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US Healthcare | Theme Update

Q3 2026

In a Nutshell

Broadening leadership drives breakout outperformance

Summary

The US Healthcare sector delivered strong absolute and relative returns in the third quarter (Q3) of 2026, building on its record late-June rally that closed out Q2. Against a backdrop of surging bond yields and a sharp unwind in speculative tech momentum, the Xtrackers MSCI USA Health Care ETF (Healthcare ETF) rallied +5.7% (dollar terms), outperforming a +1.7% rise in the FTSE All-World index by 4.0%.

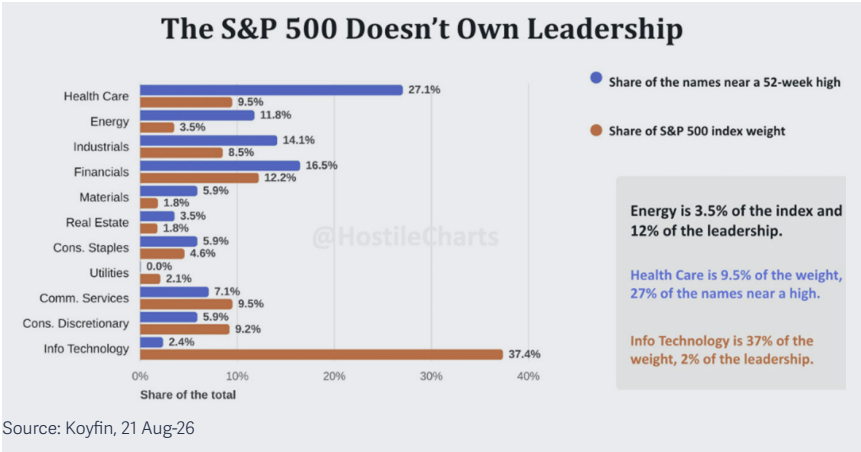
Sub-sector leadership rotated markedly during Q3. Having led the sector higher in Q2, mega-cap bellwethers Eli Lilly (-3.4%) and UnitedHealth (-11.1%) consolidated their prior gains in Q3. Rather than stalling the sector, leadership broadened across Med Tech and Biotech – led by Thermo Fisher Scientific (+34.7%), Gilead (+18.6%) and Amgen (+17.1%). By late August, despite representing just 9.5% of the S&P 500, Healthcare accounted for 27.1% of all S&P 500 constituents trading near a 52-week high – the broadest internal leadership of any sector in the US.

Fundamental and regulatory catalysts reinforced this broadening rally. While investor attention remained fixated on artificial intelligence (AI), revenue data highlights that the two leading GLP-1 weight-loss drugs generated $70.9bn in 2025 – nearly 2.5x the combined annualised revenue of OpenAI and Anthropic. Meanwhile, AI labs moved deeper into real-world drug discovery, and the US administration signalled it would permit most pharmaceutical licensing deals with Chinese Biotechs to proceed, removing a key pipeline overhang for US drugmakers. With defensive sectors still trading near a 40% relative valuation discount – levels last seen at the 2000 dot-com peak – US Healthcare offers rare defensive value alongside cash-generative growth.

Market & Industry Developments

Broadening Sector Leadership

A critique of US Healthcare in recent years has been its reliance on a handful of obesity-drug winners. Q3 helped ease those concerns. As Eli Lilly and UnitedHealth paused after their Q2 surges, investors rotated into undervalued Biotech and Med Tech franchises across the wider sector.



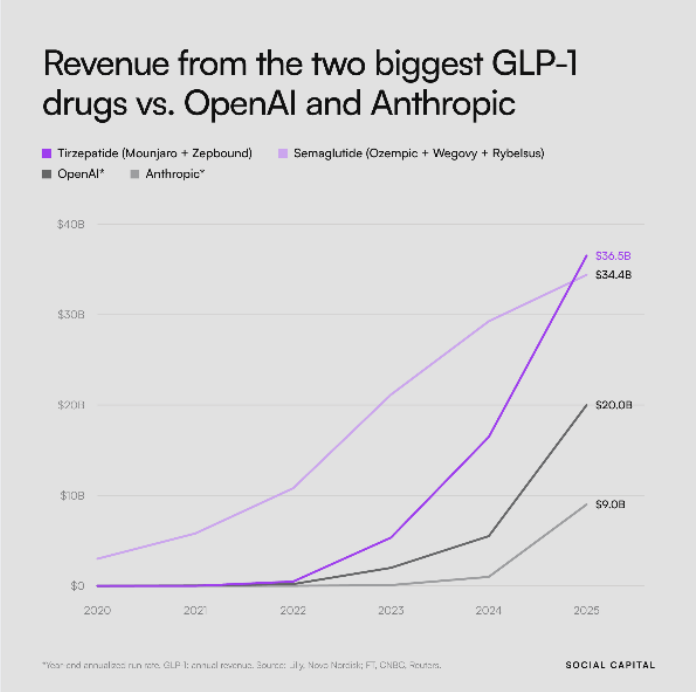
Source: Koyfin, 21 Aug-26

Despite representing just 9.5% of the S&P 500 by weight, Healthcare accounted for 27.1% of all index constituents near a 52-week high in Q3 – compared with just 2.4% for Tech

Blockbuster Cash Flows vs. AI Hype

While tech headlines remain dominated by AI, the commercial scale of Big Pharma blockbusters is often underappreciated. Data published by Social Capital illustrates that the two flagship GLP-1 franchises – Eli Lilly's tirzepatide (including Mounjaro) and Novo Nordisk's semaglutide (including Ozempic) – generated $70.9bn in combined 2025 revenue. That is 2.4x the combined revenue run-rate of OpenAI ($20.0bn) and Anthropic ($9.0bn).

Notably for our US-focused allocation, Lilly's tirzepatide ($36.5bn) officially overtook Novo Nordisk's semaglutide ($34.4bn) as the world's top-selling obesity franchise.



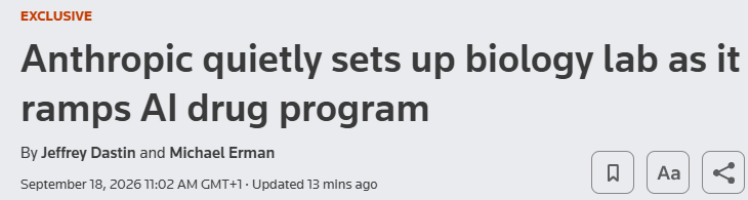
Source: Social Capital

In 2025, the two leading GLP-1 drugs generated $70.9bn in revenue. Each drug individually generates more revenue than OpenAI and Anthropic combined

AI Moves Into the Wet Lab

Rather than competing with Healthcare for capital, AI is accelerating drug discovery. Following Google DeepMind's release of its DNA mutation model in September, Reuters reported that Anthropic has quietly established its own wet-lab facility to accelerate its AI drug-discovery programme. Unlike in software, AI's role in Healthcare has to date been symbiotic rather than competitive: Anthropic partners directly with major drugmakers and restricts its own lab to early-stage research rather than clinical trials.

As both AI developers and Big Pharma ramp up automated drug testing, demand is flowing directly into the 'picks and shovels' of the Med Tech sector, helping propel lab equipment leader Thermo Fisher Scientific (+34.7%) to the top of the Healthcare ETF's Q3 contribution table.


EXCLUSIVE

Anthropic quietly sets up biology lab as it ramps AI drug program

By Jeffrey Dastin and Michael Erman

September 18, 2026 11:02 AM GMT+1 · Updated 13 mins ago

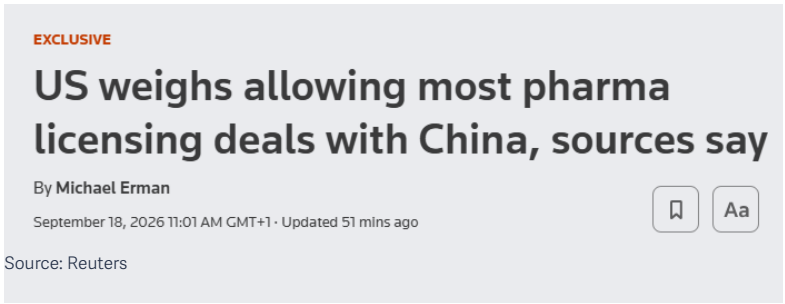
Aa

Source: Reuters

Frontier AI labs are moving directly into wet-lab biology to compress drug discovery timelines, driving new demand for Med Tech and Healthcare Services suppliers

US-China Licensing Reprieve & Regional Divergence

On the policy front, US Pharma received a major reprieve in September when Reuters reported that Washington is poised to exempt most China-originated drug licensing deals from biosecurity restrictions. Because Chinese Biotechs have become a cost-effective source of early-stage oncology drugs, preserving this licensing channel allows cash-rich Big Pharma to replenish pipelines at attractive returns on capital.


EXCLUSIVE

US weighs allowing most pharma licensing deals with China, sources say

By Michael Erman

September 18, 2026 11:01 AM GMT+1 · Updated 51 mins ago

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Source: Reuters

Washington's pragmatic stance on Chinese drug licensing supports US Pharma pipelines, with the Q3 timing contrasting with clinical setbacks at European peers, such as Novartis

This pipeline flexibility continues to separate US leaders from their European counterparts. While US Biopharma players such as Merck, Amgen and Gilead posted double-digit gains in Q3, European heavyweight Novartis suffered twin late-stage clinical trial setbacks in September that renewed pressure on its pipeline, reinforcing our preference for a pure-play US exposure.

Performance

The US Healthcare ETF rose +5.7% in Q3, outperforming the FTSE All-World (+1.7%) by 4.0%.

The largest positive contributors in Q3 were Thermo Fisher Scientific (Med Tech), Merck (Pharma) and Amgen (Biotech). Merck (+13.8%) gained on strong oncology demand, while Amgen (+17.1%) rallied on encouraging clinical updates for its next-generation obesity candidate, MariTide.

STOCK	Q3-26 PERFORMANCE (%)	Q3-26 CONTRIBUTION (%)
THERMO FISHER	34.7	1.1
MERCK	13.8	0.7
AMGEN	17.1	0.6
J&J	4.8	0.5
GILEAD	18.6	0.5

Source: Bloomberg

Thermo Fisher Scientific (+34.7%) was the leading contributor in Q3 (+1.1%) as Biopharma R&D spending inflected higher and lab equipment orders recovered

The largest detractors in Q3 were Q2's strongest performers – UnitedHealth, Eli Lilly and CVS Health – which gave back a portion of their Q2 gains. Eli Lilly (-3.4%) consolidated after a +30% surge in Q2, while CVS Health (-16.6%) and UnitedHealth (-11.1%) pulled back after rallying +44% and +53% respectively in Q2.

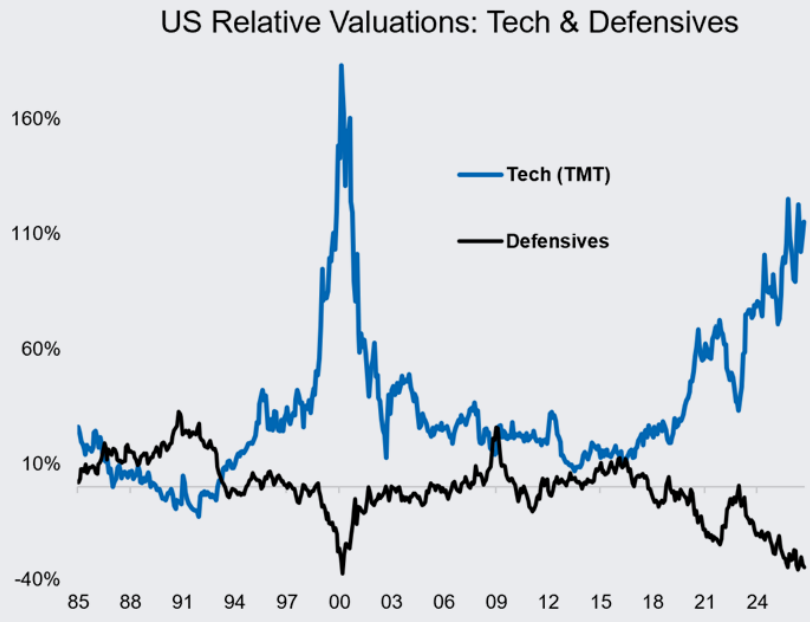
STOCK	Q3-26 PERFORMANCE (%)	Q3-26 CONTRIBUTION (%)
UNITEDHEALTH	-11.1	-0.7
ELI LILLY	-3.4	-0.5
CVS HEALTH	-16.6	-0.4
STRYKER	-12.2	-0.2
ALNYLAM PHARMA	-18.0	-0.1

Source: Bloomberg

UnitedHealth (-11.1%) was the largest detractor (-0.7%), consolidating after its +53% relief rally in Q2 as medical-loss ratios remained in focus

Valuation

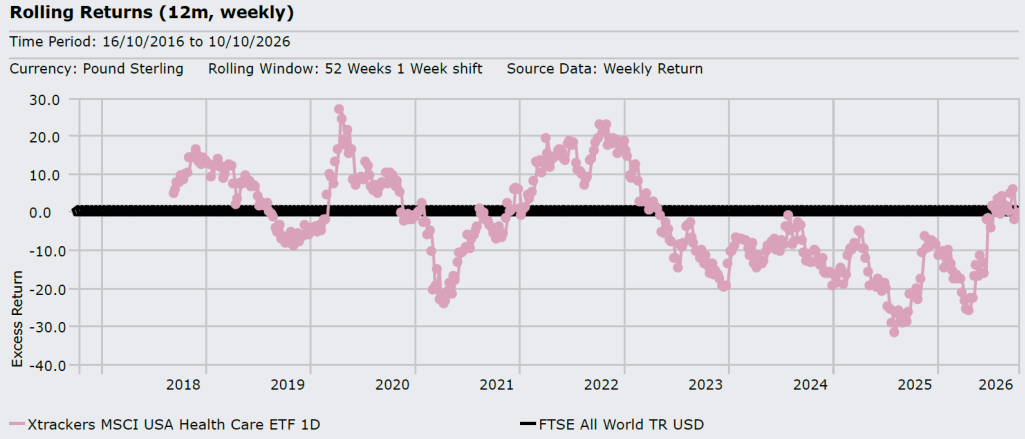
Despite its Q3 outperformance, US Healthcare and the broader US defensive sector cohort remain historically under-owned and inexpensive relative to a tech-dominated market. The combined market-cap weight of US defensive sectors has fallen to ~15% (versus nearly 60% for Tech and tech-related stocks), while defensive valuations sit near a 40% discount to the market.



Source: Topdown Charts, LSEG

US defensive sectors trade at nearly a 40% relative valuation discount to the broader market – matching the extreme trough of the 2000 dot-com peak, which preceded years of strong outperformance

In our Q2 update, we noted that the US Healthcare ETF's 12-month rolling return versus the FTSE All-World had recovered to neutral for only the third time in six years, and that a breakout higher would provide valuable portfolio diversification. In Q3, that breakout materialised, with the sector outperforming the All-World by 4.0% as bond yields rose and cyclical tech momentum unwound.



Source: Morningstar, Bentley Reid

Healthcare's 12-month relative return has broken out above neutral

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 57 companies listed in the United States. Top holdings in this market-cap weighted index include Eli Lilly, Johnson & Johnson and AbbVie (at 30th September 2026).

Top 10 ETF constituents

Issuer	ISIN	Weight
ELI LILLY	US5324571083	15.13%
JOHNSON & JOHNSON	US4781601046	10.45%
ABBVIE	US00287Y1091	7.51%
MERCK & CO INC	US58933Y1055	5.86%
UNITEDHEALTH GROUP	US91324P1021	5.48%
THERMO FISHER SCIENTIFIC INC	US8835561023	4.02%
AMGEN INC	US0311621009	3.60%
GILEAD SCIENCES	US3755581036	3.02%
ABBOTT LABORATORIES	US0028241000	2.81%
PFIZER	US7170811035	2.61%

Source: DWS

The fund provides diversified exposure across Pharma, Biotech, Life Sciences Tools, Med Tech and Healthcare Services

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