Bellevue
Excellence in Specialty Investments

Market commentary of April 16, 2025

«While tariffs cause some concern, we believe the majority of healthcare companies have the capital, flexibility and margins to cope with the changing environment»

Following the market disruptions triggered by erratic US tariff policy, we speak in this interview with portfolio manager Terence McManus about how the healthcare sector has held up amid this volatility and where it currently stands against a backdrop of persistent political, regulatory, and macroeconomic uncertainty. We also discuss how the Bellevue Diversified Healthcare Fund (LU2441706764), which recently celebrated its three-year anniversary, is strategically positioned to navigate uncertainty and capture long-term growth potential.

The healthcare sector had an strong start to the year, outperforming the broader market. Then came the market turmoil in April, triggered by President Trump's tariff announcements — tariffs which have since been largely withdrawn. How has the healthcare market held up in this environment?

While there has been a lot of market volatility, and healthcare-specific noise or tweets, the sector has actually performed in-line with global equities since «Liberation Day» (April 2; -5.3% for global equities and healthcare to April 11). Given the level of sector-specific noise around the FDA and separately tariffs, this may be a little bit surprising! But at a sector-level, there is considerable diversity, which has helped the sector performance as we move through various market level rotations. The sector is now down modestly on an absolute basis year-to-date (-1.4%), but is still a significant outperformer versus broader markets (global equities; -6% YTD).

In light of the persistent instability across politics, regulation, and the macroeconomic environment, how would you characterize the healthcare sector's current standing? And how is the industry reacting to these ongoing developments?

While pharmaceuticals are current exempt from tariffs, we expect some form of reform to come in the next few weeks. This is somewhat confused by transfer-pricing, but the goal is to bring manufacturing back to the US. The Trump Administration sees this as attractive give these are high-value manufacturing jobs, and also they see an national security angle. Moving some more manufacturing back to the US is not a big issue for the large pharma, although it would take many years. Johnson & Johnson, Eli Lilly, and Novartis have recently announced new manufacturing projects in the US.

In addition, we suspect that the Trump Administration is also looking at ways to bring down US drug prices. This could be in the form of bringing back the President Trump's original idea of a most-favored-nation (MFN) approach. But for now, we really don’t have enough information to comment.

The impact of tariffs on non-drug healthcare is similar to other sectors, with the advantage of comparatively large margins.

Nevertheless, we need to take a step back. With risks rising, and future US economic growth questioned, we still see the earnings and cash flows provided by healthcare companies as likely more predictable than most other sectors. This is in line with the sector’s core characteristic, which is inelastic demand for its products and service. A little bit of clarity on the pharmaceutical-tariff-side should reinforce this thesis.

Supply chain disruptions have already challenged many industries and are expected to intensify further. How do you assess the impact on healthcare companies, particularly in medtech and biopharmaceutical manufacturing?

We actually identify supply-security is an important thematic within healthcare. As drugs and devices have become increasingly more complex, so have their manufacturing requirements and often their supply chains. While tariffs cause some concern, we believe the majority of healthcare companies have the capital, flexibility and margins to cope with the changing geopolitical environment. When we think about the more complex drugs, these are often produced in high cost of living countries, such as the US, Switzerland, and the UK. As such, for biologic manufacturing, tariffs would shift where the incremental capex dollars are spent. In addition, we actually see opportunities within the contract manufacturers, some of which have excess capacity standing ready for utilization within the US.

How did you manage your portfolio during the recent turbulence?

We live by the fund name, and run a very diversified global healthcare fund. We are in a good position because the healthcare sector contains a spectrum of investment opportunities, from disruptive style-growth companies in China, to defensive mega-caps in Europe. We have maintained our broad exposure to subsector, style and geography. This has helped us navigate the recent turbulence.

Looking **further ahead, how would you assess the healthcare sector's resilience relative to other** industries?

The healthcare sector benefits from inelastic demand for its products and services. For much of the earnings generated by healthcare companies, patient demand is not discretionary. If you have a cardiovascular event or are diagnosed with cancer, you seek medical assistance irrespective of the economic or political situation. We saw minimal demand or funding declines in healthcare during prior economic downturns, and do not see this as in the interests of any government to significantly disrupt the supply of healthcare products to their populations. Therefore we see persistent supply and demand for healthcare products and have high confidence that companies in this sector can continue to deliver positive value for patients and shareholders.

Looking at the investment strategy, your portfolio emphasizes «high-conviction» titles. What criteria do you use to identify these companies, and how do you manage risk in such concentrated positions?

We have a team of portfolio managers and analysts who build bottom-up detailed analysis of companies. We regularly speak to company management and attend medical conferences. We use a mixture of industry specific key performance indicators (KPIs) and valuation metrics to identify high-quality companies with reasonable valuations. This drives our high-conviction stock selection process.

How do you balance investments between established pharma giants and smaller, high-growth biotech firms, as well as companies in the non-drug space such as medtech und healthcare services, to capture both stability and innovation?

We pick stocks based on their individual fundamentals and the strength of their end-markets. We seek innovation across a broad spectrum of healthcare markets and opportunities. It is great for investors that we have a breadth of different types of stocks to invest in within healthcare, and that these often perform differently at different points in the economic cycle. We see this diversification of opportunities as a core strength of the sector and the Bellevue Diversified Healthcare Fund. For stability and risk control, we monitor geographic, subsector, size and style exposures. We try to maintain a balance across factors within certain tolerances, to ensure diversity and stability of the fund. This way we can hold high-conviction views on single business models or specific end-markets, while maintaining a diverse set of market or factor exposures within the portfolio.

Do you anticipate further consolidation within the healthcare sector, particularly in biotech, as larger players seek to enhance their pipelines through acquisitions?

We see the demand, capital, and regulatory environment for further consolidation within the healthcare sector. This is likely to be through bolt-on acquisitions, rather than mega-mergers which have traditionally been seen as value destructive. We are still hopeful that 2025 could be a bumper year for M&A in the sector, but this could be more second-half loaded given the near-term uncertainties. Indeed, stimulated by potential tariffs, it is possible that some of the larger companies may want to buy alternative geographic sales and manufacturing capabilities.

Looking ahead, what are the key themes and growth drivers you believe will shape the healthcare investment landscape in the next 12-24 months?

Healthcare offers a rare mixture of defensive and innovation/growth characteristics. This is a global sector that can perform in multiple parts of the economic cycle. Given the uncertain economic and geopolitical environment, we see diversification as the key attribute for investing in healthcare over the next 12-24 months. We are moving through a period of heightened uncertainty; therefore we would advocate investing with conviction in the highest quality companies across healthcare but remain disciplined with risk monitoring to ensure diversification across subsector, style, company size and geography. We like disruptive innovation and want to flexibly participate in key healthcare thematics, but we also value the security of established defensive quality names that offer stable cash flows and growing dividends.

More information on our website.

Contact

Bellevue Asset Management AG, Theaterstrasse 12, 8001 Zurich,
Tanja Chicherio, tel. +41 44 267 67 07, tch@bellevue.ch, www.bellevue.ch

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Bellevue is a specialized asset manager listed on the SIX Swiss Exchange with core competencies covering healthcare strategies, entrepreneur strategies, alternative and traditional investment strategies. Established in 1993, Bellevue, a House of Investment Ideas staffed by approx. 90 professionals, generates attractive investment returns and creates value added for clients and shareholders alike. Bellevue managed CHF 5.8 bn in assets as of December 31, 2024.