GS EU HC: NOVN / SDZ / MedTech / Macro

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All references to "we/us/our" refer to the views and observations of the desk.

Esah Hayat – Sector Specialist | Fraser Drennan – Sector Trader

Good morning,

Flows – Flows on HT were 1.1x better for sale on the day, saw net supply in HC, Info Tech and Fins vs demand in Staples, Materials + Energy. In Galderma, we were #1 mkt share yesterday, trading 480k shares – crossed stock between LO/HF, better for sale.

- **Handy wrap up of summer rotation** dynamics here, where commodities and Energy led the 'broadening' trade, but Fins & Healthcare emerged amongst the strongest non-energy sectors, as longer-dated global yields started reaching post-GFC highs (driven by strong growth, fiscal concerns, and crowding out from AI issuance).
- **Looking ahead**, the macro calendar is set to pick up sharply – "inflation readings, job readings, potential fed hikes, us midterms, sell side conferences, AI model releases, capital market raises, and earnings to name just a few … the wildcard hanging over all of these known-unknowns is geopolitics – the potential for escalation or de-escalation across Iran/oil, Russia/Ukraine, China/Xi visit, among many others" Brian Garrett, link

Novartis – Del-desiran fails (note). Failed on primary vHOT endpoint, some signals in the secondaries – so whilst zero'ing this out implies -5% DCF hit, there could be some (albeit delayed) path fwd. The other positive inkling is reiterating 2025-30 guidance (5-6%), but pela + del-desiran would've mostly contributed 2030+ regardless. Whilst company won't take an impairment on Avidity yet, we think this miss heavily dents the external innovation thesis for NOVN and puts them back under the magnifying glass to replenish long-term pipeline (another high-urgency buyer in the mix).

- **Taking a step back,** NOVN has traded at EU sector premium, seemingly just on buyback – earnings momentum has stalled (missed on numbers Q3'25 to Q1'26 and Q2'26 low quality), 2 of 3 high-profile ph3s this year have missed, external innovation credibility has been hit, and staring at ~$25bn LoE across early 2030s. Either REMODEL has a lot of lifting to do, or the multiple here is going to sharply contract. Looking ahead, the bar is going to be high into Toronto MS presentation, and we're also expecting Remi in HS phase 3 readout in Q4 (mixed phase 2 profile, inverse dose response but varied baseline characteristics).

Sandoz CMD (note)– Event begins today at 13:30pm UKT. Press release out this morning with new targets too (link) – Firstly, reiterating their 2024-28 targets, but now setting M-HSD% topline growth for 2025-30, and 25-27% core EBITDA mgn – implies +5%/+2% ahead of cons at the midpoints. Driven by increasing biosimilar mix-shift, new Bio100 ambition, GPL-1 opportunity; and margin to also be supported by Slovenia from end of decade. Some longer-term (2035) figures provided too which suggest meaningful upside vs cons too.

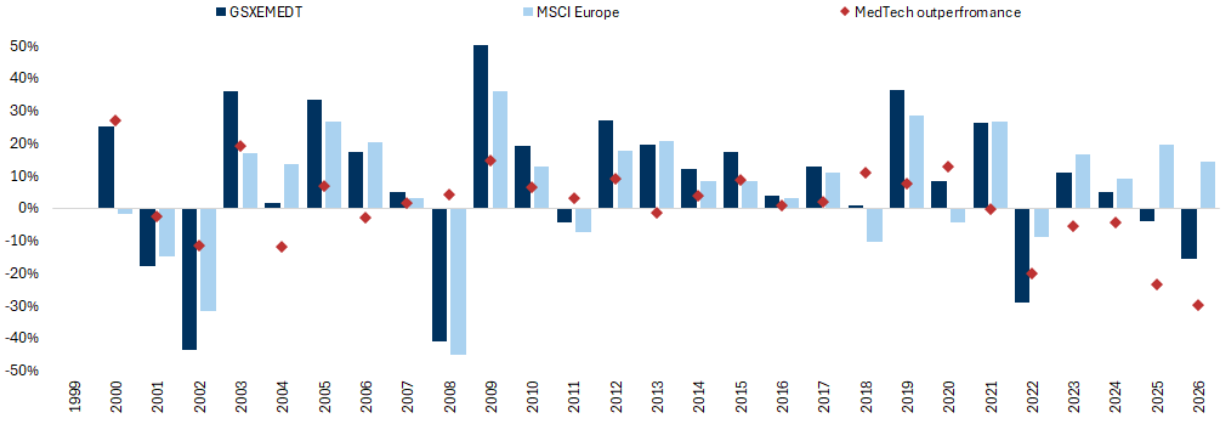
MedTech conference preview (link) – ahead of our MedTech conference in London starting tomorrow, Richard Felton takes
sector within, as well as running through company level debates. In short terms, the sector has been hit by inflation (+ low pri
headwinds, and decelerating demographic tailwinds – all contributing to the chronic underperformance in recent years. And
from here? In our view, innovating through this operating environment is the key path forward, so GIR's buy ratings are mostl
into product cycles: (i) Demant – Zeal; (ii) ConvaTec – Wound & Ostomy launches; (iii) Alcon – international equipment + IOLs;
LANDMARK; (v) Ottobock – MPK product rollout; (vi) Philips – innovation-led order book growth, translating into revenues.



Biotech / Rates – see below for more, but the resilience of XBI despite global move higher in long-end yields has been in focus for investors lately. Think is driven by two key things: (i) the rise in yields has been an orderly one, a repricing of long-term capital in a world of inflation + scarcer oil products + huge AI issuance – an equity mkt with strong earnings growth can comfortably digest this mechanical multiple pressure. (ii) Biotech fundamentals have improved meaningfully this year, both on innovation optimism (with major breakthroughs made on RAS, mRNA vaccine, could see bispecifics in lung soon), and resiliently embedded M&A premiums.

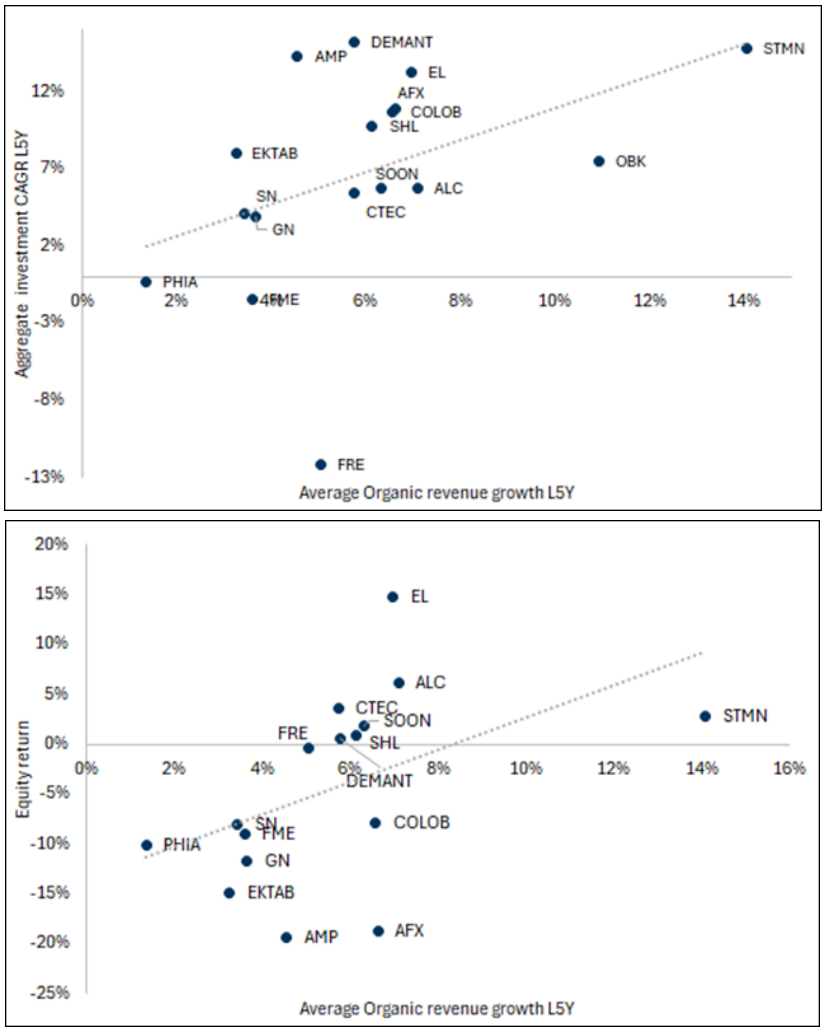
European MedTech has significantly underperformed MSCI Europe in the last 5yrs.

EU MedTech vs MSCI Europe, performance (%)



Source: GS GIR, LSEG

Investment in innovation + commercial supports MedTech revenue growth (left), which is in turn a key driver of share price performance (right)



Source: Company Data, GIR, LSEG

Macro

Fed – last week's jobs data means Sept hike decision is all driven by inflation (PPI tomorrow, CPI Friday) – GS view remains 'no hike', and though Fed Funds futures is pricing 60% hike odds, SPX surface remains unhurried by this week's inflation prints (Friday straddle only 100bps). – Note

Equity vol – only two periods in last 25yr have seen SPX realised correlation this low, (i) Feb 2007, not long before Bear Sterns, (ii) Jan 2018, just before 'volmageddon'. The history books suggest levels this low are not sustainable and have ended in a convex snapback of index vol (perhaps on inflation data?). Worth noting here too, September tends to be the worst month historically for US equities.

Hedge Fund performance – US fundamental long/short hedge funds are up 14% YTD, 2026 is clearly rewarding managers who can move their feet well.

Market direction – Tony P says: "given tricky seasonals and a shift in supply/demand technicals, I expect the near-term path will be choppy and risk/reward is neutral at best; once we move past the midterms, however, the path of least resistance favours a rally through year-end" – Note.

Biotech vs Yields – Asad Haider on the XBI's resilience: "the key storyline exiting the summer months is the rise in global bond yields alongside hawkish Fed commentary (with the FOMC decision on Sept 16th a key near-term event). Through this, the performance of the XBI has been unusually resilient compared to prior episodes of rising yields when small cap biotech has been inversely correlated with rising rates. This suggests that embedded M&A and innovation optimism in SMID biotech stocks is overriding potential valuation headwinds from rising rates. While the base case of our rates team is for yields to (eventually) work their way lower, if yields keep rising, especially at a higher degree of velocity and volatility, the XBI could struggle relative to larger "Quality-theme" stocks with strong balance sheets (JNJ, LLY and ABBV command the industry's highest balance sheet capacity). Given this backdrop, we continue to recommend selectivity in SMID biotech." See more below

Interesting Chart

Biotech has held up remarkably well despite the grind higher in long-end yields…

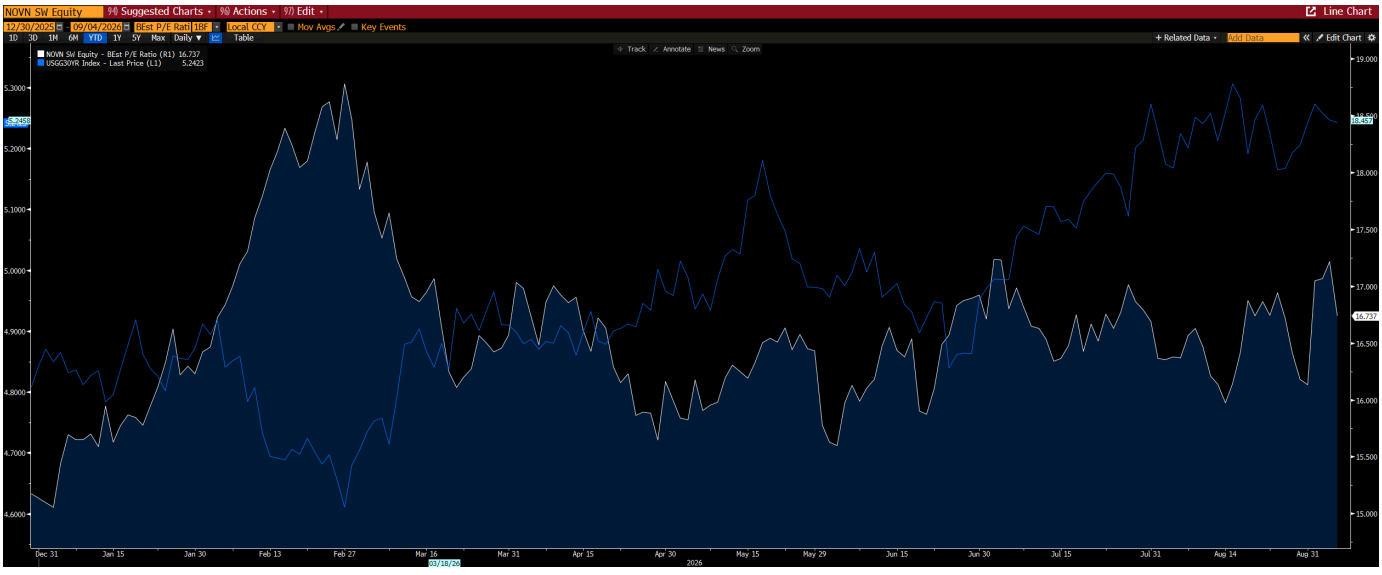
…though as George Cole mentioned over the weekend, the rise in yields has been an orderly one (with inflation + oil + AI issuance, long-end equilibrium could just be higher today) and as such, isn't a reason for equity market stress, particularly as broad-based earnings growth has been so strong. On biotech fundamentals – we've seen an unlock of potentially huge new Tx paradigms (RAS, individualised neoantigen therapies), and a strong run-rate of biotech M&A ($143bn ytd) with biopharma urgency still high, Novartis this morning only exemplifies further.



Source: BBG as of 04 09 2026

That said, up until this week, Novartis P/E multiple has held steady ytd, despite rising fundamental concerns (LoE, trial setups)…

…which, in the context of said yield backdrop, raises the question of whether the market still is, at its core, rewarding the sector names that 'feel shorter duration'



Source: BBG as of 08 09 26

Corporate Access

- **European MedTech & Healthcare Services Conference** | 9-10 Sep | London | Conference
- **Demant** [DEMANT DC] | 17 Sep | Toronto | IR
- **A KOL's Perspective: Can Lumvoa and Elegrobart Disrupt the Thyroid Eye Disease Market** | Virtual | 18 Sep | MD Oculoplastic Surgeon at Davidorf Eye | Expert Call
- **Royalty Pharma Plc** [RPRX] | 22 Sep | Frankfurt | CFO, IR
- **Caris Life Sciences** [CAI] | 28-29 Sep (London), 30 Sep (Zurich) | Vice Chairman, SVP Corporate Development
- **Exelixis Inc** [EXEL] | 1 Oct | London | CEO, CFO, IR | New

Corporate Access – US Calendar

- Stoke Therapeutics (STOK) Group Dinner w/ CEO | 9 September | New York
- Vaxcyte (PCVX) Group Dinner w/ CEO, CFO, CCO | 9 September | New York
- **European Medtech & Healthcare Services Conference | 9 - 10 September | London**
- **DC Healthcare Policy Day: In-Person Group Meetings | 9 September | Washington, D.C.**
- **China Biopharma Trip | 22 - 24 September | Shanghai**
- Asia Healthcare CDMO Day | 23 - 25 September | GS Office Singapore
- Viatris (VTRS) NDR w/ CEO, CCO, CFO | 29 - 30 September | San Francisco & Los Angeles
- 4D Molecular Therapeutics (FDMT) In-Person NDR w/ CEO, CFO, CCO | 5 October | New York
- GS Healthcare Private Company Conference | 19 October | GS NYC Headquarters

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