BR BENTLEY REID
PERSONAL WEALTH. PERSONAL SERVICE.

US Healthcare | Theme Update

Q2 2026

In a Nutshell

Earnings resilience anchors late-quarter record rotation

Summary

The US Healthcare sector gained 9.4% in the second quarter (Q2), lagging the FTSE All World index which surged 14.5%, led by Semiconductor stocks. While Healthcare trailed on a relative basis, it ended Q2 with strong price momentum following excellent recent news flow.

On 26th June, US Healthcare closed out the quarter with a record weekly return versus the S&P 500, outperforming by 9.9% as investors sought shelter in the sector's unloved, defensive earnings profile. The violent rotation was underpinned by an extraordinary sequence of clinical breakthroughs and a significant clearing of regulatory headwinds in the Healthcare Services sector.

The structural thesis for the allocation remains fully intact. As corporate earnings elsewhere face tougher year-over-year comparisons through the second half of 2026, the highly visible revenue profiles of Healthcare incumbents look poised to benefit from their unique combination of defensive utility, innovative growth and depressed valuations.

Industry Developments

Q2 delivered an extraordinary sequence of clinical milestones, prompting many in the scientific community to label May a 'miracle month' for medical innovation.

In pancreatic cancer, a disease historically considered undruggable, Revolution Medicines successfully doubled median survival times for patients, triggering a rare standing ovation from doctors attending a globally renowned annual oncology meeting.

Elsewhere, the Mayo Clinic validated a radiology AI model that flags subtle, pre-diagnostic cancer patterns on routine CT scans up to three years before clinical diagnosis. While Phase 1b data for Eli Lilly's VERVE-102 showed that a single gene-editing infusion cut bad (LDL) cholesterol by up to 62%. In sum, these are monumental breakthroughs for the world's most deadly diseases: cancer and heart disease.

Revolution's pancreatic cancer drug doubles survival, boosts quality of life

Source: Reuters

RevMed's daily pancreatic cancer pill doubled survival rates compared with chemotherapy

On the regulatory front, the Healthcare Services sector enjoyed a major reprieve as US regulators finalised a much higher payment increase for Medicare Advantage plans than originally proposed in January. The unexpected news erased fears of severe margin collapse, triggering a relief rally in Health Insurers. UnitedHealth raised earnings guidance, lifting its share price by 53% over Q2.

US to raise Medicare Advantage payments to insurers by 2.48% in 2027, insurance stocks surge

Source: Reuters

The new Medicare rate is projected to inject more than $13bn in additional payments in 2027 for insurers

The weight-loss (GLP-1) drug boom entered a new era focused on everyday convenience. While weekly injections ('fat jabs') have dominated the headlines, the future lies in treatments as simple as taking a daily vitamin. Eli Lilly rallied 30% as it won FDA approval for Foundayo, its daily GLP-1 pill, offering patients an alternative to weekly injections.

Eli Lilly Shares Jump 10% as Mounjaro, Zepbound Fuel Massive Growth

Source: Wall Street Journal

Booming sales of GLP-1s is driving huge profit growth for Eli Lilly. The approval of a daily pill is seen accelerating its success

It wasn't all good news for the sector, as medical device companies weighed heavily, highlighting the risks of operational stumbles. Boston Scientific plunged 32% as investor confidence was severely shaken by a sweeping FDA recall affecting 1.4 million of the company's pacemakers.

FDA recalls malfunctioning pacemakers after injuries and deaths. What patients should do now.

Source: UCHealth

Boston's collapse is a reminder that Med Tech relies heavily on manufacturing precision and uninterrupted product demand

Performance

The Xtrackers US Healthcare ETF returned +9.4% (£ terms) in Q2, lagging a +14.5% rally in the FTSE All World.

The best performing holdings for the US Healthcare sector in Q2 2026 were Eli Lilly (Pharma), UnitedHealth (Health Insurance) and Abbvie (Pharma).

Stock	Q2 Return (%)	Q2 Contribution (%)
Eli Lilly	29.9	4.21
UnitedHealth	52.8	2.53
Abbvie	16.0	1.15
CVS Health	44.4	0.79
Humana	128.3	0.52

Source: Bloomberg

Eli Lilly (+30%) was the leading contributor in Q2 courtesy of an earnings beat and major pipeline breakthroughs

The worst performing holdings were Boston Scientific (Med Tech), Intuitive Surgical (Med Tech) and Pfizer (Pharma).

Stock	Q2 Return (%)	Q2 Contribution (%)
Boston Scientific	-32.4	-0.58
Intuitive Surgical	-14.2	-0.46
Pfizer	-13.3	-0.41
Abbott Labs	-11.6	-0.41
Zoetis	-39.3	-0.4

Source: Bloomberg

Boston Scientific (-32%) was the worst contributor as it succumbed to a wave of negative headlines

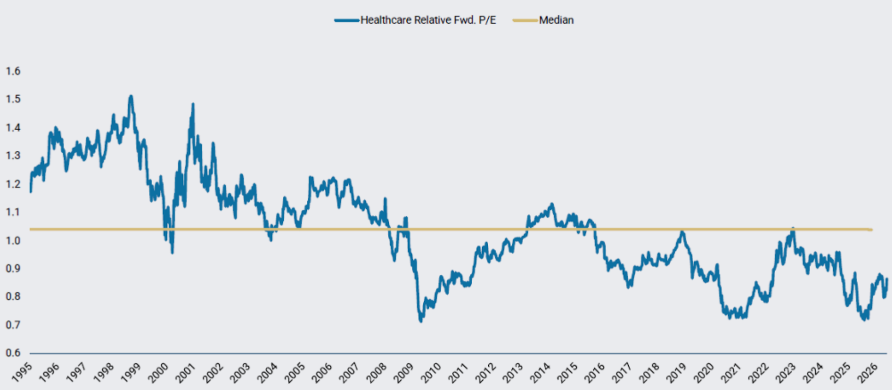
Valuation

The multi-year underperformance of Healthcare has depressed the sector's valuation and weight in major indices. Both measures have fallen to multi-year lows. From these levels, Healthcare has previously performed strongly, particularly during broader market declines.

Source: Polar Capital (June 2026)

Healthcare's weighting in the S&P 500 has fallen below its 2000 low, from where it performed strongly

Healthcare's current discount versus the market has been an excellent entry point in the past.

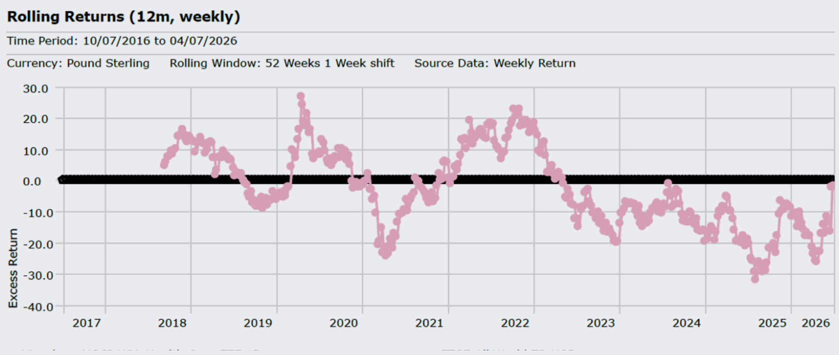


Source: Polar Capital (June 2026)

Healthcare's relative price to earnings valuation remains at a very attractive discount versus a cyclicals-heavy market

One measure of the US Healthcare sector's attraction is its 12-month rolling performance versus the FTSE All World. The chart below highlights the sector's strong outperformance during bear markets, as in 2020 and 2022, and its underperformance during bull markets, as in 2021.

We re-invested in the sector via Biotech in 2025 and have benefited from the strong recovery in Healthcare's relative performance since. This has lifted this measure to neutral for only the third time in 6 years. If it breaks higher from here - by outperforming, as it did in 2022 - it will offer a valuable source of diversification for our portfolios.



Source: Morningstar, Bentley Reid

Positioning

We access the US Healthcare theme via the Xtrackers MSCI USA Health Care ETF, the cheapest available US Healthcare index tracker (0.12% annual fee).

The fund invests in 59 companies listed in the United States. Top holdings in this market cap weighted index include Eli Lilly, Johnson & Johnson and Abbvie (at 30th June 2026).

Top 10 ETF constituents

Issuer	ISIN	Weight
ELI LILLY	US5324571083	16.40%
JOHNSON & JOHNSON	US4781601046	10.37%
ABBVIE INC	US00287Y1091	7.57%
UNITEDHEALTH GROUP INC	US91324P1021	6.56%
MERCK & CO INC	US58933Y1055	5.38%
AMGEN INC	US0311621009	3.26%
THERMO FISHER SCIENTIFIC INC	US8835561023	3.22%
ABBOTT LABORATORIES	US0028241000	2.77%
GILEAD SCIENCES INC	US3755581036	2.68%
INTUITIVE SURGICAL INC	US46120E6023	2.43%

Source: DWS

The fund invests in the Pharma, Biotech, Medical Technology and Healthcare Services sub-sectors that comprise the Healthcare sector

DISCLAIMER