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INVESTMENT SOLUTIONS

weekly investment focus

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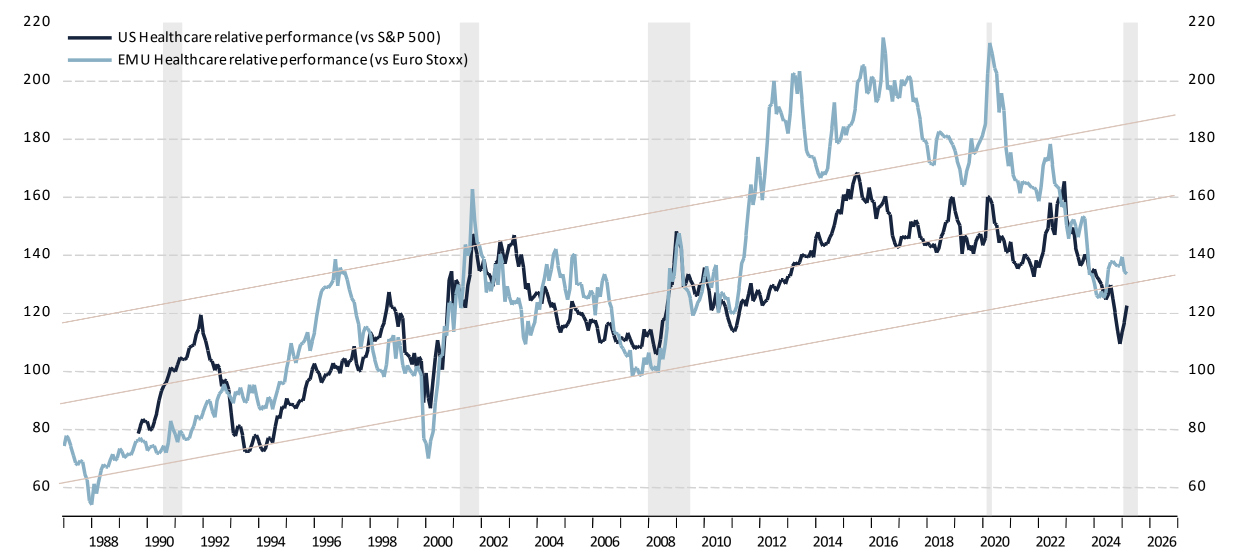
"INVESTORS ENJOY GOOD HEALTH"

- Since the New Year's wishes for prosperity, the healthcare sector has become a must
- In addition, it benefits from a powerful structural trend
- After being neglected, pharmaceutical companies are on the podium
- United States or Europe? It doesn't matter, as long as they are large caps

CHART OF THE WEEK: "The underperformance of the healthcare sector has come to an end"



Source: Bloomberg, Altitude IS

STOCK MARKET ANALYSIS

In times of stock market correction, the healthcare sector serves as a safe haven for investors. This is because consumers will continue to seek treatment, even if their incomes deteriorate and their future becomes more uncertain. Driven by stable structural (inelastic) demand and relatively predictable regulation, the sector is proving resilient. It attracts capital when the economic cycle deteriorates or when the valuations of growth companies are excessive. As we enter 2025, both elements are present. It is therefore only logical that the sector rotation should be in favour of pharmaceuticals, medical services, healthcare equipment and biotechnology (see Fig. 2).

The healthcare sector is also benefiting from two major trends that are underpinning its long-term growth:

- **The ageing of the world's population** (see Fig. 3) is leading to an increase in chronic diseases and in the need for specialist care, particularly in the fields of oncology, cardiology and neurodegenerative diseases. As per capita healthcare spending rises automatically with age, demand for companies in the sector will remain strong.
- **The growth of the middle class in emerging countries**, underpinned by urbanisation and rising incomes, is driving the deployment of modern healthcare services. Greater access to healthcare is boosting sales of medicines, medical devices and hospital services, offering new growth opportunities for companies in the sector.

Fig. 2 - Sectoral rotation between 2024 and 2025

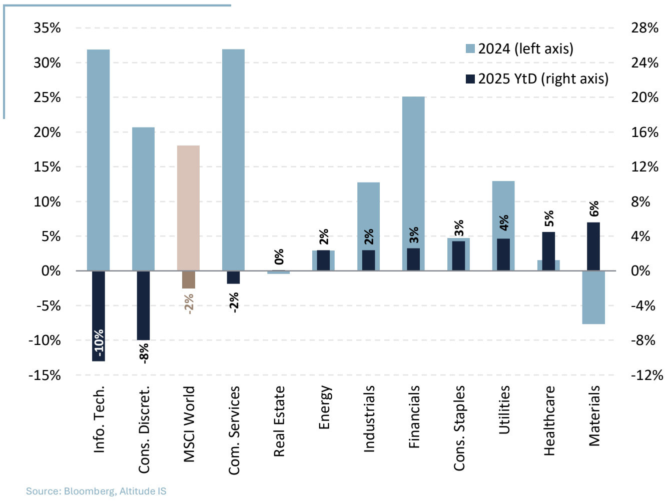
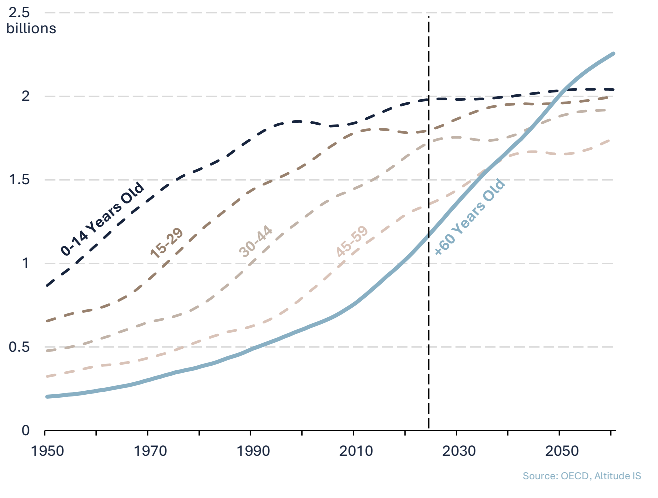


Fig. 3 - World population by age group



In recent years, the healthcare sector has clearly underperformed (see Chart of the Week) **for a number of reasons**:

- Firstly, the end of the pandemic led to a normalisation of healthcare spending, with a negative impact on certain players who had benefited from exceptional demand for Covid-19-related tests, vaccines and treatments.
- In parallel, regulatory pressure has increased. In the United States, the introduction of reforms aimed at reducing the price of medicines has limited the profitability of the major pharmaceutical groups.
- At the same time, the high-interest rate environment has made financing more expensive for biotech companies and start-ups in the sector, putting the brakes on innovation and risk-taking.
- Recently, the rise of technologies based on artificial intelligence has raised questions about the future of traditional research and development models.

All these factors have made investors wary.

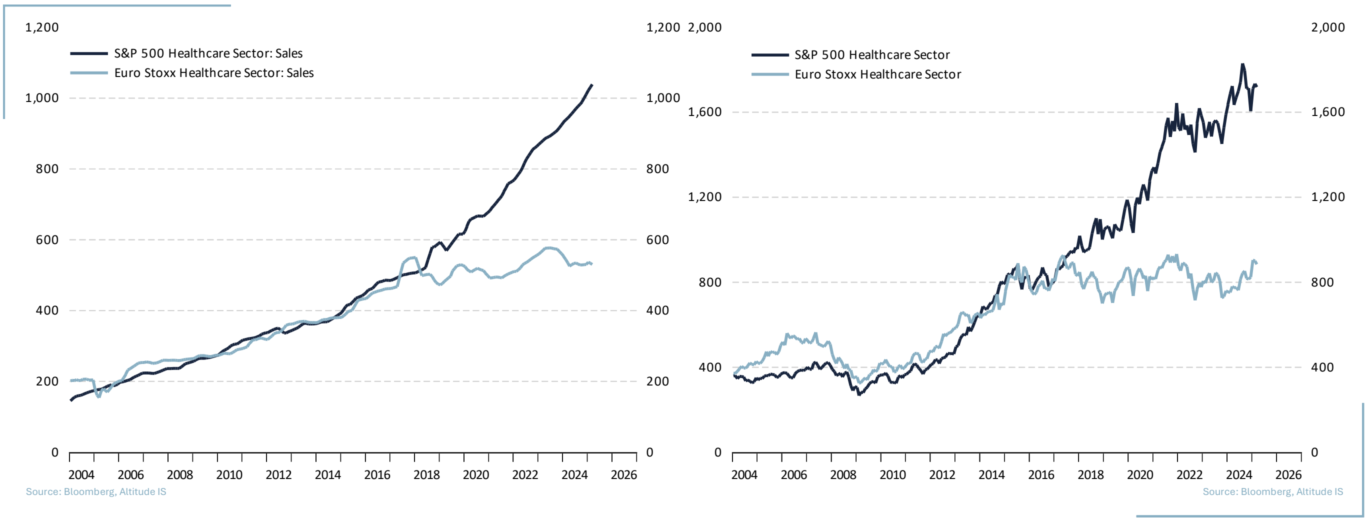
In the United States, industry leaders are once again in great demand. Thanks to its diversified exposure in pharmaceuticals, medical devices and consumer products, and despite an increasingly competitive environment, Johnson & Johnson is managing to generate solid cash flow. Specialising in oncology and immunotherapy, Bristol-Myers Squibb is benefiting from the development of new molecules to offset regulatory pressure on drug prices. Gilead Sciences, a specialist in antivirals and the treatment of HIV, is maintaining a solid position thanks to recurring revenues and a strategy of diversification into oncology.

Amgen, a key biotechnology player, is benefiting from its ability to develop innovative medicines while building on established franchises, particularly in autoimmune diseases and oncology. Vertex Pharmaceuticals leads the market in the high-margin treatment of cystic fibrosis, while investing heavily in gene editing and new targeted therapies. Following the success of Humira, AbbVie is betting on Rinvoq and Skyrizi to maintain its domination of the anti-inflammatory market, while strengthening its position in aesthetic medicine and neurology. At the same time, drug distributors such as McKesson and Cencora are dominating an increasingly consolidated market, strengthening their ability to negotiate prices and absorb cost increases. Medical analysis laboratories, such as Quest Diagnostics and LabCorp, are benefiting from a stable regulatory framework and diversification of their supply chain. This should enable them to secure recurring revenues.

The mental healthcare sector is also undergoing significant expansion, capitalising on strong demand for psychiatric services in a market that is still highly fragmented. Public policies are supporting this growth with measures to facilitate access to psychological care, notably through digital platforms that are expanding the range of services on offer. In medical technologies, ophthalmology-related companies are taking advantage of a high-margin market. They are escaping the pressures of public reimbursement, while demand for vision correction devices continues to grow, driven by the increase in the senior population and improvements in surgical techniques. On the other hand, the medical devices segment is facing pressures on raw materials prices and rising logistics costs, which are weighing on companies' profitability.

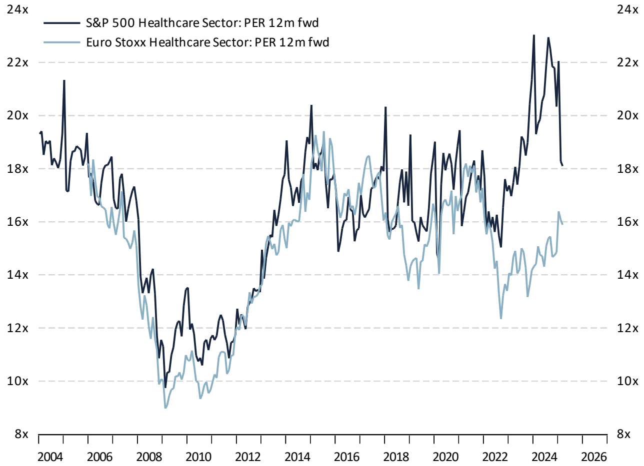
The European landscape is marked by very different dynamics. For the record, in the United States, the healthcare system is based on a private model in which drug prices are determined by the market. They are negotiated between pharmaceutical companies on the one hand, and insurers and pharmacy benefit managers on the other. In Europe, on the other hand, drug prices are set by governments and public health systems. Unlike the United States, where a drug can be sold at any price (except, to a certain extent, under the Medicare Inflation Reduction Act), **in Europe pharmaceutical companies must obtain reimbursement authorisation before a drug can be covered by the health system, which forces them to accept lower prices.**

Fig. 4 & 5 - Sales and performance of the healthcare sector: United States vs Europe



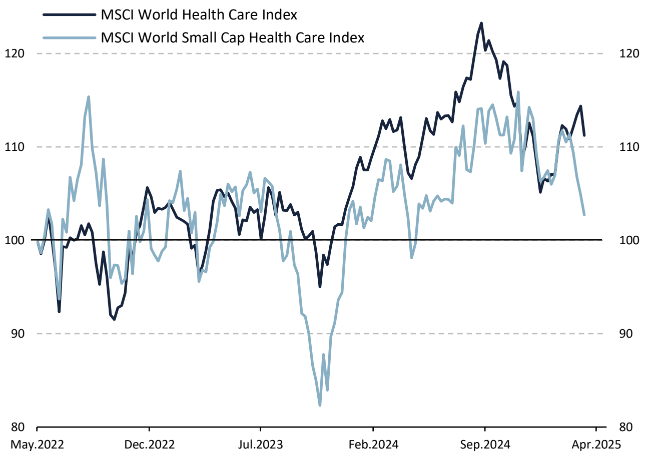
With higher volumes and margins in the US, sales are growing accordingly (see Fig. 4). This dynamic growth in sales is making it possible to reinvest more in Research & Development, as well as to generate higher profits, offering shareholders a more attractive return on their investment. The dichotomy between the two zones helps to explain much of the outperformance of the US healthcare sector relative to its European counterpart (see Fig. 5). **However, since 2022, healthcare companies listed in Europe have been relatively cheap** (see Fig. 6). To close the gap with US companies, they would need to grow by 15%.

Fig. 6 - Valuation of the healthcare sector



Source: Bloomberg, Altitude IS

Fig. 7 - Perf. of small and large companies



Source: Bloomberg, Altitude IS

Among the key players, pharmaceutical groups such as Roche, Sanofi and AstraZeneca are continuing to invest in R&D, particularly in biotherapies and artificial intelligence, to speed up the discovery of new molecules. For their part, companies such as Novo Nordisk and BioNTech are taking advantage of the European Union's desire to relocate part of the production of active ingredients within its borders. The challenge is to reduce dependence on imports, as the pandemic and tariff wars have highlighted Europe's vulnerability to drug shortages.

Other laboratories play a key role in European health. A diversified player in pharmaceuticals and agrochemicals, Bayer is facing legal challenges over glyphosate, but the company has solid franchises in cardiology and oncology. Specialising in hormone and neurological treatments, Finnish group Orion is developing a strategy focused on international expansion. A pillar of dialysis and hospital care, Fresenius is suffering from pressure on healthcare costs but remains a key player in the European hospital sector. World leader in optics, Essilor Luxottica is capitalising on growth in the vision equipment market, driven by an ageing population and an increase in visual disorders. Carl Zeiss, which specialises in optics and medical technologies, is also benefiting from growing demand for medical imaging and precision surgical equipment.

While large companies have performed extremely well, smaller ones have been unable to benefit from the sector rotation that has prevailed since the start of the year (see Fig. 7); they have to contend with financing costs that are far too high.

Conclusion:

With economic uncertainty mounting and the valuations of growth sectors still excessive, the healthcare sector will once again attract the interest of investors who were right to shun it in recent years.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	836.1	40.59	-1.8%	-5.3%	-0.3%	18.0%	22.8%
USA (S&P 500)	5 639	37.67	-2.2%	-7.7%	-3.9%	25.0%	26.3%
USA (Dow Jones)	41 488	35.85	-3.0%	-6.7%	-2.1%	15.0%	16.2%
USA (Nasdaq)	17 754	37.48	-2.4%	-11.3%	-7.9%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	558.8	53.95	-0.8%	-0.2%	10.9%	10.2%	19.5%
UK (FTSE 100)	8 632	48.99	-0.5%	-0.4%	6.6%	9.6%	7.7%
Switzerland (SMI)	12 917	53.78	-0.7%	1.1%	11.9%	7.5%	7.1%
Japan (Nikkei)	37 496	38.74	0.4%	-5.3%	-7.1%	21.3%	31.0%
Emerging (MSCI)	1 120	53.00	-0.7%	-0.3%	4.5%	8.0%	10.2%
Brasil (IBOVESPA)	128 957	62.95	3.1%	0.6%	7.2%	-10.4%	22.3%
Mexico (IPC)	52 484	50.31	-0.6%	-2.8%	6.2%	-11.0%	22.4%
India (SENSEX)	74 177	35.89	-0.7%	-3.0%	-5.3%	9.6%	20.3%
China (CSI)	3 999	61.73	1.6%	1.7%	2.0%	18.2%	-9.1%
Com. Services (MSCI World)	125.1	38.24	-2.9%	-8.4%	0.3%	31.9%	38.1%
Cons. Discretionary (MSCI World)	394.7	33.74	-2.9%	-10.3%	-6.3%	20.7%	29.5%
Cons. Staples (MSCI World)	282.1	43.46	-3.0%	-0.6%	3.7%	4.7%	3.2%
Energy (MSCI World)	249.0	54.30	2.3%	-0.4%	4.5%	2.9%	6.0%
Financials (MSCI World)	187.2	45.81	-1.0%	-3.0%	4.5%	25.1%	16.4%
Health Care (MSCI World)	366.1	43.88	-2.8%	0.2%	5.2%	1.5%	4.1%
Industrials (MSCI World)	391.2	50.19	-1.5%	-1.0%	4.1%	12.8%	22.5%
Info. Tech. (MSCI World)	706.6	39.21	-2.1%	-10.7%	-8.0%	31.9%	51.4%
Materials (MSCI World)	325.4	53.45	-0.6%	-1.0%	7.0%	-7.7%	12.6%
Real Estate (MSCI World)	966	43.36	-2.1%	-1.6%	1.6%	-0.4%	5.3%
Utilities (MSCI World)	167.8	59.28	1.8%	2.0%	5.0%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.70%	60.79	-0.2%	0.8%	2.3%	-1.7%	5.7%
USA (Sovereign)	4.22%	55.78	0.1%	1.2%	2.2%	0.6%	4.1%
Euro Area (Sovereign)	3.03%	32.13	-0.2%	-2.5%	-2.3%	1.9%	7.1%
Germany (Sovereign)	2.59%	31.70	-0.3%	-2.8%	-3.0%	0.6%	5.6%
UK (Sovereign)	4.58%	50.04	0.1%	-0.4%	0.8%	-3.0%	5.6%
Switzerland (Sovereign)	0.89%	29.54	-0.7%	-2.3%	-3.3%	5.4%	7.9%
Japan (Sovereign)	1.30%	37.15	0.0%	-0.9%	-2.5%	-2.1%	0.9%
Emerging (Sovereign)	6.85%	53.20	-0.4%	0.4%	2.3%	7.0%	11.0%
USA (IG Corp.)	5.24%	50.09	-0.6%	0.4%	1.7%	2.1%	8.5%
Euro Area (IG Corp.)	3.40%	34.97	-0.4%	-1.2%	-0.6%	4.7%	8.2%
Emerging (IG Corp.)	6.47%	57.95	-0.3%	0.6%	2.2%	7.0%	6.7%
USA (HY Corp.)	7.59%	39.51	-0.5%	-0.5%	1.1%	8.2%	13.4%
Euro Area (HY Corp.)	5.88%	32.04	-0.5%	-0.7%	0.6%	8.2%	12.1%
Emerging (HY Corp.)	8.43%	51.66	-0.1%	-0.1%	2.0%	14.9%	13.1%
World (Convertibles)	449.5	49.06	0.0%	-2.3%	2.1%	9.4%	12.3%
USA (Convertibles)	595.9	42.73	-0.3%	-4.7%	-0.4%	10.1%	14.6%
Euro Area (Convertibles)	258.3	70.53	2.3%	5.3%	11.0%	14.7%	7.3%
Switzerland (Convertibles)	247.9	46.61	-1.0%	-0.4%	3.0%	-10.5%	5.8%
Japan (Convertibles)	227.4	51.77	0.1%	0.1%	0.3%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 624	79.70	n.a.	-0.6%	0.8%	11.1%	7.8%
Macro	1 343	66.52	n.a.	-1.5%	0.1%	7.4%	1.6%
Equity Long Only	2 160	63.32	n.a.	-2.2%	-2.3%	12.0%	15.9%
Equity Long/Short	1 697	78.47	n.a.	-0.6%	1.2%	14.0%	7.7%
Event Driven	1 740	77.87	n.a.	-0.2%	0.9%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 679	97.01	n.a.	0.9%	1.7%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 690	85.95	n.a.	-0.3%	1.6%	9.8%	7.8%
Credit	1 624	97.87	n.a.	0.7%	1.8%	8.5%	8.1%
Credit Long/Short	1 636	100.00	n.a.	0.5%	0.5%	10.0%	11.2%
Commodity	1 803	85.33	n.a.	-0.3%	0.8%	14.7%	7.3%
Commodity Trading Advisors	1 310	54.08	n.a.	-3.6%	-2.4%	7.9%	-3.6%
Volatility							
VIX	21.77	52.13	-6.8%	47.4%	25.5%	39.4%	-42.5%
VSTOXX	20.21	52.92	-10.8%	27.3%	18.9%	25.3%	-35.0%
Commodities							
Commodities (CRB)	541.0	n.a.	0.4%	-2.1%	0.8%	5.1%	-8.0%
Gold (Troy Ounce)	2 988	n.a.	3.5%	3.2%	13.9%	27.2%	13.1%
Silver (Troy Ounce)	33.84	n.a.	5.4%	4.6%	17.1%	21.5%	-0.7%
Oil (WTI, Barrel)	66.55	n.a.	-0.7%	-6.6%	-7.2%	0.1%	-10.7%
Oil (Brent, Barrel)	71.61	n.a.	-0.6%	-4.5%	-3.4%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	103.77	31.67	-0.1%	-2.8%	-4.3%	7.1%	-2.1%
EUR	1.0883	70.28	0.5%	3.8%	5.1%	-6.2%	3.1%
JPY	148.86	56.78	-1.1%	1.8%	5.6%	-10.3%	-7.0%
GBP	1.2935	68.13	0.4%	2.5%	3.3%	-1.7%	5.4%
AUD	0.6328	54.12	0.8%	-0.4%	2.3%	-9.2%	0.0%
CAD	1.4377	48.22	0.4%	-1.3%	0.0%	-7.9%	2.3%
CHF	0.8841	61.59	-0.4%	1.9%	2.6%	-7.3%	9.9%
CNY	7.2379	57.00	0.3%	0.4%	0.8%	-2.7%	-2.8%
MXN	19.933	66.46	2.1%	1.8%	4.5%	-18.5%	14.9%
EM (Emerging Index)	1 757.2	61.66	0.0%	0.4%	1.7%	-0.7%	4.8%
XBT	83 145	n.a.	0.0%	-13.8%	-11.3%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions — Total Return by asset class (Negative \ Positive Performance)

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