Yardeni Research

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Morning Briefing

Health Care, Energy & AI Apps

Check out the accompanying chart collection.

Executive Summary: What can investors expect from Trump's opinionated nominees to head up the departments of Health and Human Services and Energy? Health care investors haven't been waiting around to find out what Robert Kennedy, Jr. will do to "make America healthy again." His controversial ideas, if implemented, would likely disrupt the status quo in several health- and food-related industries. Chris Wright would likely reverse the Biden administration's ban on LNG exports to certain countries, which would decrease domestic supplies in the oversupplied market. … Also: Jackie looks at the hot trends in AI apps, which developers are rapidly churning out.

Health Care: The Kennedy Curveball. President-elect Donald Trump nominated Robert Kennedy Jr., known for challenging the safety of vaccines, to head Health and Human Services (HHS), a huge organization that encompasses an alphabet soup of agencies including the Food and Drug Administration (FDA), the National Institutes of Health (NIH), the Centers for Disease Control and Prevention (CDC), Medicare and Medicaid, and the Office of the Surgeon General. Trump reportedly has asked Kennedy—whose presidential campaign slogan was "Make America Healthy Again"—to clean up the corruption at the federal agencies, to return them to the "gold-standard science," and to end the chronic disease epidemic.

While critics might write Kennedy off as a crackpot who had a worm living in his brain, Kennedy made some interesting points on a June 27 Joe Rogan *podcast*. Children are suffering from chronic diseases ranging from autism and diabetes to allergies and eczema. Common today, these ailments were rare when 70-year-old Kennedy was young, he asserts.

Kennedy believes that these chronic diseases are occurring more often because of toxic substances in the environment and that those substances should undergo testing that's free from the influence of their manufacturers. Among the potential culprits are pesticides;

perfluorooctane sulfonic acid (PFOS, a chemical present in many water supplies that's used in products like non-stick cookware, stain-resistant carpets and fabrics; food packaging, and fire-fighting foam); mercury-containing vaccines; glyphosate (an ingredient in weedkiller Roundup); WiFi devices and cell phones; and chemicals in our food.

With a budget of more than $3 trillion and 80,000 employees, HHS is full of civil servants who might resist Kennedy's ideas. Trump, who boasts about the speed and success of Covid vaccines and often dines on McDonald's fare, may object as well.

But investors aren't sticking around to find out whether Kennedy can push his ideas through the bureaucracy. The Health Care sector has lagged far behind the other 10 sectors in the S&P 500 ytd through Tuesday's close: Communication Service (34.8%), Information Technology (33.7), Financials (31.8), Utilities (26.4), S&P 500 (24.1), Consumer Discretionary (23.0), Industrials (21.5), Consumer Staples (14.1), Energy (13.2), Real Estate (8.4), Materials (6.8), and Health Care (3.4) (*Fig. 1*).

The moves in the S&P 500 Biotechnology and Pharmaceutical stock price indexes are even more notable: They rose 16.3% and 21.5%, respectively, from the start of the year through August 23, when Kennedy suspended his presidential bid and endorsed Trump. Since then, the indexes have tumbled sharply. The Biotech index is now down 1.7% ytd through Tuesday's close, and the Pharma index is only up 4.4% (*Fig. 2*).

Here are some of Kennedy's views on health espoused before his HHS appointment:

(1) *Pharma under a microscope.* Kennedy has railed against pharmaceutical companies advertising directly to consumers, noting that the US and New Zealand are the only countries to allow the practice. He questions whether news channels dependent on drug advertising can cover health issues unbiasedly.

Kennedy would like to cap drug prices so that companies can't charge Americans substantially more than Europeans pay, according to Kennedy's September 5 *op-ed* in the *WSJ*.

He'd presumably like to see additional testing of vaccines and appears to question why drug companies should be shielded from liability related to their vaccines. And Kennedy would like to eliminate conflicts of interest at the FDA, noting that 75% of the agency's budget comes from the new drug application fees paid by pharmaceutical companies.

The S&P 500 Pharmaceuticals industry is forecast to have solid revenue growth of 7.9% this year and 4.9% in 2025, while earnings surge by 21.6% this year and 33.1% in 2025 (*Fig. 3* and *Fig. 4*). Despite the expected strong earnings growth, the industry's forward PE has shrunk to only 15.2, down from a peak of 19.4 in mid-July (*Fig. 5*).

(2) *Boost nutrition.* Kennedy believes that much of the chronic illness in this country is due to the chemicals in our foods and Americans' poor eating habits. He'd like to prohibit folks from using the funds they receive from the Supplemental Nutrition Assistance Program benefits, commonly known as food stamps, to buy soda or processed food.

Kennedy would reevaluate the standards set regarding the use of pesticides and chemicals. "As of 2019, the US allowed 72 pesticides that the European Union bans. We also allow chemicals in food and skin care [products] that the bloc doesn't," he notes.

Kennedy would also reform crop subsidies, presumably reducing them on corn, soybeans, and wheat. Because these crops are artificially cheap, unhealthy products made from them—such as high-calorie soybean oil and high-fructose corn syrup—are ubiquitous in processed foods.

The S&P 500 Soft Drinks stock price index, which was up 8.4% ytd through August 23, is now down 1.6% ytd through Tuesday's close (*Fig. 6*). The industry's revenues are forecast to grow 1.2% this year and 3.8% in 2025, while its earnings are expected to grow 6.5% in 2024 and 5.7% next year (*Fig. 7* and *Fig. 8*). The industry's forward P/E has shrunk to 19.8, down from 26.3 in 2022 (*Fig. 9*).

(3) *Dr. Oz joins the fight.* President-elect Trump announced on Tuesday that he chose Dr. Mehmet Oz to run the Centers for Medicare and Medicaid Services. A cardiologist and Columbia University professor emeritus, Oz is more commonly known as a former talk show host.

In announcing his appointment, Trump said that Oz will work closely with Kennedy "to take on the illness industrial complex, and all the horrible chronic diseases left in its wake." Oz will also focus on disease prevention and on cutting waste and fraud in the country's most expensive government agency.

Energy: Playing Politics with Natural Gas. President-elect Trump nominated Chris Wright to be the next Energy Secretary. Wright owns Liberty Energy, a company that pumps sand and water underground to frack wells. He's widely expected to reverse a Biden administration pause on exports of liquified natural gas (LNG) to non-free-trade (NFT) agreement countries enacted in January. Biden put the pause in place so that the Department of Energy (DOE) could evaluate how additional exports would impact both the price of natural gas sold domestically and the environment.

The DOE review was expected to take months and then be followed by a public comment period. The immediate impact of the decision affected 17 LNG projects with applications pending before the DOE, a January 26 *FT* *article* reported. The Texas Attorney General and officials in 15 other states filed a lawsuit to void the LNG ban. On July 2, a federal court judge paused the Biden ban while the lawsuit proceeds. But further litigation may be unnecessary under a Wright-led DOE. The new administration can reverse the ban just as easily as Biden enacted it.

A permanent ban on exports to NFT countries could mean that more natural gas would be sold domestically, increasing supplies in an already oversupplied market. When Biden instituted the ban on January 26, the price of natural gas was $2.71 per MMBTU; a month later, on February 28, it had fallen to a low of $1.89. The price climbed into the summer air conditioning season and then fell back below $2.00 in August. Since then, the price has headed higher, hitting $3.00 as of Tuesday (*Fig. 10*). Its price gains may be attributable to the escalating conflict in Ukraine as well as the high likelihood that the ban will be overturned under the new Trump administration, allowing exports to continue increasing and potentially reducing domestic supplies of natural gas.

Disruptive Technology: Crazy for AI Apps. Developers who have embraced artificial intelligence (AI) have created a growing list of AI apps to make our lives easier and to entertain us. The industry generated $1.4 billion of revenue in the first half of this year, twice what it generated during the same period in 2023. The growth is expected to remain robust, climbing sixfold over the next few years from an estimated $3.1 billion this year to $18.8 billion in 2028, according to a September 30 *report* in the Business of Apps.

ChatGPT remains the most popular AI app based on two *lists* compiled by Sensor Tower in July for Andreessen Horowitz. One list ranks the top 50 AI apps by the number of monthly visits, and the other ranks the apps by number of unique users. After ChatGPT, the next four names on the lists are very different. The top five apps ranked by monthly visits are: Chat GPT, Character.ai, Perplexity, Claude, and SUNO. The top five ranked by active users are ChatGPT, Microsoft Edge, Photomath, NOVA, and Bing.

Here’s a look at some of the trends in AI apps:

(1) *Competition among assistants.* The Andreessen Horowitz report notes the increasing competition among AI assistants. Like ChatGPT, Character.ai, Perplexity, and Claude each are apps that can answer questions and act as AI assistants. The report also noted that apps focused on creativity have gained in popularity. SUNO is an app that helps you create music and then displays it for others to access.

(2) *Educational AI takes off.* Microsoft has two products ranked among the top five on the most active users list, specifically Microsoft Edge, the AI-powered web browser that replaces Internet Explorer, and Bing, Microsoft's search engine. Educational apps also were popular. Photomath lets users take a picture of a math problem and then provides step-by-step solutions to it. Meanwhile, Nova uses ChatGPT to help students with their homework and research.

(3) *Bytedance arrives.* Members of Congress should note that a number of apps owned by Bytedance, parent of TikTok, have gained in popularity. Gauth, an education platform; Coz, a bot builder; Doubao, a general assistant; Hypic, a photo and video editor; and assistant Cici appeared on one or both of the top 50 lists.

"Bytedance launched an R&D division, Flow, focused on generative AI applications in late 2023, and has been debuting new AI applications in the U.S. (and abroad) under other corporate names since early 2024," the report states.

(4) *Beauty in the eye of the app.* Two new apps, LooksMax and Umax, take a user's photo, rate the user, and give them tips to become more attractive. "Umax also generates pictures of what the user would look like as a 10/10, while LooksMax analyzes the user's voice for attractiveness," the report states.

We can just imagine the problems these apps could cause, particularly among the teenage crowd.

Calendars

US: **Thurs:** Leading Indicators -0.3%; Philadelphia Fed Manufacturing Index 6.3; Kansas City Fed Manufacturing Index; Existing Home Sales 3.94mu; Initial Jobless Claims 220k; 10-Year TIPS Auction; Fed's Balance Sheet; Barr; Goolsbee. **Fri:** University of Michigan Consumer Sentiment Total, Current Conditions & Expectations 73.064.4/78.5; University of Michigan 1-year & 5-year Inflation Expectations 2.6%/3.1%; Baker-Hughes Rig Count.

(FXStreet estimates)

Global: Thurs: Eurozone Consumer Confidence -12.0; France Business Survey 95; UK Gfk Consumer Confidence -22; UK CBI Industrial Trends Orders -25; Japan M-PMI 49.5; Elderson; Lane; Mann; Bullock. **Fri:** Eurozone, Germany, and France M-PMI Flash Estimates 46.0/43.1/44.6; Eurozone, Germany, and France NM-PMI Flash Estimates 51.6/51.8/49.0; Germany GDP 0.2%q/q/-0.2%y/y; UK M-PMI & NM-PMI Flash Estimates 50.1/52.3;UK Retail Sales -0.3%m/m/3.4%y/y; Lagarde; De Guindos; Schnabel; Nagel. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* rose for the second week to 3.28 this week, the highest since early August, after falling the prior two weeks from 2.69 to 2.61. *Bullish sentiment* barely budged this week, ticking down to 60.0% after climbing from 56.7% to 60.3% last week—which was the most bulls since late July (when the report noted seven consecutive weeks with bulls over 60%, ending at 64.2%). The reading remains in the "the high risk danger zone above 55.0% for the sixth straight week," according to the report. Meanwhile, *bearish sentiment* slipped for the third straight week by 3.7ppts (to 18.3% from 22.0%), the fewest bears since early summer, when it dropped to 14.9%. The *correction count* rose to 21.7% this week after falling last week from 21.6% to 19.0%—with recent readings down significantly from the 33.9% percentage in early September. In the AAII Sentiment Survey (as of November 14), both bullish and bearish sentiment among individual investors about the short-term outlook for stocks increased during the latest week, while neutral sentiment fell. *Bullish sentiment* jumped 8.3ppts to 49.8%, a reading that is unusually high and above its historical average of 37.5% for the 53rd time in 54 weeks, while *bearish sentiment* edged up 0.8ppts to 28.3%—below its historical average of 31.0% for the 13th time in 14 weeks. *Neutral sentiment* sank 9.1ppts to 21.8%, an unusually low reading and below its historical average of 31.5% for the 18th time in 19 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at a record high of 13.4% during the November 14 week. It is now 3.1ppts above its seven-year low of 10.3% during April 2020. Forward revenues and earnings edged down a hair w/w from their record highs a week earlier. Prior to that, revenues and earnings had been steadily making new record highs for just over 12 months. That compares to its prior 16-month string of record highs from March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth was unchanged w/w at 5.5%, and is down 0.3ppt from its 23-month high of 5.8% during the August 1 week. It has gained 3.2ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast was steady w/w at 13.8%, which is down 0.4ppt from a 36-month high of 14.2% during the October 17 week. It's now 10.5ppts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was at its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.8% in 2024 (unchanged w/w) and 5.4% in 2025 (down 0.1ppt w/w) compared to a revenues gain of 2.1% in 2023. They expect an earnings gain of 9.9% in 2024 (unchanged w/w) and a 14.2% rise in 2025 (up 0.1ppt w/w) compared to an earnings gain of 2.4% in 2023. Analysts expect the profit margin to rise 0.5ppt y/y to 12.4% in 2024 (unchanged w/w), compared to 11.9% in 2023, and to rise 1.1ppts y/y to 13.5% in 2025 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.2pt w/w to a 43-month high of 22.3. It's up 2.6pts from a 14-week low of 19.7 during the August 8 week and 7.0pts from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.03pt w/w to a record high of 2.99. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): During the November 14 week, forward revenues and forward earnings rose for four of the 11 S&P 500 sectors. This led to rising forward profit margins w/w for four sectors. Three sectors posted record-high forward revenues this week: Consumer Discretionary, Health Care, and Information Technology. These five sectors are less than 0.5% below their recent record highs: Communication Services, Consumer Staples, Financials, Real Estate, and Utilities. Industrials' forward revenues is 3.4% below its early September record due to Boeing's strike. Energy and Materials are the biggest laggards at 6.2% and 14.2% below, respectively. These two sectors had record-high forward earnings this week: Communication Services and Financials. These five sectors are less than 2.7% below their recent records: Consumer Staples, Health Care, Industrials, Information Technology, Real Estate, and Utilities. Forward earnings remains depressed for Energy and Materials, which have worsened to 33.2% and 22.3% below their respective post-pandemic highs. Looking at the forward profit margin, these three sectors had record- or post-pandemic highs this week: Communication Services, Consumer Discretionary, and Financials. In recent weeks, the Industrials and Information Technology sectors were in that club. Among the laggards, Energy's forward margin has cratered 1.5pts to a 33-month low of 9.4% from its six-month high of 10.9% in mid-June; Consumer Staples' 6.9% is just 0.2ppt above its seven-year low in March 2023; and Health Care's 8.7% is only 0.2ppt above its record low in April. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (26.6%, down from its 27.6% record high in September), Financials (19.5, down from its 19.8 record high in in August 2021), Communication Services (18.5, up 0.1ppt w/w to a record high this week), Real Estate (17.3, down 0.1ppt w/w and from its 19.2 record high in 2016), Utilities (14.3, up 0.1ppt w/w and down from its 14.8 record high in April 2021), S&P 500 (13.4, a record high in 10 of the past 11 weeks), Materials (11.2, down from a 20-month high of 11.6 in July and a 13.6 record high in June 2022), Energy (9.4, down 0.1ppt w/w to a 33-month low and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.2 record high in early October), Consumer Discretionary (9.3, at a record high this week), Health Care (8.7, up 0.2ppt from its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.9, down from its 7.7 record high in June 2020).

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