2 Top Healthcare Stocks Defying the Bear Market

Description

Healthcare and medical technology are traditionally considered defensive sectors. That means their earnings and market value should be immune to market cycles. However, that theory has been tested this year.

Most Canadian medical technology, long-term care, and healthcare service providers have lost value in 2022, along with the rest of the stock market. A safe haven is exceedingly rare in this environment. However, some stocks have managed to outperform the stock index by a small margin and could be better positioned than others in the sector.

Here are the top two medical stocks that are defying the ongoing bear market.

Healthcare stock #1

BELLUS Health (TSX:BLU) is up 31.88% year to date, while the **S&P/TSX Composite Index** has lost 14.5% over the same period. That's a wide margin of outperformance. In fact, Bellus is one of the few healthcare stocks to deliver a *positive return* this year.

The key driver of this outperformance is the tantalizing promise of a new drug the company is developing to combat refractory chronic cough. The drug is called BLU-5937 and Phase-II clinical trials earlier this year indicated that it was more effective and had fewer adverse effects than other drugs targeting the same issue.

Bellus expects to move to Phase-III trials by the end of the year. The potential success of this drug has kept the stock afloat. However, clinical trials are expensive, time-consuming, and highly unpredictable. So, this isn't a stock I'd recommend for everyone.

If you have an appetite for risk and an understanding of clinical trials, Bellus Health could be an ideal target for you.

Healthcare stock #2

Extendicare (TSX:EXE) is another outperformer this year. The stock is down 8.6% year to date. That's better than the 14.5% negative return of the TSX Index over the same period. It's also offset by the company's 7% dividend yield.

Extendicare offers services for senior care facilities across the country. That's a sector that seems immune to the recession and inflation pressures we're facing at the moment. This is reflected in Extendicare's recent earnings. In the second quarter of 2022, the company reported $296 million in revenue — 5.3% higher than last year.

Meanwhile, profitability improved as well. Net operating income in the second quarter surged to $30.3 million from just $1.4 million last year.

Improving fundamentals and a sliding stock price have made Extendicare more attractive and undervalued. The stock trades at 0.55 times revenue per share and just 8.4 times earnings per share. That makes it one of the most undervalued TSX stocks on the market.

Bottom line

Healthcare stocks like Extendicare and Bellus Health have defied the bear market so far this year. Both stocks are driven by long-term trends that could help them secure their outperformance over the long term. Keep an eye on these healthcare stocks.

CATEGORY

1. Investing

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1. NASDAQ:BLU (Bellus Health)
2. TSX:BLU (Bellus Health)
3. TSX:EXE (Extendicare Inc.)

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