

# Investors continue to flee healthcare

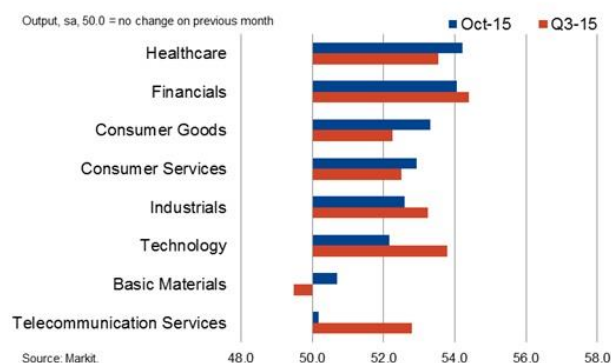
Investor sentiment towards the healthcare sector continues to sour despite the fact that the sector has come out on top of the October Markit Economics Sector PMI.

- Healthcare firms topped the October sector PMI survey, edging out financials
- ETF investors have withdrawn over \$1.8bn of funds from healthcare ETFs so far in Q3
- Short interest in the IBB ETF has more than doubled since its July highs

Healthcare stocks had enjoyed a stunning start to the year, but **allegations** of price gouging in the industry as well as accusations of accounting irregularities from former industry darling **Valeant** has seen the sector's shares fall from their summer's highs. This negative investor sentiment is not driven by fundamental movement, however, as healthcare shares heading into earnings had been **buoyant** heading into this earnings season.

These buoyant trading conditions continued into the current quarter as healthcare firms came out on **top** of the October Markit Economics Sector PMI. The sector joined financials as the only two sectors with a business activity reading above 54, indicating strong growth for the month.

## Global Sector PMI: broad sector groups

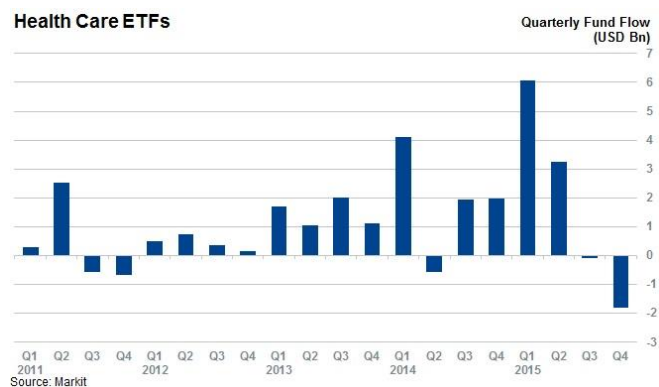


While both of the sector's subindustries recorded an improvement in trading conditions, services firms did carry the sector somewhat as pharmaceutical and biotechnology firms recorded a reading of 52.

## Investors cash out

Despite the bumper PMI reading, healthcare shares have continued to lose ground to the rest of the market in recent weeks as the largest healthcare ETF, the Healthcare Select Sector SPDR has underperformed the S&P 500 by over 1.2% in the opening five weeks of the fourth quarter. This means that the index has trailed the wider market by over 5% in the last three months.

This underperformance has prompted a growing portion of ETF investors to trim their exposure to the sector as healthcare ETFs have seen over \$1.8bn of outflows so far in the fourth quarter, putting them on track for their worst ever quarterly outflow by quite a wide margin.

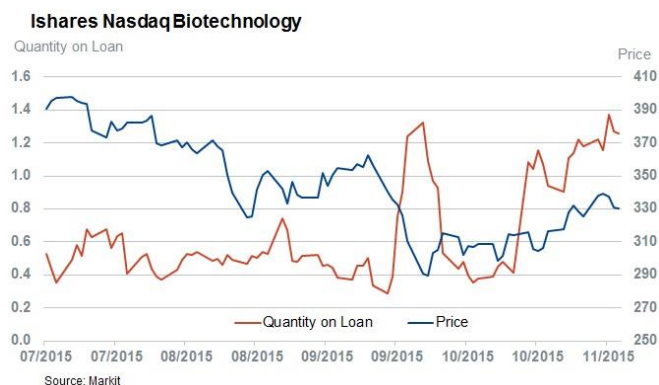


Pharmaceutical firms, which have borne the brunt of the recent bad headlines, have seen their largest outflows with the iShares Nasdaq Biotechnology Index ETF (IBB) seeing

investors pull over \$850m of assets, by far the most out of any fund. This move looks to have been well timed as the IBB has lagged the broader Healthcare Select Sector ETF by over 0.7% so far this quarter.

## Short sellers also converge on ETFs

The negative investor sentiment is also reflected in shorting activity in the IBB ETF itself as the fund has seen the demand to borrow its shares triple in the three months since reaching an all-time high. There are now over 1.2m shares of IBB out on loan, which represents \$420m of bearish bets in the sector.



\*To receive more information on **Securities Finance** or any other product or dataset please **contact us**

To read this article on our commentary website please click [here](#).

### Simon Colvin

#### Analyst

Markit

Tel: +44 207 260 7614

Email: [simon.colvin@markit.com](mailto:simon.colvin@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.