

Market commentary of december 17, 2024

Healthcare market and Trump: Bright horizon or looming risk?

The outcome of the US elections and the nomination of Robert F. Kennedy Jr. as the next US health secretary sent tremors across the healthcare sector. While tax breaks and laxer regulations could boost industry innovation, it is hard to say what the new administration's healthcare policy will **actually look like. Bellevue Asset Management's healthcare experts offer a glimpse** of what may lie ahead for the sector in 2025.

After the 2024 elections in the US, healthcare stocks have been in a highly charged environment distinguished by shifting political winds and global challenges. On the one hand Donald Trump's second term as president could inject some positive momentum into the sector, but on the other hand it also poses some risks due to his nomination of Robert F. Kennedy Jr. as the new head of the Department of Health and Human Services. Kennedy's anti-vaccine stance in particular has led to a rollercoaster ride in vaccine maker stocks. Whether he will be confirmed by the Senate remains to be seen. The political discussion surrounding his nomination sparked by prominent medical experts – including former FDA commissioner Scott Gottlieb, who had been appointed during Trump's first term – highlights the uncertainty and potential problems that could come with Kennedy's confirmation. Gottlieb drew attention to the harmful consequences of anti-vaccine attitudes.

Positive impetus from innovation and reshoring

Donald Trump's second presidency will very likely build on the key cornerstones of his first term and provide an overall favorable setting for the healthcare sector. Republican policies have traditionally promoted innovation and a strong economy. Tax breaks and fewer regulatory constraints are clearly positive factors for companies active in the fields of biopharmaceuticals and medical technology. The new administration is also expected to embrace policies that would speed up approval processes for new drugs and medical devices, further sharpening the country's competitive edge. Such action would not only create new opportunities for growth.

Another important factor is the anticipated strengthening of the US domestic economy coupled with a reduction in the country's reliance on international supply chains. Measures to bring manufacturing operations back to the US, so-called reshoring, could increase both supply chain security and capital expenditure on local manufacturing assets, especially in the biopharma sector. This transformation and increasingly complex manufacturing processes also create opportunities. What's more, the anticipated more business-friendly stance at the Federal Trade Commission (FTC) could lead to an increase in M&A activity, which has often had a positive impact on the valuations of small- and mid-cap stocks in the biotech and medtech space. Lina Khan, the current chair of the US competition and consumer protection agency, will be replaced by Andrew Ferguson, who is expected to reverse the FTC's previously restrictive course. Ferguson is a Republican and already serves as one of the FTC's five commissioners.

Impact of the Inflation Reduction Act (IRA)

The ongoing implementation of the IRA signed into law by President Biden is also likely to have a significant impact on the market. Lower drug prices as provided for in the IRA should make medicines more affordable for patients and increase overall sales. Pending changes will eliminate the prescription

drugs coverage gap. The cap on out-of-pocket drug costs will also be adjusted in 2025, in favor of the insured. This could lead to new growth opportunities, especially during the next few years. At the same time the Republican focus on promoting innovation remains a key driver for the sector.

Conclusions

Looking at the broader picture, the long-term outlook for the healthcare sector remains positive, even despite short-term pockets of uncertainty as witnessed by the nomination of Kennedy. The field of medical technology has proven to be a safe haven during this recent phase of volatility. Donald Trump's second term of office and the Republican sweep of the elections lay a solid foundation for growth in the healthcare industry, although the political and regulatory landscape must of course continue to be closely monitored. A sound understanding of opportunities and risks is crucial in order to achieve investment success in this dynamic environment. Innovation will remain the key driver in 2025, and the US is expected to further expand its global leadership in healthcare.

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