

# Healthcare growth equity in 2026

When stars align

# Key takeaways

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## Historic valuation opportunity

Public healthcare multiples sit at 30-year lows relative to the S&P 500 despite accelerating innovation and record strategic demand (\$318 billion in M&A across 2,500+ transactions in 2025). Policy clarity in 2H 2025 removed the overhang, but valuations remain compelling.

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## Competition has narrowed dramatically

Total healthcare investment capital declined to ~60% of 2021 levels, driven largely by generalist investors exiting. Specialist investors with scientific expertise and operational networks now dominate a less crowded market.

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## GARP has returned to private healthcare markets

After years rewarding early-stage narratives, capital now flows to companies with proven science, commercial traction and paths to profitability — the core territory of growth equity.

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## Portfolio construction benefits are compelling

Years of underperformance versus technology creates rebalancing opportunities for concentrated portfolios. Private healthcare offers differentiated return drivers and ballast without sacrificing growth — particularly when accessed through private markets.

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## The window is open

Valuations compressed before fundamentals deteriorated; deal activity rebounded before multiples expanded. For disciplined investors, the period between policy resolution and valuation normalization has historically been optimal for entry.

## Executive summary

Healthcare enters 2026 with a fundamentally different opportunity set than existed just three years ago. Valuations sit near 30-year lows relative to the broader market, the investor landscape has narrowed as generalist capital retreats, and the market has shifted toward rewarding operating performance over narrative. Together, these conditions create an environment where growth equity strategies, built around selectivity, discipline and partnership with de-risked businesses, are structurally aligned with where value is being created.

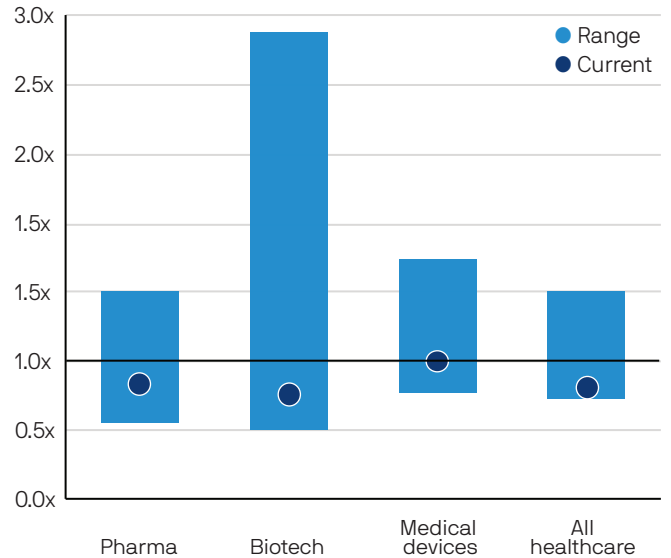
## A historic valuation disconnect

The repricing across healthcare has been severe and sustained. Public market multiples for life sciences companies now sit near levels not seen since the mid-1990s relative to the S&P 500, despite innovation accelerating and strategic demand remaining robust.<sup>1</sup>

The driver of this dislocation was not weakening fundamentals, but policy uncertainty. Healthcare valuations typically compress at the announcement or debate of major policy proposals, often well before any changes are enacted, and recover as policy outcomes become clearer.

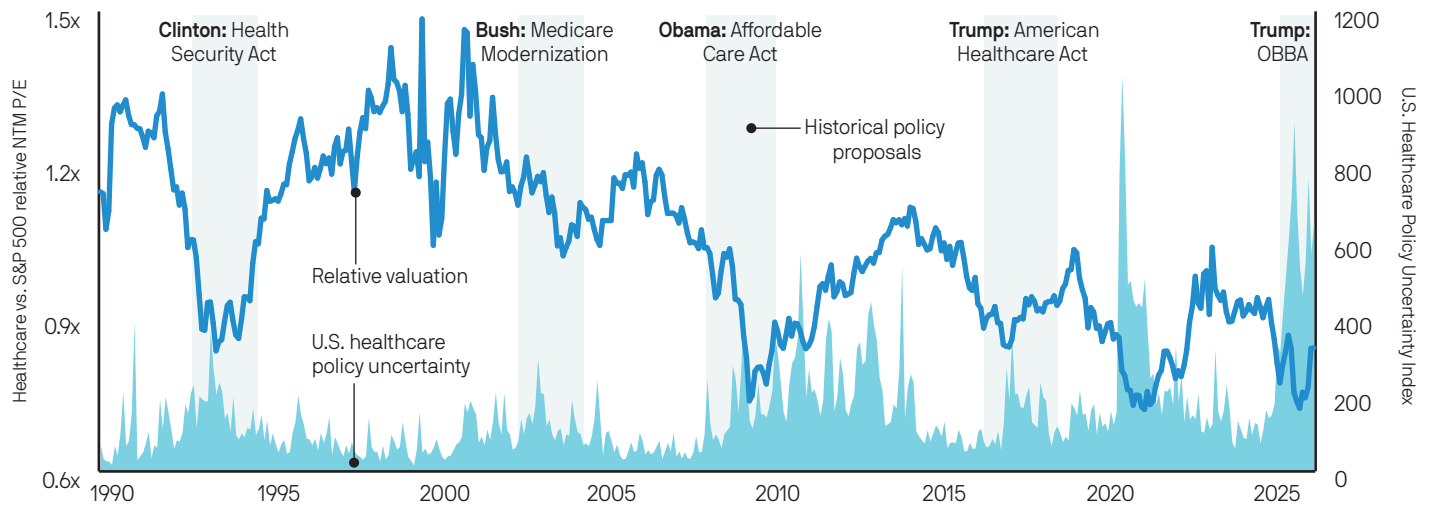
## P/E ratios vs. the market since 1995

Relative NTM P/E vs. S&P 500



Source: Bloomberg, January 28, 2026.

## Healthcare valuations vs. U.S. policy uncertainty



Source: Bloomberg, policyuncertainty.com, December 2025. Note: Shaded bars represent 12 months prior to and after healthcare policy changes.

From late 2022 through mid-2025, proposals such as Most Favored Nation (MFN) drug pricing introduced asymmetric downside risk into valuation models, compressing multiples across the sector well beyond the companies directly exposed to policy change. For much of that period, life sciences broadly traded on political risk rather than business quality.

That overhang has since lifted. Beginning in September 2025, major pharma companies reached pricing agreements with the U.S. administration, earnings stabilized and healthcare began to outperform. In the public market, the sector beat third-quarter earnings estimates by 13% versus 7% for the S&P 500 and finished the year as the strongest performer in the fourth quarter.<sup>2</sup>

What makes this reset notable is that it occurred even as the sector's underlying engines continued to run. Over the same period, the industry delivered meaningful scientific and commercial progress, from functional cures in cystic fibrosis and sickle cell disease to advances in cell therapy, surgical robotics, multi-cancer early detection and next-generation sequencing and spatial biology.

Strategic demand told a similar story. Healthcare M&A reached \$318 billion across more than 2,500 transactions in 2025 — the highest level since 2021 — reflecting structural demand rather than cyclical opportunism.<sup>3</sup> Pharma and medical device incumbents continue to face growth pressures, from \$50-\$100 billion in annual drug patent expiries to the need for continuous product innovation in devices, reinforcing reliance on externally generated innovation.

The sequence matters: Valuations compressed before fundamentals deteriorated, and deal activity rebounded before multiples expanded. For disciplined growth investors, the window between policy resolution and valuation normalization has historically represented a favorable entry window.

### A narrower, more specialized investor base

The second structural shift is in who is investing. Total capital deployed into healthcare growth equity in 2025 was approximately 60% of 2021 levels, but composition matters more than volume.<sup>3</sup>

**This represents a partial reversal of a four-decade trend:**

#### 1980s – 1990s

Generalist VC and PE firms pursued healthcare opportunistically alongside technology and other sectors.

#### 2010s

Specialist firms dominated private life sciences investing, with GPs holding advanced scientific degrees and building dedicated scientific advisory networks.

#### 2025 – 2026

Retrenchment back to specialists, offering equipped investors with less competition in a robust pool of opportunity.



#### 2000s – GFC

The market began to specialize, with dedicated healthcare VC and PE platforms emerging and scaling.

#### 2020 – 2021

Generalist crossover funds, multi-stage platforms and momentum-oriented capital flooded back in, attracted by public multiples and rapid exit opportunities.

<sup>2</sup> Bloomberg, 2025.

<sup>3</sup> PitchBook, 2025.

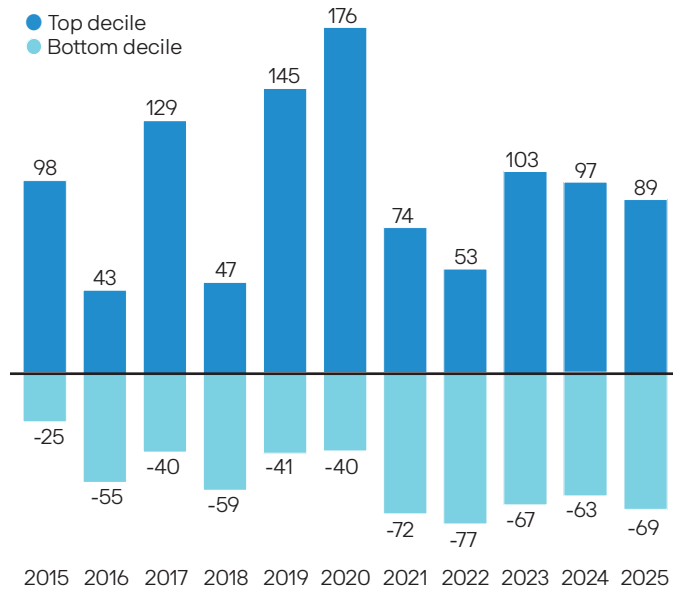
Over the last four years, the decline in total healthcare investment has been driven predominantly by generalist investors stepping back, while specialist healthcare investors have maintained or increased their activity levels. However, even the specialist universe itself has consolidated, with many larger platforms moving up-market in pursuit of scale. The result is a meaningfully narrower investor landscape competing for a robust opportunity set at lower valuations.

This shift matters because healthcare returns are highly concentrated. At the index level, performance is driven by extreme company dispersion, with a narrow top 10% of companies historically producing nearly all sector returns, while the bottom 10% has absorbed more than half of total losses. This dynamic is far more pronounced than the S&P 500, making selection skill, due diligence depth and commercial expertise decisive drivers of returns.

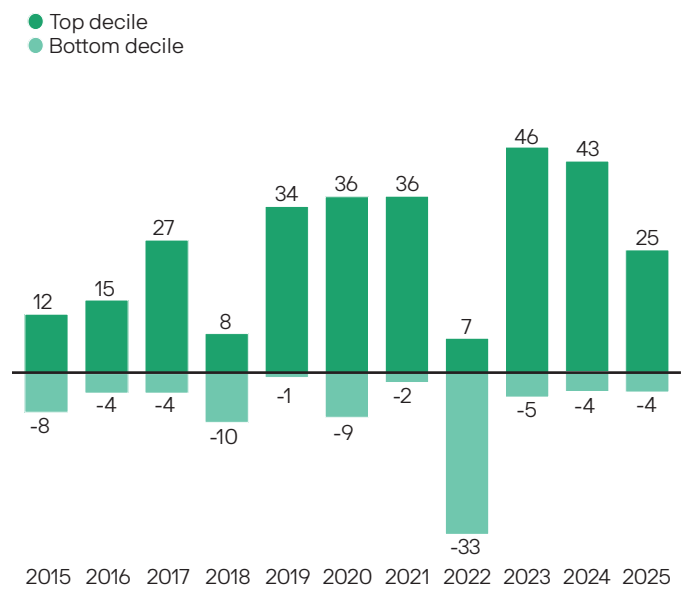
The current fundraising environment reflects this reality. Processes involve fewer investors, pricing discussions are more measured and companies are spending more time with investors who bring operational value rather than just capital. The bar for access has risen, and relationships and sector credibility now carry more weight than they did during periods of capital abundance.

For investors positioned to meet that bar, the shift represents opportunity rather than constraint: less competition for high-quality assets, more rational entry points and conditions that have historically supported superior risk-adjusted returns.

**S&P Biotech ETF (XBI): Average performance by decile**



**S&P 500 ETF (SPY): Average performance by decile**



Source (both charts): J.P. Morgan Asset Management, September 2025.

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## The return of GARP in private healthcare markets

The third shift is in what the market is rewarding. After years in which early-stage narratives and long-term optionality commanded premium valuations, capital has moved decisively toward companies demonstrating tangible operating performance today.

In biotech, this has meant a pivot toward mid-cap, commercial-stage businesses with de-risked assets and clear paths to profitability, rather than preclinical platforms dependent on distant milestones. In medical devices, investors are prioritizing companies with recurring revenue and evidence of clinical adoption over those still seeking product-market fit. In diagnostics, tools and pharma services, the focus has shifted to businesses with proven unit economics, repeatable demand and capital efficiency.

This is the return of Growth-at-a-Reasonable-Price, or GARP, a framework in which investors pay for what exists rather than what might exist and where growth is evaluated in the context of profitability. The shift is visible in both public and private markets. Public healthcare companies trading at trough multiples are those with weak fundamentals or binary risk, while businesses with strong revenue, margin profiles and defensible market positions have maintained or expanded their valuations.

In private markets, this creates a structural advantage for growth equity. The sweet spot for value creation has moved from early venture risk to the phase where companies have proven their science, established commercial traction and are now scaling with operating discipline. These businesses no longer carry the binary technical risk of early-stage ventures, but they still trade at valuations that reflect private market illiquidity and investor skepticism, often at meaningful discounts to where they would price once they demonstrate consistent commercial execution.

## Healthcare's role in portfolio construction

Beyond fundamentals, healthcare's improving outlook has implications for portfolio construction.

Over the past three years, healthcare has materially underperformed both the broader market and technology, contributing to increasingly concentrated portfolios among investors who benefited from the expansion in tech and AI-driven multiples. While that concentration has been rewarded, it has also increased exposure to a narrower set of growth drivers and valuation regimes.

Healthcare offers a differentiated return profile. Earnings drivers are less correlated with economic cycles, innovation cycles are longer-dated and demand is supported by structural forces such as demographics, disease prevalence and productivity gains from technology adoption. As policy uncertainty fades and fundamentals stabilize, healthcare provides an opportunity to rebalance portfolios without sacrificing growth — particularly when accessed through private markets.

### Where this leads

These dynamics do not guarantee outcomes, but they describe market conditions that have historically rewarded selectivity over scale and partnership over opportunism. The opportunity in healthcare growth equity is not that the sector is unloved, but that it is mispriced, less crowded and increasingly aligned with the businesses the strategy is built to support.

After years of underperformance, healthcare now offers a timely reallocation opportunity as policy risk fades, fundamentals improve and diversification benefits reassert themselves. For investors with the expertise and access to capitalize on it, today's entry conditions are among the most attractive in years.

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