(UBS)

Why health care offers more than a defensive role in portfolios

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Over the past year, the health care sector has outperformed the S&P 500 on 85% of the days when the benchmark was down 1% or more.

While this is consistent with health care's role as a source of ballast within portfolios, we believe the sector is more than just a defensive trade.

The development of GLP-1 drugs highlights the growth opportunities in pharmaceuticals. The pharmaceuticals industry makes up a third of health care, and it is rapidly moving to innovation-driven growth. In fact, the S&P 500 Pharma index's 7.1% year-to-date gain has outperformed the Magnificent 7, with GLP-1 drugs shifting the paradigm in obesity treatment. Recent encouraging trial results from AstraZeneca, Eli Lilly, and Roche bode well for GLP-1 drugs to grow into a market with global revenues expected to exceed USD 100bn by 2030, according to our estimates. These drugs are also increasingly shown to have a broader utility. Research confirmed last year that GLP-1 medicines improve outcomes in people with cardiovascular, kidney, liver, arthritis, and sleep apnea disorders, independently of weigh loss itself. This suggests GLP-1 drugs are evolving from diabetes and obesity treatments into a systemic metabolic therapy platform. The oral pill format is also accelerating adoption this year, expanding the addressable market.

The convergence of AI and advanced genomics suggests a paradigm shift. The second pillar of the bull case for health care is the technological changes in how drugs are discovered. Historically, bringing a single drug to market would likely take over a decade and cost upwards of USD 2bn, with a high failure rate in clinical trials. But pharma companies are now using AI to screen billions of chemical compounds in days rather than years, and the technology is helping scientists predict how molecules will behave, which significantly lowers the failure rate in early-stage trials. For investors, this means shorter development cycles, lower research and development costs, and a much higher return on invested capital. With AI, the industry is moving toward an efficient, data-driven pipeline model where companies can fail fast, pivot quickly, and scale successful therapies at a fraction of the traditional cost.

So, with the structural changes in global demographics—one in six people worldwide will be aged 60 and over by 2030—we see an expanding, inelastic demand for advanced therapies and health care. This underpins our positive outlook on the sector as well as the *Longevity* theme. Investors able and willing to bear the unique risks of using derivatives can also consider structured strategies to build exposure.

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