

Health Care & Market Impacts



After almost a year of heated debate, President Obama signed into law a major change to the U.S. health-care policy that will impact every American and directly affect one-sixth of the economy. There are many strong opinions about the healthcare bill on both sides of the debate, and everyone is entitled to their opinion. Like any issue in investing, it is important to separate out the emotional impact. Therefore, the social benefits of these policies are not the focus of this article. Our focus is on the repercussions this bill may have on the markets.

Within the Health Care sector the impact is mixed. There are three categories of companies affected by the legislation with the Health Care sector. In general:

- The Managed Health Care Industry is negatively impacted by extensive new regulation limiting profitability.
- The Pharmaceuticals, Biotechnology, Health Care Equipment, and Health Care Facilities industries benefit from broader health care coverage leading to greater volumes, but these positives are offset somewhat by Medicare reimbursement cuts and higher industry excise taxes.
- The Health Care Services and Health Care Distributors industries benefit from broader health care coverage leading to greater volumes with no direct cuts to pay for them.

Much of the impact has already been priced into the stocks in the sector. In the near-term, Health Care sector investors are likely to be relieved that the period of uncertainty is now over. A potentially negative longer-term outcome for the broader market stems from the tax and deficit impacts of the legislation.

The Congressional Budget Office, the agency that tabulated the budgetary impact of the legislation, estimates that about 25 million people would take advantage of the exchange to obtain subsidized health insurance by 2019. However, employers that currently offer health insurance could drop their coverage and pay the penalty in order to save money. The cost would be shifted to the taxpayer, and the number of people getting subsidized health insurance could surge well beyond the budgeted 25 million. If this scenario plays out, the annual cost of the legislation would soar and significantly worsen the budget deficit. While all of the potential effects of the health care legislation are unknown, market participants may focus on the risks.

Although many investors are happy to have this legislation behind us, the result could be higher interest rates. Fears of the rising deficit, combined with rebounding economic activity will put upward pressure on interest rates moving forward.



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