

MARKET COMMENTARY – December 1, 2023

The Death of Gluttony?

In 1841 Scotsman Charles Mackay published his study of crowd psychology with the amusing title, Extraordinary Popular Delusions and the Madness of Crowds. The work famously teased out details of market events ranging from the Dutch Tulip Mania of the 1630s to the South Sea Bubble a century later which financially ruined none other than Isaac Newton. We read the book some years ago and encourage others to do the same. It has helped us help clients avoid some of the most pernicious impulses of the human investing heart.

The topic of crowds chasing after riches came to the fore recently regarding a pair of relatively new drugs called Ozempic and Mounjaro, manufactured by Novo Nordisk and Eli Lilly, respectively. Each drug was originally designed to improve the lives of those diagnosed with diabetes. But a curious thing happened. Folks who took the weekly injections for their diabetes began losing weight. And we all know that a drug promising weight loss is the holy grail for the popular press and consumers.

By all accounts these drugs work well in both regards, improving the bloodwork of diabetes patients and helping folks lose weight. They also seem to be well tolerated. There are, of course, side effects that must be balanced against the benefits.

Our issue with the market's current frame of mind is that it has taken on a bipolar view of medical companies. For Lilly and Novo Nordisk, it is pure mania. Novo Nordisk is now the most valuable company in all of Europe and has made the Danish economy explode with money slushing. Lilly now trades at a price to sales multiple of 17, a rare value usually reserved for only the fastest growing technology companies.

On the depressive side are almost all other healthcare players, especially device makers. Companies ranging from Abbott to Insulet have sold off precipitously. But the carnage hasn't stopped there. Consumer staples stocks like Pepsico or Coca Cola have had a rough year. The reasoning – as the story goes – is that because of these miracle drugs, fewer medical devices will be needed, and fewer calories will be consumed in the future as we all take on the physique of our favorite runway model.

There are a few reasons for our incredulity. We alluded to the first earlier. Side effects. This class of drugs seems well tolerated, overall. However, there are real, quite

dangerous gastrointestinal side effects for some folks that will limit the number of patients and future doses by some degree.

Also, when taken exclusively for weight loss, it is important to note that no habits have been broken. As soon as the patient stops taking the weekly injection, he is still the same person he was at the start. Certainly, some people will take the new chance afforded them and embark on a new, healthier lifestyle. However, our years on this planet have informed us that the majority will fall into their same dining ditch. And if the dear reader is more optimistic about the habit-breaking potential of mankind, remember that thin people like chips and soda, too!

Our last, main reason is probably the most compelling. About thirty years ago there was another brand-new class of drugs on the market. Called statins, they effectively reduced patients' cholesterol numbers with few serious side effects. A funny thing happened back then. Medical device makers sold off in those early years as it was thought fewer procedures would be required because of the pharmaceutical breakthrough. Well, three decades on and statins are still widely prescribed and medical device utilization continues to see annual growth. We expect a similar outcome in this new case. The drugs and the devices will exist in harmony, complementing one another across various patient needs and tolerances.

And so, as we have recently wrapped up a day of Thanksgiving where table excesses are common and as we enter an entire month of celebrations, congregating, and consuming calories, we ask that you observe. For the good of science and economics, study your friends and family. We think your observations will result in one more confirmation of our theses – 1. There is no magic bullet when it comes to health. 2. Few stocks grow to the sky.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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