

Healthcare Rally Fuels Rhenman Healthcare Equity L/S

After two strong months for broader equity markets in April and May, investors took a breather in June. The healthcare sector, however, bucked the trend, emerging as the standout performer and delivering its strongest relative performance against the S&P 500 since 2001. Riding this powerful sector rebound, Rhenman Healthcare Equity L/S was the clear top-performing Nordic hedge fund in June.

The long-biased healthcare strategy gained 13.2 percent during the month in its main share class, more than recouping the losses from a more challenging start to the year. "The healthcare sector posted strong returns in June, driven by M&A activity, improved regulatory prospects, and market rotation," writes the investment team led by CIO Henrik Rhenman. "Sentiment for biotech stocks was further strengthened by new leadership at the U.S. drug regulator, the Food and Drug Administration (FDA)."

A surge in merger and acquisition activity has been one of the defining themes in healthcare this year, with the Rhenman Healthcare Equity L/S portfolio itself benefiting from two takeovers in June alone. According to PitchBook, global biopharma deal value has reached \$106 billion across 201 transactions in 2026, marking the strongest pace since the pre-pandemic peak. Both the number of transactions and average deal size have increased by more than 50 percent compared with last year, according to Rhenman & Partners.

The investment team argues that this wave of consolidation is being driven primarily by the industry's looming patent cliff. "The underlying driver of M&A activity is the so-called patent cliff, meaning a large number of drugs are set to lose patent protection by 2030," the team explains. Pharmaceutical companies are increasingly turning to acquisitions to replenish product pipelines and offset the loss of exclusivity on blockbuster drugs.

The financing backdrop has also improved considerably. "Capital markets have also come back to life," the team notes. During the first half of 2026, healthcare companies raised more capital through IPOs than during the whole of 2025, with the first quarter representing the strongest issuance period since 2021. At the same time, the team believes there is still significant room for additional inflows into the sector. "There is plenty of capital still sitting on the sidelines, according to data from Bank of America, global fund managers remain underweight healthcare, while the world's 25 largest pharmaceutical companies collectively hold an estimated \$1.3 trillion of dry powder on their balance sheets."

Following June's broad-based rally, during which all four healthcare sub-sectors contributed positively to returns, the investment team remains constructive on the outlook. The primary risk, in their view, is a renewed rise in inflation driven by geopolitical developments or the continued buildout of AI infrastructure. "A sudden deterioration in geopolitical conditions and the AI

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infrastructure buildout are two tail risks that could put renewed upward pressure on inflation," concludes the team. "We view a sharp rise in inflation expectations as relatively unlikely and therefore assess the outlook as favorable for the healthcare sector, which we believe may only just have begun its comeback in the equity market."