Will The Healthcare Sector Be The Next Rotation?

Investors aware of which types of stocks are rotating in and out favor have a distinct advantage. On Tuesdays, we summarize key points from our [SimpleVisor absolute and relative analysis](). The DIY tool uses technical analysis to assess how sectors, factors, and individual stocks are performing relative to the market and on an absolute basis. If you follow the analysis, you will notice that sectors and factors are often in a state of rotation. In other words, those in demand tend to cool off, in favor of those that were not. Unfortunately, identifying potential beneficiaries of tomorrow?s rotation is somewhat straightforward, but timing is challenging. Today?s write-up below focuses on the healthcare sector. The question we should be considering is whether the healthcare sector will be the next hot sector or continue to languish.

To help us answer the question, we share the absolute and relative analysis in the section below. Furthermore, we share a graphic from Goldman Sachs to appreciate the historically cheap valuations of the healthcare sector. As shown below, the P/E ratio of the healthcare sector compared to the S&P 500 is the lowest it has been in the last 30 years. Moreover, its absolute P/E is in the lower third of readings over the past 30 years. The sector is also very cheap and very oversold on a shorter-term technical basis. So what may preclude the sector from being the next beneficiary of sector rotations?

We believe there are two significant headwinds: political and investor sentiment. On the political front, healthcare companies are facing considerable uncertainty regarding Medicare/Medicaid policies, drug pricing regulations, and substantial changes to key governmental regulatory agencies. Investors appear willing to overlook the sector despite its affordability as they are enamored with high-risk, high-growth opportunities, leaving healthcare in the dust.

Exhibit 36: S&P 500 sector P/E valuations relative to history

	Consensus forward 12-month P/E valuation				
		Absolute P/E		P/E vs. S&P 500	
	Current	%ile rank vs. history		%ile rank vs. history	
	P/E	10-year	30-year	10-year	30-year
Information Technology	30x	95%	85%	89%	63%
Consumer Discretionary	28	72	90	35	75
Industrials	25	92	97	93	96
S&P 500	**22**	**87**	**93**		
Consumer Staples	22	92	86	24	14
Materials	20	77	86	26	19
Communication Services	20	63	63	8	3

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Materials	20	77	86	26	19
Communication Services	20	63	63	8	3
Utilities	18	70	90	42	55
Real Estate	17	29	52	6	17
Financials	17	73	86	10	12
Health Care	16	39	34	0	0
Energy	15	45	65	40	20

Source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

What To Watch Today

Earnings

Tuesday Jul 22	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Coca-Cola KO:US		0.84	0.84		12.54B	12.4B	$309.16B	Q2	AM
Philip Morris International PI		1.84	1.59		10.31B	9.47B	$269.42B	Q2	AM
Intuitive Surgical ISRG:US		1.92	1.78		2.35B	2.01B	$188.55B	Q2	PM
Raytheon Technologies RTX:I		1.45	1.41		20.73B	19.8B	$171.23B	Q2	AM
Texas Instruments TXN:US		1.34	1.22		4.1B	3.82B	$149.94B	Q2	PM
Danaher DHR:US		1.76	1.72		5.8B	5.7B	$143.84B	Q2	AM
Lockheed Martin LMT:US		6.66	7.11		18.62B	18.1B	$113.26B	Q2	AM
Sherwin-Williams SHW:US		3.82	3.70		6.32B	6.27B	$91.36B	Q2	AM
Capital One Financial COF:US		3.97	3.14		10.13B	9.51B	$83.06B	Q2	PM
Northrop Grumman NOC:US		6.75	6.36		10.15B	10.22B	$74.05B	Q2	AM
General Motors GM:US		2.46	3.06		45.82B	47.97B	$52.39B	Q2	AM
PACCAR PCAR:US		1.30	2.13		6.92B	877B	$46.86B	Q2	AM
Msci MSCI:US		4.10	3.64		762.42M	707.9M	$43.55B	Q2	AM
DR Horton DHI:US		2.94	4.10		8.89B	10B	$41.64B	Q3	AM

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DR Horton DHI:US		2.94	4.10		8.89B	10B	$41.64B	Q3	AM
Equifax EFX:US		1.89	1.82		1.51B	1.43B	$32.66B	Q2	AM
CoStar CSGP:US		0.14	0.15		772.12M	677.8M	$31.92B	Q2	PM
EQT EQT:US		0.45	-0.08		1.78B	952.51M	$31.85B	Q2	PM
IQVIA Holdings IQV:US		2.78	2.64		3.95B	3.81B	$27.52B	Q2	AM
Synchrony Financial SYF:US		1.59	1.55		3.72B	3.71B	$22.04B	Q2	AM
PulteGroup PHM:US		2.99	3.83		4.42B	4.6B	$21.89B	Q2	AM

Economy

Tuesday July 22 2025			Actual	Previous	Consensus	Forecast
07:30 AM	US	Fed Chair Powell Speech				
07:55 AM	US	Redbook YoY JUL/19		5.2%		
09:00 AM	US	Richmond Fed Manufacturing Index JUL		-7	-4	-2
09:00 AM	US	Richmond Fed Manufacturing Shipments Index JUL		-3		-1
09:00 AM	US	Richmond Fed Services Revenues Index JUL		-4		1
12:00 PM	US	Fed Bowman Speech				
12:00 PM	US	Money Supply JUN		$21.94T		

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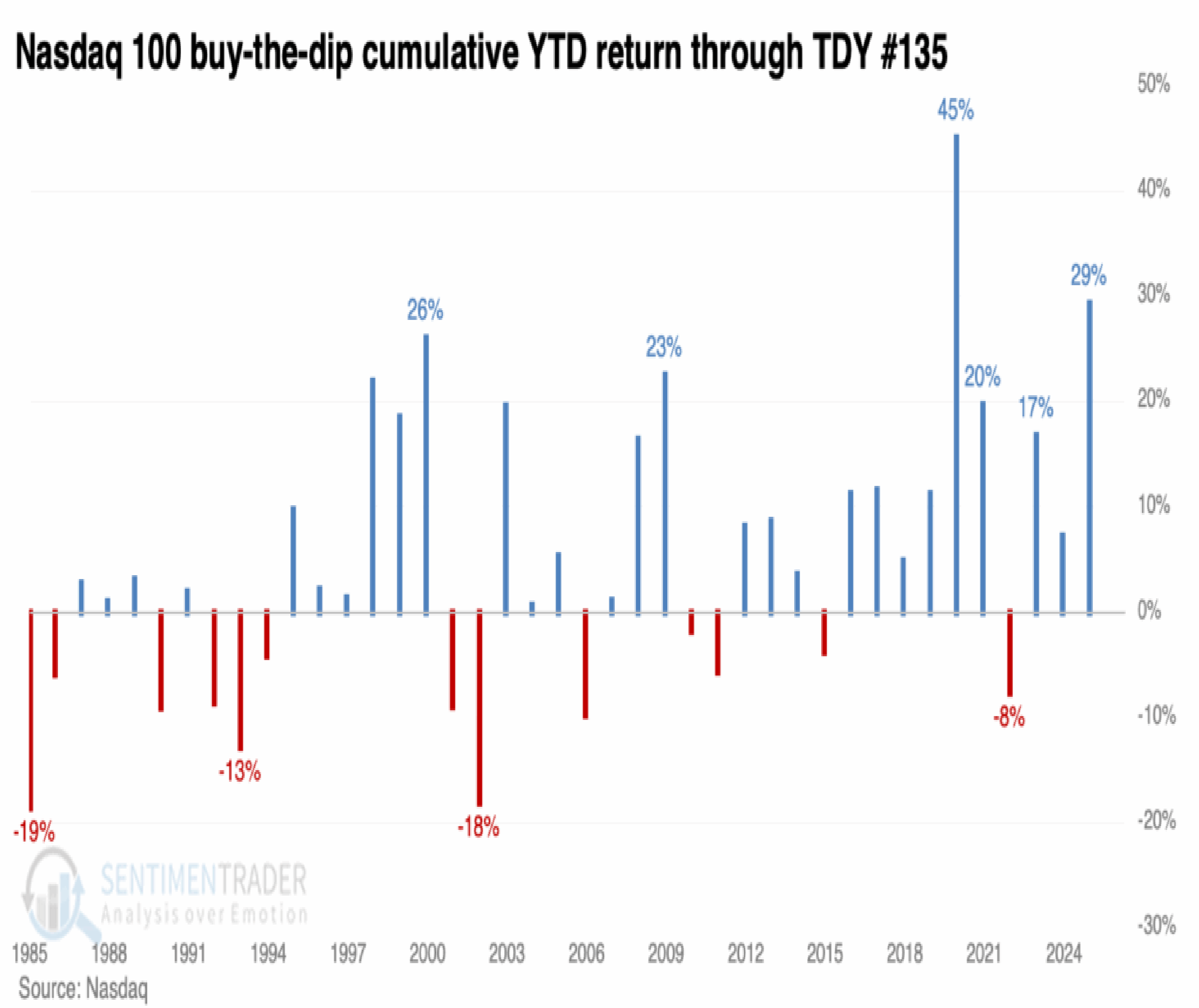
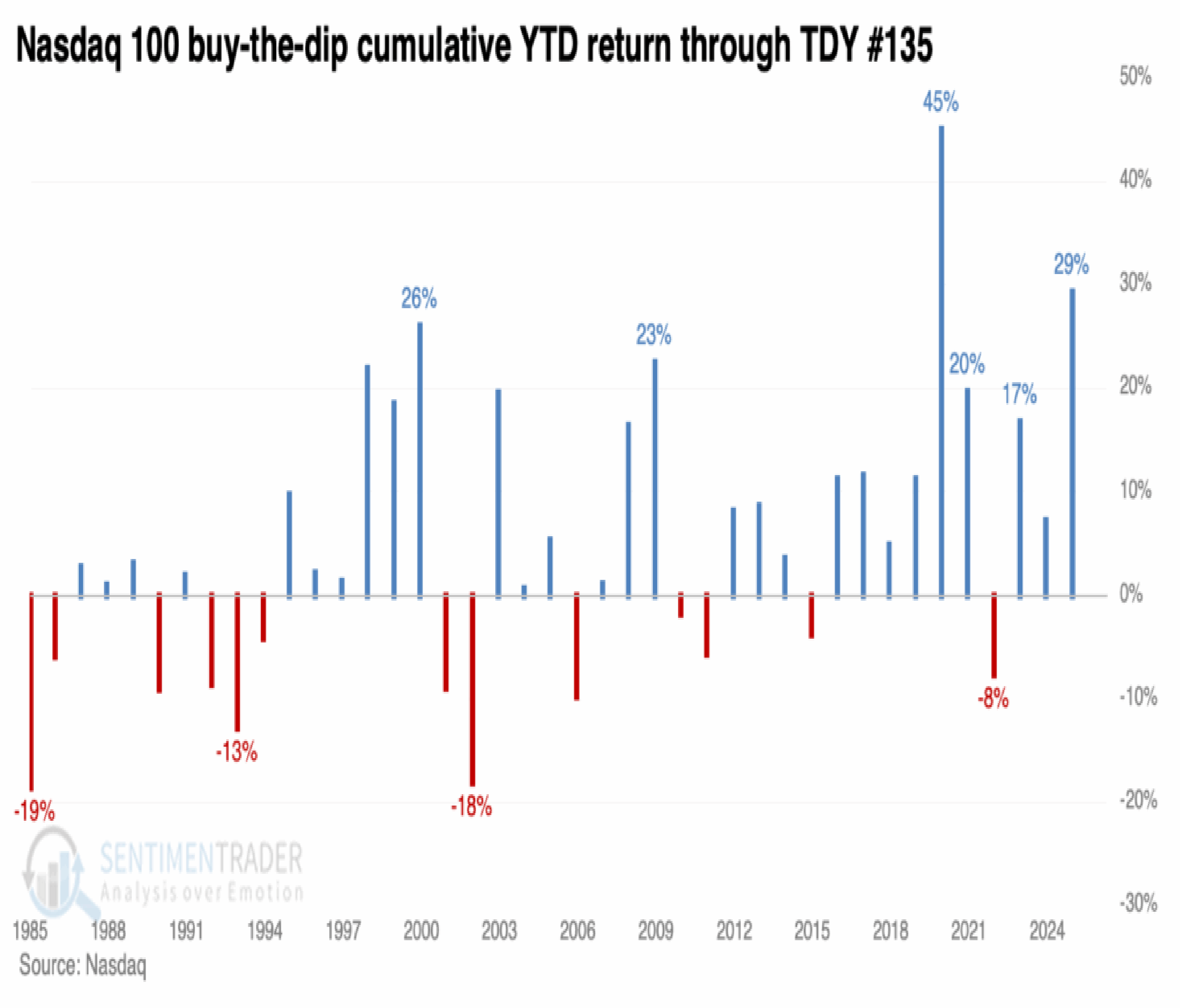
Market Trading Update

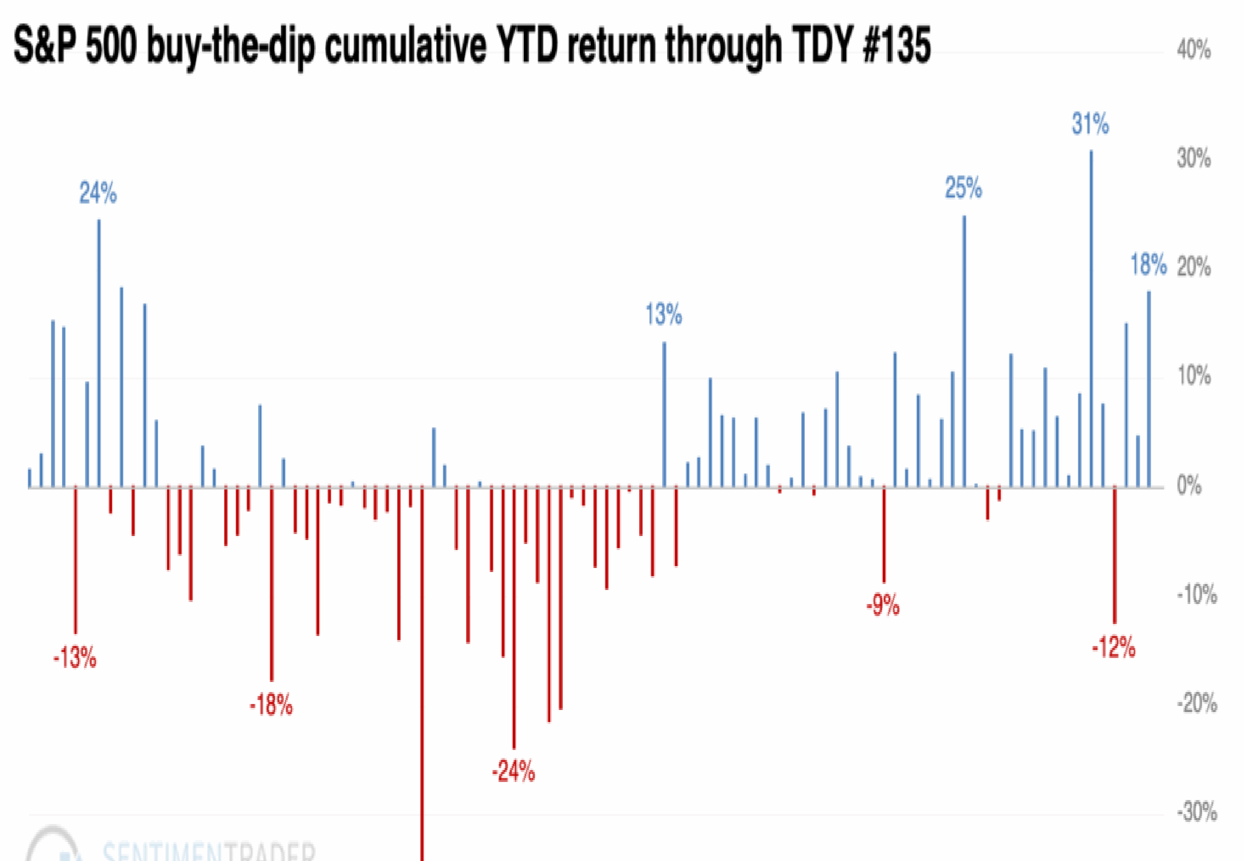
[***As discussed yesterday,***](#) the market has returned to a much more speculative environment. However, as we edge into August and September, those months are more prone to weakness. One thing the past couple of years have taught investors is that *?buying the dip?* works. Just recently, [Sentiment Trader](#) reported on the same.

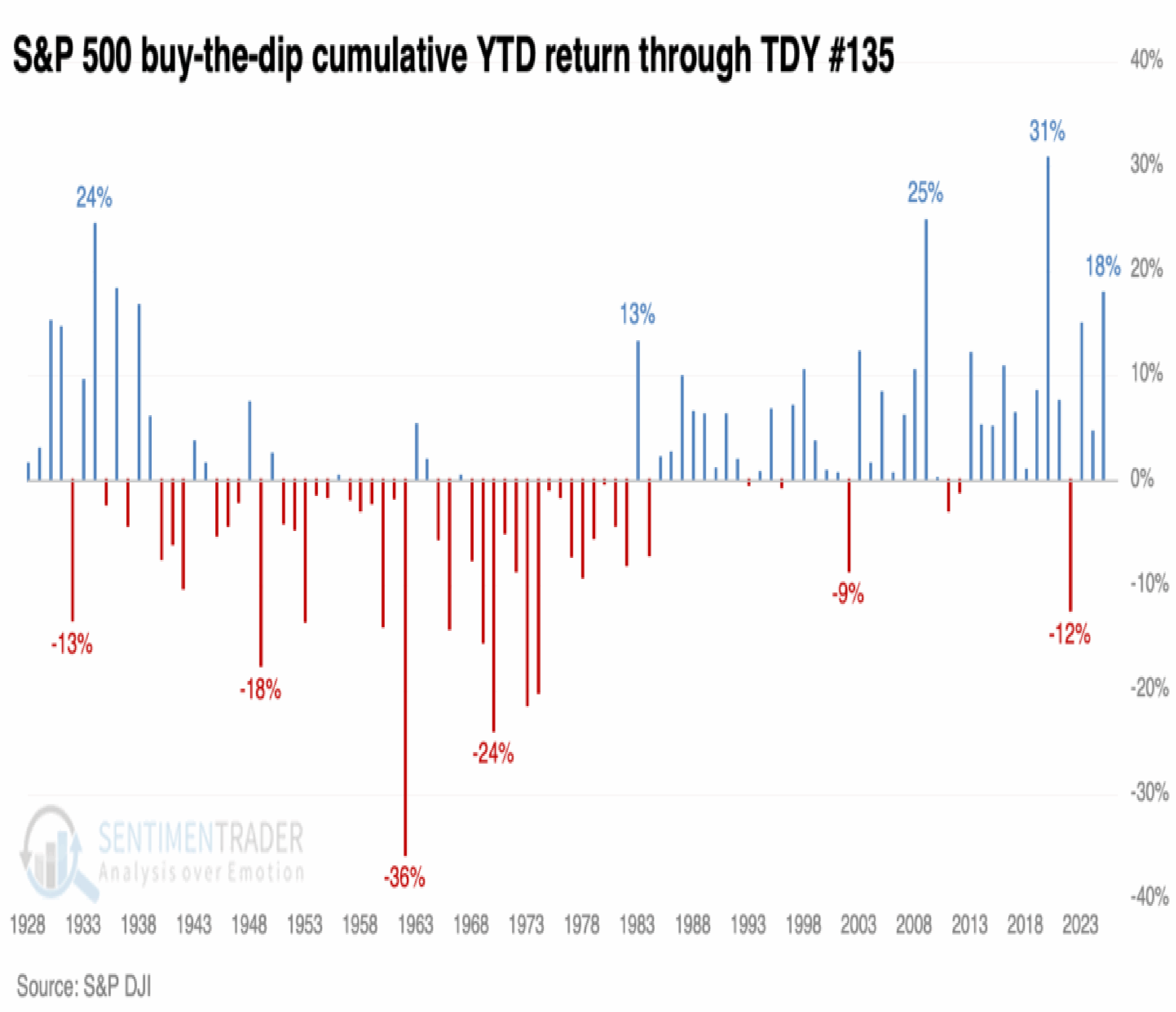
> *?Even now, anything sticky brings me right back to those days. My parents were exceptionally hard-working but financially naive. I had to scratch and claw for every dollar. That?s why, when I read something in the financial press, my first instinct is caution.* ***For 25 years, I?ve been semi-obsessive about claims of irrational exuberance, watching for bubbles, searching for what could go wrong.*** *I?m not a pessimist, but I have raw memories of what it feels like to have nothing.*
>
> *My antennae tingled when the* ***Financial Times*** ***[noted](#) that retail investors have been reaping bargains by buying tech stocks on days they decline****. By doing so and simply holding for the next session, their theoretical cumulative return in 2025 is among the best ever. That smacks of dangerous levels of confidence because ?the market always bounces back.?* ***So far this year, the cumulative gain by buying a down day in the Nasdaq 100 (NDX) and holding it only for the next session is +29%. That?s second only to 2020 and ahead of the year 2000.****?*





?The S&P 500 has a much longer history, but 2025 still stands out for buy-the-dip sentiment. The S&P?s cumulative +18% return this year is tied for the 4th-highest since 1928.?





As Sentiment Trader concludes:

> *?Narrower indices like the tech-dominated Nasdaq 100 can often exhibit trendier behavior. It can go on long runs both ways. That?s why we frequently see periods of positive momentum leading to positive returns, and vice versa.*
>
> *Broader indices tend to be more mean-reverting, with periods of momentum preceding poorer-than-random returns and vice versa. We see that phenomenon above, with traders? buy-the-dip behavior through the year?s first half. When it?s highly positive, like 2025, the Nasdaq 100 tends to do better than when buy-the-dip wasn?t a thing. The S&P tended to do worse. For our current situation, this may be a modest positive for the Nasdaq 100 for the balance of the year, as it can be difficult to shake traders away from a strategy that?s been working. For the broader market, it?s not necessarily a great sign, and is a small brick in the pile of things to start to be concerned about.?*

This data coincides with our discussion in yesterday?s blog post, which showed signs that ***?Retail Speculation is Back with a Vengeance.?*** From 0DTE options trading to margin debt, the signs of excess are growing.

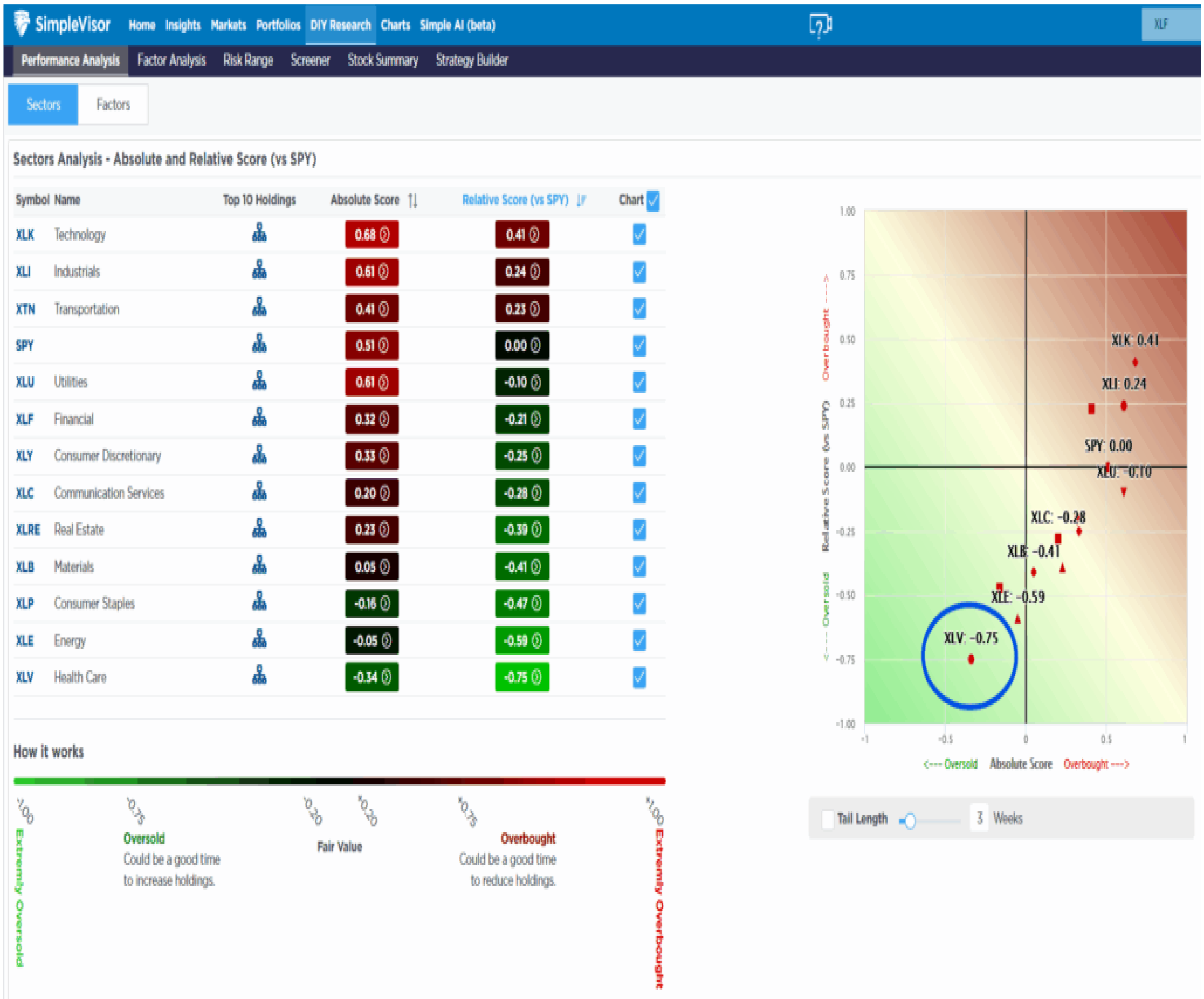
Notably, none of this suggests that the market will crash tomorrow, but these signs almost always precede short to intermediate downturns. We remain long-biased in portfolios as the bullish *?herd?* continues to chase higher asset prices. However, we are focused on the risk we are taking, and have a very *?itchy trigger finger?* hovering over the sell button.

Trade accordingly.

It?s Not Just Valuations, Healthcare Is The Most Oversold Sector

The opening section examines the low fundamental valuations of the healthcare sector. Adding to the analysis, as we share below, the sector is being shunned on a short-term technical basis. Its relative score, based on technical analysis of its excess returns versus the S&P 500, is a very oversold -0.75. The second graphic shows the relative and absolute scores for the top ten holdings of the XLV healthcare ETF. As shown, JNJ is the only of the ten stocks with a positive relative score. Moreover, its absolute score is decently overbought.

Conversely, UNH and ABT are pulling up the rear. UNH has a very oversold absolute and relative score. However, while it may be tempting to buy, the company faces a criminal investigation for Medicare fraud. ABT shares fell by nearly 10% last Friday due to weak earnings guidance. The sector is not without risk, but its oversold status warrants paying attention.



Symbol	Name	Absolute Score	Relative Score (vs SPY)
XLK	Technology	0.68	0.41
XLI	Industrials	0.61	0.24
XTN	Transportation	0.41	0.23
SPY		0.51	0.00
XLU	Utilities	0.61	-0.10
XLF	Financial	0.32	-0.21
XLY	Consumer Discretionary	0.33	-0.25
XLC	Communication Services	0.20	-0.28
XLRE	Real Estate	0.23	-0.39
XLB	Materials	0.05	-0.41
XLP	Consumer Staples	-0.16	-0.47
XLE	Energy	-0.05	-0.59
XLV	Health Care	-0.34	-0.75

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Sectors | Factors

Sectors Analysis - Absolute and Relative Score (vs SPY)

Symbol	Name	Top 10 Holdings	Absolute Score	Relative Score (vs SPY)	Chart
XLK	Technology		0.68	0.41	☑
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XTN	Transportation		0.41	0.23	☑
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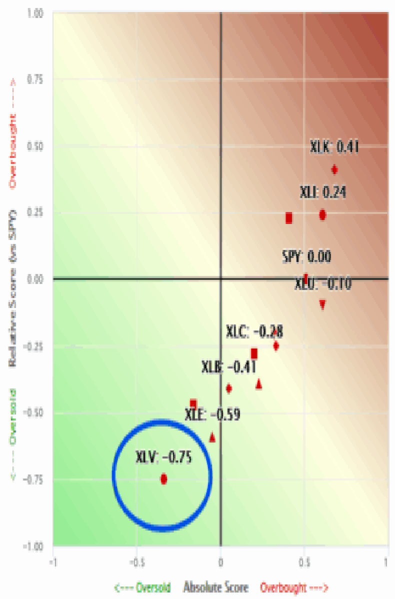
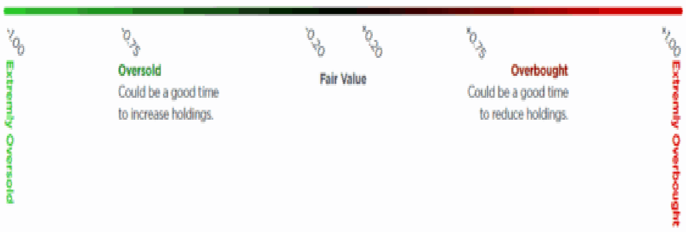
XLE	Energy		-0.05	-0.59	☑
XLV	Health Care		-0.34	-0.75	☑



Tail Length 3 Weeks

How it works



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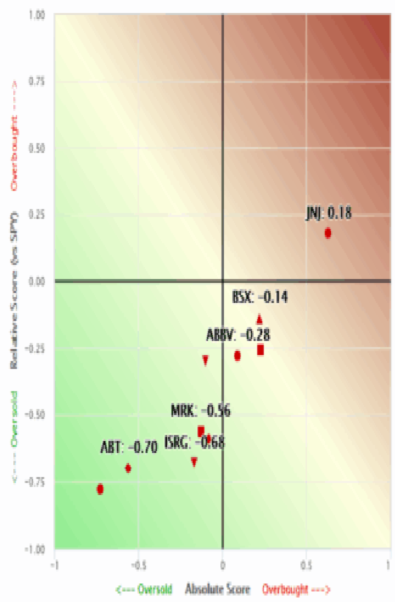
XLV: Health Care X

Health Care Analysis - Absolute and Relative Score (vs SPY)

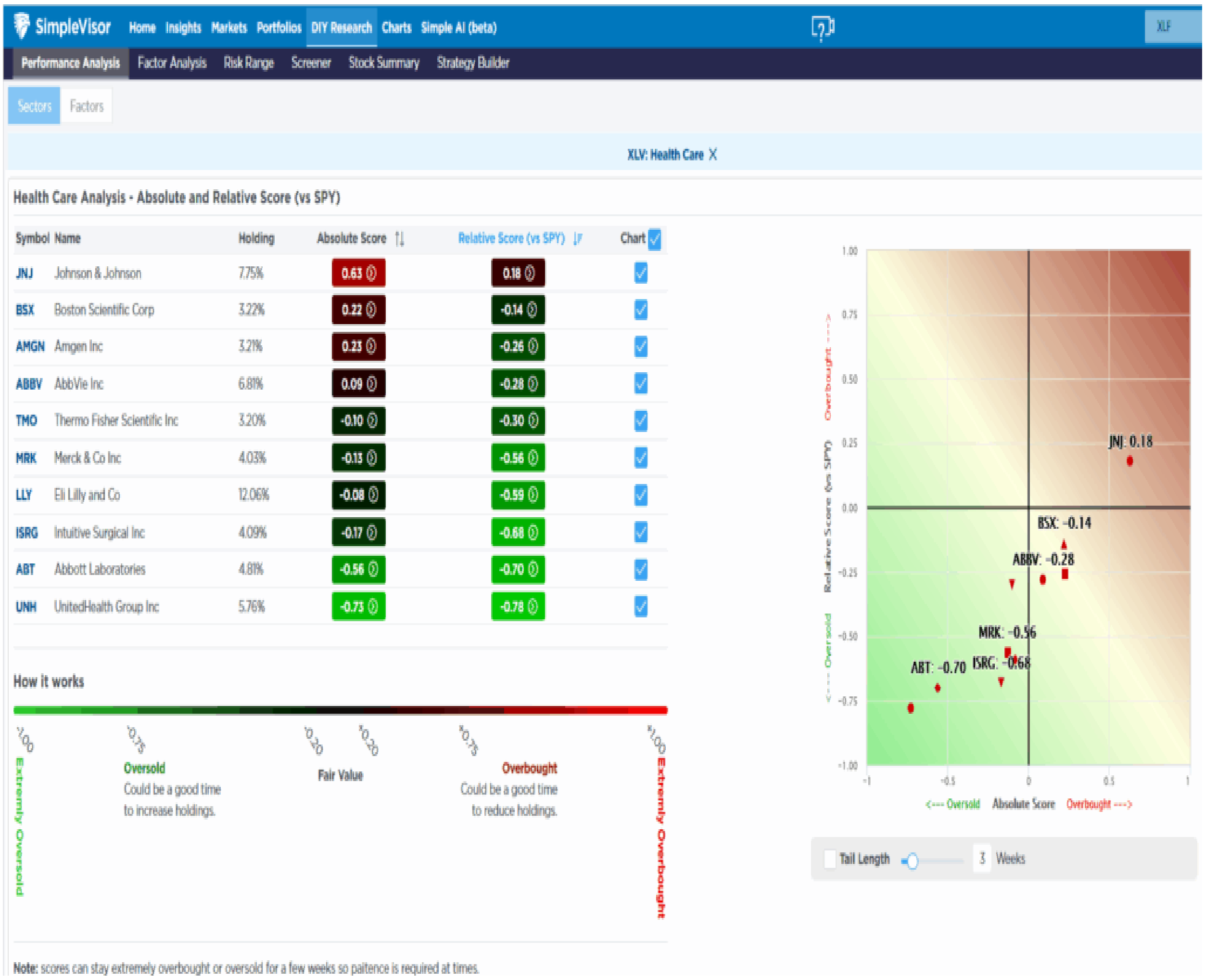
Symbol	Name	Holding	Absolute Score	Relative Score (vs SPY)	Chart
JNJ	Johnson & Johnson	7.75%	0.63	0.18	☑
BSX	Boston Scientific Corp	3.22%	0.22	-0.14	☑
AMGN	Amgen Inc	3.21%	0.23	-0.26	☑
ABBV	AbbVie Inc	6.81%	0.09	-0.28	☑
TMO	Thermo Fisher Scientific Inc	3.20%	-0.10	-0.30	☑
MRK	Merck & Co Inc	4.03%	-0.13	-0.56	☑
LLY	Eli Lilly and Co	12.06%	-0.08	-0.59	☑
ISRG	Intuitive Surgical Inc	4.09%	-0.17	-0.68	☑
ABT	Abbott Laboratories	4.81%	-0.56	-0.70	☑
UNH	UnitedHealth Group Inc	5.76%	-0.73	-0.78	☑



Tail Length 3 Weeks

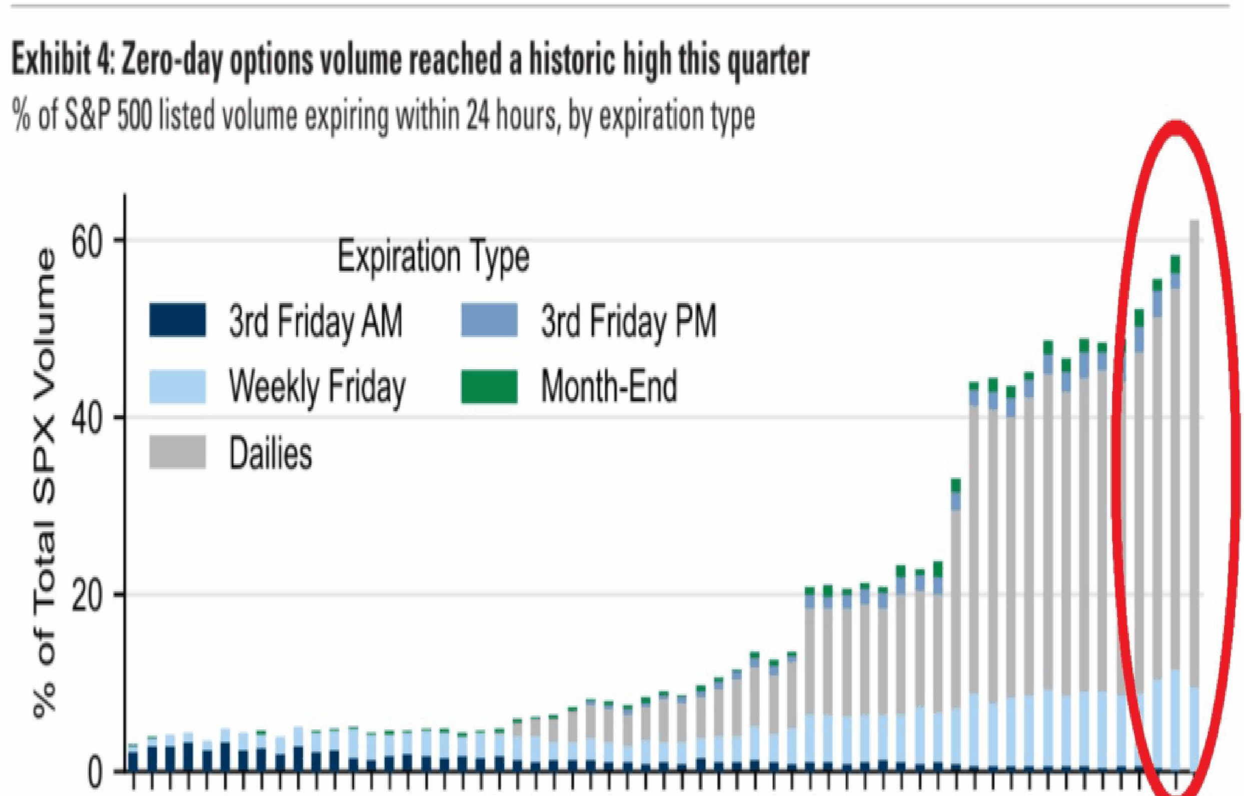
How it works

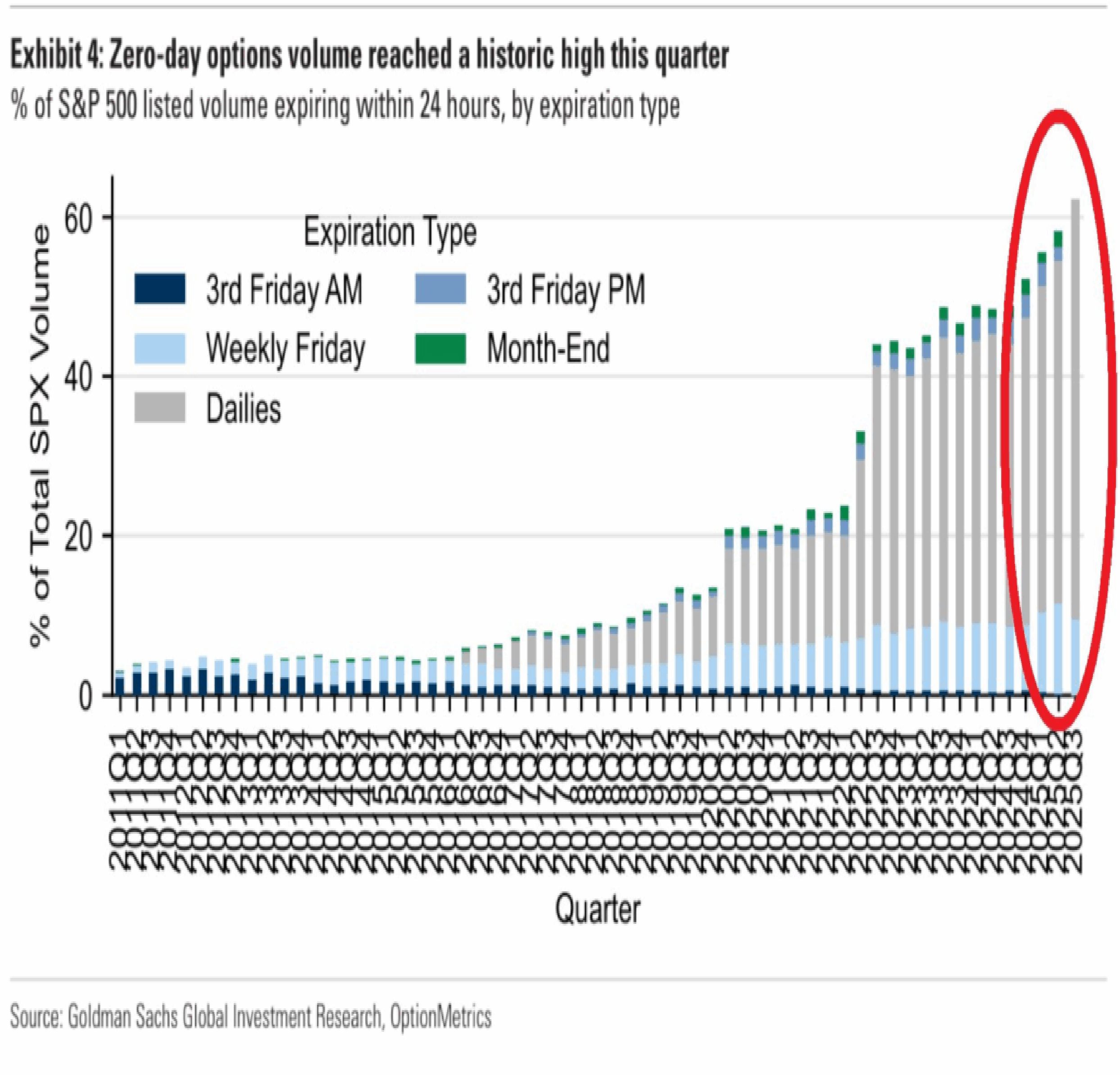
Note: scores can stay extremely overbought or oversold for a few weeks so paitence is required at times.



Retail Speculation Is Back With A Vengeance

Retail speculation is once again gripping the markets. A recent Wall Street Journal article highlighted how the latest retail gambling vehicle?zero-days-to-expiration (0DTE) options?has exploded in popularity. According to CBOE, trading volumes in these contracts have surged nearly sixfold over the past five years, with retail traders now accounting for more than half of all transactions. This rapid rise in speculative options trading has intensified since 2020.





This is more than a quirky market statistic. It?s a glaring warning sign of rising risk-taking behavior among retail investors. **History consistently shows that markets peak when the average investor starts chasing lottery-like returns.** Options, by design, are speculative instruments used to hedge risk or make directional bets. **However, the explosion in 0DTE options points to a significant behavioral shift from investing to outright gambling.**

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