

## HEALTHCARE

# The outlook for healthcare

**Paul MacDonald** of Harvest Portfolios outlines what the future could hold for the healthcare sector for the rest of 2020 and beyond – and the best positioning in the face of both positivity and uncertainty

**THE TEMPO** of healthcare investment over the past two quarters seems to have been set by a single loud, booming drum: COVID-19. One portfolio manager, however, is listening for beats beyond the headlines, government policies and capital flows into possible vaccine producers. Paul MacDonald, CIO and portfolio manager at Harvest Portfolios, says that while the pandemic remains a crucial force in the sector, as the end of 2020 approaches, other forces could start driving healthcare investment.

MacDonald sees several other major drivers that are poised to shift the healthcare landscape in the coming months. As the US election heats up, the shape of American politics will become a more dominant factor. In addition, the consistent superiority of healthcare as a good has only been made more apparent by the pandemic. In an environment of broad positivity tempered by some uncertainty for certain sub-sectors, MacDonald says diversity is key.

“While there have been a number of shorter-term positive catalysts for the sector, we should take a step back and see that the three main drivers of aging populations,

technological innovation and developing markets have not gone away,” he says. “These are permanent, non-cyclical drivers over the medium term to longer term.”

In the shorter term, MacDonald believes politics will play a bigger role. With the US election about to unfold, concerns around a rise in political rhetoric have been among the key inbound questions his team is currently fielding from advisors.

“We cannot find a link between performance of the broader healthcare sector compared to the markets around election cycles,” MacDonald says, but he acknowledges that coming into 2020, expectations were for more volatility.

While Democrats flirted with a possible total overhaul of US healthcare via runner-up Bernie Sanders’ flagship ‘Medicare for all’ policy, MacDonald says the nomination of Joe Biden means neither of the major candidates is set to derail the deeply complex and financialized system. At the same time, many companies in the sector have proven their ability to pivot and direct massive resources, both scientific and financial, toward the COVID-19 crisis.

In light of reduced concerns of extreme policy proposals, coupled with the improved sentiment surrounding COVID-19 treatments and vaccines, MacDonald points out that “there is no question, given the macro backdrop, that the political rhetoric surrounding healthcare policies is indeed much more subdued this election.” There’s a new outlook for these companies, he says, more informed by their potential than the risks of political backlash over issues like drug pricing.

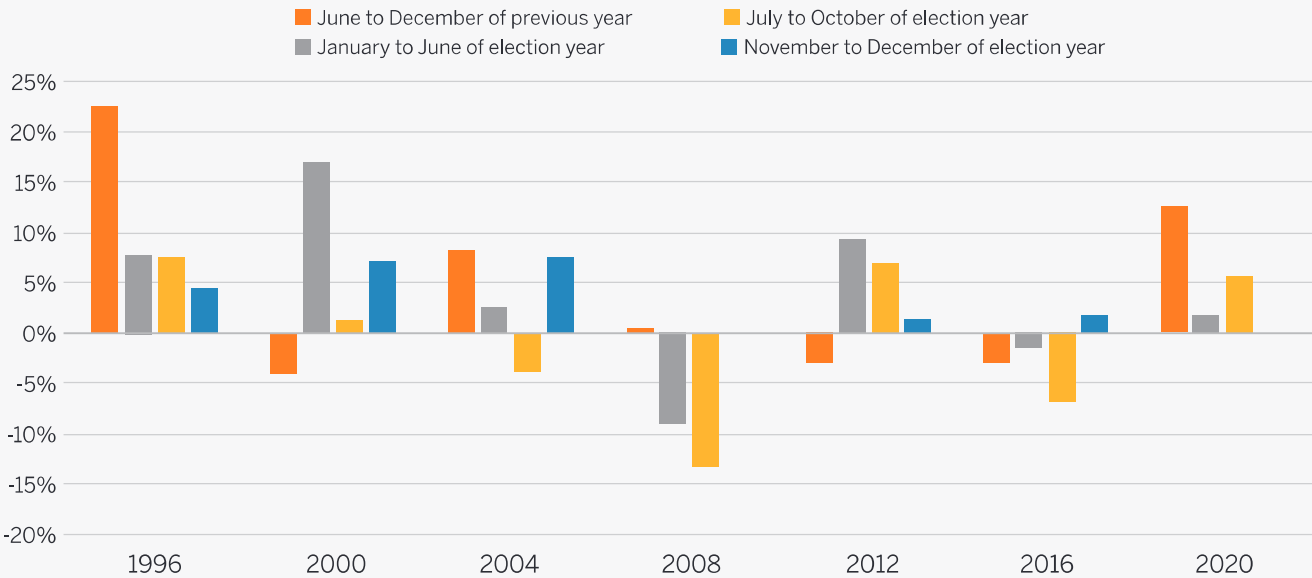
In a recessionary environment, healthcare is once again proving itself to be a superior good, MacDonald says. Broadly speaking, healthcare cash flows haven’t abated as other industries have seen revenues plummet, simply because it’s an area where few will choose to cut their spending.

That said, MacDonald acknowledges that medical technology has suffered some setbacks as people have forgone elective procedures for fear of exposure to the virus. Fewer hip and knee replacements in the short term, however, means there’s pent-up demand for the sub-sector as jurisdictions reopen. While MacDonald says the short-term downturn in medtech highlights the need for a diverse allocation across healthcare sub-sectors, the simple fact that someone is more likely to get their hip replaced than buy a new car when the pandemic ends points to a strong recovery in this space as elective procedures resume.

Harvest’s Healthcare Leaders Income ETF (HHL) carries large-cap medtech firms within a broader asset mix that represents a diverse range of major healthcare companies. HHL includes firms like Stryker and Boston Scientific, leaders in orthopaedic and cardiovascular technologies, respectively. At the same time, the fund also holds companies like AstraZeneca, Johnson & Johnson and Pfizer, offering direct exposure to the quest for a COVID-19 vaccine. Backed up by Harvest’s signature covered call strategy,

## HOW HEALTHCARE PERFORMS IN US ELECTION YEARS

### MSCI WORLD HEALTHCARE INDEX RETURNS



Source: Bloomberg, based on total return; 2020 election cycle data through August 26, 2020

the fund is designed to deliver hard-to-find income through an equity sector that has seen so many positive tailwinds this year.

MacDonald is cognizant, though, that the broad-based positivity much of the healthcare sector has seen so far in 2020 is beginning to turn to more stock-specific catalysts. He says those companies posting stronger financial results and delivering successful late-stage drug trials are beginning to outperform the rest of the sector.

Looking to the future, MacDonald and his team see opportunities across several sub-sectors. Pent-up demand for elective surgeries will drive several of the medical device companies. Although lesser known in Canada, the managed care sub-sector also has several positive drivers with relatively clear visibility into near-term business outlooks.

The Harvest team has also been analyzing the likely impacts of a vaccine on the market. They're going beyond just the trials and looking



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for further safety profiling data through the end of the year, as well as how the soon the infrastructure can be implemented to manufacture 2 billion doses of a vaccine. The scale of that endeavour, MacDonald says, points back to the broad positivity for the sector.

“Diversity means we want to have exposure to all of the areas within the sector and hold various underlying exposures,” he says. “So whether it’s drug manufacturers,

medical devices, managed care companies or even facilities, we want to have exposure to those areas. Advisors should look at this strategy and ask themselves if they want to have a suite of 20 large-cap, diversified healthcare companies for their clients. They should ask, too, if their clients need high distributions and monthly cash flows. If they check both boxes, that’s where our fund can come into play.” **WP**