warren and Sanders defeat doesn't automatically mean lower healthcare headline risk. Any progression towards the proposals in Washington to increase price transparency could mean insurers receive lower reimbursements going forward.

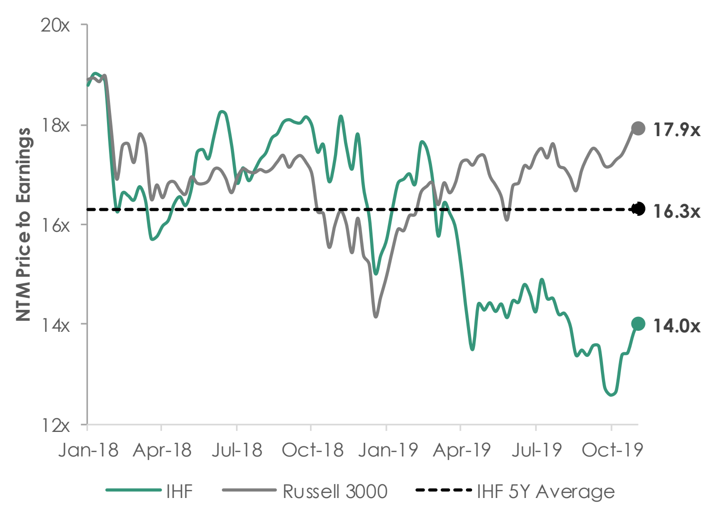
Investing in Managed Care Stocks

The iShares U.S. Healthcare Providers ETF (IHF) can be used to access managed care industry. ~47% of IHF's portfolio exposure is made up of managed care stocks. Due to Medicare for All fears and IHF's exposure, IHF currently trades at 14x its NTM P/E vs its 5Y average of 16.3x.

Figure 4 shows the clear divergence in NTM P/E multiples starting early in 2019. IHF's holdings now trade at 14x their NTM earnings. Conversely, the Russell 3000 trades at 17.9x its NTM earnings. Investors searching for value in a market hitting all-time highs should find the managed care industry compelling.

FIGURE 4

IHF's holdings are trading at 14x NTM earnings vs their 5 year average of 16.3x and the Russell 3000 at 17.9x



Summary

Managed Care stocks will trade based on expectations until the 2020 elections are over. However, Medicare for All fears are overblown. Valuations are attractive for a defensive sector with sales and earnings growth forecast. Investors should embrace the uncertainty and allocate to managed care stocks, which are reaching historical technical support levels.

Contact Us

Email

Subscribe@MarketDeskResearch.com

U.S. Headquarters

260 Newport Center Drive, Suite 100
Newport Beach, CA 92660