Goldman Sach Exchanges

The Healthcare Outlook: Macro Challenges and Biotech Innovations

Asad Haider, Head, US Healthcare Business Unit, Goldman Sachs Research

Amit Sinah, Head, Life Sciences Investing, Goldman Sachs Asset Management

Allison Nathan, Senior Strategist, Goldman Sachs Research

Date of recording: September 8 and 15, 2025

Allison Nathan: Equity markets are reaching new heights, but one sector has been lagging behind -- health care. So what's driving this underperformance? And how will upcoming innovations impact future investment opportunities and the sector's outlook? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

In today's episode, I'll be speaking with Asad Haider, who leads the team covering the US health care sector for Goldman Sachs Research. We'll explore the macroeconomic factors and the specific headwinds and tailwinds affecting the industry.

Next, we'll turn to Amit Sinha, head of Life Sciences

Investing in Goldman Sachs Asset Management, to discuss how investors are navigating the emerging innovations and risks in this sector.

Asad, welcome to Exchanges.

Asad Haider: Thank you for having me.

Allison Nathan: So let's start with the big picture. I'm just looking at my screen. The S&P 500 is at record-high levels, but health care has not had that performance. In fact, it's substantially underperformed. And if I have my facts right, the health care sector's weight in the index has dropped to its lowest point in decades. So let's just start there. What is behind this significant underperformance?

Asad Haider: You're right. Health care has really struggled this year, and it's actually struggled for the last few years. It's actually the fifth straight year of health care underperformance, and you had this period of outperformance during the COVID years, after which the health care sector has rolled over and been struggling since. And your observation on the market cap weighting is the right one. Health care right now commands about

9% of the S&P's weight, which is the lowest in about 30 years.

So what's going on? I think it's a combination of things. I think there's exogenous factors on the macro as well as endogenous factors that have to do with sector fundamentals and product cycles, etc. So let's unpack each of those things.

On the exogenous side, obviously this is a market that's been captivated by the AI trade, and that's where all the marginal dollars are going and every other sector it feels like has become a source of funds. And health care hasn't been spared from that rotation. I think particularly acute for health care on the endogenous side and the reason perhaps it's been more of a rotational source than other sectors is that there are some fundamental issues.

So for example, earnings revisions for the health care sector have been tracking the wrong way for about three years now. You have had a period of outflows from the sector now for about five years, really since the COVID period, which was a time of the big inflows into the industry. You have had some exhaustion around big

product cycles -- things like GLP-1s and obviously during the COVID pandemic you had COVID revenues, double revenues of some of the companies that were involved in that. That's no longer the case. There's not a lot of leadership from any of the specific companies, and so that's been lacking.

And then on top of that, you've had policy overhangs, and that's really been a big factor that's been driving multiple contraction across the health care sector and keeping generalists away, and those policy overhangs have to do with both things that are happening in Washington, D.C., in terms of changes to the environment around things like drug pricing and sector tariffs, etc. But also regulatory overhangs, big changes at some of the agencies for health care -- FDA, CDC, NIH, etc. So I think the combination of all of those factors have led to this period of severe underperformance.

Valuations are cheap, and there's a lot of uncertainty reflected. But the question that we always have to ask ourselves is that valuations obviously end up being a lens and not a thesis. And so what you really need to see is an inflection in the fundamentals I think for the sector to turn

around or something to shift on the macro where either tech rolls over and money comes back into health care or something else happens.

Allison Nathan: I want to dig into the policy uncertainty a little bit more because it does feel like a big headwind to the sector right now. So you mentioned a few, but what policies specifically are we talking about? And what do they really mean for the sector? There are a couple that stand out that are having a big impact.

Asad Haider: Yeah, absolutely. So you never really want to have policy uncertainty in a sector or in an area that's already struggling with some of the fundamental headwinds that I talked about. A lot of the pharma industry, for example, is already going to be navigating some severe what we call patent cliffs in the '26 to 2030 period. And into those patent cliffs, what's happened is that the uncertainty from the Trump administration on the policy side on things like drug pricing and trying to normalize the prices of US and OUS prices and this whole concept of most favored nation pricing, etc., things like sector tariffs, they've all become a little bit more acute.

And I think one thing that's been particularly noticeable this cycle with the Trump administration is that drug pricing, for example, and really health care policy has become very bipartisan. This used to be something that used to be the realm of the Democrats, and now it has been co-opted by the Republicans as an area which is now completely bipartisan. And there's a lot of uncertainty on where drug pricing will go, what kind of downstream effects that's going to have on things like innovation. And I think until you actually see some kind of clarity, that's probably going to remain an overhang.

Allison Nathan: Let me ask you, because we are heading into the winter months here, so let me ask you a bit about vaccines which have certainly been in the headlines recently. What are the implications of some of the policy shifts we think we are seeing at this point on vaccine distribution and access?

Asad Haider: Yeah. Another great question. And so this all gets wrapped into some of the regulatory and policy uncertainty that I was mentioning earlier. And I think vaccines specifically are an area where the uncertainty has been particularly acute for reasons that I think everyone is

aware of.

So for example, the head of HHS, Robert F. Kennedy, Jr., has had some very unorthodox views on vaccines that have created some uncertainty in those areas. And you've seen things like changes of personnel in the CDC as well as the HHS, in the CMS, etc. Some of the supporters of vaccines are no longer in the agencies. There's uncertainties around upcoming ACIP meetings that have to do with vaccines. And I think for COVID specifically, there's a big debate about just mRNA vaccines broadly. And so there have been some guideline changes and some new recommendations restricting the populations for which boosters would be required for going into this next COVID season. And there's been some restrictions, age-based restrictions as well that weren't there in the past. Those are new recommendations. And so there's that on the policy side.

I think the bigger question also, the other outstanding question is also to your point, going into the winter months, is on the demand side. Like, how is this going to change behavior? Is this working its way into people's ways about thinking about vaccines, what they might say,

"Look, we may not need it this season," or maybe ever, right? And you also have some parts of the country like Florida recently said that they were taking away all vaccine mandates, not just for COVID but for every vaccine, which is actually very surprising to see. So there's that uncertainty, right? And then we'll see how that translates into demand even though the seasonal COVID wave does seem to be picking up. But we'll see how that all plays out in terms of demand and overall vaccine uptake.

Allison Nathan: All very interesting. Let me ask you one other area that has come into focus, which is the cuts to funding. We've seen a lot about NIH funding being cut, and ultimately we think about health care as a sector that is innovating but it relies a lot on that type of funding. So how will that potentially impact innovation in the sector?

Asad Haider: There's no question that's going to have an impact on innovation and probably already is having an impact on the way large biopharma companies, for example, are thinking about how to spend R&D dollars. I think the funding for the NIH is about $50 billion in any given year, and there is talk now of that being cut by about 40% under the Trump administration. And so there's no

question that's going to have some downstream effect on new innovation in R&D in areas like Alzheimer's and some of the other biotech areas where the industry was looking for funding or it needs funding. And so how that plays out remains to be seen, but I think that is an area that continues to be uncertain. And it's having downstream effects in some of the areas like life sciences tools, for example, which are the companies that make the picks and shovels for R&D and for pharmaceutical companies. Those stocks have also been struggling for exactly this reason, because a lot of them are exposed to academic funding, government funding, NIH funding, and the cuts that you're seeing there are actually weighing on perception of those end markets over the longer term as well.

Allison Nathan: Right, so far-reaching impacts at this point, as you can see.

Asad Haider: Absolutely, yeah.

Allison Nathan: But ultimately, there is still innovation in the sector, so let's be a little bit more positive here. Where are there areas where you see innovation having a positive impact ahead?

Asad Haider: It always comes down to innovation, and one of the nice things about health care is that, through all this doom and gloom that we just discussed, there's always opportunities for idiosyncratic stock picking because there is always innovation. And if you go back maybe just to zoom out to about 10,000 feet, if you go back and look at the history of the pharma industry, for example, pharma has actually underperformed the S&P for 25 years. And that might sound surprising to a lot of people, but at an index level, the DRG, which is the pharma index, has actually lagged. But through that period, there's always been one or two companies that have delivered significant alpha. They've outperformed not just pharma, their own peers, but also the broader markets. And the reason is because they've had the innovation.

And most recently, you had the GLP-1s and the obesity names, like Eli Lilly and Novo Nordisk were leading that charge. And you had a couple of other companies. It's always a couple of companies that lead that. And so that innovation is always going to be there. One of the problems is that the revenue bases of these companies has become so large that you need to see big dollars and big

numbers to be able to move the revenue needles, but innovation is going to continue. That's the bread and butter of the industry.

There's a lot of exciting stuff going on, going back to where the earlier conversation on obesity, for example, the oral obesity pills are going to be a next big blockbuster product cycle that we are watching. We think are going to be a multi-billion-dollar opportunity, probably tens of billions of dollars by 2030. And you've got a couple of companies leading that charge. That's a globally scalable, innovative trend that we think is very exciting and one to monitor even though there's probably going to be some pricing events there.

Oncology, looking for new ways to improve upon the standard of care in cancer treatments is something that a lot of companies are working on. And most recently, there's been a lot of efforts to dethrone some of the incumbents in cancer. There's a new innovation around something called PD-1/VEGF bispecific, which is basically fusing together two known oncology drugs and trying to see if the combination of those, one plus one equals more than two. And so that's something that's capturing a lot of

attention right now.

Cardiovascular has recently seen a renaissance in innovation and new ways to treat things like heart disease and blood pressure. And then there's always neuroscience. Alzheimer's is the holy grail. And if we can get that right, that's going to be a real incredible opportunity, but that's been a struggle. But a lot of companies are still working on innovation in that area as well.

Allison Nathan: And what about AI? You mentioned it at the beginning. It's been very buzzy. There's been a lot of talk about how it is going to revolutionize health care in this country and in the world. But what are you observing in terms of the impact and the potential of AI for the industry?

Asad Haider: It's a great buzzword, and it's also a great tool for the industry broadly. From an equity investment prescriptive within health care, it's a tough theme to express even though a lot of companies, pretty much all of the large health care companies are talking about using AI in some way, shape, or form. So for example, streamlining R&D processes, accelerating FDA

dossiers and applications, looking for ways to cut costs.

In fact, one large pharma company that is presenting at a conference that's ongoing right now, investor conference, talked about how their AI efforts have led me to save about $250 million in costs. And that's one of the first times we're actually hearing numbers put around these AI efforts.

I think the problem is that, from a health care investor perspective, it's tough to invest in health care as an AI play until you actually start seeing real evidence of it moving the needle from an EBIT or an EPS perspective or a revenue perspective in some way. And you haven't seen that yet. There have been a number of smaller biotech companies that have been AI plays. There were a lot of biotech IPOs back in the day for companies that branded themselves as AI plays, and those have fizzled out a little bit. And I think the issue is a broader one, which is that for the market there are many easier expressions of the AI trade than there are within health care.

So AI is something we're watching. It's something that I expect is going to continue to take hold in some of the areas that I mentioned, but I think we're still probably a

ways away from it being rewarded from a health care equity investor perspective.

Allison Nathan: Interesting. So Asad, when we put this all together and we look at the headwinds but also the tailwinds, what is the outlook for health care? Will it see a turnaround this year or next?

Asad Haider: You know, Allison, the outlook for the sector broadly at an index level is tough for reasons that we talked about, because of the exogenous as well as the endogenous factors. But there's a lot of exciting stuff going on at a company level certainly. And for example, we see a lot of opportunities in the small-cap biotech and the mid-cap biotech space where there's a lot of exciting new innovation going on.

And recently actually, over the last call it four or five months, you actually have seen a resurgence of the XPI, which is the biotech index, and some of the smaller names because people are starting to recognize that there is a lot of innovation there, number one. And number two, that the revenue needles for those companies are -- that those companies are small enough where you can actually get

paid to play that innovation. You don't have to be betting on these big markets like obesity and oncology and some of the other areas I talked about before. So we're excited about that. There's a lot of opportunities in that space.

And even on the larger cap side, we see opportunities in some of the big new product cycles. Oral obesity is one that we mentioned. And then within some of the other areas that I mentioned -- cardiology -- there's been a real renaissance. There's a number of companies that are very leveraged to that trend. Oncology and the new PD-1/VEGF bispecific, there's a number of companies that are leveraged to that trend. So we think those are going to be very exciting opportunities.

And then even outside of pharmaceuticals, if you zoom out and you look at areas like med tech, there's a lot of interesting innovation going on and new product cycles. And so our outlook for those companies is also very positive.

So I think long-winded way of saying that index level performance depends on so many things, so it's hard for me to say, okay, now health care is going to inflect and just

continue to outperform. But within that underperformance, I think there's going to be a lot of opportunities at a company level.

Allison Nathan: So opportunities for upside but selective opportunities.

Asad Haider: Absolutely.

Allison Nathan: Thanks so much for joining us Asad.

Asad Haider: Thank you for having me.

Allison Nathan: We'll now turn to Amit Sinha, head of Life Sciences Investing at Goldman Sachs Asset Management, who will share his perspective on how investors are navigating the innovations and risks in the early stage biotech sector. Amit, welcome to the program.

Amit Sinha: Great to be with you, Allison.

Allison Nathan: We just talked to Asad about the history of underperformance of the health care sector in recent years, but biotech is no exception. It's been in a bear

market as well. What's driving some of that on the biotech side?

Amit Sinha: Yeah, I'm going to maybe pull that apart into a few different pieces because there's been a lot that's been happening over the last five years. Let's start with maybe what's going right. So what's going right is -- and we've talked a lot about this at GS, us being in this golden era of innovation. And really the innovation hasn't stopped. The breakthroughs that we're seeing in science and technology that are converting into great medicines, despite the fact that we've been in this correction for years now, we still see that happening in a profound way.

What's changed is really there's been a real big shift and a correction in the public markets. That's been fueled by frankly a little bit of a bubble that we ran into into 2020 and 2021. And that's had to work itself out. That's working itself out. And frankly, some of this is also just a resetting back to where the market almost had always been.

And just to talk a little bit more about that, what we saw with the enthusiasm in the period from 2017 to 2021

where we had this huge run-up in biotech is we saw a period of zero interest rates -- so free money -- we saw a lot of speculation in biotech, we saw the stage of biotech companies that were going public move much earlier than they had ever gone at much higher valuations. We also saw a bunch of new participants. Biotech is, I would argue, a really long-duration, hyper technical asset class, particularly when you're talking about these early-stage names. But we saw generalist investors, we saw retail investors coming in, speculating on these names. And so it shouldn't be a surprise that we had a bubble.

As interest rates went up, the market came down, biotech came down, the retail generalist investors came out, and we had a massive correction in the space. And so what we've been working through over the last four or five years is really a reset where those investors are out, and we're seeing a reconstitution of the ecosystem of how biotech companies are built and funded. And part of that has been venture capital is being reformed. Private equity is entering the space in a really interesting way, so some of the public company that was funding these companies has now moved to the private space, which we can talk about. I think there's some real unique advantages to that being the

case.

And then these companies now are going public, but they're going public later in their life cycle, which we actually think is a healthy thing. So I think in some ways it's been painful, but we're getting back to a healthier place for the ecosystem.

Allison Nathan: So let's just follow up on one point you just made, which is why private capital seems to be well suited to the sector. Talk to us a little bit more about that.

Amit Sinha: To me, this is just an evolution of the industry. And so, again, if you start with this concept that this is a long-duration, very technical asset class and then you start with this other idea that public companies are really meant to be for earnings stage companies -- we call them quarterly earnings calls for a reason. An early stage biotech company could be eight, ten years from revenues and maybe 12 or 15 years from profits. And so what ends up happening is a couple of things.

First, when you put that company in the public market, it goes out. And there's reasons these companies may want

to go public. Sometimes it's better access to capital. Maybe liquidity for the current investors. But the challenge is, once you put that company public, it's not necessarily that natural for them to just be out in the public space because these companies will run experiments for 12 months, 24 months, maybe longer at a time. And during that time, they're just doing their thing. There's not a lot of news flow, and so there's not necessarily a reason to buy them every quarter unless something's really happening, unless they've reported out data, for instance.

On the other hand, and you can see this in the last four years, the short interest is companies have actually become the darling for hedge fund investors to short because there's no bid in the stock and there's no reason to own it until that experiment reads out. You can short the stock. And so there's just some unfavorable dynamics for them to be in the public domain.

With private investing, you can take some of that volatility out of the companies. You can allow these management teams to really focus on execution. You can provide more line of sight to durable capital if you have the right types of

investors and the right amount of funding there.

And then from an investor perspective, you can be actively involved.

Allison Nathan: So you started out this conversation talking about innovation in the biotech sector, which is how we generally think about the sector. So give us more detail about the innovation that is happening, what most excites you in the sector, now that we have had this reset, as you call it?

Amit Sinha: I'm going to touch on maybe just three or four different areas of science where we're just seeing tremendous breakthroughs, and as those converge they're unlocking a bunch of different ways that we can tackle diseases that we have never been able to do before.

And so take the field of genetics as an example. It's hard to really think about the fact that we just fully sequenced the human genome a little over 20 years ago, right? It was in the early 2000s, and now we can actually edit our own human genomes through things like CRISPR technology. We can, if a patient has a mutated copy of a gene that's

causing disease, we can give them a functional copy of that gene that can potentially cure their disease through gene therapy.

If you think about the field of immunology, almost every disease has some component of our immune system doing something that it shouldn't. Maybe it's doing too much. Maybe it's not doing enough. Maybe it's pointed at the wrong direction, we have autoimmune disease. There's a bunch of technologies coming online that are really allowing us to engage and tune and direct our immune system in the context of fighting disease.

And then the whole field of cell therapy is exploding, and so this is the idea that, with genetic engineering technologies, we can take our own cells, we can engineer them to do certain things like combat cancer, and we can build these armies in the context of CAR T therapy, as an example, this army of T cells and give them back to a patient to fight their cancer.

And so you have all of that, and then the other tailwind that's applying broadly to the world and to the global economy but certainly to life sciences is AI. And so as we

AI enable a lot of these scientific technologies, the ability to move through these steps of innovation in a much more effective and efficient way is that much greater.

Allison Nathan: So lots of areas of innovation, but we were just speaking to Asad about the shifting policy landscape and the concern I think that some investors have is that will dent innovation in the sector. What's your view?

Amit Sinha: Well, there's no question biotechnology and life sciences innovation is one of these fields where getting the science right isn't enough because it's a regulated industry. We're subject to government reimbursement. And so policy shifts and changes can really have a profound effect on the way that innovation works and the way that it moves. And so we've been paying a lot of attention to a lot of the potential changes. And you can go as upstream as NIH funding, which you could argue NIH funding goes into universities. Though universities do basic research, and it could take 10 to 20 years for that to make its way into industry. And so you could say, look, I'm not sure if that's going to have a real profound effect, at least not in the near term. And that

might be true, but over the long term it could have a real effect. And I think on that one, it's kind of watch and see.

There seems to actually be a fair amount of desire to actually keep funding for academic research high. And so between litigation and it moving through Congress, we're just going to see where all of this settles out. But that's just an example. And whether you talk about potential changes with the FDA, potential pricing reform changes or tariffs, these are all things that we're looking at to see what the net effect is going to be. And it's too early to tell, Allison. We're just waiting to see and get some clarity on all of this, but there's no doubt that cloud in totality makes it a little bit harder for investors to want to lean into this industry.

Allison Nathan: Interesting. Yes, a lot of question marks. A lot more questions than answers right now, as you just said. So if you think about the life sciences generally speaking, the challenges, one of which we just discussed, but also the biggest growth areas, what are you focused on?

Amit Sinha: Yeah. The first, you got to start with

cancer. Cancer is going to be the leading cause of death for the global population for our generation. It's roughly half the total R&D spend for the entire industry. As anyone who has had a loved one pass away from cancer knows, we have such a long ways to go. And there are so many great technologies, whether that's antibody drug conjugates, T cell engagers, cell therapy, they're just coming online to continue to advance.

And the combination of cancer for many cancers is going to be combination therapy, and so we want to be able to take these new technologies and put them together to get patients closer to cures. And so that's one area that we're really excited about.

I'd say the whole world of what's happened with incretins, which everybody knows is GLP-1 therapies, if you will, has really transformed not only the way that we think about health and wellness but also the way that we think about the scale that the biotechnology industry can impact the global population. And if you think about that class -- and they're called incretins and GLP-1 is the lead of that but there's other incretins that are now being combined -- you're talking about a therapy that is going to likely be

touched by billions of people around the world. We estimate a quarter trillion dollars of peak revenue opportunity in that category alone.

And as we continue to learn more about the science of this class of drugs, not only is it about weight loss, maybe helping you with Type II diabetes, but these drugs have also been shown to be neuro protective, cardio protective, renal protective. The more that we learn about this class of medicines, the more benefits we're learning about them. And so in terms of where the innovation is going, they're injectables today. The companies are working on orals. And so we're going to have more choices for patients, and we'll have more adoption and people will be able to tailor which one they use based on what their needs are. And so that class is just going to continue to continue and grow.

Which leads me into kind of a third area of innovation, which is really around this concept of health span. And so much of the biotechnology industry today is really focused on lifespan. And so we get these diseases that are really severe. Oftentimes patients will die from them. Cancer is a great example, Alzheimer's, Parkinson's. And so rightfully, the industry is focused on trying to do better, trying to find

great new medicines that are going to help patients fight those battles and hopefully get to better outcomes.

But there's also this idea that, as our population continues to have longer and longer life expectancy -- in the developed world, it's around 75 for men, 78 for women -- and as that moves closer and closer to 80, if you look at this concept of health span, which is what percentage of your life are you living at a very high quality of life, it tends to start to drop off in our mid 60s for most people. That's when things like cardiovascular disease or other illnesses start to sink in. And so there's a lot of focus on how do we keep that curve going sideways into our 60s, 70s, and beyond as opposed to starting tail off? And how can we live that last could be 20 years with the same vigor and richness that we lived the rest of our life?

And so there's a bunch of things that go into that. There are things that have to do with frailty. There are things that have to do with vision loss. There are things that have to do with hearing. There are things that frankly today we just chalk up to, like, "We're getting old." And the industry is working on those. And I think that's important because, in a different way when you think about impact, there's no

doubt that finding that next cure for cancer is hugely impactful, but finding ways to restore vision, as an example, for hundreds of millions if not billions of people across the globe is also incredibly worthwhile. And so it's great to see just the breadth of innovation that's happening in the field today.

Allison Nathan: Absolutely, so interesting, and I think we would all appreciate advances in that area as we grow older. Thank you again for joining us, Amit.

Amit Sinha: My pleasure. Thank you.

Allison Nathan: This episode of Exchanges was recorded on September 8th and 15th. I'm Allison Nathan. Thank you for listening.

indicative of future results. Neither Goldman Sachs nor any of its affiliates make any representations or warranties, express or implied, as to the accuracy or completeness of the statements or information contained herein and disclaim any liability whatsoever for reliance on such information for any purpose. Each name of a third-party organization mentioned is the property of the company to which it relates, is used here strictly for informational and identification purposes only and is not used to imply any ownership or license rights between any such company and Goldman Sachs.

A transcript is provided for convenience and may differ from the original video or audio content. Goldman Sachs is not responsible for any errors in the transcript. This material should not be copied, distributed, published, or reproduced in whole or in part or disclosed by any recipient to any other person without the express written consent of Goldman Sachs.

Disclosures applicable to research with respect to issuers, if any, mentioned herein are available through your Goldman Sachs representative or at http://www.gs.com/research/hedge.html.

Goldman Sachs does not endorse any candidate or any political party.