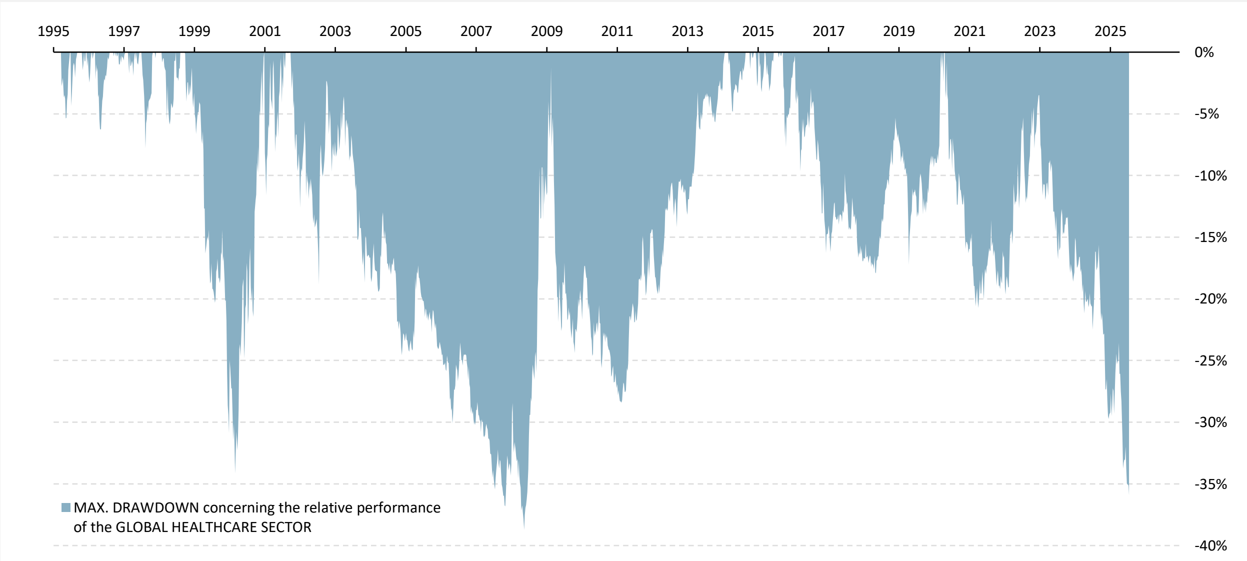
weekly investment focus

The flexiweekly that reaches new heights - published on 21 July 2025

"HEALTH IS BECOMING COSTLY!"

- The healthcare sector continues to disappoint, for good and bad reasons
- While politics plays an important role, so does staff shortages
- The future looks bright, as the digitalisation of the sector is at an early stage
- Productivity gains will reinforce existing supporting factors

CHART OF THE WEEK: "The healthcare sector has rarely underperformed so badly"



Source: Bloomberg, Altitude IS

EQUITY MARKET ANALYSIS

The healthcare sector has now been treading water for thirty months (see Fig. 2), and July 2025 has offered no respite! Its persistent lethargy is all the more striking given the irresistible momentum of the MSCI World Index. The performance gap is now comparable to the lows seen in 2000 and 2008 (see Chart of the Week). This situation is all the more intriguing, or worrying, depending on your point of view, as it follows more than 30 years of relative outperformance (see Fig. 3). It comes at a time when the world's population is ageing rapidly, sedentary lifestyles and obesity are on the rise, and access to healthcare is becoming more widespread in emerging countries. Paradoxically, all these factors are powerful drivers for the sector, as they increase global demand for pharmaceuticals, healthcare equipment, medical services and biotechnological innovations.

Fig. 2 – Healthcare sector vs global index

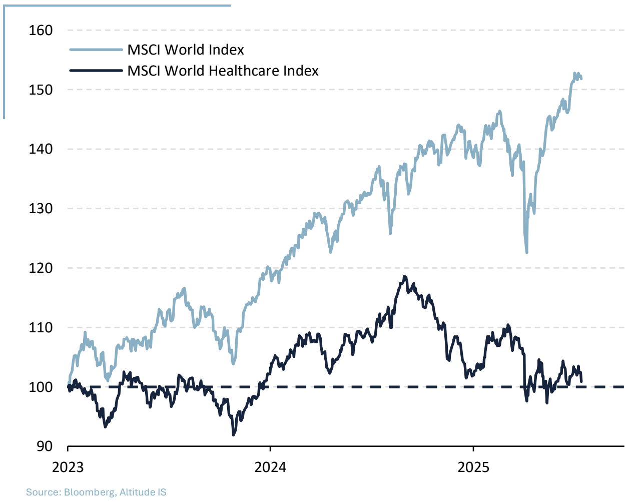
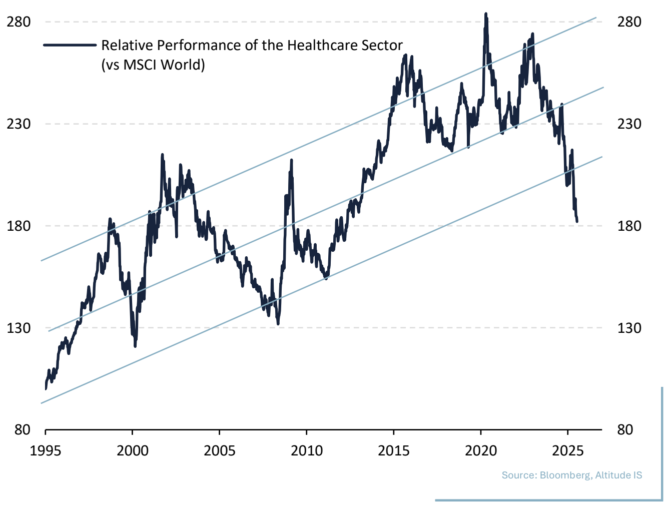


Fig. 3 – Relative performance over the last 35 years



What is going on? Why are investors turning their backs on healthcare companies?

- **Very recently, Donald Trump threatened to impose 200% tariffs on drug imports.** The idea is to start with a low tariff, give pharmaceutical companies a year to adapt, and then increase taxes to a very high level in order to penalise those that have not yet implemented the necessary changes. In a utopian vision, he hopes to disrupt the entire global pharmaceutical supply chain. Unfortunately, this commercial objective risks putting pressure on the margins of American giants, particularly those that produce large volumes of drugs outside the United States, in their Irish, Indian or Chinese factories, such as Pfizer, Eli Lilly and Amgen. This threat has made investors nervous and weighed on the entire pharmaceutical sub-sector.

- **Prior to this, his administration had succeeded in getting its Big Beautiful Bill passed by Congress.** Among the new budget rules that will be implemented, the federal agency of the US Department of Health and Human Services (Centers for Medicare & Medicaid Services) will reduce its base rate for covered hospital services by 1.25% per year for three years and stop indexing it to inflation. At the same time, tax credits that subsidise Obamacare will be phased out. As a result, some 17 million Americans are expected to lose their health coverage. For their part, companies such as United Health, Elevance and CVS Health are anticipating a surge in reimbursements. Their share prices have fallen sharply.

- **Even before that, the US presidential campaign had highlighted the "greed" of pharmaceutical companies.** Democrats and Republicans had sought to outdo each other with promises to regulate drug prices: extending Medicare's bargaining power, capping annual price increases to inflation, and authorising parallel imports from Canada and Europe. This bidding war between the two major political parties, although demagogic, ultimately undermined the sector's earnings visibility, despite a well-stocked pipeline of innovations. Internationally, tensions are expressed differently, but the concerns are the same. Price cuts imposed by Beijing have reduced the local revenues of pharmaceutical companies operating in China.

- While political decisions are weighing on the healthcare sector, **the rush towards artificial intelligence and the Magnificent Seven should not be underestimated.** It has diverted some of the financial flows that were previously directed towards the healthcare sector. Over the past 18 months, billions of dollars have been withdrawn from ETFs and specialised healthcare funds and reallocated to tech mega-caps.

- **Finally, labour shortages are having a significant negative impact.** In the United States, the median salary for a registered nurse has jumped by nearly 10% since 2023, reaching $93,600. This wage inflation is all the more significant given that labour accounts for nearly half of hospital revenues. As a result, hospital margins have fallen below 3%, their lowest level since 2010. Investing in new equipment or services is therefore becoming complicated. Some would note, however, that the staff shortage is beginning to ease. The number of job vacancies fell from a peak of 2.115 million in 2022 to 1.666 million in May 2025 (see Fig. 4).

Fig. 4 – Job vacancies in healthcare in the US

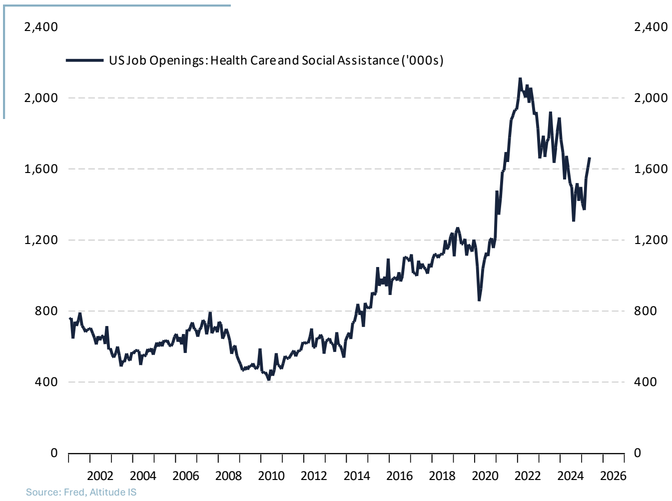
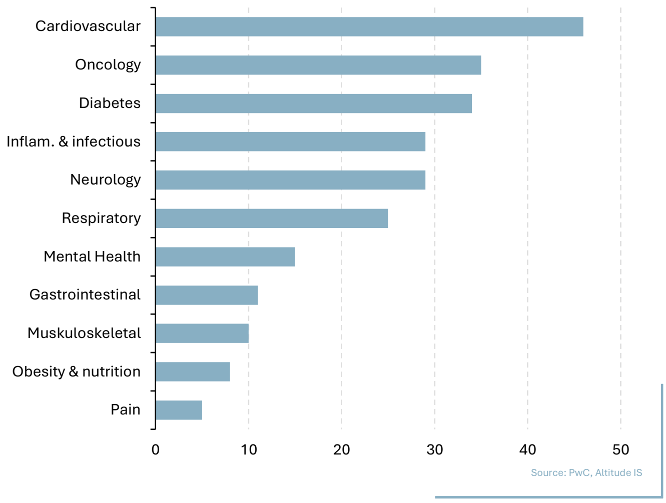


Fig. 5 – Digitalisation in US clinical trials



Every cloud has a silver lining. Recent tensions in the labour market and over medical staff salaries have finally prompted companies in the sector to deploy a resource that has been neglected for too long: digitalisation (see Fig. 5). Ambient scribes, for example, are being adopted by many players in the sector. These small voice recognition devices automatically transcribe conversations between doctors and patients. They save between 20 and 40 minutes of clinical time per person per day. Systems such as Microsoft's DAX Copilot and the start-up Abridge reduce documentation time by 30 to 90 minutes. In doing so, they also reduce cases of burnout. This digitalisation is becoming tangible at the institutional level. Kaiser Permanente, the leading integrated network in the United States, claims to have processed 2.5 million consultations using ambient scribes in one year. As a result, without hiring additional staff, doctors have regained the equivalent of 8% of their consultation time.

Even more spectacularly, digital labour is beginning to appear in hospital corridors. Logistics robots are saving healthcare workers time spent walking and performing repetitive tasks. And the progress will not stop there. Some start-ups are currently testing voice-activated nursing assistants, which cost $9 an hour, or ten times less than a qualified nurse. **All these productivity gains will significantly improve the operating margins of hospitals.**

The acceleration of digitalisation in the healthcare sector is also due to the fact that it is now supported by the regulator. Since 1st July, for example, the analysis of a coronary scan performed by artificial intelligence is being explicitly remunerated. For the first time, the machine is being paid the same as the clinician. This is significant because it will gradually transform certain fixed costs into productive activities. In January 2026, full interoperability of medical records will become mandatory in the United States. This will pave the way for the widespread use of algorithms to analyse data.

While hospitals are reinventing themselves, laboratories that have made the fight against obesity one of their priorities are working to meet the high demand they are experiencing. Eli Lilly is increasing its production capacity. In North Carolina, the new Concord site will ship its first doses of Zepbound this summer, while billions of dollars invested in Indiana will actively contribute to tripling production of its flagship drug by the end of 2026. Novo Nordisk is following suit. After seeing its Wegovy revenues skyrocket, the company is converting production lines in Denmark. It aims to double its volumes by the end of next year. The combined effect of the two groups could increase global coverage to 14 million patients in 2026, compared with 4 million today.

Fig. 6 – Healthcare sector valuation

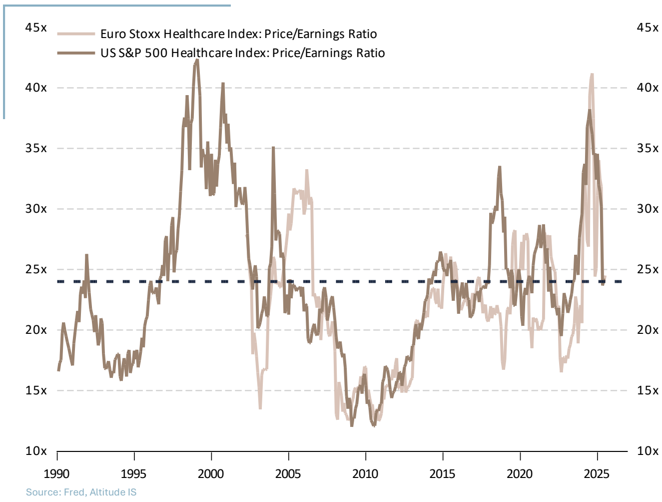
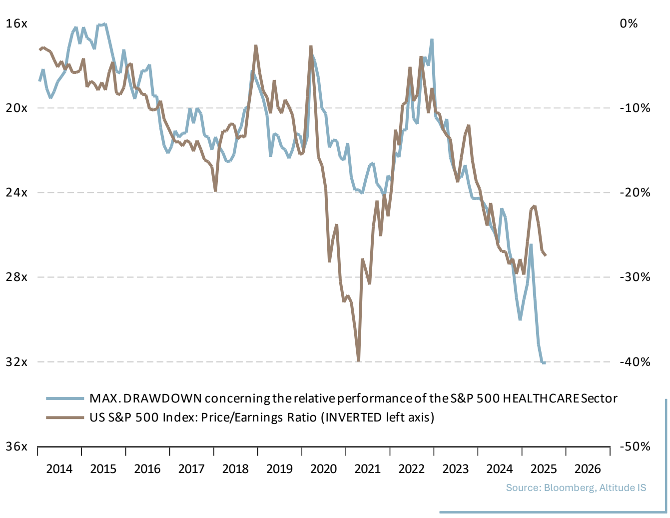


Fig. 7 – S&P 500 valuation vs. Healthcare rel. perf.



The argument most often cited by strategists to highlight the healthcare sector is neither the ageing population, nor sedentary lifestyles and obesity, nor even the ease of access to healthcare in emerging countries, but rather the argument of valuation. Unfortunately, this factor is neither proven nor sufficient to enable the sector to generate positive performance (see Fig. 6). The sector's price/earnings ratio, at 24 times, is not discounted compared to its historical average. It will therefore neither enable a catch-up nor generate performance. In reality, rather than focusing on the valuation of the healthcare sector, it is better to look at other sectors. **It is clear that the more expensive the S&P 500 index becomes, the more the healthcare sector underperforms** (see Fig. 7). Conversely, during the last ten US recessions, the healthcare sector outperformed the S&P 500 seven times. The defensive dimension therefore remains crucial. If the cyclical slowdown in global economic growth expected in the coming quarters materialises, then healthcare sector allocations will once again perform well.

Conclusion:

Structural demand, productivity gains and valuation discounts are the three drivers of the healthcare sector. When the first two are activated, stock market history shows that the sector ends up outperforming significantly. The third driver is also looking favourable. Everything is therefore in place. All that is missing is a trigger: the economic slowdown?

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)	928.0	68.36	0.6%	4.4%	11.6%	18.0%	22.8%
USA (S&P 500)	6 297	69.02	0.6%	5.4%	7.8%	25.0%	26.3%
USA (Dow Jones)	44 342	59.37	-0.1%	5.2%	5.2%	15.0%	16.2%
USA (Nasdaq)	20 896	73.40	1.5%	7.0%	8.6%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	567.2	53.65	-0.2%	2.2%	15.4%	10.2%	19.5%
UK (FTSE 100)	8 992	65.01	0.6%	1.8%	12.4%	9.6%	7.7%
Switzerland (SMI)	11 983	48.46	0.4%	0.2%	6.5%	7.5%	7.1%
Japan (Nikkei)	39 819	60.38	0.6%	2.5%	0.9%	21.3%	31.0%
Emerging (MSCI)	1 249	69.79	1.7%	5.1%	18.3%	8.0%	10.2%
Brasil (IBOVESPA)	133 382	34.01	-2.1%	-3.8%	10.9%	-10.4%	22.3%
Mexico (IPC)	56 273	40.19	-0.5%	-0.5%	16.4%	-11.0%	22.4%
India (SENSEX)	82 068	41.81	-0.8%	0.7%	5.6%	9.6%	20.3%
China (CSI)	4 086	72.67	1.4%	5.8%	5.1%	18.2%	-9.1%
Com. Services (MSCI World)	141.1	60.45	0.8%	3.2%	13.8%	31.9%	38.1%
Cons. Discretionary (MSCI World)	427.3	61.26	0.6%	4.1%	2.1%	20.7%	29.5%
Cons. Staples (MSCI World)	293.0	45.37	0.1%	0.2%	9.2%	4.7%	3.2%
Energy (MSCI World)	251.2	50.07	-2.4%	-0.9%	6.8%	2.9%	6.0%
Financials (MSCI World)	208.9	61.57	0.6%	4.8%	18.4%	25.1%	16.4%
Health Care (MSCI World)	344.4	42.19	-1.7%	-0.4%	-0.2%	1.5%	4.1%
Industrials (MSCI World)	445.8	67.94	0.7%	5.0%	19.7%	12.8%	22.5%
Info. Tech. (MSCI World)	863.0	76.36	2.0%	8.6%	12.7%	31.9%	51.4%
Materials (MSCI World)	341.1	54.88	-1.1%	2.9%	13.0%	-7.7%	12.6%
Real Estate (MSCI World)	1 002	55.25	0.5%	1.0%	5.3%	-0.4%	5.3%
Utilities (MSCI World)	184.3	61.33	1.0%	3.4%	17.1%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.57%	47.15	-0.2%	0.0%	6.0%	-1.7%	5.7%
USA (Sovereign)	4.19%	49.38	0.0%	0.1%	2.9%	0.6%	4.1%
Euro Area (Sovereign)	2.80%	43.27	0.2%	-0.8%	0.0%	1.9%	7.1%
Germany (Sovereign)	2.36%	42.50	0.2%	-1.0%	-1.2%	0.6%	5.6%
UK (Sovereign)	4.62%	42.18	-0.3%	-0.8%	2.5%	-3.0%	5.6%
Switzerland (Sovereign)	0.61%	40.77	-0.1%	-1.3%	-0.6%	5.4%	7.9%
Japan (Sovereign)	1.27%	44.45	-0.2%	-0.2%	-1.8%	-2.1%	0.9%
Emerging (Sovereign)	6.66%	57.71	0.0%	1.2%	5.2%	7.0%	11.0%
USA (IG Corp.)	5.11%	53.72	0.2%	0.5%	3.5%	2.1%	8.5%
Euro Area (IG Corp.)	3.06%	58.44	0.1%	0.4%	2.1%	4.7%	8.2%
Emerging (IG Corp.)	6.38%	71.49	0.2%	1.0%	4.3%	7.0%	6.7%
USA (HY Corp.)	7.11%	72.19	0.1%	1.2%	4.7%	8.2%	13.4%
Euro Area (HY Corp.)	5.44%	74.21	0.0%	0.6%	3.3%	8.2%	12.1%
Emerging (HY Corp.)	8.10%	62.28	0.0%	1.5%	5.5%	14.9%	13.1%
World (Convertibles)	501.1	82.57	1.3%	5.1%	13.8%	9.4%	12.3%
USA (Convertibles)	661.1	79.69	1.8%	5.9%	10.5%	10.1%	14.6%
Euro Area (Convertibles)	287.7	64.09	0.6%	1.7%	23.6%	14.7%	7.3%
Switzerland (Convertibles)	282.9	58.31	0.5%	2.0%	17.5%	-10.5%	5.8%
Japan (Convertibles)	234.6	65.56	-0.1%	1.9%	3.5%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 675	79.43	n.a.	2.2%	4.0%	11.1%	7.8%
Macro	1 347	64.85	n.a.	1.6%	0.4%	7.4%	1.6%
Equity Long Only	2 329	68.33	n.a.	3.9%	5.3%	12.0%	15.9%
Equity Long/Short	1 774	77.42	n.a.	3.0%	5.8%	14.0%	7.7%
Event Driven	1 762	76.37	n.a.	0.8%	2.1%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 726	93.77	n.a.	1.8%	4.5%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 739	86.86	n.a.	0.5%	4.5%	9.8%	7.8%
Credit	1 655	96.69	n.a.	1.2%	3.7%	8.5%	8.1%
Credit Long/Short	1 677	100.00	n.a.	1.7%	3.0%	10.0%	11.2%
Commodity	1 903	92.32	n.a.	2.1%	6.4%	14.7%	7.3%
Commodity Trading Advisors	1 281	48.84	n.a.	0.9%	-4.5%	7.9%	-3.6%
Volatility							
VIX	16.41	43.69	0.1%	-18.5%	-5.4%	39.4%	-42.5%
VSTOXX	17.70	47.06	3.4%	-21.0%	4.1%	25.3%	-35.0%
Commodities							
Commodities (CRB)	567.8	n.a.	0.1%	1.1%	5.8%	5.1%	-8.0%
Gold (Troy Ounce)	3 368	n.a.	0.7%	0.0%	28.3%	27.2%	13.1%
Silver (Troy Ounce)	38.33	n.a.	0.5%	6.2%	32.6%	21.5%	-0.7%
Oil (WTI, Barrel)	67.34	n.a.	-1.6%	-10.4%	-6.1%	0.1%	-10.7%
Oil (Brent, Barrel)	71.11	n.a.	-1.8%	-7.7%	-4.0%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	98.28	51.75	0.2%	-0.4%	-9.4%	7.1%	-2.1%
EUR	1.1644	52.33	-0.2%	0.6%	12.5%	-6.2%	3.1%
JPY	148.07	40.02	-0.2%	-1.3%	6.2%	-10.3%	-7.0%
GBP	1.3444	42.35	0.1%	-0.6%	7.4%	-1.7%	5.4%
AUD	0.6514	49.18	-0.5%	0.8%	5.3%	-9.2%	0.0%
CAD	1.3724	46.98	-0.1%	0.1%	4.8%	-7.9%	2.3%
CHF	0.8004	54.69	-0.3%	1.5%	13.4%	-7.3%	9.9%
CNY	7.1761	52.37	-0.1%	0.0%	1.7%	-2.7%	-2.8%
MXN	18.706	57.78	0.2%	2.2%	11.3%	-18.5%	14.9%
EM (Emerging Index)	1 843.9	51.77	-0.2%	0.5%	6.7%	-0.7%	4.8%
XBT	119 400	n.a.	-0.5%	16.1%	27.4%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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