

Dusk of the dog days



August marks the strongest month for the sector since January, with the MSCI World healthcare outperforming the broad market by 2.5%. This performance was driven by a strong rebound in the services sector following last month's drawdown. Biopharma companies also performed well, with large caps driven by relief on incremental clarity on pricing, and small caps reacting to increasingly dovish rate expectations.

Overall, we see the dynamics of this month as very encouraging, with the sector still trading at a discount.

Some clarity on tariffs

This month, the European Commission and the White house issued a joint trade statement between the EU and the US.

The joint statement set a ceiling of 15% for tariffs across all EU products exported to the US. This ceiling will apply to pharmaceuticals, regardless of the outcome of the ongoing 232 investigation. This investigation assess the effect of imports on US national security, as was previously deemed to be a major overhang.

In addition, generics will be tariffed at the previously implemented most-favoured nation level, which is close to zero.

Switzerland currently faces 39% tariffs on many exports since the beginning of the month. However, pharmaceuticals currently remain exempted from these tariffs.

While there is a lot of policy volatility in the US, this gives some clarity for the many international companies producing in the EU for the US market and sets a potential benchmark for future negotiations.

Separately, a letter was sent by the Trump administration to pharmaceutical companies regarding drug pricing. A lot of uncertainty remains on this matter, however the absence of details or binding constraints triggered relief in the pharmaceutical sector.

Close of the earnings season

Second quarter reporting is now over, with results overall quite strong of the sector.

Sales and EPS growth close to 10% and overall robust earnings surprises continue to bolster our confidence in the sector's healthy fundamentals.

This quarter once again saw very large swings following earnings report for several companies.

This highlights the information asymmetries and opportunities for value creation with active management within the sector.

Performance Overview

	1M	3M	YTD	12M
Healthcare	5.1%	-0.3%	2.8%	4.0%
Medtech	2.6%	2.8%	7.1%	16.3%
Services	13.1%	-11.0%	-8.4%	-15.4%
Pharma	5.7%	-1.3%	3.8%	6.1%
Biotech	2.3%	3.5%	10.2%	10.1%
Tools	3.9%	9.3%	-6.6%	-8.4%
World	2.6%	14.8%	13.8%	35.0%

Top 5 this month

1	Natera	26%	Earnings
2	UnitedHealth	24%	Earnings, floor guidance
3	Smith&Nephew	22%	Earnings
4	Humana	22%	Earnings,readacross United
5	IDEXX	21%	Earnings

Bottom 5 this month

1	Sysmex	-23%	Earnings
2	CSL	-20%	Earnings
3	Vertex	-14%	Earnings
4	Sonic Healthcare	-11%	Earnings
5	Alcon	-10%	Earnings

Source: Bloomberg Finance L.P., Kieger

Kieger Healthcare Team



Dr Maria Specogna
Lead Manager,
Sustainable Healthcare Fund



Raphael Oesch, CFA
Lead Manager,
Blue Chip Healthcare Fund



Flavio Mancino, CFA
Research Analyst



Guy Bettschart, CFA, CAIA
Research Analyst



For a comprehensive overview of our investment strategies please contact us:

 +41 44 444 18 44
 www.kieger.com
 info@kieger.com
 Dianastrasse 5,
8002 Zürich
 Kieger AG

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