



# INNOVATIONS IN HEALTH CARE: TECHNOLOGY MULTIPLIES DISCOVERIES AND NEW APPLICATIONS



The health care sector is growing faster than the rest of the economy. This trend has accelerated because of the global pandemic, a heightened awareness of the importance of the sector and the need for rapid progress in this area.

## OUR RECOMMENDATIONS

- This theme is aimed at dynamic investors who are willing to take some risk, because innovation does not always produce the desired results. A long-term horizon is recommended.
- Parallel to investing in stocks of a handful of leading companies, in the riskier sub-segments, we like investing in diversified funds, which are managed by highly-specialised professionals.

## RISKS

- The health crisis being a catalyst, the health care sector has already performed well of late and several stocks have reached new highs. The price-to-earnings ratio for the MSCI USA Health Care Index has also risen from 16.8x at the beginning of the year to 18x currently.
- Moreover, even if this debate has been ruled out with the pandemic, receiving treatment is very expensive in the US and there is regularly pressure to lower costs in the health system.



## Advances in technology improve the quality of health care

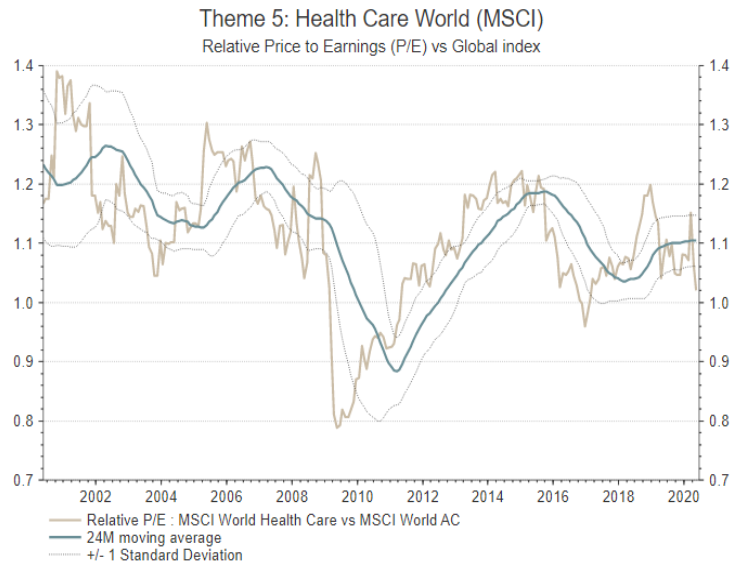
With the aid of new technologies, considerable improvements are being made in product research and development processes. New (types of) medical treatments, tools and services are constantly emerging. The management of therapies and care centres has become much more efficient through the more optimal use of large amounts of quality data.

## The health crisis ushers in more innovations in the sector

Amid fears of new diseases, health-related spending is expected to soar in the coming years and support numerous developments in:

- Prevention, hygiene, vaccines and testing;
- Remote diagnostics (several companies active in laboratories, testing and online/remote diagnosis have seen their share price rally in recent times);
- Treatments in general and more specifically for viruses (attentive investors will have observed good progress on the stock market by promising companies developing potential treatments and vaccines for Covid-19);
- Rapid data exchanges and processing (Artificial Intelligence);
- Medical and robotic equipment, for example to treat infected patients remotely;
- And by extension, the entire hospital and technological infrastructure that supports these improvements.

Despite the outperformance of the Health Care sector in 2020 (often better than the expected 1Q20 financial results), and particularly 'Health Technology', relative valuations are generally not expensive.



Source: Refinitiv, Datastream, 11/05/2020

Conversely, while a genuine 'war effort' is being deployed to defeat Covid-19, some industry players are suffering from this redeployment. Non-urgent operations, such as fitting artificial limbs, are being postponed.

The shares of some medical equipment-makers are under pressure. But these operations cannot be constantly delayed and a certain normalisation should take place.



## THEME 01 – High-quality stocks p.4

We must now favour companies which have high profitability, limited debt, low profit variability and large cash reserves.



## THEME 02 – Defensive solutions p.5

The trend is to search for alternative returns via good quality corporate bonds, hedge funds and structured products.



## THEME 03 – De-globalisation p.7

Protectionist trends and dependence on international supply chains are expected to lead to a stabilisation and even a decline in international trade in the long term. This 'deglobalisation' should provide opportunities for some companies or even for some countries. In particular, producers of goods and services which substitute imports are well positioned to benefit from this trend. The same is true for emerging market countries which compete with China.



## THEME 04 – Digitalisation and technological innovations p.9

Alongside the trends in health care, this is one of the most marked trends: 5G and Artificial Intelligence will benefit from the increased communication and data needs generated by the crisis.



## THEME 05 – Innovations in health care p.11

This sector is growing faster than the rest of the economy. Thanks to digitalisation, analytics, database management and Artificial Intelligence, the way treatment/care is given will change considerably at all levels and generate a wave of capital expenditure.

All the themes proposed at the beginning of the year remain attractive but will not be detailed in this document. However, an update on their performance since January is available at the end of this document.

## THE INVESTMENT STRATEGY TEAM

### France

**Florent BRONES**  
Chief Investment Officer

### Asia

**Prashant BHAYANI**  
Chief Investment Officer, Asia  
**Grace TAM**  
Chief Investment Advisor, Asia

### Belgium

**Philippe GIJSELS**  
Chief Investment Advisor  
**Xavier TIMMERMANS**  
Senior Investment Strategy, PRB  
**Alain GERARD**  
Senior Investment Advisor, Equities  
**Pol Tansens**  
Head of Real Estate Strategy

### Luxembourg

**Guy ERTZ**  
Chief Investment Advisor  
**Edouard DESBONNETS**  
Investment Advisor, Fixed Income

### Switzerland

**Roger Keller**  
Chief Investment Officer



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