
# Health Care Sector Clouds May Be Clearing

For the 30 years from 1989 to 2019, U.S. health care sector returns closely tracked those of the technology sector—and with notably less volatility.[1] But, since then, the sector has produced lackluster results for investors. The current U.S. Administration's desire to force U.S. drug prices to align with the lowest international reference price, impose tariffs on imported pharmaceuticals unless plants are built in the U.S., cut NIH/CDC funding, slash Medicaid spending, battle over publicly-funded scientific research and ACA subsidies, and support controversial Health and Human Services leadership—along with competition from China and impending large-cap pharma patent/revenue cliffs—has created considerable short-term uncertainty. Despite these near-term headwinds, largely already priced in, we believe the clouds may be clearing for the health care sector. Here's why.

**A Defensive Sector.** The health care sector, which comprises about 9% of the total S&P 500® Index as of September 30, 2025, is considered defensive, resilient and comparatively stable because demand for its products and services is not highly correlated with the overall stock market or the broader economy. People require health care regardless of economic conditions. Also, historically, the health care sector has seen lower drawdowns when market stress has been high.[2] As slower economic growth is considered likely for 2026 as is heightened market volatility, the health care sector may be poised to outperform.

**Compelling Underlying Fundamentals.** The health care sector has historically demonstrated stable, consistent earnings growth—even when the broad market falters, with lower volatility. A track record of growing earnings faster than inflation also provides investors with a valuable hedge amid what many believe will be an environment of continued above average inflation. Currently, following a multi-year period of sluggish performance, the sector is offering attractive valuations, trading at a significant discount to the broader market.

- The health care sector is trading near historic lows globally, and in the U.S., is now trading at the deepest discount to the broader market in nearly 40 years based on relative forward price/earnings (p/e) multiples.[2] The 12-month forward p/e ratio of U.S. health care was 17.3% as of September 30, 2025 versus 22.8% for the broad S&P 500 Index.[3]
- Even as technology stocks dominated headlines, health care was the only sector that grew earnings steadily for more than 20 years, including throughout the pandemic.[4] And even with a downward revision in earnings estimates in the third quarter of 2025, consensus calls for health care earnings to grow 12.1% year-over-year for calendar year 2025, putting it among the top three sectors and well ahead of the S&P 500 Index broadly. The health care sector's revenue growth for 2025 is expected to be second only to technology.[3]

> *"More than 40% of U.S. adults are considered obese. Heart disease accounts for 1 in 5 U.S. deaths annually. Cancer is the second leading cause of death, and diabetes affects more than 11% of Americans. Mental health disorders and high blood pressure affect millions. Pharma and biotech companies focused on providing cures or treating these conditions may offer great investment opportunities."*
>
> *Robert Stimpson, Chief Investment Officer and Portfolio Manager of Oak Associates Funds*


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> *"Health care companies with strong underlying fundamentals and quality managements that focus on innovation, technological advancements and emerging care models in the U.S. and internationally may be well positioned to capitalize on the sector's next phase of growth."*
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> *Jeff Travis, Portfolio Manager of Oak Associates Funds*

**Favorable Demographic Trends.** An aging population is expected to provide an accelerating and sustained structural growth tailwind for the health care sector. In the U.S., the Census Bureau projects nearly 21% of the population will be over 65 by 2030. In Europe, that number is 23%. Health care spending more than doubles for older individuals compared to other age groups,[2] as the prevalence of chronic diseases increases. Overall health care expenditure is growing faster than GDP in many regions. In the U.S., health care spending grew 8.2% in 2024,[5] outpacing GDP growth of 2.8%.[6]

**Innovation Beneficiary.** The rapid growth of artificial intelligence (AI) is transforming health care by improving diagnostic accuracy, streamlining administrative tasks, advancing data analytics, accelerating drug discovery and enhancing profitability. The expansion of digital health care, via telehealth visits and remote patient monitoring, is improving access to patient-centered physical and mental health care, enhancing efficiency and reducing costs. Revolutionary advances in genomics and GLP-1s are enabling more personalized and effective treatments. Game-changing innovations in medical devices, like surgical robotics and neural implants, offer powerful long-term growth prospects. PwC projects that by 2035, about $1 trillion in spending will shift from today's high-overhead, fragmented, infrastructure-heavy delivery model toward AI-enabled, in-home, proactive, personalized care.[7]

**Strategic Alliances.** Several of the "Magnificent Seven" companies driving U.S. equity market returns since 2023, including Alphabet, Microsoft and Amazon, have been forging alliances with health care companies, creating a crossover effect. Also, M&A activity, especially within the life sciences and pharmaceutical industries, picked up in 2025,[8] driven by therapy and treatment innovations and demand for high quality, scalable businesses.

**Diversified Growth Sub-Sectors.** Within the health care sector, there is great opportunity for investment portfolio diversification, as each of a broad set of sub-sectors has its own risk/reward profile. For example, health care services and facilities, including hospitals and health insurance and managed care companies, can offer relative stability but may be affected by regulatory and policy changes. Biotechnology, pharmaceuticals and medical technology companies face regulatory scrutiny and are subject to the risk of clinical trial failures but may offer higher long-term growth potential given the rapid development and remarkable breakthroughs of new drugs and treatments and the creation of new markets.

> *"For investors seeking both offense and defense benefits, we believe the health care sector is well positioned for a comeback. Still, the complexity, diversity and pure size of the health care sector make strategic, active stock selection key to navigating market fluctuations, policy changes and political pressures."*
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> *Robert Stimpson, Chief Investment Officer and Portfolio Manager of Oak Associates Funds*

[1] "Sick as a Dog," J.P. Morgan, August 12, 2025. [2] "US Healthcare: Attractive Valuation for a Structural Growth Opportunity," AllianceBernstein, May 2025. [3] FactSet, October 3, 2025. Forward p/e ratio measures a company's share price relative to its projected future earnings per share. [4] "Investing in Healthcare, The Overlooked Sector Poised for a Remarkable Comeback," Alphacione, September 3, 2025 and "Investing in health care: What to consider," J.P. Morgan Wealth Management, November 2024. [5] CMS.gov, June 24, 2025. [6] Bureau of Economic Analysis, January 30, 2025. [7] "From breaking point to breakthrough: the $1 trillion opportunity to reinvent healthcare," PwC, September 17, 2025. [8] "Healthcare M&A Mid-Year Insight," Modern Healthcare, August 7, 2025.

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