

Rhenman Rebounds as Regulatory Fog Lifts in Healthcare

2025 has been a year of two halves for the global healthcare sector and for the long-biased, healthcare-focused Rhenman Healthcare Equity L/S fund. With the "regulatory fog lifting" in the second half of the year, according to portfolio manager Hugo Schmidt, the fund has gained 34 percent over the past four months, including a 12.6 percent gain in November alone, bringing its year-to-date performance just above 10 percent.

"The healthcare sector had tumultuous first half of the year, characterized by political uncertainty and drug pricing negotiations," recalls Schmidt, part of the five-member investment team led by CIO Henrik Rhenman. According to him, sector sentiment decreased dramatically as a result, pushing valuations and allocations to record low or near-record levels. "During the first half of the year, attention was primarily directed toward political uncertainties and the presence of unknown variables."

"However, the finalization of the drug pricing framework (Most Favored Nation) in late September, with a first deal between the Trump administration and Pfizer, marked a distinct turning point," Schmidt notes. The Most Favored Nation (MFN) framework aims to reduce U.S. drug prices by linking them to the lowest levels observed in other developed countries, while simultaneously offering tariff exemptions and incentives to encourage domestic production and research. After Pfizer finalized the first MFN agreement in September, AstraZeneca followed with its own deal in October, and further agreements are anticipated in the months ahead.

"With the regulatory fog lifting, many companies are aggressively shifting their focus from defensive posturing to strategic growth," Schmidt observes. "Pharmaceutical giants are now becoming more willing to deploy their substantial cash reserves, and we have seen a significant increase in M&A activity in recent months," he notes. As a result, the latter half of the year has been characterized by a focus on completed deals and the sector's strong underlying fundamentals.

"While the sector as a whole has experienced a degree of recovery, targeted stock selection has played a significant role for the fund's performance, with notable advancements particularly within the biotech sub-sector," Schmidt notes. Rhenman Healthcare Equity L/S gained 12.6 percent in November, compared with roughly 7.5 percent for the healthcare sector within the S&P 500. Year-to-date through November, the fund has risen just above 10 percent, marking a strong rebound from a challenging first half of the year.

While the second half of the year has seen a solid recovery for both the healthcare sector and Rhenman's fund, Schmidt and the team at Rhenman & Partners acknowledge near-term risks, particularly technical challenges in the biotech subsector, which has posted very strong gains in recent months. Nonetheless, Schmidt and the team "believe the long-term outlook remains strong, and valuations are still attractive given the sector's potential."