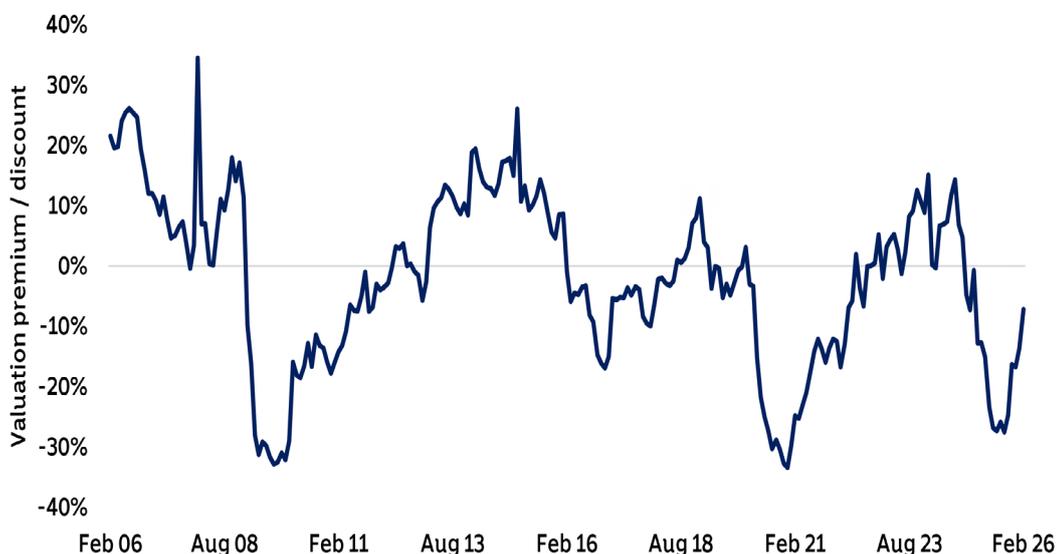


Cheap meds Lorenzo La Posta. CFA

Pharmaceuticals, biotechnology and life science companies vs. global equities



Source: Bloomberg Finance L.P., Momentum Global Investment Management as at 27 February 2026.

What does the chart show?

The chart shows the relative valuation of the MSCI world pharmaceutical, biotechnology and life science companies against MSCI global developed equities, over the past 20 years. A positive value indicates a premium valuation, whilst a negative value indicates that the subsector is trading at a discount compared to the market. The relative valuation is calculated as a ratio of their respective forward price-to-earning ratios. Currently, the subsector trades at about a 10% discount, having recovered significant ground since September 2025 when it very nearly reached 30% discount, near the historical maximum.

Why this is important

Pharma stocks have clawed back from a roughly 30% discount to the broader market last September to around 10% today, but that gap hasn't fully closed because investors are still wrestling with two big, competing storylines. The negative one: a wave of patent expirations – the largest in the industry's history – is about to strip away hundreds of billions of dollars in annual revenue from the industry's most important drugs over the next few years. Some of the sector's biggest companies have half or more of their sales tied to products losing protection. On top of that, the US government is now negotiating Medicare drug prices directly, forcing steep discounts on the first batch of targeted medicines, and more rounds are coming every year. The positive storyline is the GLP-1 weight-loss revolution, which created one of the largest new drug markets in pharmaceutical history essentially from scratch. But even that bright spot has question marks: leading forecasters have cut their long-term market size estimates because of intensifying price competition, and real-world data shows that half to two-thirds of patients stop taking these drugs within a year.

Over the next few months, the discount could keep narrowing. Every major Wall Street bank now rates healthcare as overweight, money is flowing into the sector at the fastest pace in five years, and several high-profile investors have been adding healthcare positions. The sector also tends to outperform when markets get nervous, and there's plenty to be nervous about right now. Looking out two to three years, the picture depends on execution. Can companies successfully transition patients to reformulated versions of their blockbuster drugs before generics arrive? Can the industry replicate the handful of cases where newer drugs have already surpassed the peak sales of the products they're replacing? And will the record levels of M&A activity translate into real revenue replacement, or just expensive bets that take years to pay off? If even half of these strategies work, the discount should continue closing. If patent losses bite harder than expected and weight-loss drug pricing deteriorates faster than current models assume, the sector could stall at or near current levels.



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