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Equity-market perspectives

Healthier portfolio returns

In times of fast-changing market sentiment, crisis summits and unconventional central bank policies, one can easily lose track of long-term trends. But they are the drivers of the healthcare sector. Demand for drugs, care and hospital capacity is naturally rising in an ageing society. Many elderly people must take several drugs a day against chronic diseases.

Even in emerging countries, the healthcare sector is growing at an above-average rate. Increasing prosperity enables more and more people in Asia, Africa and Latin America to afford modern medicine and procedures. Along with Western lifestyles, associated lifestyle diseases such as diabetes are spreading rapidly, creating a growing need for medical treatment.

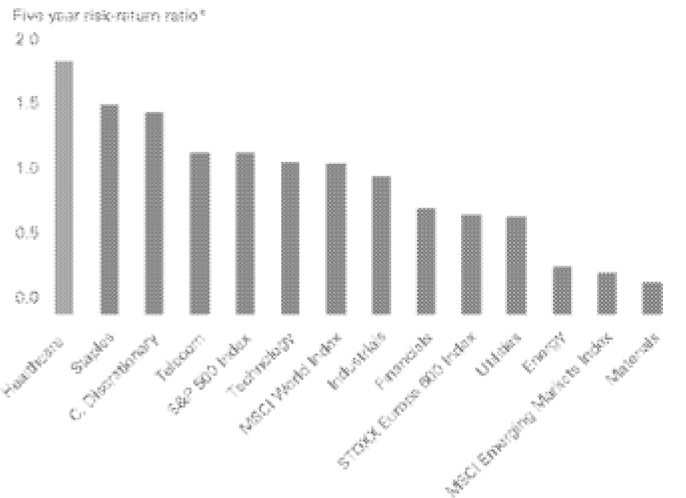
The development of new drugs consumes enormous research funds: The pharmaceuticals industry estimates the costs of a new therapy at roughly $1.5 billion. But it can be worthwhile. For example, patients who face the unwelcome prospect of hepatitis C destroying their liver can be completely healed within twelve weeks. Artificial heart valves can be inserted via a minor inguinal incision. New products of immuno-oncology could help to improve the longevity prospects of cancer patients, turning cancer from a lethal into a chronic disease.

Not only patients but also shareholders have benefited from the healthcare sector in the last few years. While the total market for healthcare products has doubled within five years, the market value of the sector has almost tripled.[1]

As well as the favorable long-term earnings outlook, the structural risk profile of the healthcare sector appears to be comparatively beneficial, as well. Contrary to the demand for commodities or automobiles, the need for drugs is largely immune to cyclical ups and downs. To put it in bold and simple terms: "Economic crises will not keep people from falling ill."

Attractive returns have therefore been achieved at comparatively low risk. The chart illustrates the relative strength of the healthcare sector. Our analysis of demographic trends and the research pipelines suggests that the healthcare sector will continue to lead with a view to the risk/return ratio. For this reason, health could be long-term healthy for every equity portfolio. In the short term, due to high valuations, we would wait for better entry points.

Defensive growth in the healthcare sector



In a sector comparison, the healthcare sector has shown the best risk/return ratio in the last five years: Above-average returns at below-average price fluctuations.

Sources: Deutsche AWM estimates, FactSet Research Systems Inc., as of 7/16/15
* MSCI AC World index sectors. The risk-return ratio is the average annual return over the last five years divided by the annualized daily volatility over this period.

[1] Source: FactSet Research Systems Inc., 6/30/10-6/30/15, in euro, total return; total market index: MSCI AC World Index +98.2%; healthcare sector index: MSCI AC Health Care Index +189.6%