Thoughts from the Street

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Ready for Some Sun? Healthcare's Search for a Catalyst

We recently attended the 47th Goldman Sachs Global Healthcare Conference. AI was, unsurprisingly, a major theme. What surprised us more was how quickly many conversations moved to the broader question of why healthcare has underperformed for so long, and what would be needed for investors to care again?

Healthcare's problem is not that the long-term fundamentals have disappeared. Ageing populations, chronic disease, innovation and the need to control system-wide costs are still there. Rather, the marginal investor currently has little reason to look beyond AI. Has healthcare been left in the shade: fundamentally healthy, but generally forgotten?

What about demand?

One of the key questions at the conference was whether healthcare demand is beginning to weaken after several years of strong growth. The concern is plausible: higher insurance premiums and higher out-of-pocket costs can make consumers more selective, which can show up in utilisation.

Q1 2026 did not provide a clear indication. A benign flu season, winter storms and better-than-expected Medical Loss Ratios at Managed Care companies made it harder to assess the true underlying trend. This makes Q2 reporting more important than usual.

However, healthcare is not one homogeneous consumer category. Much of the demand is government-funded, chronic, acute or medically necessary. The risk is therefore less a collapse in demand and more a normalisation from elevated levels. Encouragingly, several companies at the conference indicated that they expect utilisation to recover in Q2 2026.

Valuation alone is not enough

Valuation is another important aspect of the debate. Several healthcare subsectors now appear inexpensive relative to their own history or the broader market. This is particularly visible in Medtech, where slowing growth, partly negative estimate revisions and competition from other investment themes have weighed heavily on sentiment.

However, low valuation is rarely a catalyst in itself. While it can create the conditions for better future returns, cheap stocks and sectors can remain so for a long time.

The missing catalyst may be hiding in plain sight

In theory, the sector requires a catalyst. In practice, the catalyst may sit outside healthcare. As long as AI-related equities absorb most of the market's attention, stable healthcare growth can look unexciting to generalist investors. But if AI leadership broadens, pauses or disappoints, the "boring" characteristics of healthcare, visible cash flows and resilient demand, could become attractive again.

Healthcare has historically performed well in turbulent markets, acting as the market's fire insurance. The problem is not that the insurance stopped working. The problem is that investors currently do not believe there is a fire, despite volatile geopolitics, fiscal stress and policy uncertainty.

Nevertheless, the old mechanism appears to be intact: when volatility increased in the first week of June 2026, healthcare once again began to act as a stabiliser.

Bottom Line

Healthcare remains a sector with strong long-term structural drivers, but structural arguments alone are currently not enough. Investors want proof that demand is resilient, estimates are realistic and capital allocation is shareholder-friendly.

The good news is that after a long period of underperformance, expectations are low. The less comfortable truth is that a major part of the rebound may depend on something healthcare companies do not control: whether investors begin to look beyond AI again.

For us, the question is therefore not if healthcare will find its place in the sun again, but when investors start looking beyond AI.

Yours sincerely,

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Learn more: Tareno Healthcare Funds

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