For Professional Client Use Only

WHY WE EXPECT HEALTH CARE TO OUTPERFORM

JULY 2026

SECTOR OUTLOOK

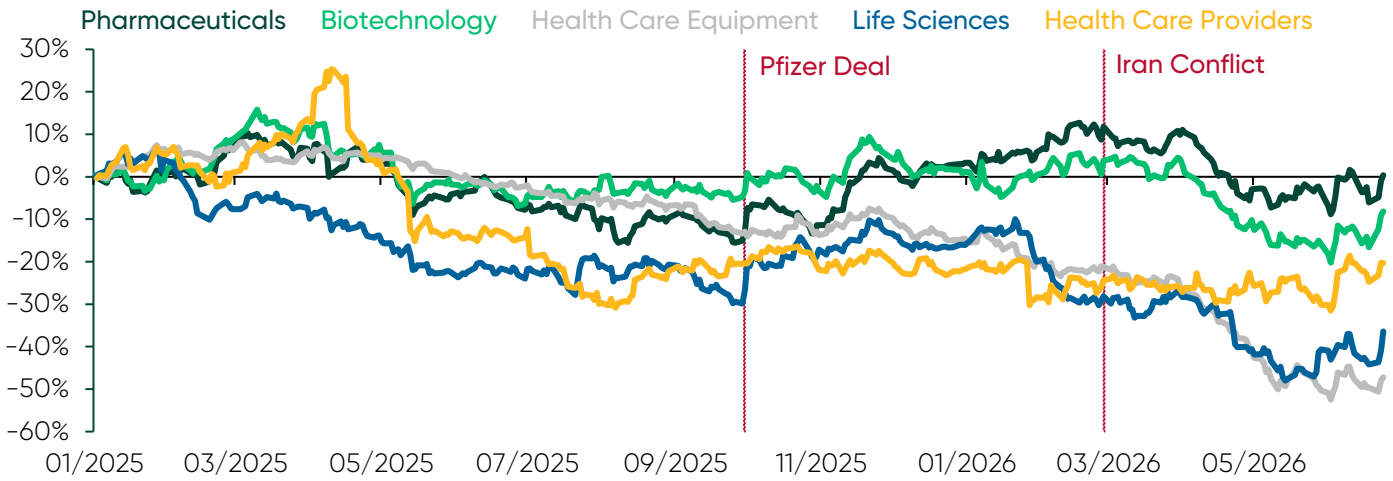
- **Although Health Care is a traditionally defensive sector and often lags in fast-rising markets, in our view, the sector is likely to benefit from underappreciated political tailwinds, weak-though-warming sentiment and better-than-feared industry fundamentals.**
- Despite Health Care's YTD lag, the sector tends to outperform in US midterm election years alongside other defensive sectors. Additionally, sentiment toward the sector remains subdued following a significant US election-driven lag, while fundamentals such as strong M&A and R&D investment, as well as an accommodative drug-approval environment remain favourable.
- Within the sector, we favour large, innovative Biopharmaceuticals, small and mid-cap Biotech firms and Health Care Providers for reasons outlined herein.

RECENT PERFORMANCE

Health Care has lagged YTD as the Strait of Hormuz's closure weighed on most sectors and industries aside Energy and Semiconductors. Moreover, growth-oriented Health Care industries such as Life Sciences and Equipment faced headwinds, while Health Insurers faced heightened regulatory scrutiny. Additionally, several large innovation-challenged equities within the sector, such as Novo Nordisk and Sanofi, dragged down broader sector performance. That said, while specific industries may continue to face idiosyncratic headwinds, looking forward, we expect the sector—notably Biopharma, small/ mid-cap Biotech and Providers—to outperform.

Health Care's YTD lag at the sector-level has been driven by non-Pharma industries (Figure 1), with the large, innovative Biopharmaceuticals we favour leading. Specifically, we expect Biopharma to continue benefitting from political and market-cycle tailwinds against a backdrop of overly dour sentiment and better-than-feared fundamentals. We also expect small and mid-cap Biotech—the clearest down-stream beneficiaries of improving conditions for big Biopharma—to resume outperformance, benefitting from recovering funding conditions, accelerating M&A activity, rising investor sentiment and an accommodative US Food and Drug Administration (FDA). Additionally, we expect Health Care Providers to benefit from stronger 2027 M&A rates and fading cost pressures.

Figure 1: Health Care Industries Relative Performance vs. MSCI World



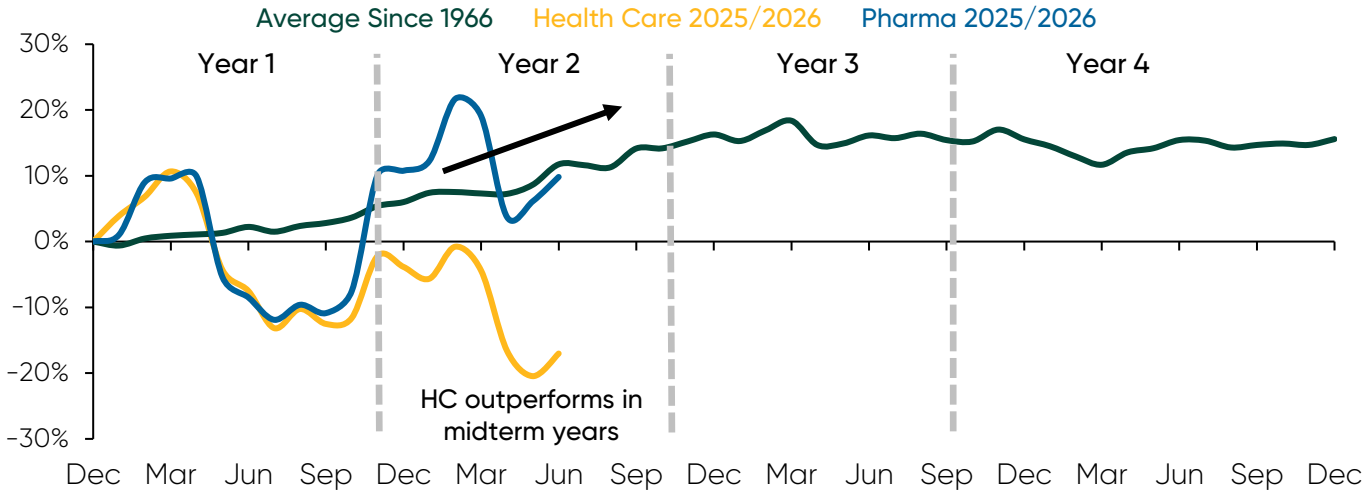
Source: FactSet, as of 24/6/2026. MSCI World, MSCI World Pharmaceuticals, MSCI World Biotechnology, MSCI World Health Care Equipment & Services, MSCI World Life Sciences and MSCI World Health Care Providers & Services, in USD. Indexed to 1 on 1/1/2025.

POLITICAL TAILWINDS AHEAD & HEADWINDS IN REARVIEW

US MIDTERM OUTPERFORMANCE

US midterm election years are among the most consistent periods of Health Care—particularly Biopharma—outperformance. As Figure 2 shows, Health Care often underperforms in US election and inaugural years as politicians threaten Health Care reform that often aims to lower costs. In the leadup to midterm elections, political focus shifts away from Health Care reform legislation and towards re-election, eschewing in a period of elevated uncertainty. Health Care—alongside other defensive sectors—tends to outperform in this period.

Figure 2: Health Care Relative Performance by Presidential Year



*Source: FactSet & Global Financial Data, 1966 – 2026, as of 18/6/2026. S&P 500, S&P 500 Health Care, and S&P 500 Pharmaceuticals daily returns, in USD. *1966 cutoff chosen following Oct. 1962 Kefauver-Harris amendment requiring drug makers to prove efficacy in addition to safety, creating the 'modern' FDA.*

MOST-FAVOURED NATION PRICING, TARIFFS & FALLING REGULATORY FEARS

US President Donald Trump's second election victory in November 2024 ignited fears that weighed on Health Care through the inaugural year, although those fears have since begun to subside. The primary culprits: tariff threats, drug-pricing legislation and regulatory worries. Specifically, the sector lagged on fears of how the Trump administration's Most Favoured Nation (MFN) policy would impact Pharmaceutical firms' profitability. The policy cut pricing to some drugs and aligned pricing of future US prescription drug launches with the lowest paid in other developed nations. Additionally, concerns over potential tariffs to drugmakers and how they might hit drugmakers' bottom line weighed on the sector.

After several months of threats, Trump announced 100% tariffs on imported patented drugs in April 2026, caveating drugmakers would be exempt from tariffs if they actively built manufacturing plants in the US. However, Health Care stocks received relief long before officially announcing tariffs, as markets priced in the reality that most major pharmaceutical companies would eventually be exempt. A major turning point for sector performance was when Pfizer signing the MFN agreement with the Trump administration in October 2025, helping reduce price-disruption and tariff-escalation fears (Figure 3). Importantly, it showed MFN pricing would be limited to Medicare and only apply to future drug launches—not existing drugs. Pfizer also agreed to a three-year grace period during which the company's products won't face pharmaceutical-specific tariffs so long as it invests further in US manufacturing. This deal served as a blueprint for the rest of the industry (Figure 4), kicking off a period of strong industry outperformance with nearly every major global Biopharmaceutical company agreeing to similar frameworks in the weeks and months following.

Similarly, Health Insurers specifically experienced a major turning point in April 2026, mainly driven by the Medicare Advantage rate announcement. Medicare Advantage rates determine the level of government payment to health insurers, making one of the key drivers for insurer's profitability. The final 2027 Medicare Advantage rate came in at 2.48%, 239bps higher than the advanced notice but significantly less than the 4 – 5% most expected going into the year. This was the second-highest Medicare Advantage rate revision from an advanced notice ever. Since the announcement, the industry has risen 25%[1]—suggesting the industry is finally moving past fears of Medicare Advantage rates, Pharmacy Benefit Manager reforms and Affordable Care Act subsidy expiration that have weighed since Trump's election.

Figure 3: Relative Performance Trends After Pfizer Deal



Source: FactSet, as of 24/6/2026. MSCI World and MSCI World Pharmaceuticals, in USD. Indexed to 1 on 1/1/2025.

Figure 4: Every Major Pharma Company Has Announced US Manufacturing to Avoid Tariffs

Company Name	Home Country	Investment Value ($B)	Timeline	Date Announced
Eli Lilly	USA	27	5 years	26/02/2025
Johnson & Johnson	USA	55	4 years	21/03/2025
Novartis	Switzerland	23	5 years	11/04/2025
Roche	Switzerland	50	5 years	22/04/2025
Abbvie	USA	10	10 years	25/04/2025
Bristol Myers Squibb	USA	40	5 years	06/05/2025
Gilead	USA	11	5 years	07/05/2025
Sanofi	France	20	5 years	14/05/2025
AstraZeneca	UK	50	5 years	21/07/2025
GSK	UK	30	5 years	17/09/2025
Argen	USA	3	N/A	26/09/2025
Pfizer	USA	70	N/A	30/09/2025
Merck	USA	70	N/A	24/10/2025
Novo Nordisk	Denmark	10	3 years	06/11/2025
Regeneron	USA	27	3 years	23/04/2026

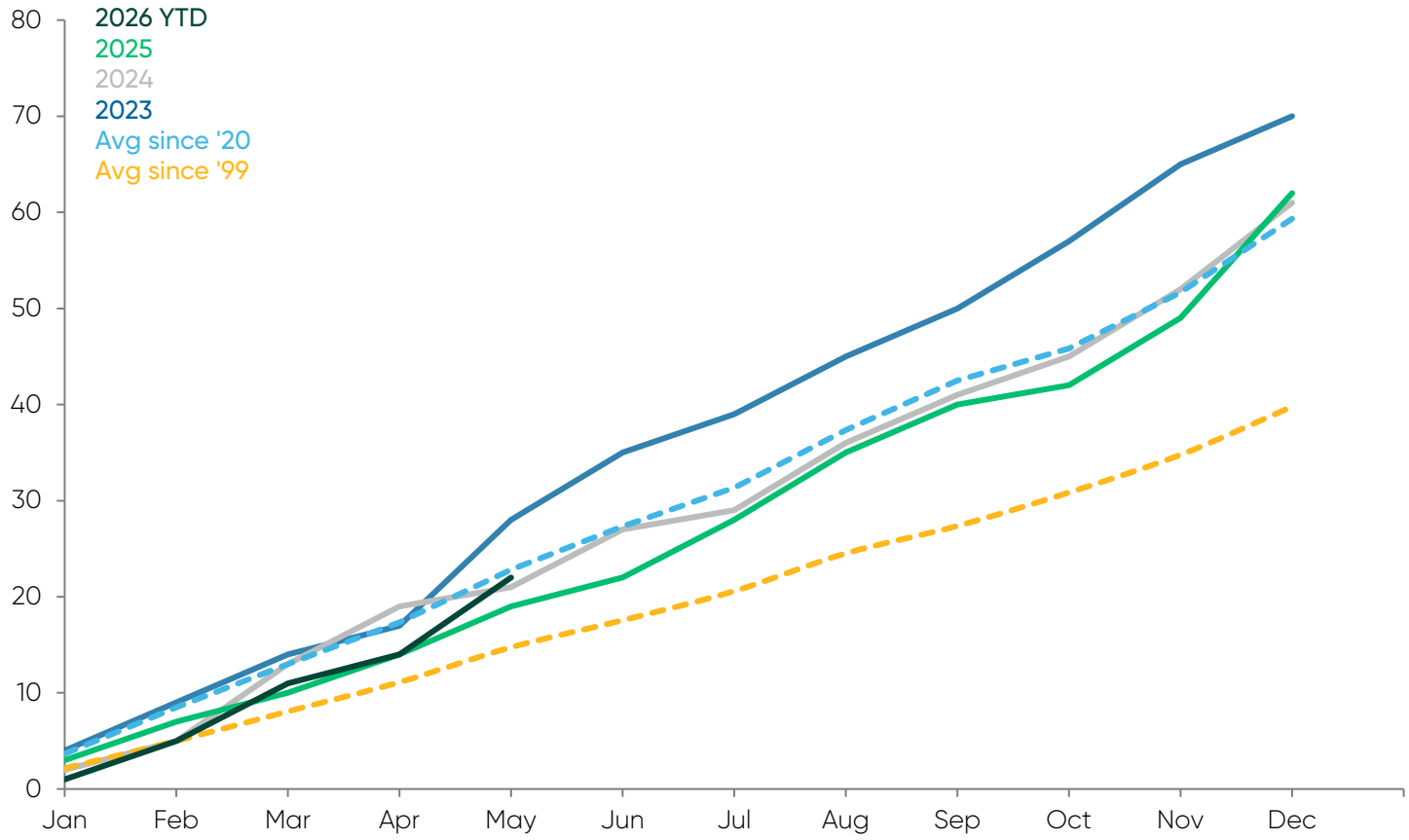
Source: Fisher Investments Research, as of 30/6/2026.

[1] *Source: FactSet, as of 2/7/2026. MSCI World Health Care Providers & Services Total Return (Net), 6/4/2026-2/7/2026, in USD.*

FDA LEADERSHIP & DRUG APPROVALS

Another source of investor angst stemming from Trump's re-election involved fears surrounding reform-oriented US Secretary of Health and Human Services Robert F. Kennedy Jr.'s policies and potential disruption to the FDA's regulatory process. However, reality proved tamer than feared as drug approvals remained in-line with historical averages under controversial FDA Commissioner Marty Makary prior to his resignation in May 2026 (Figure 5). Further, recent deregulatory actions to simplify and streamline the drug trial and approval process support rising optimism towards the space. This suggests the FDA remains more accommodative than most appreciate as investors remain focused on leadership instability and anti-vaccine rhetoric. Better-than-expected reality should persist, fuel for Health Care equity outperformance.

Figure 5: Annual FDA Novel Drug Approvals



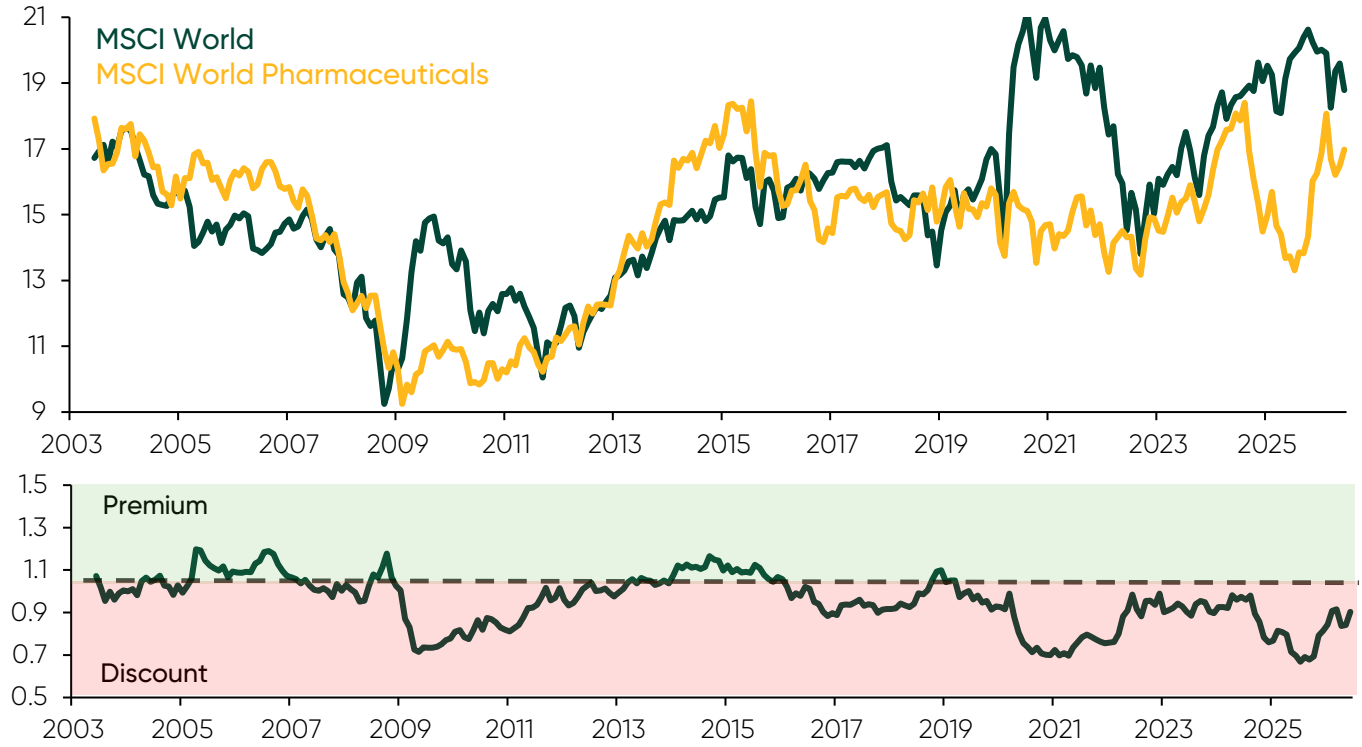
Source: US FDA. FDA novel drug approvals from 01/01/2020 – 31/12/2025.

WEAK SENTIMENT, STRONG ECONOMIC FUNDAMENTALS

WARMING, YET WEAK SENTIMENT

As the aforementioned political headwinds have started subsiding, sentiment toward the sector has improved. Yet it remains below historical averages, suggesting there is still ample room for it to ameliorate before reaching optimism. One way of observing this is via valuations—namely price/earnings ratios—which presently reflect Pharma trading at a discount (Figure 6).

Figure 6: Pharma Valuations

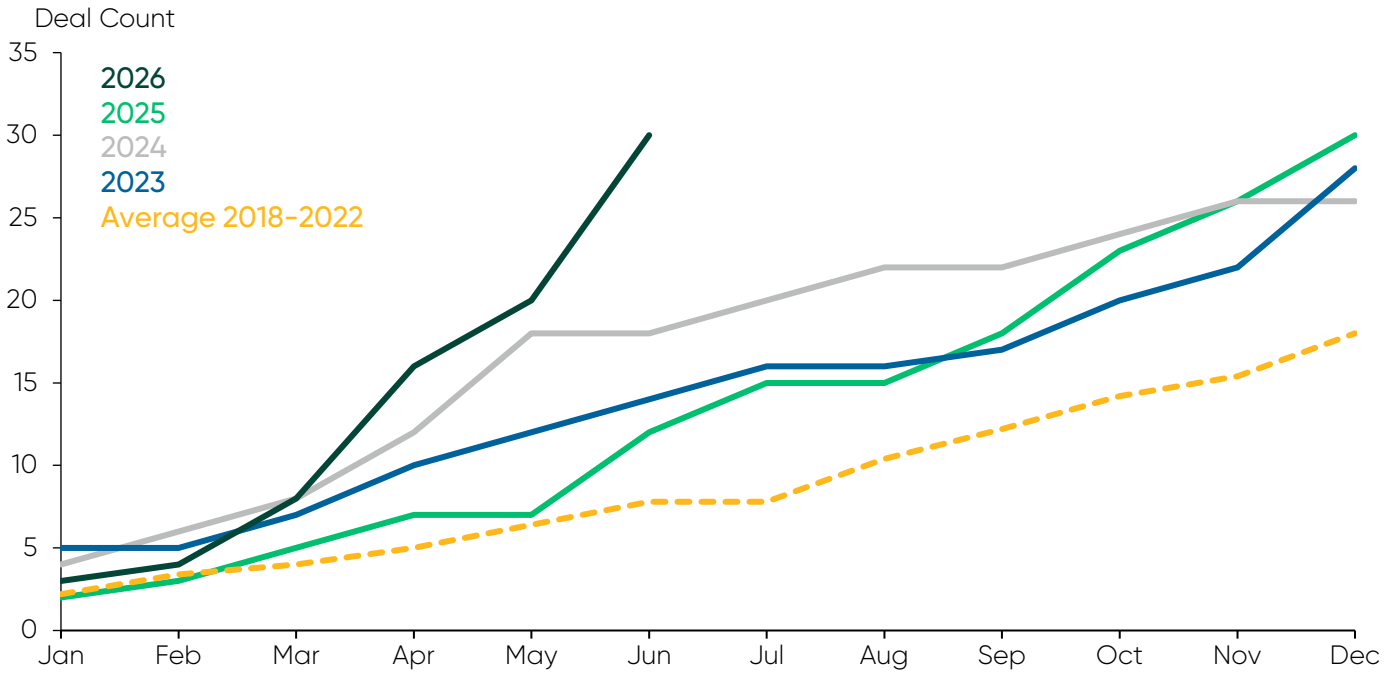


Source: FactSet, MSCI World and MSCI World Pharmaceuticals NTM EPS & Performance, 30/6/2003 – 29/6/2026.

STRONG R&D, M&A ACTIVITY & INNOVATION CYCLE

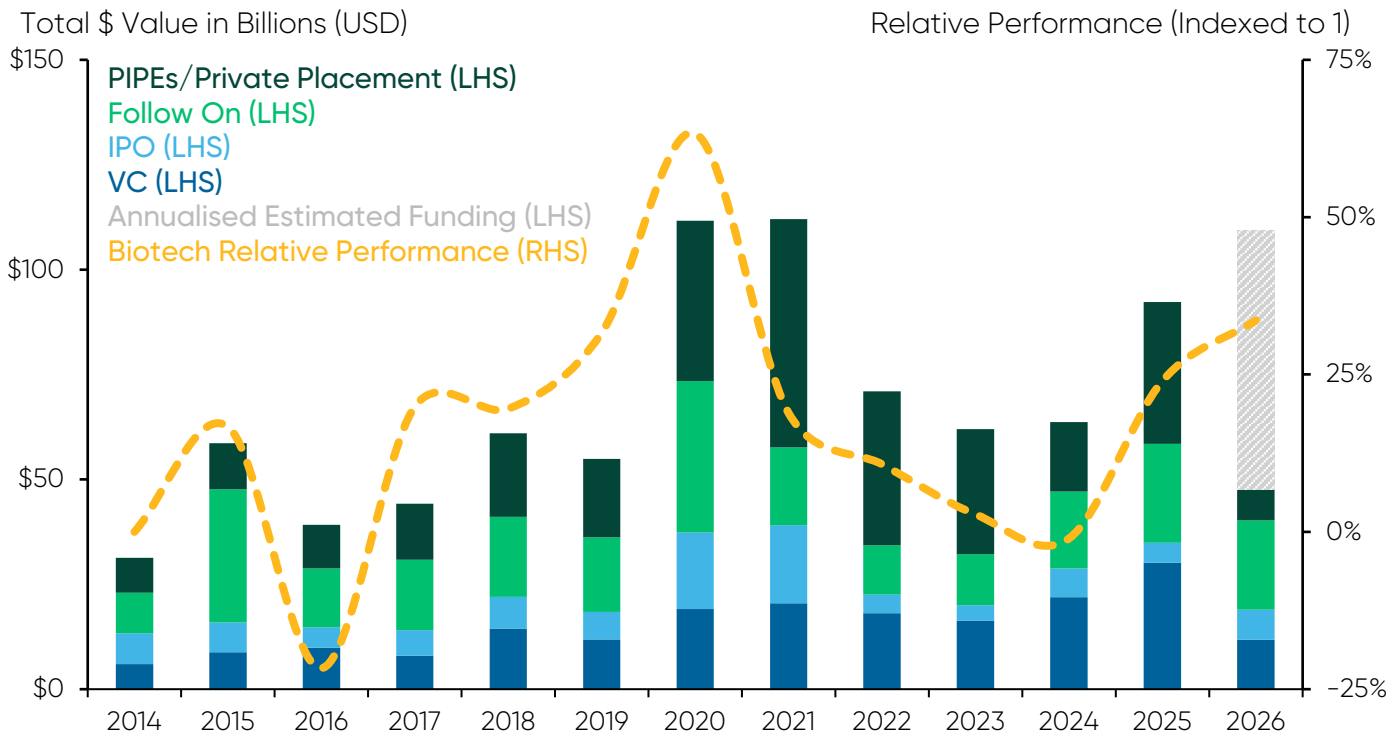
While sentiment remains weak, economic fundamentals remain strong. M&A activity and Biotech funding have rebounded (Figures 7 & 8)—a notable tailwind for small and mid-cap biotech firms (Figure 9). This trend is expected to persist as many large firms face major patent expirations by 2030 (Figure 10), which should continue to fuel Health Care R&D and accelerate M&A to replace lost revenue.

Figure 7: Global Health Care M&As ($500M+ Deals)



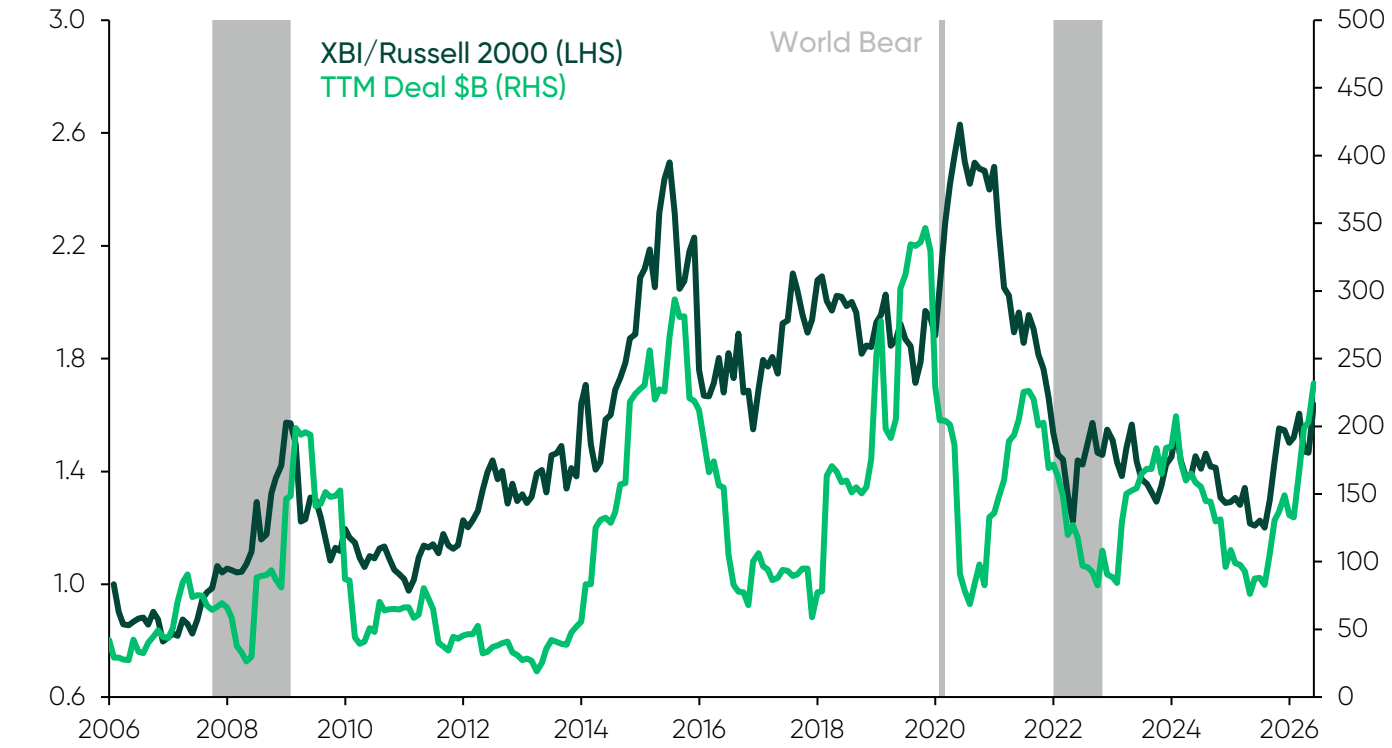
Source: FactSet, BioPharmaDive, FierceBiotech deal trackers through 26/5/2026. Counting >$500M deals only.

Figure 8: Total Biotech Funding by Year



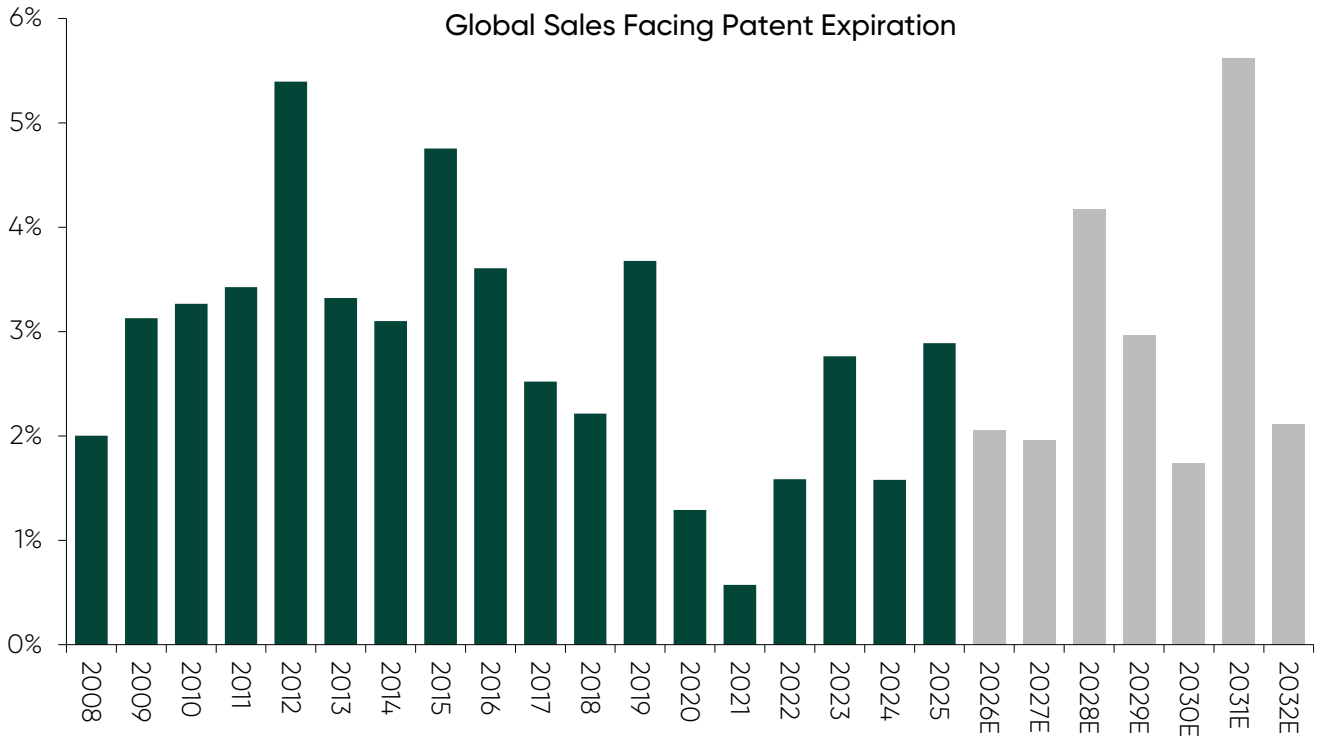
Sources: FactSet, as of 5/7/2026. Private Investment for Public Equity (PIPEs)/Private placement and IPO/Follow Ons, Pitchbook presentations for venture capital (VC) funding. VC funding data for Q1 only. MSCI USA Small Cap Biotech vs MSCI USA Small cap from FactSet 1/1/2014 to 30/6/2026.

Figure 9: M&A + SMID Biotech Relative Performance



Source: FactSet, as of 26/5/2026. In USD, counting >$500M deals only. XBI is ticker for State Street SPDR S&P Biotech ETF.

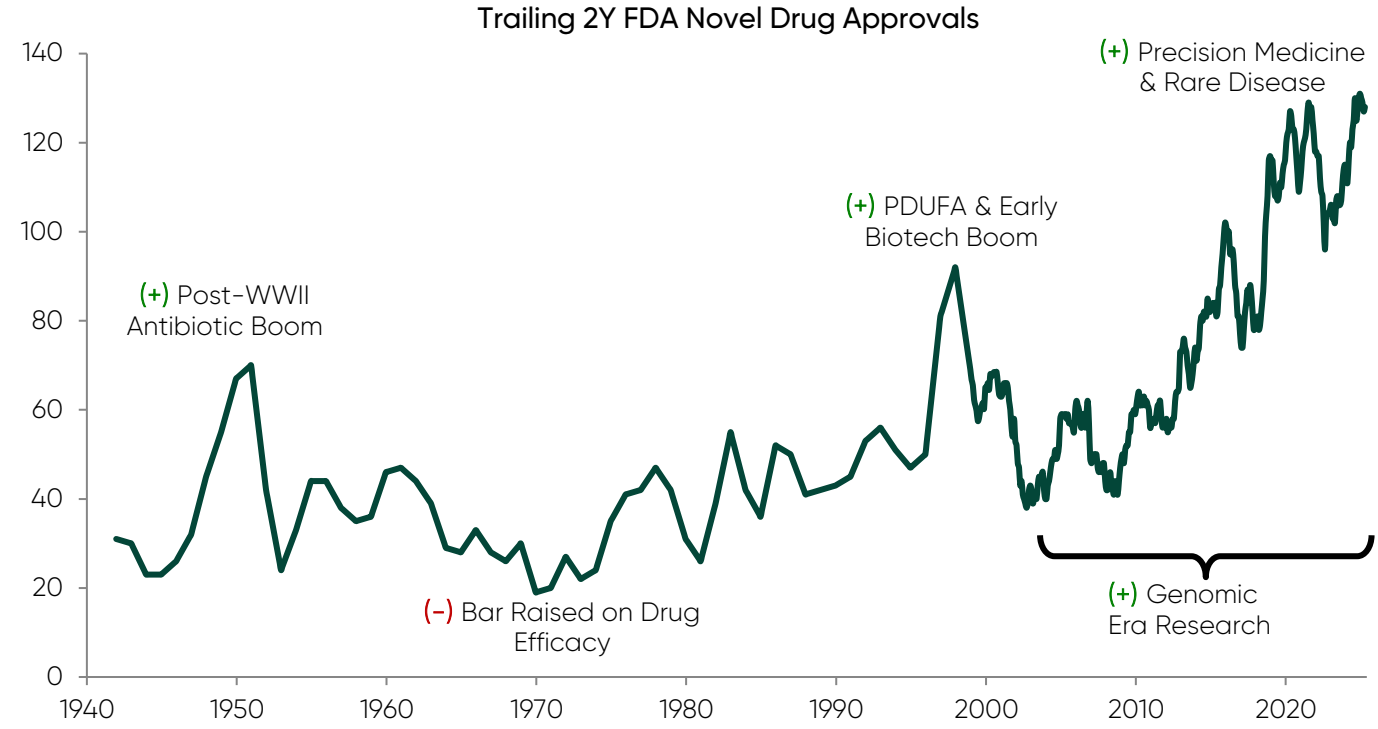
Figure 10: Major Patent Cliff Ahead—Likely to Stimulate More R&D and M&A



Source: EvaluatePharma 'World Preview' 2016 - 2026 reports for annual Sales at Risk; IQVIA Feb. 2026 'Global Medicine Use Trends' for total pharma sales projections. Last updated 25/6/2026.

Moreover, Heath Care is presently in the midst of a strong innovation cycle, aided by elevated approvals and the FDA's recent deregulatory push. (Figure 11) This creates strong pricing power for the sector—an environment ripe for Health Care outperformance, especially Biopharma.

Figure 11: Health Care in Midst of Durable Innovation Cycle

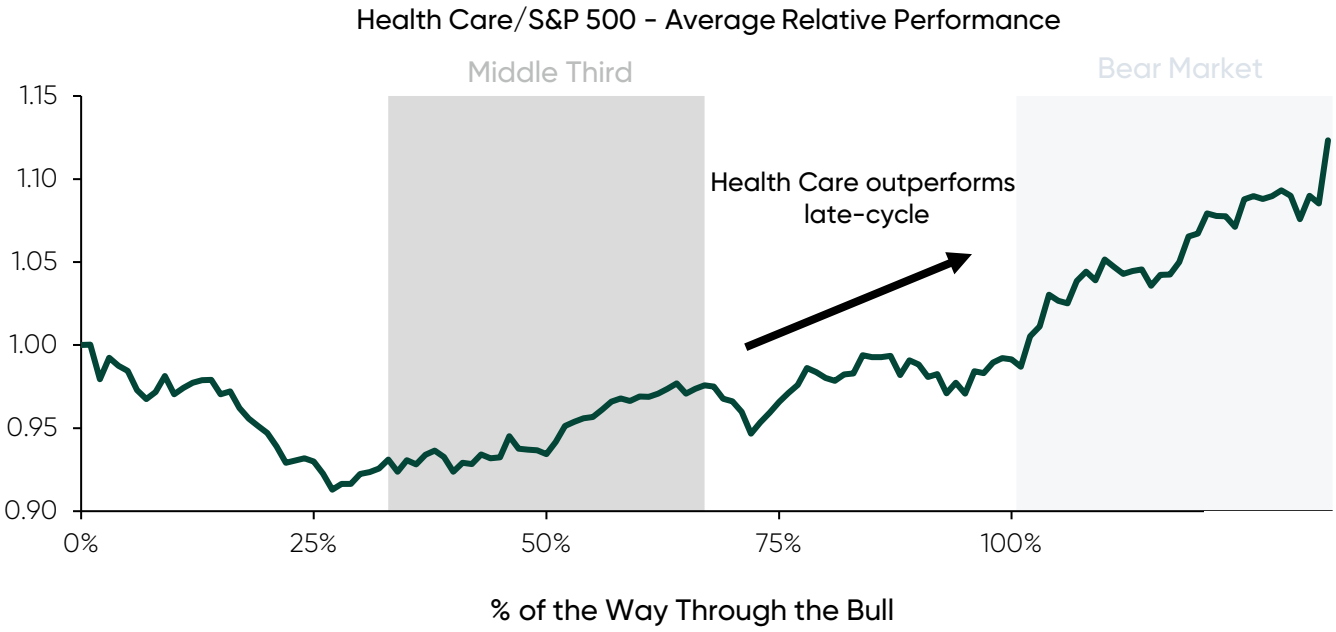


Source: US FDA, 1/1/1942–30/6/2026. Cumulative total of trailing 2-year FDA novel drug approvals, monthly. PDUFA refers to the Prescription Drug User Fee Act.

LATE-CYCLE WINNER

Health Care tends to outperform during late-cycle environments—the phase of the market cycle we believe we are currently in. Late-cycle environments are typically defined by narrow market breadth, ballooning equity supply, elevated equity supply—all elements present today.

Figure 12: Health Care Performs Best Late-Cycle and into Bear Markets



Source: FactSet. and Global Financial Data as of 31/5/2024; S&P 500 Index Price Returns from 1/1/1925 to Present; S&P 500 Sector Price Returns from 31/1/1941 to Present.

CONCLUSION

While broad Health Care may continue to face selective pressures across certain industries, we believe the sector's recent weakness is increasingly disconnected from underlying fundamentals. With political and regulatory fears in the rearview, investors are likely to better appreciate resilient earnings, stable approval activity and improving funding conditions and M&A activity going forward. We remain selective across broader Health Care exposure while favouring innovative Pharma, Biotech and Providers businesses where improving sentiment and resilient fundamentals appear most aligned.

DISCLOSURES

Fisher Investments Ireland Limited trades as Fisher Investments Europe (FIE) and is regulated by the Central Bank of Ireland. Fisher Investments Ireland Limited and its trading name Fisher Investments Europe are registered with the Companies Registration Office in Ireland under numbers 623847 and 629724. Fisher Investments (FI) is an investment adviser registered with the United States Securities and Exchange Commission. FIE is wholly-owned by Fisher Asset Management, LLC, trading as Fisher Investments (FI), which is wholly-owned by Fisher Investments, Inc.

Fisher Asset Management, LLC, trading as Fisher Investments, is an investment adviser registered with the Securities and Exchange Commission. As of 30 June 2026, FI managed $440 billion, including assets sub-managed for its wholly-owned subsidiaries. FI and its subsidiaries maintain three principal business units – Fisher Investments Institutional Group (FIIG), Fisher Investments Private Client Group and Fisher Investments Private Client Group International. These groups serve a global client base of diverse investors including corporations, public and multi-employer pension funds, foundations and endowments, insurance companies, healthcare organisations, governments and high-net-worth individuals. FI's Investment Policy Committee (IPC) is responsible for investment decisions for all investment strategies.

For purposes of defining "years with Fisher Investments," FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the US SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. "Years with Fisher Investments" is calculated using the date on which FI was established as a sole proprietorship through 30 June 2026.

FI is majority owned and controlled by Fisher Investments, Inc. Since Inception, Fisher Investments, Inc. has been 100% privately owned. It controls and owns the majority of Fisher Investments (see Form ADV Part 1 – Schedule A). Ken owns more than 75% of Fisher Investments, Inc., as noted in Schedule B to FI's Form ADV Part 1.

FIE outsources portfolio management to FI. FI's Investment Policy Committee (IPC) is responsible for all strategic investment decisions. The Joint Investment Oversight Committee (IOC) is responsible for overseeing FI's management of portfolios that have been outsourced to FI.

This document has been approved and is being communicated by Fisher Investments Ireland Limited.

The foregoing information constitutes the general views of Fisher Investments and should not be regarded as personalised investment advice or a reflection of the performance of Fisher Investments or its clients. Investing in financial markets involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. Other methods may produce different results, and the results for individual portfolios or different periods may vary depending on market conditions and the composition of a portfolio or index. The value of investments and the income from them will fluctuate with world financial markets and international currency exchange rates. If you have asked us to comment on a particular security then the information should not be considered a recommendation to purchase or sell the security for you or anyone else. We provide our general comments to you based on information we believe to be reliable. There can be no assurances that we will continue to hold this view; and we may change our views at any time based on new information, analysis or reconsideration. Some of the information we have produced for you may have been obtained from a third-party source that is not affiliated with Fisher Investments. Fisher Investments requests that this information be used for your confidential and personal use.

This material may also be found posted on the Fisher Investments Europe website at www.fisherinvestmentseurope.com. If your firm wishes to be removed from receiving these materials in the future or wishes to pay for this material, please contact Fisher Investments Europe.