



Earnings are on again

The broad market trends of cyclical sector outperformance have remained in July (consumer discretionary: +13%, energy: +11%, world: +3.4%). This month's highlight was the start of the second quarter earnings reporting, providing investors with latest insights in to the strength of global demand. Halfway through, though earnings growth is rather low year-on-year, the majority of companies beat expectations. Earnings have been solid for healthcare companies too (healthcare performance +1.3%), and here as well we have seen the realization of anticipated trends. Expectations were often more important than numbers, with around half of the healthcare companies decreasing on the day of the announcement despite a beat. This led to good performance for the subsectors where expectations were low, and vice versa.

Overall, performance dispersion across subsectors narrowed somewhat during July, with **year-to-date laggards** Biotech (YTD -3.9% | July 4.4%), Services (-4.3% | 3.1%) and Life Science Tools (-0.9% | 3.9%) **leading this month**.

	Healthcare	Medtech	Services	Pharma	Biotech	Tools	World
1M	1.3%	-0.6%	3.1%	-0.1%	4.4%	3.9%	3.4%
3M	0.0%	0.5%	4.3%	-1.5%	-1.2%	-0.4%	10.0%
YTD	2.0%	13.0%	-4.3%	2.8%	-3.9%	-0.9%	18.7%
12M	4.9%	10.3%	-1.9%	8.7%	7.8%	-9.1%	13.1%

In detail

Earnings update provide some relief to months of uncertainty

Second quarter earnings reporting provided some relief to markets still looking for stability following months of uncertainty regarding levels of healthcare utilisation, MedTech sales volumes, and life science tools demand. Contrary to previous commentary made by healthcare insurance companies, the level of utilisation was manageable, with patient volume increases mostly seen in the outpatient setting. On the MedTech side, while growth was broadly strong and management gave a positive outlook, investor expectations were already high. Accordingly, this led large to moves with a flat net result on aggregate level.

Overall, we see that the fundamental recovery to 2019 levels of outpatient procedures has largely played out, and that payors can still perform as long as they anticipate pricing appropriately.

Opposition is mounting against drug price negotiations

This month, Astellas and JNJ sued HHS with the objective of being exempted from the Drug price negotiations introduced under the Inflation Reduction Act. In doing so they joined the ranks of Merck, Bristol Myers, PhRMA and the Chamber of Commerce which all opened judicial procedures against HHS. As a reminder, part of President Biden's IRA stimulus package contained funding provisions in the form of healthcare cost cutting. The method is to set a price ceiling on the most expensive drugs for Medicare, the federal healthcare insurance program. The price ceiling will apply after a certain number of years on the market. This is now being challenged by the aforementioned parties ahead of the publication on September 1st of the initial of the list of drugs which will be affected from 2026.

Overall, we believe such initiatives are unlikely to be successful. However even if these negotiated drug price may bring down costs in the short term, in the longer terms pharmaceutical companies will simply price higher earlier.

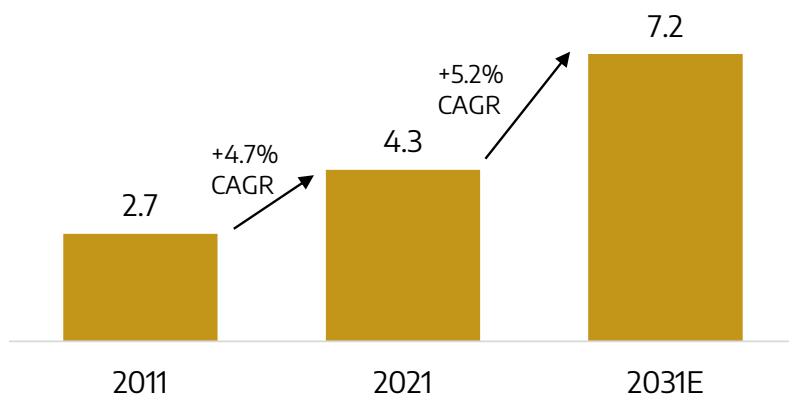
Top 5 in July:

Argenx	30%
Sartorius Stedim	25%
Repligen	21%
Sartorius	19%
Grifols	15%

Bottom 5 in July

Masimo	-26%
Novocure	-21%
Universal Health Service	-13%
Edwards Lifesciences	-12%
HCA Healthcare -	-10%

Chart of the Month: Accelerating healthcare spending growth will require more innovative solutions



Source: Centers for Medicare & Medicaid Services (CMS)

The US Centers for Medicare & Medicaid Services (CMS) recently updated its health expenditure projections for the coming decade. It now expects the US healthcare spending to grow at a CAGR of 5.4% in this decade, soaring from \$4.3 trillion in 2021 to a staggering \$7.2 trillion by 2031 or nearly 20% of US GDP. The underlying driver for the faster growth of healthcare costs compared to the overall economy is mainly aging and is hence well predictable. It is anyone's guess how long the US can sustain such high healthcare cost growth. That is why we have a strong investment focus on companies which offer affordable and cost-efficient solutions. We believe these areas will gain further in significance as healthcare costs continue rising.

Check out our video on this subject [here](#).

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