

Rhenman & Partners Healthcare sector 2025 review and outlook

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2025 was a year defined by two distinct narratives for the healthcare sector. During the first half of the year, attention was heavily focused on political uncertainty and weak biotech funding. In contrast, the second half of the year saw decreased political uncertainty and a better funding environment. With the market shifting focus to the robust underlying fundamentals of the sector.

The Rhenman Healthcare Equity L/S fund concluded 2025 with a positive return, though performance varied significantly by currency class due to substantial foreign exchange movements. The stark discrepancy between EUR/SEK and USD returns was primarily driven by the weakening of the US dollar against European currencies, which significantly weighed on the performance of Euro- and Krona-denominated share classes.

2025 annual performance (net of fees)

IC1 (EUR)	IC1 (USD)	RC1 (SEK)
6.6%	20.9%	0.3%

As at 31 December 2025. Visit rhepa.com for a full overview of performance numbers.

First half: Volatility and political headwinds

The first half of 2025 was weak for the healthcare sector due to a combination of a high degree of political uncertainty, a poor funding environment for biotech companies, and a low level of M&A (mergers and acquisitions) activity.

However, the year began strongly for the fund, driven by a rotation into healthcare and clarity following the start of the US earnings season. Sentiment, though, quickly soured in the later part of the first quarter as political and macroeconomic uncertainties rose. March was particularly volatile for the sector, with the fund declining as tariff rhetoric from Washington DC pressured the medical technology and pharmaceutical sectors.

The implementation of a 10 percent global tariff on all US imports, coupled with tariffs of up to 145 percent specifically targeting Chinese imports, triggered significant market volatility again in April. This exacerbated fears of supply chain disruptions and increased costs for the medical technology and pharmaceutical sectors.

Performance remained challenging during the second quarter with fears centered around the Trump administration's potential drug pricing reforms, disruption at the FDA, sector-specific tariffs, cuts to the Medicaid program (health insurance for low-income individuals) and to the National Institute of Health (NIH) budget. This array of dark clouds created somewhat of a perfect storm which led to significant underperformance for the healthcare sector during the first half of the year.

The biotech funding environment also suffered during

the first half of the year due to high interest rates, regulatory uncertainty, and a lack of risk appetite among investors. For the first half of the year, capital flows into the sector were at multi-year lows. Despite positive clinical data from major conferences like ASCO and ADA, many investors shunned the sector. This lack of interest disproportionately affected small-cap innovative growth companies, which saw their valuations compressed regardless of fundamental clinical progress.

During the first half of 2025 the healthcare sector experienced multi-year low capital inflows.

M&As were also constrained during the first half of the year. The bid/ask spread was too high, meaning that buyers and sellers had difficulty agreeing on "fair" premiums. Moreover, larger companies wanted to await regulatory clarity before making larger investments. At the same time, many biotech companies matured into self-sustaining mid-caps and launched drugs on their own – establishing themselves without relying on the infrastructure from larger pharmaceutical companies.

Concerns regarding the Federal Trade Commission's (FTC) stance on large-scale consolidations kept potential acquirers cautious. A six-week government shutdown further delayed regulatory clarity. Lastly, high treasury yields increased the cost of debt-financed acquisitions, leading to a deal window that only began to reopen toward the second half of the year.

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Second half: "Normalization" and recovery

The second half of the year saw a marked improvement in the funding environment and a lifting of the regulatory fog. Particularly after increased clarity on MFN (Most Favored Nation) post the first agreement in September.

The MFN program, the Trump administration's signature proposal to lower drug prices in the US, proved less draconian than market participants had initially feared, largely because its scope was mostly confined to Medicaid. Given that Medicaid accounts for a modest share of total drug spending, the market assessed the resulting effects on the biopharma sector as manageable.

MFN deals proved less draconian than initially feared.

October and November were the strongest months of the year for the fund, driven by the biotech and pharmaceutical sectors. After the first MFN agreement and interest rate cuts the healthcare sector enjoyed increased M&A activity and an increase in the underlying funding environment for biotech continued to improve, with capital flowing into both private and public markets.

Sub-sector analysis and portfolio highlights

Biotech was by far the best subsector for the fund during the year, contributing more than half of the fund's return. pharmaceutical and healthcare services contributed positively to performance while medical technology contributed negatively. Medical technology primarily underperformed due to headwinds from tariffs. Moreover, after strong performance in 2024, the sub-sector became a source of funds for specialist investors reallocating capital into the biotech and pharmaceutical sub sectors. During the year the fund successively increased its exposure to biotechnology as the sentiment improved.

Despite a relatively subdued year in terms of M&A activity, with a particularly weak first half, the fund enjoyed six acquisitions in the fund. These contributed meaningfully to the fund's alpha for the year.

Outlook for 2026

We look forward to 2026 as a potential year of normalization. The healthcare sector enters 2026 with two excellent starting points, low relative valuations and low allocations. This provides valuation support, and a technical coiled spring effect could happen if a rotation back into healthcare comes to fruit if large generalist assets managers decide to increase exposure to the sector. Moreover, the funding environment for biotech surged in the final months of 2025. Lastly, the sector continues to demonstrate high innovation.

A ruling is expected early in the year regarding the legal basis for the Trump administration's tariffs. A potential strike-down of these tariffs would create uncertainty regarding the US budget deficit and cause significant market volatility.

A new Fed Chair is set to be appointed by President Trump in May 2026, when Jerome Powell's term expires. The integrity of the new chair will likely be scrutinized, and as always, the bond market's assessment will be decisive.

Another major milestone follows in November as Americans head to the polls. 35 of the 100 Senate seats and all 435 seats in the House of Representatives will be up for grabs. Historically, the incumbent party tends to underperform in midterm elections. Currently, the Republicans hold a majority in both chambers of Congress, but the Democrats are the favorites to reclaim a majority in the House. How Trump will view Robert F. Kennedy Jr., his controversial Secretary of Health and Human Services (HHS), following the election is another key question. While RFK Jr. currently mobilizes a key voter base, his strategic utility may diminish significantly post-election, as he remains a polarizing figure both within the Republican party and among his staff at the HHS.

Lastly, we continue to closely monitor geopolitical developments and assess their potential impact on the fund's performance and strategic outlook.

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