

'Healthcare's resilience makes it a standout sector'

Paul Major



US spending on healthcare is vast

The US election means new American policy inside and out. Healthcare investors anxiously wonder how the sector will perform compared with markets generally and what president-elect Donald Trump will mean, longer term, for healthcare policy.

US spending on healthcare is vast. \$1.5tn (£1.2tn) goes into Medicare, Medicaid and other subsidies (for comparison the UK's total GDP is £2.6tn).

\$300bn is spent on US tax breaks for private care. The US government is the main funder of medical research – \$50bn each year.

All this flows into drugs, services, tools, and equipment producers.

So US healthcare policies are no less than pivotal to healthcare industries.

Step back a moment. If inflation persists and consumer spending weakens, which is entirely possible, healthcare's defensive nature makes it attractive. When money is tight, individuals and governments cut healthcare spending last.

Companies buying each other, and mergers and acquisitions, fuel therapeutics (drug discovery and development) with one-in-three new drugs having been discovered outside the company bringing them to market.

This benefits smaller innovators but is complicated by policy concerns impacting regulation.

It is unlikely that Trump's healthcare policies will mean sweeping changes.

He has no plans to alter the big systems like Medicare or Medicaid. While he likes to deregulate, healthcare will not see as many changes as finance or energy.

Trump's choice of Robert Kennedy Jr as secretary of health raised eyebrows.

Known for his controversial views on vaccines, Kennedy has clarified he supports immunisations and does not plan to ban them.

Additionally, Trump may find roles for Calley and Casey Means, doctors who promote diet and lifestyle changes to reduce chronic illness.

Regardless, congressional confirmation will serve as a check on extreme appointments.

Taking all this together, healthcare's resilience and evolving policies offer opportunities for investors, particularly in areas like M&A-driven innovation and preventive health initiatives.

Different areas of healthcare now have different outlooks.

Winners

The likely winners include diversified therapeutics – these mostly mega-cap pharmaceutical companies could benefit from relaxation of drug price controls.

And Kennedy's opposition to direct-to-consumer drug advertising could reduce costs for pharmaceutical companies (like the advertising ban did for tobacco companies in the UK).

Focused therapeutics (biotechnology) has been suffering from rising interest rates. However, resurgent M&A activity could reignite investor interest.

Healthcare technology is dominated by US firms, and this area is well-positioned, with manageable risks from supply-chain stress arising from tariffs.

Two healthcare areas are nicely insulated due to their domestic focus: healthcare services and healthcare IT.

And losers..

Possible losers are generic drugs (that is, drugs that are out of patent).

These producers rely on efficient supply chains and international sourcing, which may be hit by tariffs and volatile US-China trade relations.

For diagnostics (tests and procedures to identify a condition), population trends overshadow trade risks, though supply-chain disruptions could hit margins.

Hospital operators face risks from reduced subsidies. Healthcare tools, another area dominated by US firms, may face headwinds from reduced orders from China and tariffs.

Overall positive

Healthcare's overall prospects are favourable. The sector is a refuge for investors amid uncertainty, and Trump's policies are unlikely to overturn this.

Mega-cap healthcare stocks have dominated the sector, leaving small and mid-cap names undervalued despite their robust fundamentals.

Political certainty ahead should prompt investors to re-enter the market.

Although trade tensions and inflationary pressures remain possibilities, their impact on healthcare will be limited.

Increased M&A activity under Trump could revitalise the beleaguered small and mid-cap sectors.

Reassuringly, Trump's policies should avoid drastic cuts to healthcare entitlement programmes.

While there will be tinkering at the edges, healthcare's resilience makes it a standout sector for investors faced with a turbulent macroeconomic landscape.

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