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MARKET INSIGHT
HEALTHCARE

Prescriptions for Relief:
Signs of Recovery in Healthcare

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Signs of Recovery in Healthcare

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August 13, 2026

Introduction

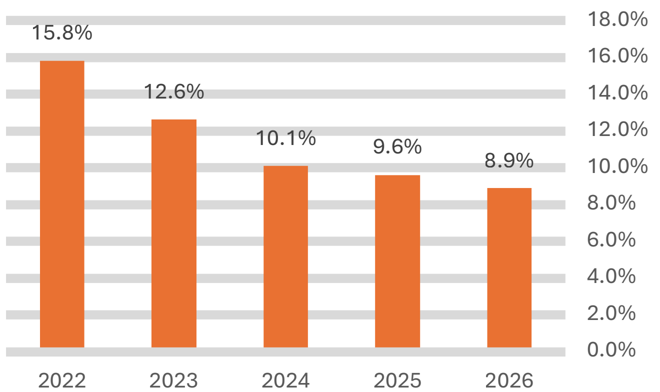
After one of the deepest and longest stretches of underperformance in its history, Healthcare is showing some early signs of life.

Following the pullback in 2022 in the broader market, which saw defensive sectors like Healthcare and related ETF strategies with covered calls like the Harvest Healthcare Leaders Income ETF (HHL) being among the best performers, the sector has lagged the broader market every year since.

The relative underperformance has pushed Healthcare's weight in the S&P 500 down to roughly 9%. This compared to a peak of nearly 16% and translated into a drop to the fifth-largest sector in the index from the second-largest.

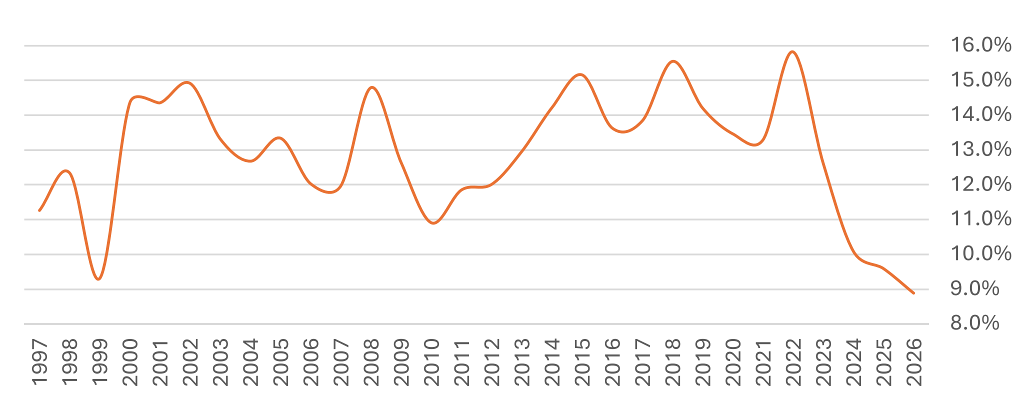
In fact, despite being the 5th largest segment in the U.S. market, the weighting of the Healthcare sector relative to the broader market has now declined to levels below the market peaks of 1999.

Healthcare Weight in Broader Market



Source: Bloomberg Finance L.P., S&P 500 Healthcare GICS % of S&P 500, Harvest ETFs, August 4, 2026.

Healthcare's Weight In Market



Source: Bloomberg Finance L.P., S&P 500 Healthcare GICS % of S&P 500, Harvest ETFs, August 4, 2026.

This trend is a function of the powerful growth in earnings, which continues to expand across the Technology & Communications sub-sectors. Notwithstanding , the balance of risks is shifting. In many cases, healthcare positions are oversold, valuations are discounted, fund flows are turning, and earnings visibility into 2027 is improving.

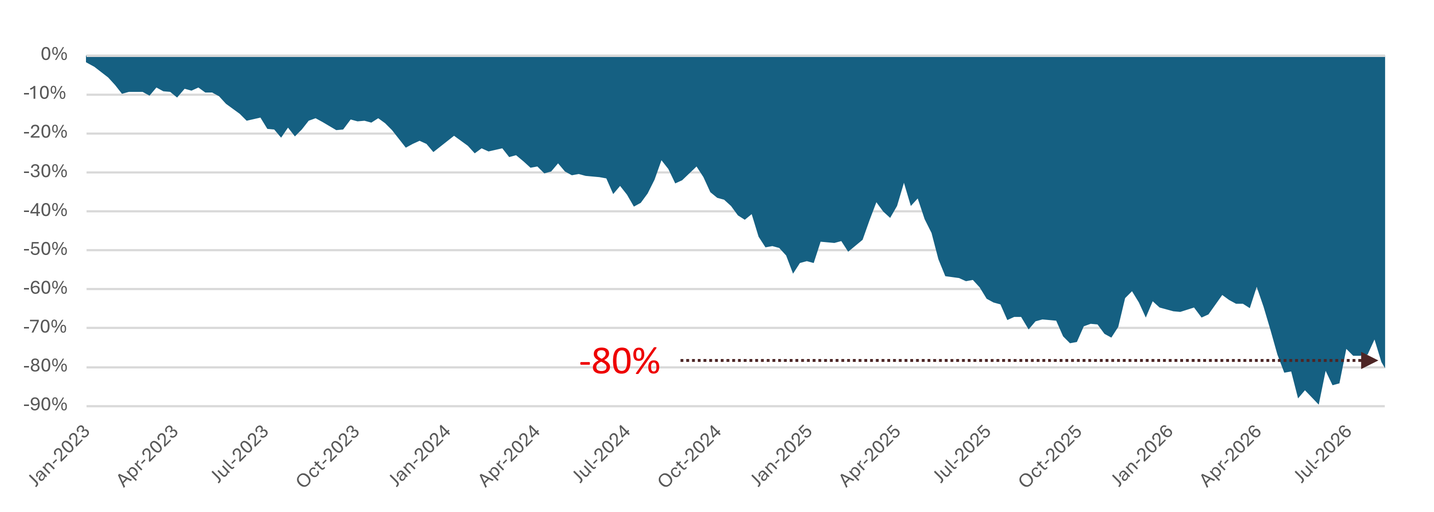
For income and total-return investors who have waited patiently through the drawdown, the setup looks increasingly like a recovery story rather than a value trap.

A Sector Investors Have Left Behind

Healthcare's fall from favour has been as much about positioning than about the fundamentals. Investors ownership of Healthcare sits near the bottom of its long-term historical range. Moreover, the relative underperformance of the sector remains extraordinary.

Those factors have turned Healthcare into a popular funding source, a sector that investors have rotated away from to make concentrated bets elsewhere in the market, most notably in AI-related Technology names. It is clear to investors that relative defensive areas like many of the Healthcare sub-sectors, have not participated in the growth focused market.

S&P 500 Healthcare vs. S&P 500 | December 2022 - August 2026

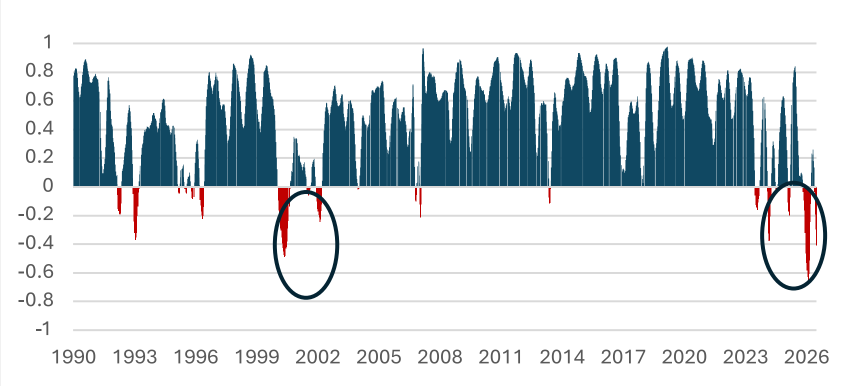


Source: Bloomberg Finance L.P., Harvest ETFs, August 4, 2026.

Healthcare's relative underperformance, especially to Technology, has also been extreme. Notably, the correlation between Healthcare and Technology performance has inverted.

This is a dynamic that we would argue has historically coincided with periods of extreme market concentration and does not necessarily mean more a moderate concentration would result in an immediate reversal. However, a key take away is that it re-enforces the potential diversification benefits of holding asset classes that do not all move in concert.

Healthcare vs Tech Correlation has Inverted



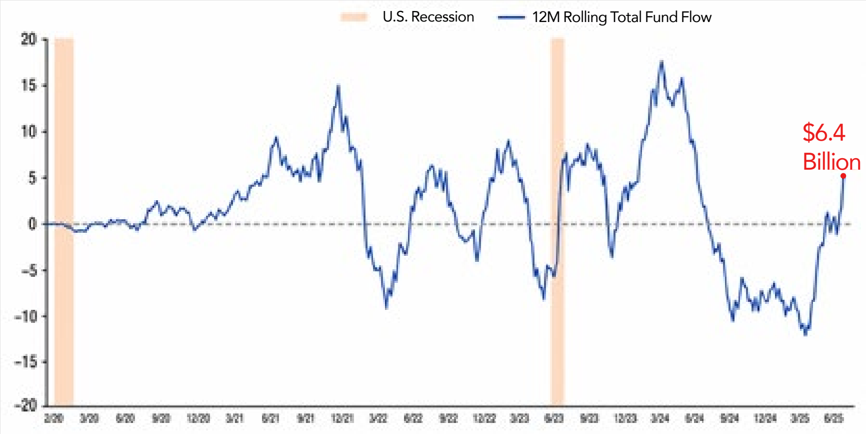
The good news for patient investors: extremes like this rarely persist indefinitely. Some indicators suggest that active weights in Healthcare have fallen meaningfully from prior cycle highs, and according to recent J.P. Morgan Equity Strategy reports, short interest levels across Healthcare's major sub-sector's are near five-year highs.

That kind of setup; low ownership, elevated bearish positioning, coupled with improving fundamentals, can be the catalyst for a snap-back once sentiment inflects.

Fund Flows Are Turning

One of the clearest tells that sentiment is shifting: money is coming back. Twelve-month rolling fund flows into Healthcare ETFs have moved decisively positive after years of outflows that were themselves a persistent headwind to sector performance. On a percentage-of-assets basis, recent inflows represent one of the strongest readings since the short-term recovery began earlier this summer, a signal that allocators are starting to look past the policy noise of the last two years and are re-engaging with the sector.

U.S. Healthcare ETF Inflows vs Outflows



Source: J.P. Morgan Equity Strategy and Global Thematic Research, Bloomberg Finance L.P.; Harvest ETFs, June 30, 2026.

Valuation: Cheap Versus the Market - Not Screaming Inexpensive

Healthcare's valuation story is a genuine two-sided coin. Relative to its own trading history, the sector is not screaming cheap, its reasonable. Forward earnings multiples are trading within historical ranges.

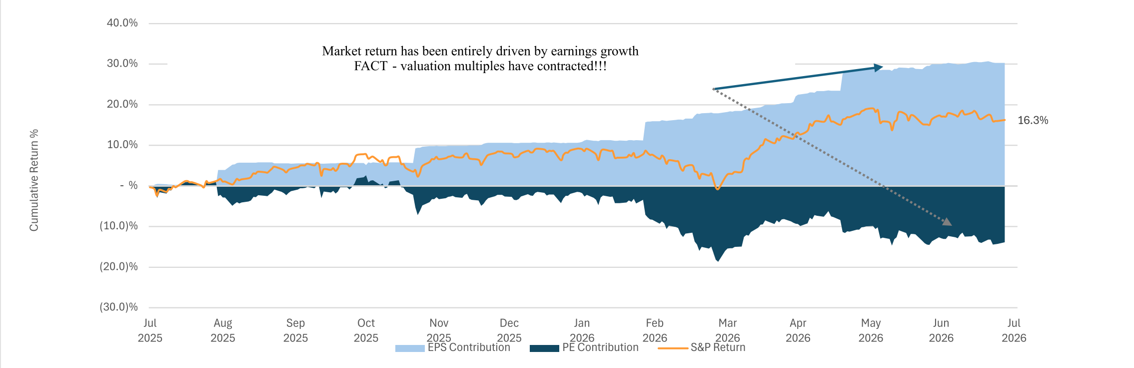
When compared to the broader market however, Healthcare remains at a discount. That discount is even more pronounced by sub-industry, with names in the medical devices, tools and diagnostics and select biopharma companies, trading meaningfully below their historical valuations.

In other words: this is not a sector that looks statistically "cheap" in isolation. It is a sector that looks unusually inexpensive relative to many areas of the market, coupled with meaningful catalysts that now appear on the horizon. For investors looking to diversify away from higher concentration without giving up quality or durable growth, the relative discount is the relevant number.

Earnings I: The market is driven by earnings

We see that earnings growth has been the driver of the broader market instead of an expansion in market multiples.

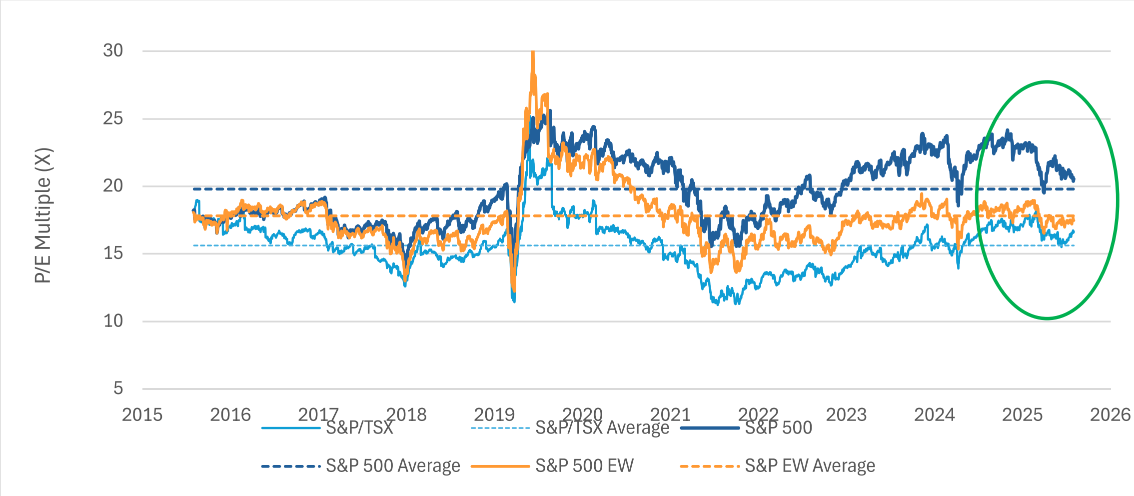
Market Returns Broken Down by EPS & Multiples



Source: Harvest ETFs, July 31, 2026. Bloomberg L.P., represents earnings multiple contraction that is driven by forward earnings growth estimates (4 quarter median) and from multiple contraction. Illustrative purposes only.

Many market commentators continue to suggest however, that the market is expensive. This is an important attribute of the current market dynamics. Technology continues to have strong earnings growth and that has resulted in market valuation multiples becoming cheaper. The earnings have continued to exceed even the relatively high expectations, need to continue to deliver. In the meantime, earnings growth appears to be expanding beyond just a select few companies, and the broader market is in fact trading at reasonable valuations.

Market Multiples Have Compressed as Earnings Growth has Accelerated

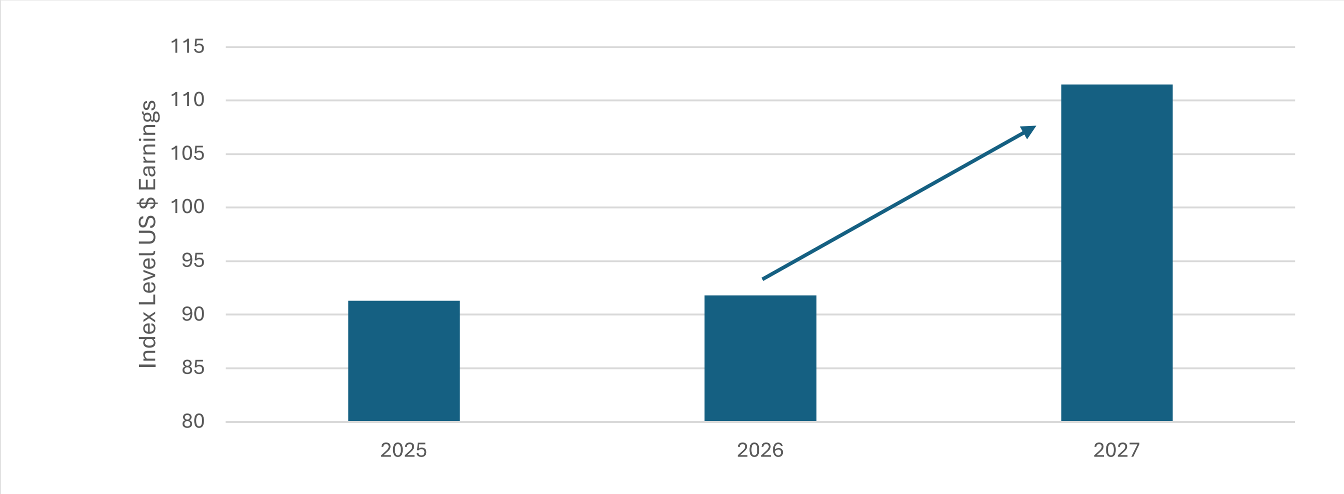


Source: Harvest ETFs, Bloomberg L.P., July 31, 2026. Based forward 4 quarter median estimates.

Earnings II: Healthcare - 2026 an inflection- real acceleration possible in 2027

Importantly, just because Technology earnings continue to be robust, it does not mean that other areas of the market can not also participate. In fact, earnings breadth has been expanding, meaning the number of companies that are posting strong earnings growth is increasing. Earnings do need to hit targets, however importantly, analysts appear to be hitting an inflection point, with earnings estimate revisions moving higher. For Healthcare, the shape of the earnings curve is key. Consensus estimates call for Healthcare net income growth to be roughly flat in 2026 before re-accelerating sharply in 2027.

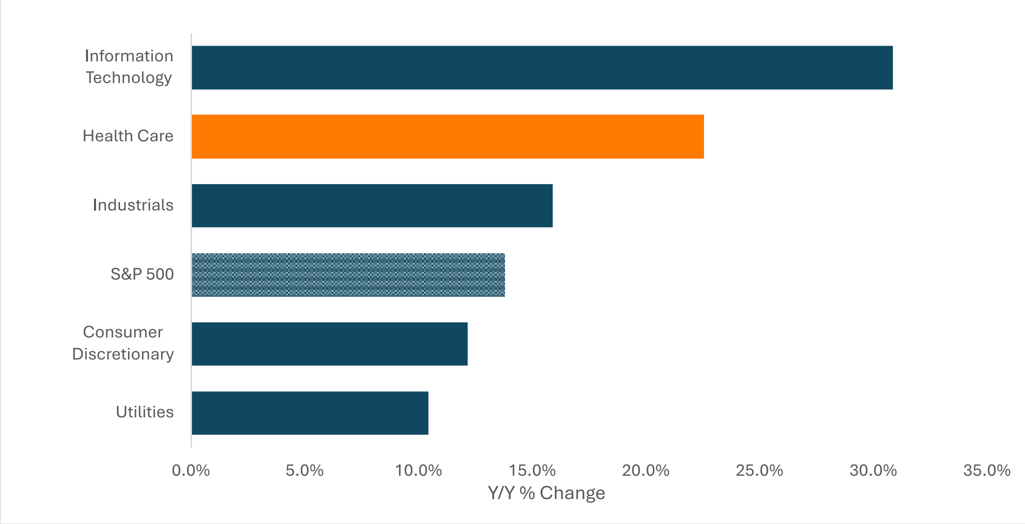
Healthcare Consensus Earnings



Source: Bloomberg L.P., Harvest ETFs. GICS sub-sector median consensus earnings estimates for calendar 2026 and 2027.

There are many areas of the market that have strong growth forecasts. While not evenly distributed across individual stocks and sectors, according the to forecasts for the coming year, Healthcare is expected to have amongst the best earnings growth profiles in the market.

Calendar 2027 Y/Y Growth - Top 5 GICS Sectors



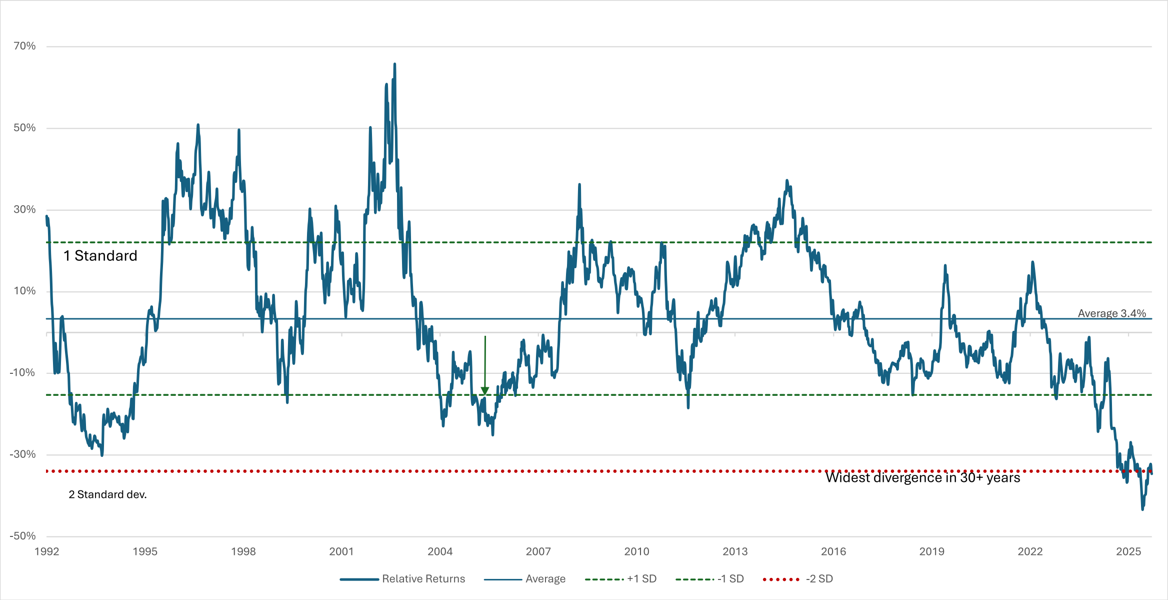
Source: Bloomberg Finance L.P., based on 2027 consensus year over year earnings growth. Harvest ETFs

As earnings are validated through upcoming quarterly reporting, the market will not look past the relative valuations and current bearish positioning for long, in our view.

Relative Returns: A Long Way Down, Room to Run

Healthcare's rolling returns versus the broader market recently sat near the bottom of its range, a territory it has visited only a handful of times since the mid-1990s. Each prior instance of comparably extreme relative weakness was eventually followed by a period of relative strength, though the timing and magnitude has varied cycle to cycle. That is not a promise of what comes next, but it is a reminder that today's starting point is genuinely unusual by historical standards, not merely a modest relative lag.

S&P 500 Healthcare Relative Return vs. SPX

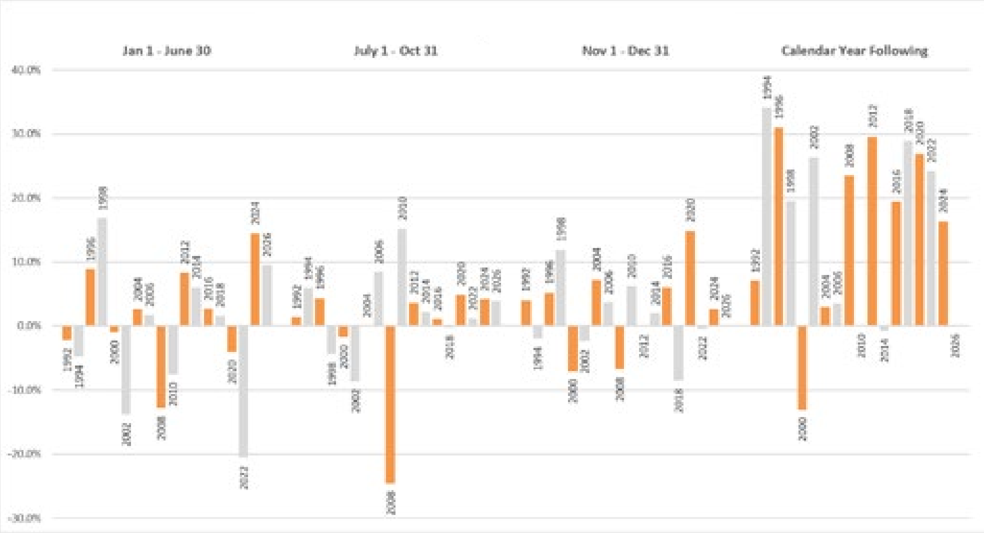


Source: Bloomberg Finance L.P.; Harvest Portfolios Group Inc.

No Playbook for Midterms — In Either Direction

Our broader market outlook in the U.S. continues to be positive with many of the macro leading indicators, including higher frequency data and soft economic indicators, showing signs of economic reacceleration. Despite policy and geo-political risks being elevated over recent years, the market continues to look past them and has consistently moved to all time highs. Regardless, with U.S. midterm elections back in the sights, a natural question is whether Healthcare has a reliable election-cycle pattern to lean on and determine an allocation. Its worth saying plainly rather than over thinking: There is no pattern looking back across every midterm and presidential election cycle since 1990, Healthcare's relative performance in the months before and after election day has been genuinely inconsistent. The same is true at the sub-industry level, on an absolute basis, relative to the broader market and in the assessment of volatility metrics. However, it is noted the calendar year following is generally positive, reinforcing time in the market versus timing the market.

S&P 500 Price Returns During Midterm and Presidential Years



Source: Bloomberg Finance L.P.; Harvest ETFs, As at July 31, 2026.

Positioning a Portfolio for the Recovery

Healthcare's sub-sectors share the same long-term secular tailwinds; aging demographics, technological innovation and rising healthcare spending in developing markets, but their short-term catalysts differ meaningfully, from drug launches and clinical readouts to reimbursement policy and device cycles. That combination of shared long-term drivers and differentiated near-term paths is exactly why diversified, large-cap exposure and diversification matters when timing a recovery: it smooths the experience of company- and sub-sector-specific setbacks while keeping investors positioned an earnings inflection and secular long term growth drivers.

The Harvest Healthcare Leaders Income ETF (TSX: HHL), Canada's largest Healthcare ETF, offers Canadian investors access to this recovery through an equal-weighted, actively managed portfolio of twenty large-cap global healthcare leaders, diversified across pharmaceuticals, biotechnology, medical devices, life science tools and managed care. HHL pairs that diversified equity exposure with an active covered call strategy, delivering consistent monthly cash distributions for over 10 years, while investors wait for the sector's earnings and valuation story to play out.

The Bottom Line

Healthcare enters the second half of 2026 as a sector that has been deeply out of favour, is lightly owned, trades at a historically wide discount to the broader market and is set up for a real earnings inflection in 2027. Fund flows in the U.S. are turning positive after several years of outflows, and the policy overhangs that weighed on sentiment for the better part of two years are increasingly reflected in prices rather than lying ahead as fresh risk.

None of that guarantees a straight line higher. Investors should not expect a tidy pattern around the midterms to guide the next few months. But for those looking to diversify away from a market that remains concentrated in sector and styles, Healthcare's combination of durable demand, improving earnings visibility and depressed positioning is a compelling prescription for relief.

About Harvest

Founded in 2009, Harvest is an independent Canadian Investment Fund Manager. At Harvest ETFs, we believe that investors can build and preserve wealth through the long-term ownership of high-quality businesses. This fundamental philosophy is at the core of our investment approach across our range of ETFs. Our core ETF offerings center around covered call strategies, available in these variations: Income Leaders, Enhanced Income Leader, Fixed Income, Asset Allocation, Digital Assets, Specialty, and Harvest High Income Shares.