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Healthcare & MedTech
A blueprint for growth

Contents

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01

Introduction

Healthcare is personal to every one of us. Its discoveries, applications and services help us to extend our lifespan and improve its quality. The COVID-19 pandemic and vaccine development brought home its importance and power.

But improving healthcare was an important theme long before the pandemic. In the two decades preceding it, global spending on healthcare more than doubled in real terms, reaching USD8.5tn in 2019, or 9.8% of global GDP.[1] The pandemic then pushed up spending further to USD9.8tn in 2021, equivalent to 10.3% of global GDP.[2] In 2022, global spending on health remained at 2021 levels, marking the first YoY decline in health spending in real terms since 2000. Although this decline kept spending above 2019 levels, the year immediately preceding the pandemic, spending returned to a similar share of GDP as in 2019.[3]

Healthcare has also experienced a period of groundbreaking innovation in recent years. Pandemic-related advances in the development and application of the mRNA technology are relevant not just for COVID-19, but also for Zika, Malaria and seasonal diseases such as Influenza. Several cancer vaccines are also in clinical development, [4] and drugs repurposed for weight loss and other uses (i.e., the new GLP-1 therapies) have also gathered widespread attention. Medical technologies (MedTech) companies were also impacted by the pandemic, with (for example) huge demand for COVID-related testing and further opportunities for innovation.

Healthcare has been one of our key long-term investment themes since 2017. Several megatrends currently shaping the society could have the potential to support healthcare in the future. The rapid speed of **innovation** is a key feature behind the sector's attractiveness and is already being enhanced by the adoption of Artificial Intelligence (AI) technologies and **digitization** of the sector in general. But structural drivers like **global population growth** and **ageing** will likely be the key factors behind its long-term expansion.

In this PERSPECTIVES Special on Healthcare & MedTech we try to identify the main growth drivers and development areas for the sector. We also take a look at the sector from an investment perspective, in terms of relative investment performance and valuation fundamentals.

- Healthcare has experienced a period of groundbreaking **innovation** in recent years. In response to the COVID-19 pandemic, applications of mRNA vaccines expanded rapidly and the MedTech space experienced a huge boost. Drugs repurposed for weight loss have also attracted widespread attention.
- Population growth and ageing represent **structural drivers** for a long-term and sustainable growth of healthcare sector, as both government and private spending on the sector increases. Innovation is a key feature for the sector's attractiveness, especially as it is coupled with digitization and the adoption of AI technologies.
- As some of the temporary challenges that led to recent underperformance could abate soon, **strong fundamentals and attractive valuations** present interesting opportunities. However, being selective is the key, given the sector's diverse range of industries.

02

Why Healthcare and MedTech? Main drivers

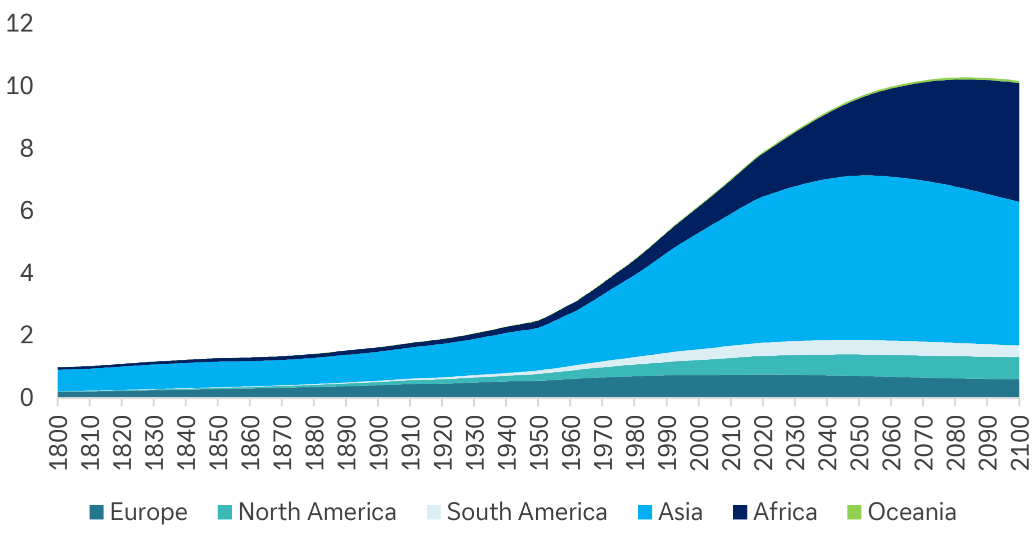
Global population growth and ageing. As Figure 1 shows, the speed of global population growth over the last two centuries has been staggering. And, according to the United Nation's latest projection,[5] the world's population is expected to continue growing over the next 50-60 years before reaching a peak in the mid-2080s at around 10.3bn.

Also, as a result of the advancements in healthcare discoveries and treatments, global life **expectancy** at birth reached 73.3 years in 2024 compared to 64.9 in 1995. Although the idea of having more time to spend with family and friends and living longer is encouraging, it is relevant to recognize the increase in health challenges that comes with it. Coupled with falling fertility rates, especially in wealthier nations, the global median age has risen over time and older people make up an increasingly large percentage of the population (Figure 2).[6] According to the World Health Organization (WHO), 1 in 6 people in the world will be aged 60 years or over by 2030 and the number of people aged 80 years or older is expected to triple between 2020 and 2050.

The demographic shift started with high-income countries, but now middle and lower-income countries are most affected. In **China**, for example, the share of population over 65 years old is expected to almost double just by 2035 from 13.5% to 25.1%.[7] China, Japan, and South Korea will have some of the world's most elderly populations by 2050. Across the Asian region, the dependency ratio – measured as the size of elderly population relative to the working age population – is forecast to reach 58% in 2050 from 47% in 2022.[8]

India, by contrast, is expected to see a much slower pace of aging, which could provide it with a demographic advantage over the coming decades. Some 40% of its population is under 25. Almost one in five people globally in this age group live in India while only 7% of the country's population is older than 65 years old.

Figure 1: Global population growth by region, past and forecast



Source: Our World in Data, United Nations. Data as of February 2025.

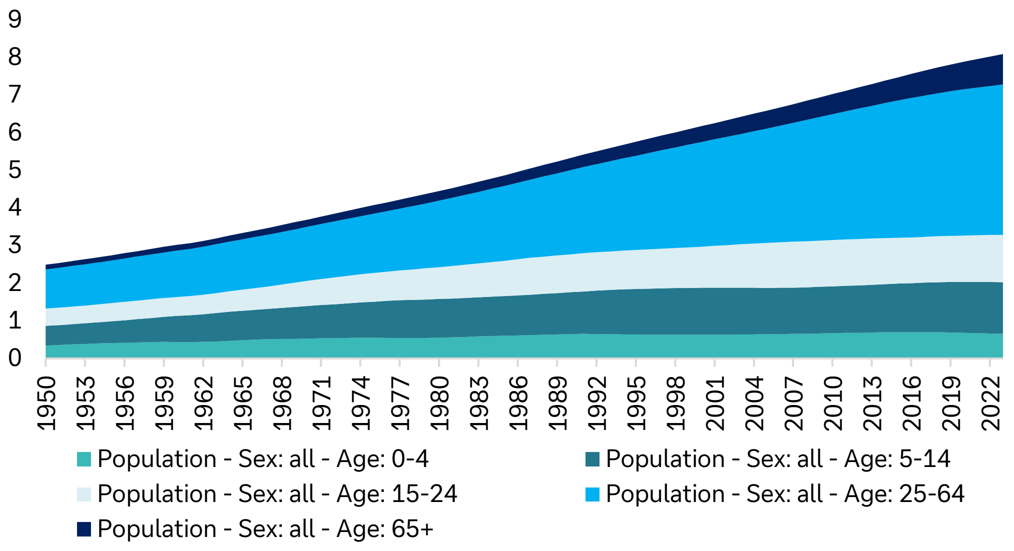
Among the main developed nations, the **United States (U.S.)** has a relatively slowly ageing population. In 2022, the share of its population above 65 was 17.3% and by 2050 should reach 22.3%, according to the U.S. Census Bureau projections. The number of working age people (18 to 64) is expected to increase by almost 10mn by 2050 from the current 203mn, although their share of the overall population will shrink by 2 ppt to 58.8%. Immigration is projected to be the main driver of population growth in U.S. over coming decades, and the Census Bureau estimates that it could delay by up to 16 years the date at which the population aged 65 and older will surpass the population under the age of 18.[9] However, the Trump administration's policies that constrain immigration could potentially shrink the labor force posing challenges to the fairly benign ageing population.

Between 2003 and 2023, the **European Union (EU)** experienced a modest 4% increase in population. The share of people aged 65 and older in the EU population has increased in the latest 20 years by 5 percentage points.[10] It is now 21.3% and is expected to reach 29.0% by 2050, while the share of people from 15 to 64 years is expected to fall from 63.9% to 57.4%. In short, the prospects for EU population do not look great.

A larger share of older people in society tends to be accompanied by higher healthcare spending. In U.S., those over 65 account for 17% of the population but account for almost 40% of personal health care spending (Figure 3). On a per capita basis, spending for adults over 85 is 8.5 times that for children.

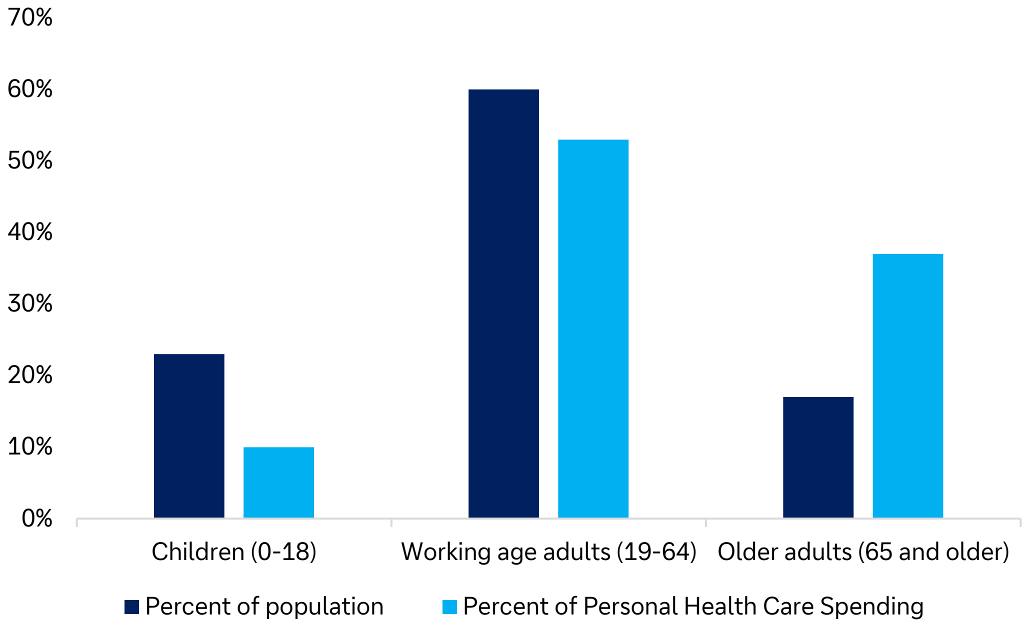
Population ageing has gone hand in hand with an increasing incidence of specific medical conditions that are usually chronic in nature (e.g. heart disease, cancer, diabetes, and respiratory conditions). Nearly 80% of adults over 65 have at least one chronic condition.[11] Comorbidities – i.e. the presence of two or more chronic conditions in an individual – are expanding rapidly and are likely to continue to do so in the U.S. and elsewhere.[12]. Chronic diseases currently affect almost 50% of the U.S. population and contribute to more than 85% of healthcare costs.[13] The overall cost of chronic disease – both direct and indirect – is estimated at USD3.7tn per year, nearly a fifth of U.S. GDP.[14]

Figure 2: Global population composition by group age



Source: Our World in Data. Data as of February 2025.

Figure 3: U.S. population composition and personal healthcare spending by age group



Source: U.S. Personal Health Care Spending by Age and Sex 2020 Highlights – Centers for Medicare & Medicaid Services. Data as of February 2025.

Innovation. Healthcare companies are required to constantly develop new products, services, and technologies to gain a competitive advantage over their peers – with revenues from resulting patents, copyrights and trademarks in turn helping companies to pursue their growth over the long term.

On a global basis, **R&D spend** in the pharmaceutical industry increased by almost 7% per year from 2014 to 2022 reaching USD244bn (Figure 4). Growth has been almost continuous, although an exceptional 18.0% rise in R&D spending in 2021 due to the pandemic was followed by a fall in 2022. One forecast[15] suggests that by 2028 the global pharmaceutical industry will be spending over USD300bn a year in discovering new product, services, and technologies.

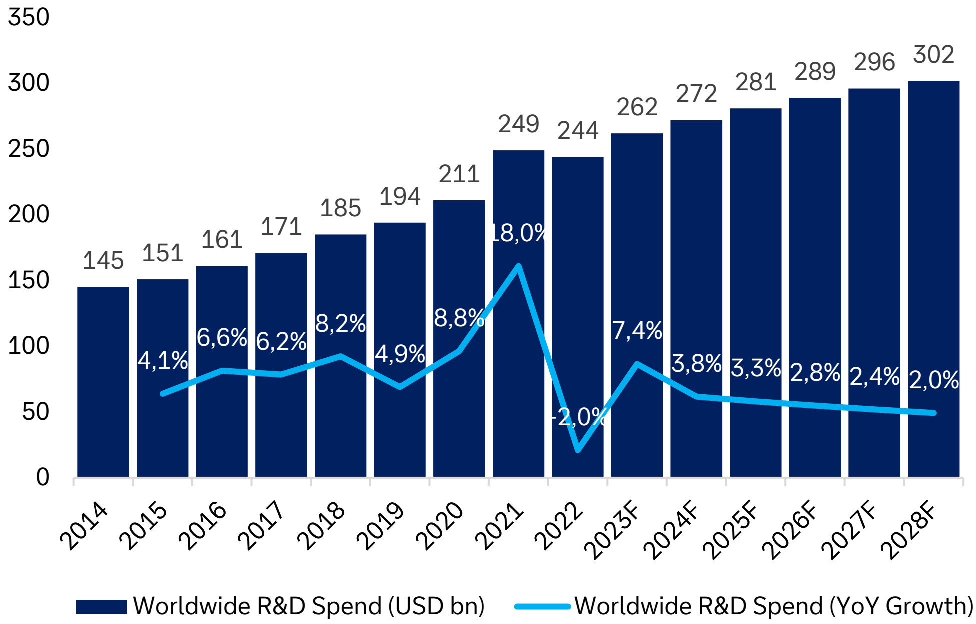
Across healthcare and MedTech, investment rates vary. R&D spending in MedTech, for example, is estimated to be around 8% of revenues as products typically have a lifecycle of just 18-24 months. This compares with just 4% spent by the automotive sector.[16]

The rapid diffusion of new technologies within the MedTech industry in recent years has increased the need for swift innovation. During the 2010s, R&D spending was growing at a similar level to sales growth but from 2019 onwards it has grown at almost twice the rate.[16]

The high level of R&D has translated into a growing number of **patent applications** and **drugs approvals**. Pharmaceuticals, MedTech, and biotechnology patent applications grew from 197,800 in 2011 to 357,640 in 2021. In U.S. last year the Food and Drug Administration (FDA) approved 60 new drugs, following a record 72 approvals in 2023.[17] Some of these products are revolutionizing patient care, such as the first treatment for fatty liver disease (MASH, metabolic dysfunction-associated steatohepatitis, the leading cause of liver transplants) and a hormonal replacement therapy for hypoparathyroidism, a rare disorder with few treatment options.

Although recent years have been characterized by ups and downs in **M&A activity**, innovation has also helped sustain intense competition for notable new products, services or technologies. In 2020, COVID-19 briefly halted the market but the second half the year turned out to be prolific in terms of deals despite deal value decreasing by more than 30% compared to the

Figure 4: Worldwide pharmaceuticals R&D spending



Source: Evaluate, "World Preview 2023: Pharma's age of uncertainty". Data as of February 2025.

previous year. A strong recovery in activity in 2021 was followed by another pause in early-to-mid 2022 when global central banks started to tighten monetary policy. In 2023, M&A activity stabilized while last year it experienced a decline, with volumes dropping by 20% and values by 29%. However, even though volumes have declined from their 2021 peak, they remain above pre-COVID levels.[18]

Digitization & AI. The pandemic put a lot of pressure on the global healthcare systems. But it also provided the industry with the opportunity to adopt technologies to change the way care is developed and provided to patients. Some trends already emerging before the pandemic were accelerated, particularly regarding patients' access to care and their relationship with healthcare providers.

Virtual and digital health delivered directly at home, especially for lower-acuity illness, is becoming more common not only out of necessity but also because of patients' preferences. Millennials and Generation X consumers currently have the highest increase in **virtual visits**.[19] But an ageing population requiring more healthcare services will in future drive this sort of access to care. Treating patients outside traditional care sites may also be less costly and enable more equitable access. Expenditure on home health is projected to grow at a faster pace than nearly every other healthcare field, with a specific focus on home diagnostic, home administered drug delivery and patient monitoring via devices.[20]

This will require healthcare systems to leverage digitized **health data** that are collected through innovative, smaller, and smarter devices. The global healthcare sector generated more than 2.3 zettabytes (ZB) of data worldwide in 2020-21. To give an idea of the magnitude, fixed broadband traffic reached 5.1 ZB in 2023. This will translate into a market for interoperable clinical data – i.e., shareable with and across organizations – which is projected to exceed USD6bn by 2026 in U.S., up from USD3.4bn in 2022.[21]

The rapid diffusion of health data is already encouraging wider adoption of **Artificial Intelligence (AI) technologies** in the sector. AI applications range from conducting administrative tasks to diagnosis, treatment, and patient care. AI can also enhance the precision, efficiency and personalization of healthcare delivery. Generative AI models could also be used to developed novel medical device designs with a wide range of possible prototypes, perhaps including personalization in accordance with specific inputs. Finally, in addition to standard devices like thermometers, stethoscopes, blood glucose meters, and nebulizers, the sector also encompasses innovative instruments such as robotic surgical systems. These systems, whose market has expanded from USD 800 million in 2015 to USD 3.5 billion[22], benefit significantly from AI integration. AI enhances the precision of these systems, enabling surgeons to perform intricate procedures with greater accuracy. Furthermore, AI-driven robots could facilitate minimally invasive techniques, leading to faster recovery times.

In the past three years, investors have injected a total sum of more than USD30bn into healthcare AI companies, making it one of the highest-funded sectors. During this period, 47% of all healthcare venture capital deals involved AI-driven companies, compared to an average of 28% in the decade before 2021.[23] According to one forecast[24] the global healthcare AI market is projected to reach almost USD190bn by 2030.

The effects of AI will go well beyond streamlining administrative tasks and reducing expenses. Personal health data can be used by AI to **predict patient outcomes** based on their specific health profile and suggest personalized treatment options. Large language models have claimed, for example, high accuracy rates in predicting patients' length of hospital stay.[25] AI has also made advances in making diagnosis cheaper, faster and more accessible especially in areas where relevant information is already digitized. Detecting lung cancer, evaluating the risk of a sudden cardiac death or heart illness from electrocardiograms or identifying skin images are becoming more efficient through AI. The National Bureau of Economic Research (NBER) estimates wider AI adoption could produce savings for the industry of up to USD360bn per year in the U.S. over the next five years – equivalent to almost 10% of the country's healthcare spending.[26]

03 Development areas: MedTech, GLP-1, biotechnology, infertility

MedTech. This includes products, services or solutions used to save and improve people's lives, from prevention to diagnosis and cure. Essentially, there are three main categories:

1. **Medical devices (MDs)**: products, services or solutions that prevent, diagnose, monitor, treat and care for people. These can be in the form of an object, appliance, software, or an implant.
2. **In vitro diagnosis (IVDs)**: non-invasive tests used on biological samples to determine a person's health status (e.g., HIV tests, coagulation test systems, pregnancy tests, blood sugar monitoring systems for diabetics, etc.).
3. **Digital Health (DH)**: tools and services that use information and communication technologies (ICTs) to improve prevention, diagnosis, treatment, monitoring and manage a person's health as well as lifestyle. They represent the key towards a more precise and personalized healthcare and may be able to partly offset the strains on healthcare systems resulting from medical workforce shortages, ageing populations and an increasing incidence of chronic conditions.

In 2023 more than 15,900 patent applications were filed with the European Patent Office (EPO) in the field of MedTech, compared to 9,300 in the pharmaceutical field and around 8,400 for biotechnology. Over the last two decades the number of EPO filings for medical technology has almost tripled.

One forecast[27] is for average annual growth rate in medical devices market of around 6.0% until 2030. Changed demographic profiles will require more monitoring, the number of implanted medical devices is likely to rise, and innovative devices and services may give more opportunities for prevention as well as care. Smart devices and ecosystems aggregating data will in turn create further insights improving care delivery.

IVDs are expected to remain the largest device area over the few years, with annual sales above USD110bn by 2028. But IVD growth is likely to be relatively slow and its current share of the total medical device industry (15%) could fall.

Within medical devices, **cardiology** is likely to be a growth area. According to the World Heart Federation, more than half a billion people are affected by cardiovascular conditions globally and in 2021 20.5mn people died from them, 30% of all global deaths. Rising deaths (up from 12.1mn in 1990) are in large part due to ageing and growing populations, factors which will remain important. There has also been a rapid diffusion of new technologies in the development of devices to treat heart conditions, with an increasing number of patients being managed with heart devices. AI will improve capabilities for monitoring specific heart conditions.

GLP-1. The development of so-called GLP-1 drugs to treat obesity and diabetes has received substantial recent media attention. Patients who take injectable GLP-1 medications can lose approximately 10-20% of their body weight through reduced appetite, and the next generation of these drugs may enable an even greater degree of weight loss. The active ingredient of these drugs is semaglutide, which mimics a hormone called Glucagon-Like Peptide 1 (GLP-1) that helps regulate appetite and thus food consumption. GLP-1s also delay gastric emptying (the time it takes for food to leave the stomach), which also contributes to a feeling of satiety.

The market for these new drugs is very significant. Almost 60% of the OECD population is deemed “overweight” and nearly 25% “obese”. The economic burden of this is significant: in the U.S. it has been estimated as equivalent to 3.3% of GDP, with this share forecast to rise to 4.6% by 2060.[28] Overweight people use healthcare services more frequently, undergo more surgery and require more prescription drugs, with being overweight associated with metabolic, cardiovascular and many other conditions. In OECD countries, it is responsible for 70% of all treatment costs for diabetes, almost 25% of treatment costs for cardiovascular diseases, and 9% of costs for cancer care.[29]

Combining obesity treatment and **diabetes** applications, UBS research forecasts that the global GLP-1 market is expected to grow from almost USD10bn today to USD126bn by 2029 (obesity USD69bn and diabetes USD57bn). For comparison, sales for all drugs to treat cancer amounted USD185bn in 2021. GLP-1 drugs also show promising results in treating other health diseases, with one now FDA-approved for the prevention of heart disease, and possible future benefits for diabetes patients with kidney disease.

Broader adoption will however take time, given the cost of these drugs and current evidence that users will need to inject them indefinitely to maintain their weight loss. U.S. Medicare drug benefits also currently prohibit coverage of weight loss medication. U.S. federal government health insurance plans only cover these treatments for Type-2 diabetes, with an estimated annual cost of around USD3bn. If 40% of all Americans with obesity took these drugs at current prices (c. USD15,000 per year per person) the total cost to state public insurance programs, health insurance exchange subsidies, and U.S. taxpayers would be more than USD1tn annually.[30] That figure would exceed the cost savings to the U.S. government associated with reducing obesity and diabetes incidence by roughly USD800bn annually, equivalent to almost total U.S. government spending on Medicare.

In November 2024, the former U.S. President Biden has revealed plans to expand government coverage of weight loss medications, broadening it to obese individuals without other health conditions. This initiative is part of the yearly Medicare update set to begin in 2026. The Trump administration would need to finalize Biden’s proposed changes, but its direction is uncertain. If finalized, it would benefit roughly 3.5mn Medicare recipients over 65 and an additional 4mn low-income Americans under Medicaid, potentially increasing demand for GLP-1 drugs.

Biotechnology. The prominent sector uses technological advances in the field of biology to find and develop therapeutic medicines, mostly from genetic engineering, for example in oncology or metabolic disease (as well as non-healthcare uses). Classification of biotechnologies based on how they work divides them up in DNA sequencing, tissue engineering & regeneration, fermentation, nanobiotechnology, cell-based assays, chromatography, and PCR technology.

The global biotechnology market is estimated at USD1.55tn in 2023, with one estimate pointing to rapid growth (almost 14.0% per year) in the period to 2030.[31] Health applications account for more than 50% of this market.

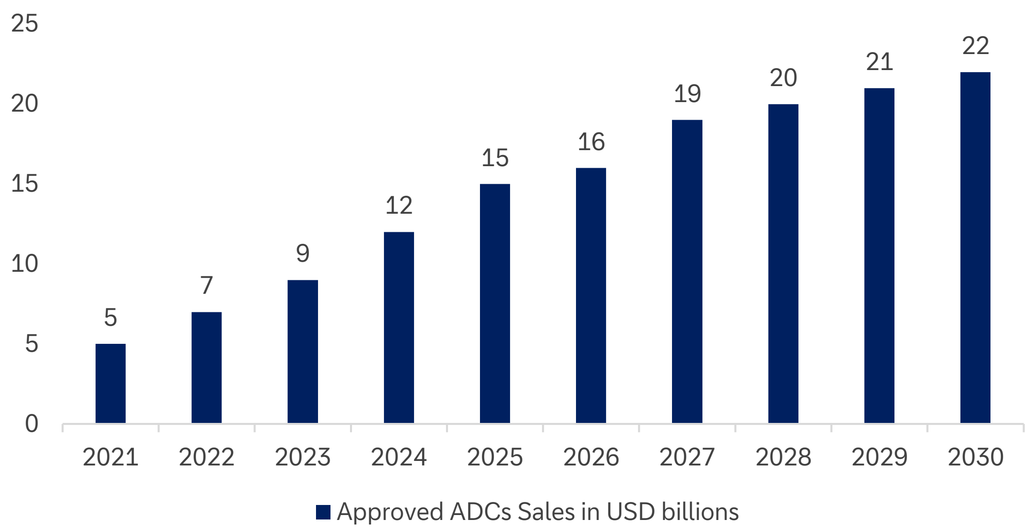
At present, six out of ten best selling drugs worldwide are biotechnology drugs and worldwide patent applications by the industry almost doubled from 2011 to 2021. Biologics accounted for almost a third of total U.S. drug approvals in 2022.

There have been several notable successes. Oncology treatment has been revolutionized during the last decades through the adoption of Antibody Drug Conjugates (ADCs) with 15 ADCs approved by the FDA for 12 different tumor types across several hematological cancers and solid tumors. Unlike conventional chemotherapy, ADCs deliver a toxic agent to tumor cells with minimal damages to healthy cells, thus with less adverse effects. In 2021 the sales in approved ADCs amounted to USD5bn but one projection is for the market to quadruple to over USD20bn by 2030 (Figure 5).[32]

Biotech was a very dynamic market in 2023 with strategic acquisitions and partnerships as large pharmaceuticals companies tapped into this field of precision medicine. The largest biotech deal so far has involved a global pharma leader acquiring a promising company with a strong pipeline of oncology treatments based on ADCs for USD43bn.

AI is promising to have a transformative impact on **drug discovery and development**. Traditional drug discovery processes are notoriously time-consuming and costly. Bringing a new drug to the market takes on average 10 years and requires around USD1bn, but the true cost could reach USD2.5bn when abandoned trials and clinical failures are accounted. On top of that, it has less than 10% chance of success. Thanks to technological advances, today it is now easier to capture and store digital patients' data that AI innovations can then mine to develop drugs faster and with greater chance of success. As per Morgan Stanley research, a modest increase in the

Figure 5: Sales in approved ADCs



Source: BlackRock, Deutsche Bank AG. Data as of February 2025.

success rates in early-stage drug developments could result in more than 50 new therapies over next decade, equaling an estimated USD50bn market.

Infertility. Infertility is a broad-based phenomenon and affects 186mn people globally according to WHO data. Approximately one out six people suffer from infertility in their lifetime, and it impacts from 10 to 25% of couples of reproductive ages globally.[33] Causes are multifold but up to half of infertility cases can be attributed to genetics.[34] Environmental and lifestyle factors such as exposure to pollutants and toxins or smoking and alcohol can cause lower fertility or infertility.[33,35] The market for infertility treatment was valued USD35.5bn in 2023 and it is projected to double over the next 10 years reaching USD75.2bn. Such level of growth equates to an average 7.0% growth rate per year over the coming decade.

The demand for infertility treatments is supported by several tailwinds including lifestyle changes (i.e. women prioritizing education and careers, pushing back the average age of having children) and worsening health conditions (driven by pollution, stress, alcohol consumptions, etc.). Wider social acceptance of infertility conditions could be an additional driver. In addition, public policies to encourage couples to have children and fund fertility treatment are in focus as prices for In-Vitro fertilization (IVF) – the most common fertility treatment – are too high for most people to afford it. In the U.S., for instance, a single IVF cycle can reach up to USD 30,000.[36] Governments around the world are paying increasing attention making IVF more affordable with supporting policies. Israel and Denmark are the most generous countries making IVF widely available and almost free. In the U.S., insurers are required to cover some IVF treatment in 14 states while five years ago there were only 9.

AI promises higher optimization and personalization of infertility treatment for the years to come. Potential targets of AI in assisted reproductive technology (ART) could encompass the entire process, from ovarian stimulation to embryo selection and transfer. In embryo selection – the process of evaluating the quality of embryos and selecting the best one(s) for transfer to the patient or cryopreservation – AI models have predicted the likelihood of successful pregnancy with greater accuracy than clinical embryologists. In one study, the median accuracy for different AI models was 75.5% on predicting embryo morphology grade compared to 65.4% for embryologists' predictions.

04 What does it mean for investors?

Investors in healthcare should always be aware that this diverse sector is subject to government regulation and public intervention in terms of approval of products and services, which can influence the price and availability of new technologies and drugs.

Adopting the **MSCI World Health Care Index** as a reference for the sector composition, pharmaceuticals constitute the largest and most established industry, accounting for 42% of the global healthcare sector. Manufacturers of health care equipment and devices as well as providers and distributors of healthcare products and services account for 17.5% and 15.5% respectively. Biotech companies have 14.5% with companies enabling drug discovery, development and production by providing analytical tools and instruments taking most of the remainder.

Main features and past performance. Broadly speaking, the healthcare sector is widely regarded as one of the most defensive with spending on health (at least in the short term) largely independent of current economic conditions. The economic cycle also has a low impact on the success or failure of drug development, so biotechnology or pharmaceuticals firms can have a relatively low correlation with the broader equity market.

This defensive nature has frequently been evident in recent years (Figure 6). For example, recession fears and rate hikes in the first half of 2022 resulted in investors selling cyclical and tech stocks aggressively, but with smaller price falls in defensive stocks like healthcare. The MSCI World Index fell by -17.7% (USD terms) over 2022 while the MSCI World Health Care Index experienced a milder -5.0% decline.

Figure 6: Relative performance of global healthcare stocks versus broader market. Shaded areas highlight periods of outperformance from healthcare stocks

Source: LSEG Datastream, Deutsche Bank AG. Data as of February 24, 2025.

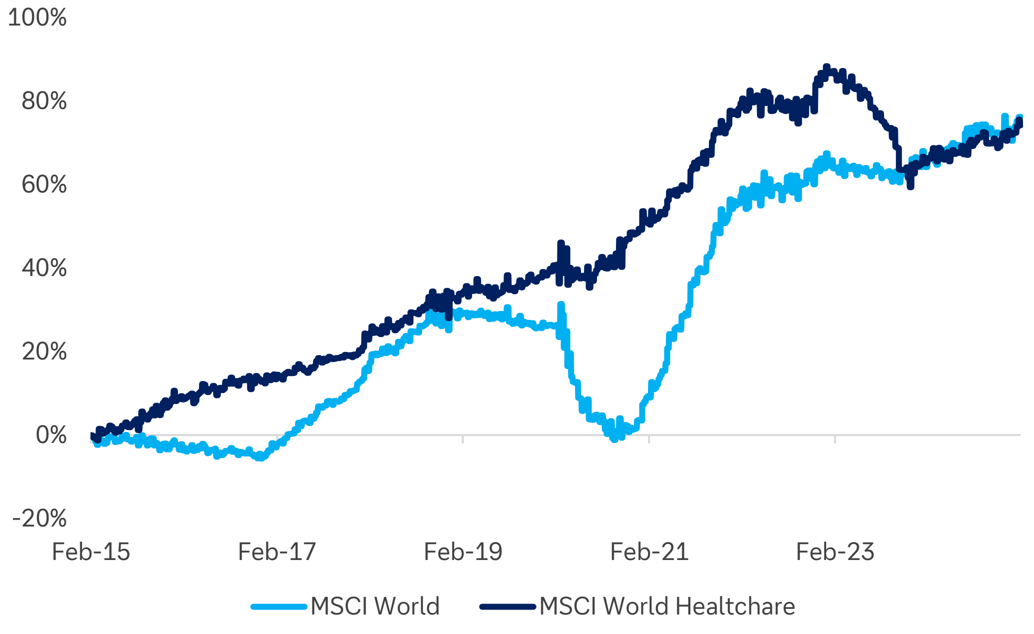
However, healthcare's defensive reputation proved less helpful in the aftermath of the interest rates hiking cycle, as investors got more optimistic about an economic soft landing, while also becoming increasingly interested in technology and communication services, largely due to the excitement surrounding AI. As a result, the MSCI World Health Care Index had total returns of 4.3% in 2023 compared to 24.4% for the MSCI World Index. Healthcare stocks' underperformance persisted in 2024, with them lagging the broader market by almost 18 percentage points, although most of the underperformance have been accrued in the latest quarter of the year due to fears surrounding U.S. elections' implications for the sector, it being highly regulated. However, on a YTD basis, as of February 24th, 2025, healthcare stocks are returning 7.1% compared to 3.4% of broader equities, navigating with resilience the current highly uncertain environment.

Growth. A long-term investment horizon may help when investing in healthcare stocks, given that structural drivers like demographics can play out over many years, as can drug development and application.

An ageing population is very likely to increase overall healthcare spending by both private and public sectors. Such structural shifts may have contributed to the earnings growth experienced by the healthcare sector over the last 10 years. From 2015, trailing EPS (earnings per share) for the MSCI World Health Care Index increased by 74.2%, while trailing EPS for MSCI World Index experienced a similar 76.3% increase (Figure 7). Such a high level of earnings growth is atypical for defensive sectors, making it one of the few defensive sectors with strong growth attributes. Another traditional defensive sector like consumer staples, for instance, experienced a 41.2% increase in trailing EPS (MSCI World Consumer Staples).

As always, future **earnings prospects** will define the potential of stocks. With the Q4 2024 earning season still ongoing, consensus estimates currently point to healthcare's EPS to increase by 6.3% in 2024 (vs. 7.9% for the overall market). However, 2025 EPS YoY growth is currently forecast at 16.8% for companies within the MSCI World Health Care Index vs. 10.3% for the overall MSCI World Index. Healthcare's 2025 EPS YoY growth is expected to outpace most other

Figure 7: Earnings growth for global healthcare stocks compared to the broader market



Source: LSEG Datastream, Deutsche Bank AG. Data as of February 24, 2025.

sectors, with the exception of Information Technology. Beyond 2025, healthcare stocks' earnings growth is expected to converge towards the broader market's growth (Figure 8).

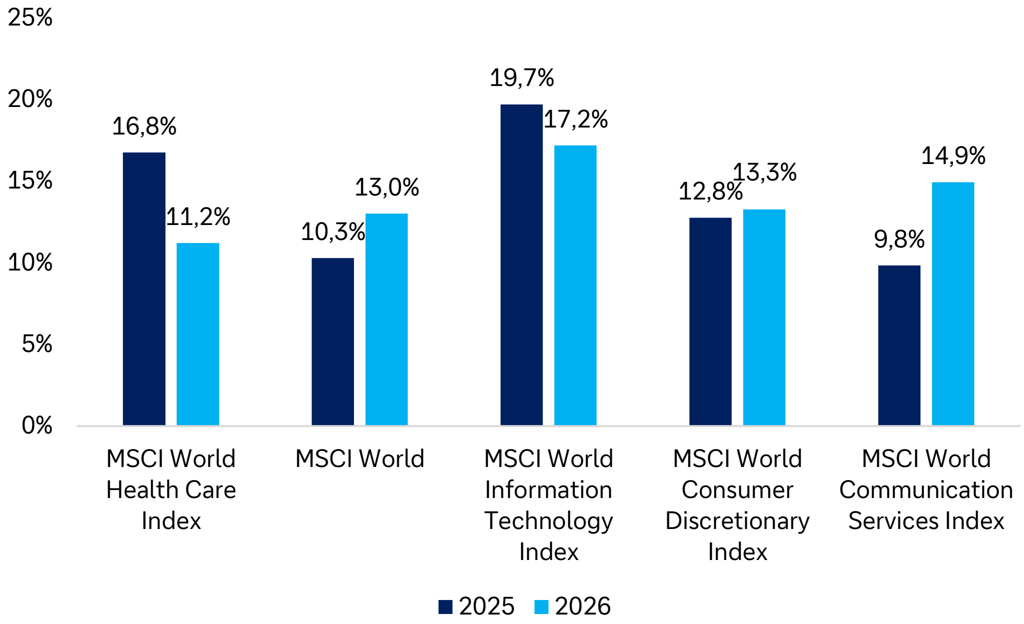
Consensus estimates indicate an expected increase in the earnings of companies within the MSCI USA Healthcare Index of 5.3% in 2024 followed by a 19.1% increase in 2025. In Europe, the equivalent forecasts are 7.8% for 2024 followed by 10.9% in 2025, slower than in the U.S. but still well above expected growth in the overall MSCI Europe Index. In Asia, the picture for earnings dynamics is even brighter, with a YoY growth for 2024 of 9.8% followed by a sizeable 21.2% increase in 2025.

Valuation. With promising earnings growth on the horizon, valuations provide an extra reason for optimism. Back in August 2024, the NTM P/E of the MSCI World Health Care Index reached a recent peak of 19.7. Valuations in the sector have declined ever since, bringing it back close to the 10-year average at 17.5. Over the same period, the broader market re-rated upward from 18.7 to 19.9, not at least due to the valuation expansion in AI-related sectors. Moreover, over the last few years global healthcare stocks have become more efficient at converting sales into actual profit. Their profitability – measured as the ratio of net income and total sales – increased from 8.5% to 10.5%. Everything else being equal, a higher profitability is usually rewarded via a higher multiple.

Relative valuations paint an even brighter picture. The recent healthcare sector underperformance led an unusual discount compared to the market. The healthcare sector now trades at around a -12% discount to the MSCI World, a gap rarely seen over the last 10 years (Figure 9). Much of the discount emerged late last year following controversial choices by the new U.S. administration for the Secretary of the Department of Health and Humans Services (HHS) and Administrator for Medicare and Medicaid Services, although these may be counterbalanced by senior appointments elsewhere.

Uncertainty around a possibly more hawkish monetary policy stance towards the healthcare sector could keep valuations low until the market has more clarity on the policy front. During the first Trump term, the President proposed a number of apparently sector-unfriendly rules. Most prominently, Trump signed an executive order in 2020 to make sure that Medicare

Figure 8: YoY earning growth for healthcare stocks, global stocks, and a selection of sectors

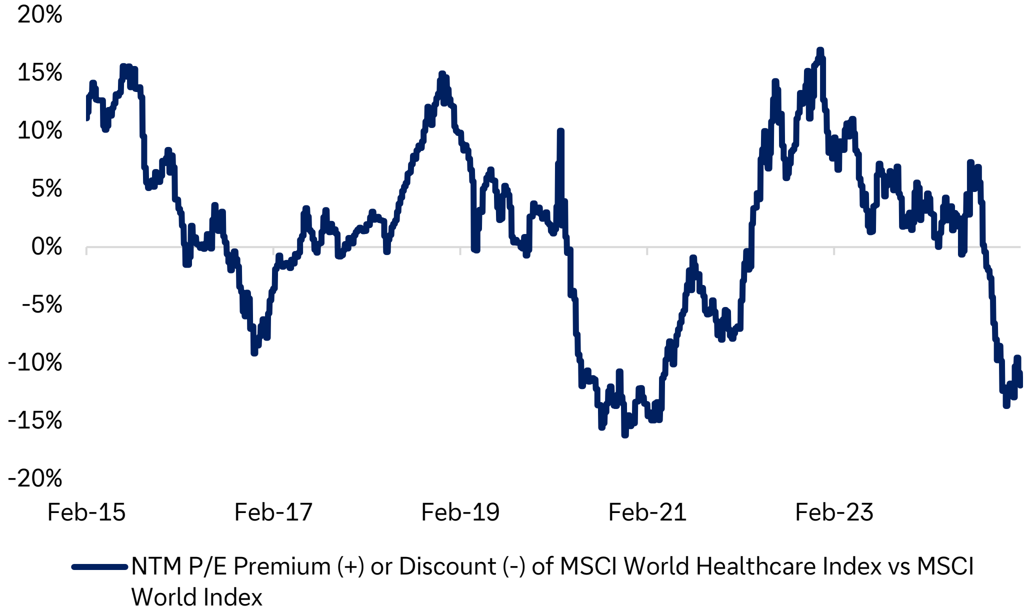


Source: LSEG Datastream, Deutsche Bank AG. Data as of February 24, 2025.

did not pay more for prescription drugs than other developed countries. The policy known as the "most favoured nations policy" could have cost the pharma industry more than USD10bn but was struck down by the courts. A similar idea is floating around Washington again. However, so far, Trump's agenda seems to be more focused on taxes, immigration, and trade than healthcare. Potential positives for healthcare could emerge from a second Trump administration. These include, for instance, tax cuts, which could increase EPS for the sector, and the market more broadly.

Valuations of healthcare stocks in Europe and in the United States have historically often been broadly aligned. Over the last 10 years, the average NTM P/E for the sector in Europe has been 16.6; for the U.S. it has been 16.7. However, in recent years a valuation gap has opened up in favor of the U.S. counterparts: the current NTM P/E for the healthcare sector in U.S. is 17.7, up 5.8% on its 10-year average. In Europe, the sector has a current NTM P/E of 15.9, almost 5 percentage points below its 10-year average.

Figure 9: Healthcare stocks used to trade at premium versus the broad market



Source: LSEG Datastream, Deutsche Bank AG. Data as of February 24, 2025.

05 Conclusions

Populations will continue to grow and age, posing major social challenges. These will include smaller workforces and a growing dependent aged population, with implications for economic growth and tax revenues, amongst many other things.

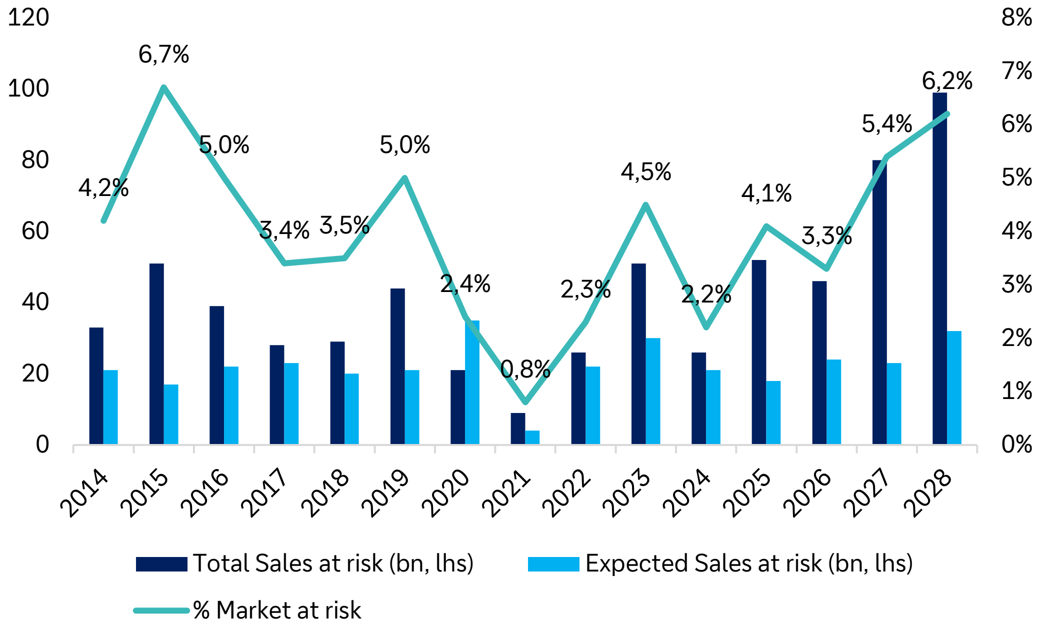
These **demographic shifts provide structural drivers** for a long-term and sustainable growth of the healthcare sector, as both government and private spending is forced to increase, although demographics will also mean that economies face difficult decisions on how to fund pensions, social security and healthcare spending.

AI technologies and digitization should offer an additional boost to the sector, providing healthcare companies with more rapid drug discovery, more efficient disease treatments and the opportunity to create products and services that are more tied to specific individual needs. This will create a wide range of investment opportunities.

We remain positive about **innovation** in the sector. As discussed above, GLP-1 drugs have shown meaningful body mass reduction in overweight and obese patients, are effective in treating diabetes and may have several other applications. High costs and limited availability of medications may constrain their diffusion in the short term, but addressing these challenges could boost the market share of GLP-1 in the global anti-obesity market, which is expected to grow at an impressive compound annual growth rate of 5.5% from 2024 to 2034.[37]

Potential weak spots can be found, however. The U.S. Inflation Reduction Act (IRA) introduced provisions to put a limit on above-inflation price rises for drugs covered by Medicare, with implications for pharmaceutical companies' margins. In addition, an increasing number of patents will expire over next years, especially from 2026 onwards and competition from generics is expected to rise (Figure 10).

Figure 10: Worldwide sales at risk from patent expiration



Source: World Preview 2023: Pharma's Age of Uncertainty. Data as of February 2025.

Demographics will also remain a key driver behind the **MedTech** space, with the medical devices market likely to be boosted by a growing and ageing population. But other factors are in play too. The rise of GLP-1 applications has, for example, raised questions about whether it will reduce demand for certain medical devices although we think it could increase demand in other areas of in the medical devices sector.

Innovation will also continue to play a central role in medical devices. AI already plays a relevant role in diagnostic imaging with more than half AI-based devices in US and Europe approved for radiological use.[38] But the expansion of digital and virtual tools and connected medical devices should lead to data-driven, more connected, and patient-centric healthcare systems built on AI technologies.

Biotechnology stocks suffered in 2024 and on a YTD basis are underperforming the healthcare sector. But rate cuts may provide a tailwind for the industry going forward, with biotech companies sensitive to the interest rate environment due to high R&D commitments and valuations dependent on discounting of long-term future cash flows. The predominance of small and mid-cap companies in the sector (due to specialization in specific treatments) also means that the sector traditionally has a larger fraction of debt financed at variable rates. Lower rates may therefore translate into higher profitability more rapidly for this sector.

M&A activity could offer an additional positive for the biotech space. In 2024, the total value of biopharma deals fell by 51%, but the number of transactions increased by 17% compared to 2023. The rise of AI technology, low valuations and the looming risk of patent cliffs should sustain M&A activity.

In the past few years, however, the healthcare sector overall has not been a focus for **investors** and has trailed the overall market substantially. A soft-landing scenario in developed economies made healthcare's typically defensive traits less attractive to investors. In the short-term, there is a risk that if investors believe the current economic cycle still has some stamina, this could lead them to a cautious positioning in **defensive sectors** like healthcare.

The sector is heavily regulated to protect consumers and ensure that public health and welfare are adequately served. This will continue to create a degree of **policy risk**. The policy agenda of new U.S. administration is therefore of great importance, with one being on the healthcare components of the Inflation Reduction Act (IRA), especially those addressing drug pricing. Moreover, from 2026 several drugs covered under Medicare will become eligible for price negotiations.

Expected higher **earnings growth** in 2025 for the MSCI World Health Care Index (at global levels, second only in size to the Information Technology sector) should lay the ground well for healthcare stocks into 2025. We expect the market will gradually recognize the earnings growth potential of the sector, which already has a solid track record on delivering earnings growth despite its perceived defensive qualities.

Valuations do not appear demanding for companies expecting double-digit earnings growth in 2025. Compared to the overall market, the current valuation of the healthcare sector is unusually low. If valuations were to catch up to levels close to the historical average, current levels could offer a compelling entry point, at least for long-term investors.

As noted above, ongoing demographic trends provide structural support for long-term and sustainable growth in the healthcare sector. However, we believe **investment in the sector needs to be selective**, with the healthcare universe comprised of many different industries with divergent characteristics. Some will be more defensive; others more able to capitalize on cyclical upswings. But change will still create many opportunities.

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Glossary

Antibody Drug Conjugates (ADCs) refer to targeted cancer therapies that deliver toxic agents directly to tumor cells, minimizing damage to healthy cells.

The **ART (Assisted Reproductive Technology)** is a medical procedures used to address infertility, including in-vitro fertilization (IVF).

The **Artificial Intelligence (AI)** is the simulation of human intelligence in machines that are programmed to think and learn like humans.

The **Chromatography** is a technique for separating mixtures into their individual components, often used in drug development.

Chronic Conditions refer to long-lasting health conditions that can be controlled but not cured, such as heart disease, cancer, diabetes, and respiratory conditions.

The **Census Bureau** is the U.S. government agency responsible for collecting and analyzing data about the population.

A **Defensive Sector** is an industry that is less affected by economic cycles, with demand for its products and services remaining stable regardless of economic conditions.

The **Dependency Ratio** is he ratio of the non-working population (young and elderly) to the working-age population.

The **DNA Sequencing** refers to the process of determining the precise order of nucleotides within a DNA molecule.

EUR is the currency code for the euro, the currency of the Eurozone.

The **Earnings Per Share (EPS)** is a company's profit divided by the number of outstanding shares of its common stock, indicating the company's profitability.

The **FDA (Food and Drug Administration)** is the U.S. agency responsible for protecting public health by ensuring the safety and efficacy of drugs, biological products, and medical devices.

The **GLP-1 Therapies** are a class of drugs originally developed for diabetes treatment, now repurposed for weight loss and other uses.

The **Gross Domestic Product (GDP)** is: The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Hypoparathyroidism is a rare disorder in which the body produces insufficient parathyroid hormone, leading to low levels of calcium in the blood.

IVDs (In Vitro Diagnostics) are Tests done on samples such as blood or tissue that are taken from the human body to detect diseases or other conditions.

Lung Cancer Detection refers to the process of identifying lung cancer, often through imaging techniques and AI analysis.

The **Medicare** is a federal health insurance program in the U.S. for people aged 65 and older, and for some younger people with disabilities.

The **Metabolic Dysfunction-Associated Steatohepatitis (MASH)** is A severe form of fatty liver disease that can lead to liver transplants.

The **mRNA Technology** is A method used in some vaccines, including COVID-19 vaccines, that uses messenger RNA to instruct cells to produce a protein that triggers an immune response.

The **MSCI World Health Care Index** is a stock market index that measures the performance of the global healthcare sector.

The **National Bureau of Economic Research (NBER)** is An American private nonprofit research organization that provides economic research for public policymakers, business professionals, and the academic community.

The **NTM P/E (Next Twelve Months Price-to-Earnings Ratio)** is a valuation metric that compares a company's current share price to its projected earnings over the next twelve months.

The **OECD (Organisation for Economic Co-operation and Development)** is An international organization of countries that promotes policies to improve the economic and social well-being of people around the world.

The **Office for Budget Responsibility (OBR)** is the UK's official independent budget watchdog.

Glossary

The **PCR (Polymerase Chain Reaction) Technology** is a method used to amplify small segments of DNA, making it easier to study genetic material.

Robotic Surgical Systems refer to advanced medical devices that use robotic technology to assist surgeons in performing complex procedures with precision.

The **Type-2 Diabetes** is a chronic condition that affects the way the body processes blood sugar (glucose).

The **World Heart Federation** is an international organization dedicated to the prevention and control of heart disease and stroke.

The **World Health Organization (WHO)** is a specialized agency of the United Nations responsible for international public health.

Appendix

Historical performance

Performance	24.2.2020 – 24.2.2021	24.2.2021 – 24.2.2022	24.2.2022 – 24.2.2023	24.2.2023 – 24.2.2024	24.2.2024 – 24.2.2024
MSCI World	22.1%	5.2%	-5.3%	25.2%	16.9%
MSCI World Health Care	15,3%	7.6%	1.8%	15.9%	1.2%
MSCI Communication Services	32.3%	-6.9%	-21.9%	48.7%	29.3%
MSCI World Consumer Discretionary	42.2%	-2.1%	-13.1%	28.1%	14.9%
MSCI World Information Technology	44.7%	7.7%	-11.3%	53.7%	22.6%
MSCI Consumer Staples	5.5%	11.2%	-0.0%	6.0%	9.7%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of February 24, 2025.

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