

Health care: Positioning for a potential recovery

Global Equity Pulse

After more than three years of underperformance, our prognosis for global health care stocks remains positive. The sector now offers a broader set of high-quality companies at valuations that appear increasingly disconnected from fair value.

We see six drivers that may lead to a turnaround in health care stocks.

1. Companies are changing how they do business.

Many health care companies are updating their business models. For example, some companies are moving away from complicated pricing systems to simpler, more upfront pricing. Others are focusing on faster-growing areas and leaving slower ones. These changes make companies easier to understand and help them grow more steadily in the future.

2. Artificial intelligence (AI) is helping companies work faster and grow.

AI is becoming very important in health care. It helps companies run clinical trials, manage data and improve operations. In medical technology, AI is also being used in tools like surgical robots to improve results and efficiency.

3. Companies are working to increase profits.

Health care companies are trying to improve their profits in different ways. They are handling more patients, cutting costs, improving pricing and making manufacturing more efficient. Many are also using technology and AI to save time and money.

4. Demand for health care is strong.

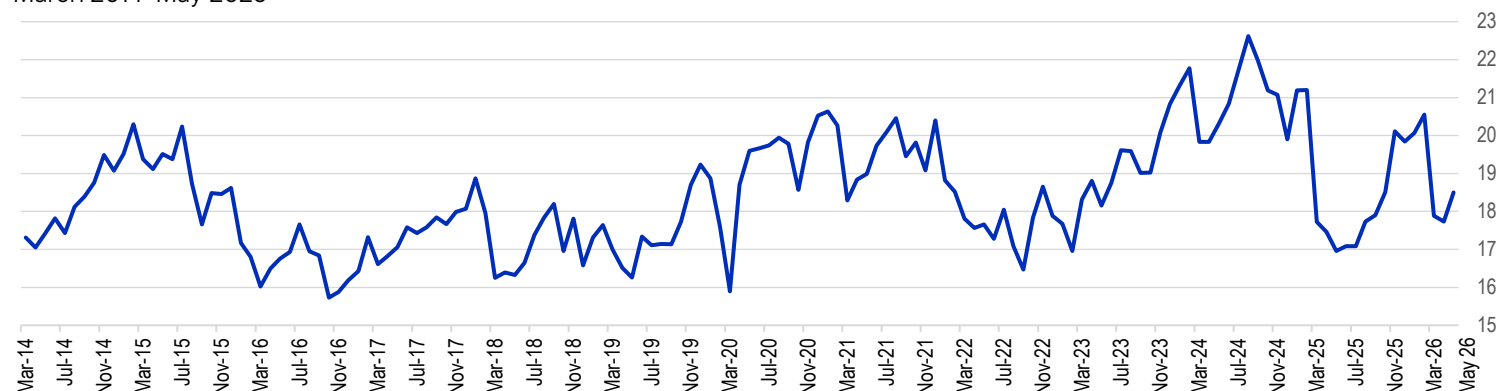
Even though many investors are not very excited about the sector right now, demand for health care services remains steady or is growing. Hospitals have been seeing more patients, and companies in life sciences have seen strong demand for their services. Overall, people continue to need health care regardless of economic conditions.

5. Stocks are cheaper than they should be.

Many investors have been putting money into technology stocks, especially those related to AI, instead of health care. As a result, health care stocks are now priced lower, even though the companies are still performing well. This could make them a good buying opportunity.

One-Year Forward Price-Earnings Valuation of MSCI ACWI Health Care

March 2014–May 2026



Source MSCI. As of May 31 2026. The MSCI ACWI Health Care Index includes large and mid cap securities across 23 developed markets and 24 emerging markets countries. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or guarantee of future results.** MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

6. Companies are buying back their own stock.

Many health care companies are using their extra cash to buy back their own shares. This can increase the value of the remaining shares. Some companies are doing this because they believe their stock is undervalued.

A long-term approach to better portfolio health

We believe the key to health care investing is to stay patient and selective. We maintain our focus on companies with the defensive growth characteristics that can anchor portfolio resilience over the long term. Among our holdings are companies with strong free cash flows and cost discipline, as well as competitive advantages and product leadership over their peers.

In pharmaceuticals, we favor companies with strong product pipelines that may have become underappreciated. We also favor devices companies that can execute their business strategies well and protect or restore their margins amid tariffs.

At a broader level, we believe the sector provides a good proxy to aging populations, rising health care spending and the advancement of bio-medical technologies. This long-term view will continue to frame our perspective as the market cycle turns and macro conditions evolve.

Market review

Global equities advanced in May, extending the rebound from April, although the path higher was uneven. Market direction was shaped primarily by shifting expectations around US-Iran talks and the status of the Strait of Hormuz. Periods of optimism that a deal could be reached, or that shipping flows might normalize, pushed oil prices lower and supported risk appetite, while setbacks in negotiations and renewed blockade rhetoric briefly revived concerns around inflation and growth. Against that backdrop, regional performance diverged, with equity markets in the United States and Asia Pacific outperforming Europe.

Outlook

The AI theme continues to drive our outlook for global equity markets. US hyperscalers are planning to invest almost US\$700 billion this year. Estimates for next year are as high as US\$1 trillion. In the United States, we expect strong demand for AI to continue in the coming years. Nevertheless, we acknowledge the risk of overinvestment. European equities remain shaped by the US-Iran conflict and hopes of a peace deal. Energy prices are the main risk for Europe. Emerging market equities offer many opportunities, including those related to domestic demand and AI. Taiwan and South Korea play key roles in the supply of AI chips. They are benefiting from strong demand for advanced chips and memory products.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Commodity-related investments are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

Equity securities are subject to price fluctuation and possible loss of principal.

The **investment style** may become out of favor, which may have a negative impact on performance.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

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