



PRUDENT BIOTECH™

PRUDENCE • PATIENCE • PERFORMANCE

JANUARY 2023

PrudentBiotech.com

Portfolio

	Name	Symbol	Added to Portfolio	Current Price	Action
1	Vertex Pharmaceuticals	VRTX	16-Mar-22	\$288.78	Maintain
2	Xenon Pharmaceuticals	XENE	4-Apr-22	\$39.43	Maintain
3	Rhythm Pharmaceuticals	RYTM	6-Sep-22	\$29.12	Maintain
4	Akero Therapeutics	AKRO	26-Sep-22	\$54.80	Maintain
5	Iveric Bio	ISEE	3-Oct-22	\$21.41	Maintain
6	Karuna Therapeutics	KRTX	3-Oct-22	\$196.50	Maintain
7	Moderna	MRNA	5-Dec-22	\$179.62	Maintain
8	4D Molecular Therapeutics	FDMT	19-Dec-22	\$22.21	Maintain

Portfolio Performance

	2022	2021	2020	2019	2018	2017	2016
Prudent Biotech	-31%	49%	35%	44%	27%	34%	7%
Nasdaq Biotech (IBB)	-14%	1%	26%	25%	-10%	21%	-21%

Positions Closed This Month

	Name	Symbol
	No Position	

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Portfolio Update

Stocks disappointed during the final month as the seasonal year-end rally did not materialize. Instead, it was one of the worst monthly performances of the year. The S&P 500 lost 6% for the month, the Nasdaq Composite about 9%, while the biotech indexes declined less.

The market worries about a potential recession in 2023 contributed to the December decline. The single most important factor presently for biotech group valuations is the level of the 10-year treasury yield. It is unclear how the yield will perform, principally because of the uncertain pace at which inflation can decline and what is required to reassure the FED to shift away from a restrictive policy.

One outcome is for smaller rate increases to continue to bring inflation within a desired range, but the prolonged restrictive policy tips the economy into a recession. Presently, this outcome appears to have a rising probability. This will hurt the stock market fairly broadly. The 10-year yield is already below the 2-year yield and the 3-month yield, which typically occurs before a recession. This scenario will put further pressure on 10-year yields to decline, which can be beneficial for biotech stocks. For the most part, the pure-play biotech industry group is not as tethered to earnings growth as the broader market. Thus, biotechs can outperform in a recessionary environment supported by declining yields and unpressured from an earnings fallout.

Another outcome can be for the economy's ongoing slowdown to prove sufficient to get inflation within range while avoiding a recession. This appears to be a lower probability scenario for now as employment-related metrics remain strong, although that can change. If this scenario is to occur, it will make the stock market rally with expectations for a potential FED easing in the second half.

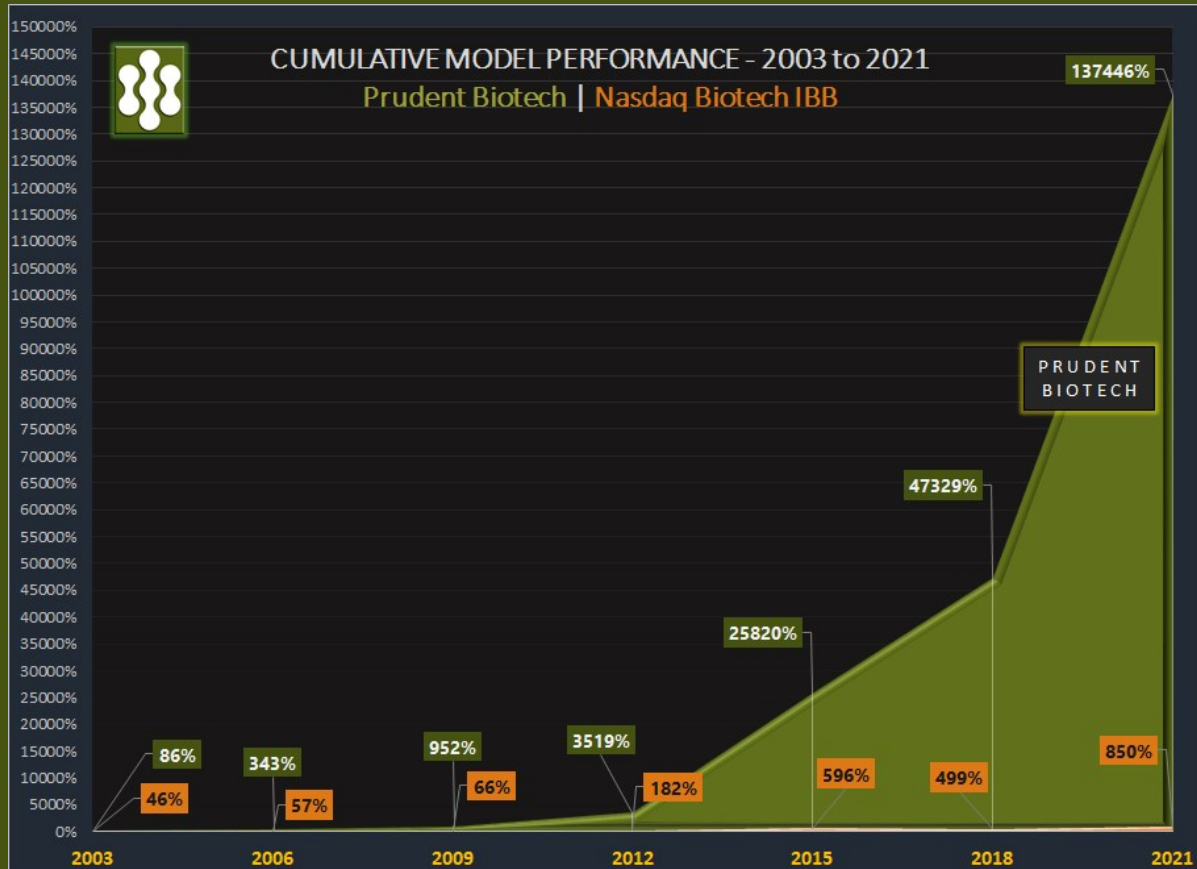
Biotechs will be in a difficult position if the 10-year yield rises and makes new highs. This can occur if the inflation is slow to decline towards the FED's desired range of around 2%, thus prompting more hikes even beyond the 5.5% Federal Funds rate, which is the peak expectation. In October, the 10-year yield made a high of 4.33% and thereafter declined to 3.40% in December. It presently rests at 3.90%.

Biotech M&A should be much stronger this year after multi-year lows last year. A major industry event this month is the J.P. Morgan Healthcare Conference from January 9-12, which is an active time for corporate news releases. The results from the FED's next meeting will be released on February 1.

During December, the Prudent Biotech model portfolio declined 4% and the Nasdaq Biotech Index (IBB) was down 5%. For the year, the model portfolio was down 31%, while the index fell by 14%. Presently, there are no changes to the model portfolio. The next couple of weeks will have key economic data releases. Rising unemployment will contribute to lower inflation readings. Portfolio adjustments can be made intramonth based on market conditions and opportunities.

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[Click for an enlarged version of the chart](#)

During the above period, Prudent Biotech model portfolio was up over 137,000% while the Nasdaq Biotechnology Index ETF (IBB) was up 850%. A \$10,000 starting portfolio tracking the Prudent Biotech model would have surged over \$13 million over a period of 18 years. This compares to the same portfolio invested in the Nasdaq Biotech Index benchmark growing to \$95,000.

The underlying success is based on a carefully developed system, and a commitment to following the system. Volatility is an integral part of stock market investing, and even more so for a speculative sector like Biotechnology. Thus, Discipline, Patience and Consistency are important keys towards building Wealth.

Please note that historical performance for the model portfolio for all periods is hypothetical with no trades placed, unaudited, based on our past newsletters, will vary when we revise and change models without any notice, and is not indicative of future performance.

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About

We pursue disciplined systematic investing using quantitative models aiming to outperform the market. My name is Tarun Chandra, and I am the Editor of the model portfolio service. I was an Analyst on the Buyside and Sellside for 8 years. Thereafter, I worked with technology companies in a Strategy/ Finance role. I have been working on model investing for many years, and believe this targeted product can tap into the potential of the Biotech market, while managing and surviving its volatility.

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The issue is published by the first 5 business days of each month

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