GS Healthcare: Fluid Dynamics

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

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Fluid Dynamics

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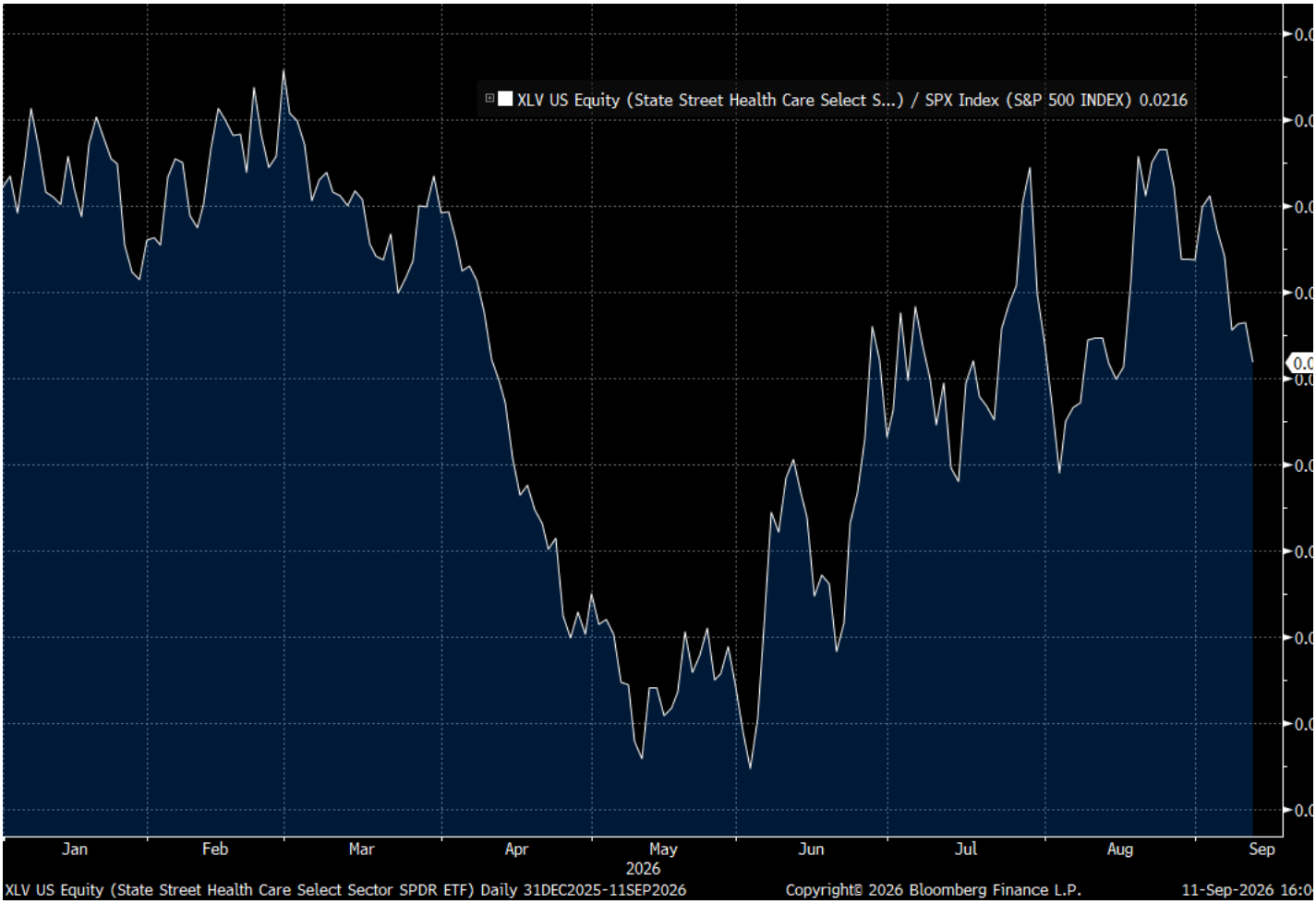
Healthcare lagged this back-to-school week (XLV -3.55% vs. SPY -77 bps/SMH +27 bps) amidst a **complex interplay of both macro + micro** – where (a) an exogenous **set up that has benefitted healthcare** the last ~three months (i.e. softening AI exuberance, decoupling of rates + duration sensitive assets, momentum unwinds, broadening out trades, etc.) **showed signs of reversion this week**, exacerbating (b) micro updates from the sector had a mostly **negative bias**, (i) kicked of by a **messy set of clinical card flips from NVS** (first their Ph3 HORIZON study of Lp(a) missing, then Ph3 HARBOR in DM1 missing) driving a cascade of 2nd/3rd order swings (AMGN, NAMS, RPRX, LLY, etc), while also adding to a **string of large biopharma clinical failures/setbacks** more recently (NVS, AZN, NVO, SAN, etc), (ii) that has also driven investor conversations/debates around **elevated/evolving M&A priorities** on the back of these pipeline setbacks, where the Lp(a) failure this week drove some **strength in other standalone cardiometabolic assets**, (iii) and the DM1 failure sparked debates on the **appetite to take clinical binary risk via BD**, (iv adding to an on-going vibe shift in preference towards larger, commercial or clinically de-risked SMID biotechs (see ROIV +19% on PH-ILD update this week as amon examples of this) vs. earlier stage assets. This could elevate the focus around near-term pivotal readouts as well, where imminent OPUS-1 data of VAX-31 from PCVX a focus near-term catalyst among larger SMID caps.

On non-therapeutics, the fall conference circuit revealing some **uneven 3Q trends across subsectors** – with (v) Medtech datapoints suggesting **pockets of slowness in the quarter** so far, (1) SYK -8.8% Tuesday after commenting on **PV business pressures** from 2Q continuing into 3Q + potentially 4Q, **limited recovery in joint replacement business** vs. expects, (2) BSX -10% on the week, after the company disclosed that it would **likely not meet its 3Q and FY26 guide** following the recent cybersecurity incident, while investors also parsed through recent **HRS guidance on LAAC**, (3) COO -23% on **weaker F3Q results + US inventory de-stocking** + retention of CSI, (4) EW -2.8% Friday, following the final NCD for TAVR – with the high level details consistent with proposed, though the stock was weaker given the lack of moderate coverage in the NCD, with those decisions in the hands of the MACs. This broader **return to a negative leaning news cycle in Medtech** comes just a price action exiting the 2Q earnings season and our LO high touch flows were just starting to show some signs of stability.

(vi) **Managed Care volatility was also a key focus** on the week – as (a) companies mostly spoke constructively around 3Q utilization trends (consistent with the mixe Medtech datapoints) – UNH pointing to upper end of MA target margins, ELV commenting Medicaid, MA and individual ACA all tracking better, CVS also pointing to pockets of favorability in MA. (b) Though volatility within the group (most acute in UNH, with intriguing strength in HUM in contrast) was driven by **consternation around STARs scores** expected in early October – with cut points released earlier in the week and (c) seemingly a **re-focus on policy/regulatory/reimbursement considerations** across the sector this week (i.e. STARs for MCOs, PAMA for Labs, TAVR NCD for EW, etc), (d) also coinciding with our GS DC Day this week, where conversations around drug pricing, coverage, reimbursement, demo projects, China Biotech were all in focus, though some of the more tail scenario uncertainties typically discussed around these events were more contained headed into this US midterms election cycle given potential for divided gov't + recent policy changes.

XLV / SPY – Relative Chart (YTD)

After mostly outperforming over the prior three months, HC has lagged the market since the start of the month – with a worsening macro/exogenous s up for HC exacerbating a negative bias in micro updates from the sector this week



Source: Goldman Sachs FICC and Equities as of 9/12/2026. Past Performance is not indicative of Future Results

XBI vs. 10Y Rates – Price Chart (QTD)

A recoupling of typical inverse correlations between Biotech and long term rates also coincided with a negative skew in clinical news from the sector m recently.

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Source: Goldman Sachs FICC and Equities as of 9/12/2026. Past Performance is not indicative of Future Results

Managed Care vs. Hospitals - % Change (QTD)

Managed Care was volatile this week as better 3Q comments on cost trend contended with heighted focus around MA STARs – meanwhile the interplay MCOs vs. Hospitals have remained a pressure point for specialists this quarter.