

# Sector analysis: Healthcare — why now?

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- ◆ During the first half of 2025 healthcare sector sentiment has been negatively affected by uncertainty around tariffs and trade policy, fiscal negotiations, and recent healthcare reforms in the US.
- ◆ Behind this though lies a thriving sector marked by tremendous levels of innovation and a steady stream of new products entering the market.
- ◆ At the same time, we are experiencing a period with record low valuations and seeing many biotech companies even trade at negative enterprise value.
- ◆ Allocation to healthcare is also nearing record lows, as a percentage of the market.

*Following a dynamic, exciting, but for the healthcare sector, also challenging first half of the year, we want to give a brief summary of the current situation. What has primarily impacted the sector is what has transpired in US politics regarding the federal budget, tariffs, and drug prices. We clearly see the light at the end of the tunnel and also opportunities for an upward trend for healthcare sector stocks in the second half of the year. Here is our view on why.*

## Record low valuations

About one in four biotech companies on the Nasdaq Biotechnology Index was trading at negative enterprise value in July this year. This means cash on hand was larger than the company's market value and debt combined. Due to FDA regulatory uncertainty, potential pharma tariffs and MFN drug pricing regulation, this number had roughly doubled since the start of the year and the biotech sub-sector has significantly underperformed the broader market. There is an inverse relationship between rates and stock valuation. Forward-looking projections on interest rates (treasury yields) seem to be on a downward trajectory which implies higher future intrinsic valuations in the sector and thus better index performance. However, overall access to capital for growth focused biotech companies may not improve until political uncertainty and interest rates decrease.

With valuations suppressed and access to capital limited, we see a robust balance sheet as an attractive feature. This limits dilution risk to current shareholders and enables companies to weather the storm and raise capital in more permissive environments. Healthcare allocation is nearing record lows, as a percentage of the market (MSCI World Index), healthcare sits at 9 percent, the lowest since 2011.

**Record low allocation and valuations have historically been great buying opportunities.**

## Increasing M&A activity

Acquisitions play an important role for the larger companies within the healthcare sector, not least for the pharmaceutical companies. The large pharmaceutical companies are currently

facing a cycle with the greatest number of patent losses ever. In the coming five years, pharmaceuticals products generating \$180 billion worth of revenue will lose their patent protection. This creates an urgent need for them to acquire smaller companies, because the in-house R&D engines of pharmaceutical companies do not take them far enough.

**This suggests increased M&A activity, particularly in the biotech and medtech space in the coming years.**

## Innovations drive the sector

Medical advancements and innovations help raise the standard of care, enhance quality of life, and save lives around the world. A few recent innovations we are excited about are:

### Liquid biopsies

Liquid biopsies can detect tiny traces of residual cancer cells and early signs of recurrence. This enables timely follow-up and additional therapy, often enabling earlier treatment to prevent further spread.

### Biomarkers

Biomarkers have become a significant component in tailoring treatments to improve outcomes as well as early detection, ongoing monitoring and adaptation.

### Cancer genome profiling

By targeting mutations, oncologists can define treatments by the tumor's genetic and molecular makeup rather than which organ is affected.

**These are just examples of the tremendous levels of innovation seen in the sector which creates a steady stream of new products and companies entering the market.**

## Long-term tailwinds

Fundamentals for the healthcare sector are solid. Q2 earnings have been strong and profit growth estimates for 2026 are around +11 %. A high degree of political uncertainty now seems to be easing and we believe healthcare companies should be able to adapt to the new conditions. Mega trends and long-

term tailwinds, such as rising standards of living, an aging global population and rapid advancements in AI, also speaks for continued growth of the healthcare sector.

**Long term tailwinds, should support the healthcare sector going forward.**

## Potential for a rebound

During the past 12 months (August 2024-July 2025) MSCI World Index has outperformed MSCI Health Care by 27 %. There have been several similar periods of underperformance of the healthcare sector throughout the past 30 years. In 1993, when Hillary Clinton, chaired a taskforce on healthcare reform, the US healthcare sector underperformed by 18 % relative to the market. During the tech boom of 1999, global healthcare underperformed by 35 % relative to the market. During the election year 2016 preelection rhetorics like "Drug companies get away with murder" led to negative relative global healthcare performance of 14 %.

Interestingly though, what happened next was; Hillarycare was scrapped, and over the next two years healthcare outperformed the S&P 500 by 38 %. In 2000, as tech rolled over and pharma recovered; healthcare outperformed global markets by 40 %, and in 2017-2018 Trump actually did little damage to pharma and global healthcare outperformed by 11 %.

In the first seven months of 2025, and during the implementation of tariffs, budget cuts and drug pricing initiatives relative performance of the healthcare sector has been negative by 13 %.

However, budget cuts to Medicaid will mostly be implemented AFTER the midterm elections, sector tariffs will be less relevant after the most impacted production likely moves to the US and the International Reference Pricing is mostly impacting a limited part of the overall US market (i.e. Medicaid).

*"The sky seems to clear, we have got, somewhat more, clarity around several uncertain areas, and we see potential for a rebound in the coming months."*

**Henrik Rhenman, CIO**

**In our view, all this offers a promising long-term outlook for the healthcare sector.**

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