CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Selection

VANGUARD HEALTH CARE ETF (VHT)

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VALUE LINE SELECT®

ETFs

Value Line®

MONTHLY FUND SELECTION SERVICE

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STATE OF THE ECONOMY

The Federal Reserve appears to be edging closer to removing some monetary stimulus. True, drastic changes are not being suggested and the federal funds rate (which the bank sets and is at historic lows) is unlikely to rise anytime soon. Still, the Fed has acknowledged that it may soon start taking away support from the economy. It had moved aggressively to adopt ambitious stimulus measures last year when the COVID-19 pandemic had sent our economy into a sharp retreat. Now, with that recession having passed and inflation picking up, a shift in monetary gears soon may be in the works.

There are risks in whatever the Fed decides. For example, if it delays removing the stimulus until 2022, an overheating in the economy and a sustained rise in inflation could result. Conversely, if it acts too aggressively in reducing support, the upturn, already under some pressure from resurgent COVID-19 and supply chain issues, may stumble further. As always monetary policy is a delicate balancing act.

Headwinds faced by the economy have included a plunge in July retail sales and a larger-than-expected setback in housing starts, as increasing COVID-19 infection totals and growing fears among the public of a further spread of the Delta variant induce many Americans to spend more cautiously and take on less debt. Elsewhere, the economy is performing well, especially with regard to industrial activity and weekly jobless filings.

COVID-19 is a problem that just will not go away. Infection rates are climbing across much of the country. As 2021 winds down, the reopening of schools and the tendency to head indoors in cooler weather may offset the mushrooming of vaccine mandates among governmental and private organizations. Should the Delta variant linger, the pandemic woes could intensify causing the Fed to delay shifting course.

Investors are going back and forth. But records continue to fall as there's been no widespread unloading of stocks.

Conclusion: The positives still outweigh the negatives, and that explains Wall Street's ongoing resilience. So we think that even with the risks in place, investors should retain a steady hand at the wheel.

Recommended ETF Selection

VANGUARD HEALTH CARE ETF (VHT)

TABLE 1: Vanguard Health Care ETF (VHT)

Inception Date:	1/26/2004
Primary Exchange:	NYSE Arca
Issuer:	Vanguard
Index Provider:	MSCI
Geography:	Global
Investment Philosophy:	Passively Managed
Underlying Index:	MSCI U.S. Investable Market Index (IMI)/ Health Care
Index Composition:	Cap-Weighted
Asset Class:	Equity
Capitalization:	Broad/Multi Cap
Style:	Blend
Sector:	Health Care

In this installment of *Value Line Select: ETFs*, we examine how recent developments in the healthcare sector may affect the economy in the years ahead, as well as how investors can benefit from such trends. In that vein, we have selected the Vanguard Health Care ETF (VHT). This fund seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of companies across the broader healthcare sector, including pharmaceutical and biotechnology firms, medical device makers, managed care firms, and testing equipment suppliers. The ETF is passively managed with a 0.10% expense ratio, which is quite low, and has performed well thus far in 2021 (up about 17% year to date). The portfolio's top-ten holdings include some of the most recognizable names in the world, with companies such as Johnson & Johnson, Pfizer, UnitedHealth Group, Merck, and Thermo Fisher Scientific.

Fundamental Drivers

While there is ample evidence to support momentum in the healthcare sector over the next 12 months, a longer-term buy-and-hold case can also be made, based on the group's performance over the past 15 or so years. It is undeniable that the industry played a critical role in helping the United States recover from the last financial crisis. The healthcare sector added more than three million jobs between 2007 and 2019, a pace that vastly exceeded the overall economy during that span, and even expanded during the COVID-19 pandemic, one of the few industries to do that. What's more, the Bureau of Labor Statistics expects healthcare positions to grow approximately 20% over the next five years, a much faster rate than what is projected for the rest of the economy. Essentially, there are four main reasons that the healthcare sector has been booming and will likely to continue to do so: the rapidly aging population of developed countries is creating a substantial need for additional services; chronic conditions suffered by the broader population are increasing the demand for healthcare workers; medical advances are expanding the field of potential employment; and federal health insurance reform in the United States has increased the number of people seeking routine medical care. These factors alone ought to provide steady support for healthcare stocks, notwithstanding the considerable impetus from COVID-19.

The Major Vaccine Players

There are four publicly traded companies that have COVID-19 vaccines on the market at this time (Pfizer, Moderna, Johnson & Johnson, and AstraZeneca). Combined, these firms sold nearly $20 billion worth of the shots in the first half of 2021, and sales are expected to reach approximately $75 billion by year end. While the U.S. makes up less than 5% of the global population, the domestic market accounted for 41% of those vaccine sales. Meantime, Pfizer recently became the first company to receive full regulatory approval from the FDA for its coronavirus vaccine, now called "Comirnaty". Prior to this, all vaccines had been authorized under Emergency Use Authorization (EUA), a mechanism to facilitate the availability and use of medical countermeasures during public health emergencies. Accordingly, vaccine makers have sent the bulk of their product and charged higher prices to wealthier countries, including the U.S and those in Europe, though supply is now beginning to filter through to less-developed nations.

The Political Landscape

With control of the White House and Congress, Democrats are currently debating whether their latest effort to cut drug prices—by allowing Medicare to negotiate directly with companies—should be folded into the $3.5 trillion budget reconciliation package. Although both parties have prioritized lowering prescription-drug costs for years, they haven't been able to come up with a bipartisan solution. And even within the Democratic Party, there is plenty of disagreement between "progressives" and the "more moderate" factions. Fortunately for the healthcare industry (and unfortunately for drug price reform advocates), Democrats have a very slim margin in the House (they can lose no more than three votes at present), and no margin for error in the Senate, given its 50/50 makeup. Accordingly, we think the chances of comprehensive reform making it through both houses of Congress are slim, and thus believe that the industry will make it through this effort with its pricing power largely intact (though we wouldn't rule out minor changes that impact some areas of the health economy).

Conclusion

All told, we believe VHT will benefit from a number of secular trends in the healthcare industry that should boost performance in the coming years. Moreover, it is now apparent that coronavirus booster shots are likely to be needed for some time, and that COVID-19 vaccine sales could exceed $100 billion globally in 2022, an enormous sum that dwarfs proceeds from any prior medical treatment. In addition, testing equipment and supply firms should see a sharp uptick in revenues as the Delta variant is battled and perhaps followed by other mutations, while healthcare services in general ought to remain in high demand for some time. Lastly, new drug approvals for endemic illnesses like cancer, heart disease, and diabetes should help to further stoke growth in non-COVID categories for years to come.

TABLE 2: VHT Key Facts

as of 8/24/2021	
Expense Ratio:	0.10%
12-month ETF return	28.00%
Shares Outstanding	72,900,000
Assets in top 10	40.70%
P/E Ratio	28.6
Equity Beta	5.3
Standard Deviation	14.4%
30-Day SEC Yield	1.08%
Number Of Holdings	502
Legal Structure	Open-End Investment Company
Last Dividend Paid: 6/16/2021	$0.70
Net Asset Value	$19.1 billion

TABLE 3: VHT Sector Exposure Breakdown

as of 8/24/2021	
Pharmaceuticals	24.1%
Health Care Equipment	23.8%
Biotechnology	18.4%
Life Sciences & Services	10.2%
Managed Health Care	10.0%
Health Care Services	5.2%
Health Care Supplies	2.6%
Health Care Technology	2.2%
Other	3.5%

INDUSTRY FOCUS: DRUG

The largest segment in VHT is prescription pharmaceuticals-drugs. As a group, stocks in the Drug Industry have performed noticeably better of late, thanks in large part to the enormous commercial success of COVID-19 vaccines and therapeutics. The market for such drugs has proven to be highly lucrative, and many companies are reaping the rewards. Moreover, with the emergence of new variants and the need for potential booster shots, it now seems more likely that this tailwind will persist over the balance of 2021 and possibly beyond.

One of the biggest beneficiaries is New York City-based drug giant Pfizer, the first company to bring its COVID-19 vaccine to market last December and the first to obtain full FDA approval. Management is currently projecting a staggering $33.5 billion in sales from the shot this year, which is estimated to account for more than a third of its top line. Many believe this figure could trend higher given its recent acceptance among younger age groups and effectiveness against new variants.

Industry peer Moderna, which was the second entrant to the U.S. market, is also expected to generate billions of dollars in revenue from its COVID-19 vaccine this year. Johnson & Johnson is competing for share as well, though its road has been a little rockier due to health-related concerns. The J&J shot still raked in about $165 million in sales during the second quarter.

Getting Back to Normal

Increased vaccinations across the country have lent meaningful support to the improvement seen in healthcare markets this year, as much of the population slowly returns to pre-COVID life including doctor visits and elective procedures. While pandemic-related pressures continue to linger across certain business lines, particularly in hospital-administered products, the broader picture is encouraging and should continue to brighten over the balance of 2021. We expect pent up demand from procedures and doctor visits delayed last year to be a key catalyst for industry growth over these next few quarters.

Drug Pricing

Drug pricing and the potential need for increased regulation has been one of the most hotly-debated topics in this country for the past decade. However, even with pharmaceutical prices surging to new highs, making healthcare costs increasingly unaffordable for the typical American family, very little has changed with respect to the industry's practices. In fact, many drugmakers implemented price hikes on some of their more popular products during the first quarter of 2021, a trend that seems highly likely to continue barring some sort of legislation.

On that front, there have been repeated attempts made on Capitol Hill to try to curb the rise of drug prices. However, most proposals have struggled to gain traction, and with the current high level of dissension among party leaders-and the long sustaind efforts of industry representatives to make their case to legislators-attaining bipartisan support for healthcare changes or anything other than infrastructure spending seems nearly impossible. Even so, such affordability concerns will likely continue to be an overhang on the industry going forward, as the prospect of regulation could, in theory, put pressure on operating margins and hurt product innovation.

A Sharper Focus on Innovation

Getting leaner and gaining agility appears to be a shared goal among many of the world's top pharmaceutical companies. We have seen several big-name players shedding assets over these past few years to increase focus on higher-margin and more-lucrative areas of their respective businesses, namely innovative medicines. A recent example includes Merck's Organon spin off, which comprised the drugmaker's women's health business, legacy brands, and biosimilar products. The transaction was completed last month and is expected to result in incremental operating efficiencies of $1.5 billion over the next three years. Canada's own Bausch Health Companies has also announced plans to spin off its Bausch + Lomb eye-care division into a separate publicly-traded company. The deal is slated for completion later this year.

Our Prediction

Pharmaceutical companies—and the healthcare industry in general—have clearly proven their worth during the pandemic. In addition to the tens of billions of dollars that COVID-19 vaccines and prospective treatments should bring in over the next few years, there is also a secular tailwind at play here that should benefit the industry for decades to come. Healthcare spending in developed countries is poised to continue growing at a much faster rate than the broader economy because of aging populations, treatment advances for chronic diseases, and technological breakthroughs in telehealth and remote monitoring. To take advantage of these trends—as well as minimize concentration risk and volatility—we suggest investors consider broad-based participation through the Vanguard Health Care ETF (VHT).

TOP 10 HOLDINGS

TABLE 4: VHT HOLDINGS: 502 COMPONENTS (ONLY TOP 10 SHOWN)							
Company Name	**Symbol**	**Stock Price**	**P/E Ratio**	**Weight**	**Currency**	**Region/ Country**	**Sector**
Johnson & Johnson	JNJ	$176.28	18.1	7.45%	USD	North America / United States	Medical Supplies
UnitedHealth Group	UNH	$424.36	21.9	6.44%	USD	North America / United States	Health Insurance
Pfizer	PFE	$48.53	15.2	3.93%	USD	North America / United States	Pharmaceuticals
Abbott Laboratories	ABT	$125.58	30.4	3.53%	USD	North America / United States	Medical Supplies
Thermo Fisher Scientific	TMO	$551.27	30.3	3.50%	USD	North America / United States	Precision Instruments
AbbVie	ABBV	$119.59	9.5	3.38%	USD	North America / United States	Biotechnology
Eli Lilly & Co.	LLY	$263.65	32.5	3.27%	USD	North America / United States	Pharmaceuticals
Merck	MRK	$77.91	12.5	3.20%	USD	North America / United States	Pharmaceuticals
Danaher	DHR	$321.23	36.9	3.14%	USD	North America / United States	Life Sciences
Medtronic plc	MDT	$134.23	24.4	2.91%	USD	Europe / Ireland	Medical Supplies

KEY HOLDING: THERMO FISHER SCIENTIFIC (TMO)

Thermo Fisher Scientific is a little more upbeat about 2021 these days. Indeed, with the July 28th release of better-than-expected June-quarter results, the lab equipment maker raised its full-year outlook. Notably, revenues are now seen reaching $35.9 billion, up $300 million from management's previous call and some 11% above 2020's $32.2 billion tally. The Massachusetts –based company raised the growth assumption for its base (non-COVID-19) business from 8% to 12%. Foreign currency swings are also likely to provide a stronger tailwind.

Value Line Ranks and Projections	
Recent Price:	$551.27
Safety Rank:	1
Financial Strength:	A
2024–'26 Target Price Forecast	$500-$610

We still expect the company to take a step back next year. To wit, our 2022 share-net estimate of $17.70 a share is some 10% below the $19.75 a share that we have Thermo Fisher earning in 2021. Our negative stance reflects what we suspect will be a meaningful decline in COVID-19-related revenue, as more and more people in the developed world get vaccinated and testing volumes decline. To that point, management recently reduced its near-term outlook for testing-related revenue by $900 million, to $4.9 billion. Next year, we suspect that sales of the company's COVID-19 test kits could tumble 50% or more, to below $2.5 billion. Nonetheless…

Company Data	
Industry:	Precision Instruments
Ticker Symbol:	TMO
Options:	Yes
Exchange:	NYSE
Actual EPS for Fiscal Year 2020:	$15.96
Estimated EPS for Fiscal Year 2021	$19.75
Estimated EPS for Fiscal Year 2022:	$17.70
Current P/E Ratio:	30.3
***Relative P/E Ratio:**	1.45
Dividend Yield:	0.19%
Shares Outstanding:	393,027,866
Market Capitalization:	$217 billion
Incorporated:	Delaware
Address:	168 Third Avenue, Waltham, MA 02451
Telephone:	781-622-1000
Internet:	www.thermofisher.com

Our projections still have significant upside. That's because they don't yet reflect any contribution from PPD, Inc., the provider of clinical research services that Thermo Fisher earlier this year agreed to acquire for roughly $21.0 billion, including some $3.5 billion in assumed debt. In 2020 alone, PPD generated nearly $4.7 billion in revenue, primarily running clinical drug trials on behalf of some of the largest pharmaceutical and biotech companies in the world. What's more, its total addressable market has been sized at $50 billion and is said to be expanding at a mid-single-digit annual clip.

At the recent quotation, shares of Thermo Fisher Scientific do not stand out. However, our earnings projections and share-price targets should move nicely higher, once the acquisition of PPD is complete and we revise our model.

THERMO FISHER SCIENTIFIC

Annual Rates of Change Per Share			
	Past 10 Years	Past 5 Years	Projected Growth Rates from 2018 - 2020 through 2024- 2026
Revenues:	10.5%	11.5%	9.5%
Cash Flow:	12.0%	15.5%	11.5%
Earnings:	12.5%	19.0%	14.5%
Dividends:	—	5.0%	13.0%
Book Value:	7.5%	9.0%	11.5%

THERMO FISHER SCIENTIFIC

Revenues (In millions)					
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Full Yr.**
2018	5853.00	6078.00	5920.00	6507.00	24358.00
2019	6125.00	6316.00	6272.00	6829.00	25542.00
2020	6230.00	6917.00	8521.00	10550.00	32218.00
2021	9906.00	9273.00	**8800.00**	**7921.00**	**35900.00**
2022	**8545.00**	**8705.00**	**8645.00**	**9305.00**	**35200.00**

Quarterly Revenue Growth (Year-to-Year)					
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Full Yr.**
2019	4.65%	3.92%	5.95%	4.95%	4.86%
2020	1.71%	9.52%	35.86%	54.49%	26.14%
2021	59.00%	34.06%	**3.27%**	**-24.92%**	**11.43%**
2022	**-13.74%**	**-6.13%**	**-1.76%**	**17.47%**	**-1.95%**

Quarterly Earnings Per Share					
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Full Yr.**
2018	1.43	1.85	1.75	2.22	7.24
2019	2.02	2.03	1.88	2.49	8.43
2020	1.97	2.90	4.84	6.24	15.96
2021	5.88	4.61	**4.35**	**4.91**	**19.75**
2022	**4.30**	**4.40**	**4.35**	**4.65**	**17.70**

Quarterly Earnings Growth (Year-to-Year)					
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Full Yr.**
2019	41.26%	9.73%	7.43%	12.16%	16.44%
2020	-2.48%	42.86%	157.45%	150.60%	89.32%
2021	198.48%	58.97%	**-10.12%**	**-21.31%**	**23.75%**
2022	**-26.87%**	**-4.56%**	**0.00%**	**-5.30%**	**-10.38%**

Quarterly Dividends Paid (per share)					
	Mar. 31	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Full Yr.**
2017	0.150	0.150	0.150	0.150	0.600
2018	0.170	0.170	0.170	0.170	0.680
2019	0.190	0.190	0.190	0.190	0.760
2020	0.220	0.220	0.220	0.220	0.880
2021	0.260	0.260	—	—	—

UPDATES ON OUR PREVIOUS SELECTIONS

iShares Cloud 5G and Tech ETF (IDAT)

The iShares Cloud 5G and Tech ETF has edged higher since our initial recommendation, helped in part by strong quarterly results from top holdings NVIDA, Microsoft, and Taiwan Semiconductor, among others. The fund offers diversified exposure to the burgeoning fields of cloud computing, 5G infrastructure, and semiconductor manufacturing, and we continue to view it as a core holding with considerable long-term upside potential. **Buy.**

iShares MSCI Global Gold Miners ETF (RING)

The iShares MSCI Global Gold Miners ETF has fallen a bit in value since our late-June recommendation, as inflation fears have eased somewhat following last month's softer-than-expected—though still strong—PCE (personal consumption expenditures) reading. The primary rationale for purchasing RING was its usefulness as a hedge against inflation, and we continue to view it as an effective tool in that regard. Until we are reasonably confident that price pressures will cool, we are recommending that investors hold RING as a defensive play. **Hold.**

iShares Cybersecurity and Tech ETF (IHAK)

The iShares Cybersecurity and Tech ETF has outpaced the broader markets since our recommendation three months ago, climbing 13% in price over the 90-day stretch. One of the key reasons underpinning our selection is the cybersecurity industry's enormous growth potential, which ought to propel companies in this space higher for years to come. We reiterate that view today, and continue to advocate IHAK as a strong selection for growth-minded investors. **Buy.**

iShares Global Clean Energy ETF (ICLN)

The iShares Global Clean Energy ETF has fallen back a bit lately, as investors start to doubt President Biden's ability to pass a large, "green" infrastructure bill. ICLN, which offers broad-based exposure to the sector through investments in wind, hydroelectric, solar, and entities that specialize in carbon capture, is a clear winner in the shift to renewable energy. While there may be some legislative bumps in the road (see the recent budget resolution tensions between moderates and progressive Democrats in the House), we expect a climate-friendly infrastructure package to eventually make its way to the President's desk. **Buy.**

UPDATES ON OUR PREVIOUS SELECTIONS CONT.

SPDR S&P Pharmaceuticals ETF (XPH)

The SPDR S&P Pharmaceuticals ETF has been quite volatile over the past few months, as the fund appears to be heavily influenced by the latest drug pricing reform rumors on Capitol Hill. We do want to point out that XPH's makeup is quite different than VHT, which is why we are keeping both in the portfolio, for now. Approximately 97% of the fund's holdings are in pharmaceutical/biotech companies, whereas that figure for VHT is less than 45%. In addition, XPH has significant exposure to small and mid-size firms (approximately 66% of holdings), whereas VHT is overwhelmingly invested in large-cap names, leading to minimal overlap between the two. **Buy.**

FOOTNOTES

Tracking Error: Refers to the annualized standard deviation of daily return differences between the total return performance of the ETF and the total return performance of its underlying index. This figure increases based on the variability between the annualized performance of the ETF and its target index. A lower number means the ETF accurately reflects its industry.

Concentration Risk: Refers to the total asset weighting of the top 5 holdings in the ETF portfolio versus the remaining equities in the portfolio. These more heavily weighted holdings have a more material impact on the portfolio's performance than the lower-weighted equities.

Market Impact: Refers to the liquidity of the ETF based on trading volume and the effect of large trades on the ETF's price.

Efficiency: Refers to the measure of how well the ETF achieves best results with minimum costs by accounting for its expense ratio, as well as its tracking error and its tax efficiency.

Relative P/E: Compares the current absolute P/E to the comparable stock market index.

Earnings Yield: The cumulative earnings for the 12-month period divided by the total market capitalization.

NOTES

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