



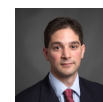
Offense and Defense— Health Care Offers Exposure to Both Worlds

Few sectors offer defensive characteristics and attractive growth potential.

June 2023

KEY INSIGHTS

- Amid a more uncertain market environment, we believe health care is one of the few sectors that offer defensive attributes as well as attractive growth opportunities.
- Socioeconomic trends and the coronavirus pandemic are driving significant spending in health care—underpinning a potentially exciting period of innovation, consolidation, and optimization.
- The multifaceted, complex, and innovative nature of health care makes it a rich landscape for differentiated insights and fundamental, bottom-up stock selection.



Taymour Tamaddon
*Portfolio Manager,
T. Rowe Price US Large-Cap
Growth Equity Strategy*

Following a challenging year in 2022, during which both equity and fixed income markets delivered negative returns, financial markets have, so far, rebounded confidently in 2023. However, many of the root causes of recent uncertainty have not gone away, as inflationary pressure, elevated interest rates, mixed macroeconomic signals, and geopolitical concerns all persist. These risks create a more uncertain environment and make appealing growth opportunities harder to find. Given this market backdrop, there are few sectors that offer both important defensive characteristics and also the opportunity to achieve target investment growth thresholds. We believe health care is one such sector.

Health Care Is a Rare Investment Dichotomy

Health care has historically displayed relative resilience during periods of market uncertainty. This is due to the general inelasticity of demand for many health care products and services. Whatever might be happening in the wider economy, in good times and in bad, people still get sick, ensuring constant demand for hospital care, medical insurance, consumable products, and treatments for chronic conditions. This resilience was again displayed in what was a difficult 2022 market environment, in which the health care sector outperformed the broader S&P 500 Index by 15.8%.¹

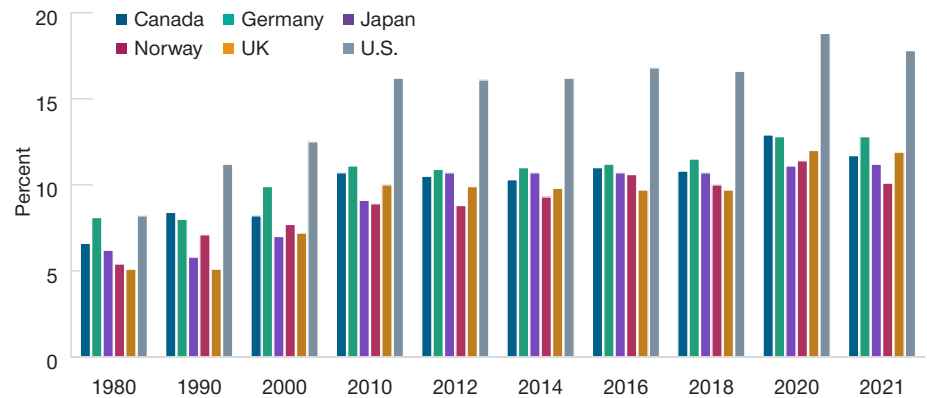
¹ S&P Health Care Sector (Total Return) Index vs. S&P 500 (Total Return) Index, period January 1, 2022, to December 31, 2022.

Past performance is not a reliable indicator of future performance.

Source: Financial data and analytics provider FactSet. Copyright 2023 FactSet. All Rights Reserved.

The U.S. Is a World Outlier in Terms of Health Care Spending

(Fig. 1) Percentage of national GDP spent on health care



As of June 2023 (latest data available to December 31, 2021).

Current expenditure on all health care functions, as a share of national gross domestic product (GDP).

Source: OECD Health Statistics.

“...health care continues to offer attractive growth potential in the form of game-changing advancement in drug therapies and medical devices.

At the same time, health care continues to offer attractive growth potential in the form of game-changing advancement in drug therapies and medical devices. The most attractive companies in these fields not only command strong pricing power due to the innovative nature of their products, but patents and regulatory approvals also create clear barriers to entry.

Structural Growth in Spending

Structural socioeconomic trends also support continuing growth in health care spending. People are living longer, and the elderly population is growing, leading to increased consumption of health care products and services.

Advancements in technology and biological discovery are also resulting in increased health care provision, and the development of new treatments for unmet clinical needs has the potential to affect large patient populations.

The coronavirus pandemic served as a wake-up call for global governments as national health systems—and hospitals in particular—came under immense strain. The U.S. was no exception, as the need for sufficient equipment in intensive care units and other health settings to avoid potentially catastrophic delays in

diagnosing and treating patients was laid bare. The need for greater operational efficiency was also highlighted, most notably the technology infrastructure required to monitor population health more effectively, both in acute situations and longer term.

To strengthen the resilience of global health systems, significant, ongoing investment is required. Governments have been jolted into action by the pandemic, and we are seeing increased capital flows being allocated toward health care across a range of industries. This is positive for the sector and supportive of a potentially exciting period of innovation, consolidation, and optimization in this pivotal area of society.

A Complex, Multifaceted Landscape

From an investment perspective, the health care universe is a rich landscape for differentiated opportunities—multifaceted, complex, innovative, and with a generally low correlation to global macro conditions. Within the broad diversity of the health care sector, three areas, or subsectors, currently look especially attractive, in our view, and, thus, warrant closer inspection.

Health Care Subsectors Offer a Range of Investment Opportunities

Certain areas look particularly attractive currently

HEALTH SERVICES

No. of Companies: 150+

Subsectors:

- Managed Care
- Product Distribution
- Hospitals
- Nursing Homes



MEDICAL DEVICES

No. of Companies: 200+

Subsectors:

- Hospital Supplies
- Lab Supplies
- Medical Device Technology
- Robotics



BIOTECHNOLOGY

No. of Companies: 700+

Subsectors:

- Early-Stage Therapeutics
- Drug Discovery Technology



PHARMACEUTICALS

No. of Companies: 100+

Subsectors:

- Major Pharma
- Generics



As of March 31, 2023.

Healthcare subsector characteristics apply to the U.S. market. For illustrative purposes only.

Source: T. Rowe Price.

 **Managed care**—Within the health services sector we particularly like managed care companies, which are the providers of U.S. health insurance. These businesses are attractive, in part, due to their more defensive attributes but also because the market underappreciates the significant value that these companies create. By contracting with a range of

providers, such as hospitals, doctors, laboratories, and other specialist facilities, they can offer reduced health insurance rates to plan members while still maintaining quality of care. From an investment perspective, many of these companies are currently trading at valuation multiples that appear to substantially underestimate their durable growth potential.



Medical devices—A number of these companies are changing health outcomes through innovation, from insulin delivery for diabetic patients to robotic surgery. The influence of surgical robots in operating rooms, for example, is growing rapidly. Enhanced dexterity allows surgeons to operate in very tight spaces that would have previously only been accessible via open surgery. Surgical robots also help provide surgeons with greater precision and control of instruments, both of which lead to improved outcomes, faster recovery times, shorter hospital stays, and generally lower readmission rates. The percentage of surgeries conducted with robots is still relatively small, meaning the growth potential is significant.



Therapeutics—These companies are at the forefront of developing new drugs or therapies to improve patient care and health outcomes. Biotechnology, for example, is transforming the way diseases are treated. Research and development progress is ongoing, and commercial success is also a feature, despite the more challenging macro conditions impacting more cyclical sectors. Some of the companies reporting excellent clinical data updates are attracting investor attention and being rewarded with large share price moves. Larger pharma companies are also seeking opportunities to acquire biotech companies for their products and technologies. These fundamental trends arguably have only been strengthened by the emergence of the coronavirus pandemic.

Election Year Uncertainty Is a Risk

The outlook for health care is not without risks, however. One of the key near-term risks is the U.S. presidential election in 2024. Election years are typically a source of considerable uncertainty for the health care sector. Not only is the eventual presidential winner unknown, often the candidates who are running are not known until late in the race. The potential variance in health care policies, not only between the Republican and Democratic parties, but also between candidates within each party, can be significant, creating major uncertainty, particularly within the managed care industry, in the lead-up to the election.

Looking Forward

The macroeconomic environment looks set to be challenging through 2023 and beyond. Indeed, we believe a recession is likely. Health care tends to be less cyclically sensitive, and its defensive characteristics should help the sector weather any slowdown in the broader economy.

The diversity of health care also makes it a particularly rich landscape—from innovation in the areas of therapeutics and medical devices, to the rapid adoption of new technology and care delivery models, to the defensive growth characteristics of the managed care industry.

INVEST WITH CONFIDENCESM

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T.RowePrice[®]

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

DISCLOSURE CONTINUES ON THE FOLLOWING PAGE.

Important Information (cont.)

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

Brunei—This material can only be delivered to certain specific institutional investors for informational purpose only. Any strategy and/or any products associated with the strategy discussed herein has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

EEA—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Indonesia—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

Korea—This material is intended only to Qualified Professional Investors. Not for further distribution.

Mainland China—This material is provided to qualified investors only. No invitation to offer, or offer for, or sale of, the shares will be made in the mainland of the People's Republic of China ("Mainland China", not including the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the Mainland China. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the Mainland China. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the Mainland China that are expressly authorized under the laws and regulations of the Mainland China to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the Mainland China. Potential investors who are resident in the Mainland China are responsible for obtaining the required approvals from all relevant government authorities in the Mainland China, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the Mainland China, or nationals with permanent residence in the Mainland China, or to any corporation, partnership, or other entity incorporated or established in the Mainland China.

Malaysia—This material can only be delivered to specific institutional investor. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

New Zealand—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Philippines—ANY STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING DISCUSSED HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Singapore—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), 60 Queen Victoria Street, London, EC4N 4TZ, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

Taiwan—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

Thailand—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

UK—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2023 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.