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Health Care's Next Act: Tailwinds Emerging Across R&D Cycle

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Key Takeaways

- Policy uncertainty around pharmaceutical pricing has eased, shifting investor attention toward upcoming patent expirations and the ability of individual drugmakers to replenish growth through their pipelines.
- The drug development ecosystem appears to be stabilizing, as improving biotech funding, continued growth in large-pharma R&D spending and healthier bioprocessing demand create a more constructive backdrop for contract research organizations and life science tools companies.
- Health care utilization is normalizing after a post-pandemic surge, creating a more mixed environment for medical devices but potentially improving the earnings outlook for managed care companies.

After several challenging years, important parts of the health care sector appear to be reaching an inflection point. Policy uncertainty has weighed on pharmaceutical companies, constrained biotech funding has pressured the drug-development ecosystem and the normalization of pandemic-era has challenged select tool and device companies. More recently, however, several of these headwinds have begun to moderate.

Pharmaceutical stocks have already responded to greater clarity around U.S. drug pricing, while improving biotech financing and stable research and development (R&D) spending are creating more favorable conditions for companies supporting drug discovery and clinical development. At the same time, normalization in health care utilization is changing the relative outlook for medical devices and managed care. We believe these shifting dynamics are creating a more attractive environment for active stock selection across health care.

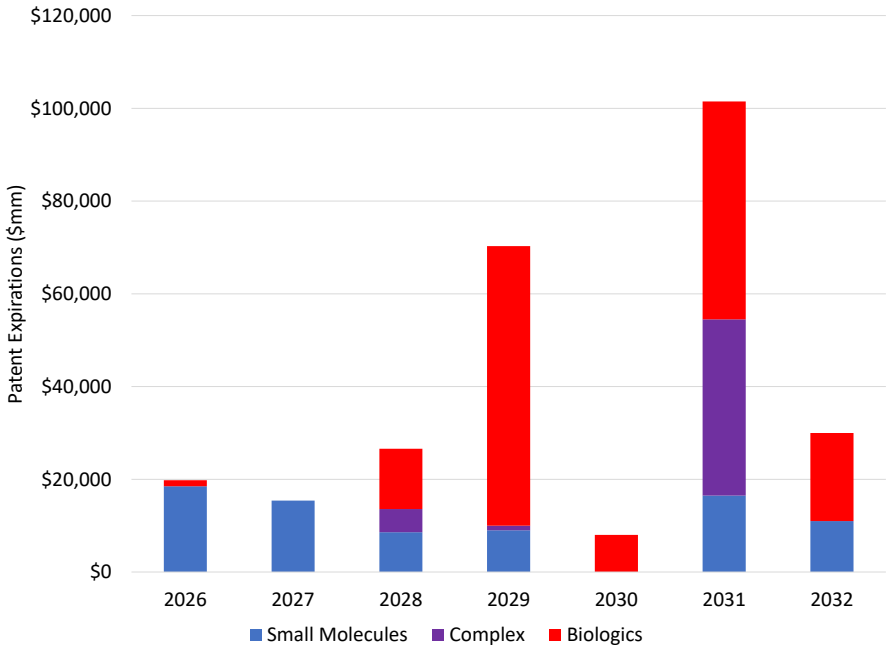
Patent Cliffs Refocus Attention on Innovation

Drug pricing dominated the pharmaceutical debate for much of 2025 as investors weighed potential concessions the Trump administration might require from the industry. A series of agreements between large pharmaceutical companies and the administration beginning in September 2025 helped reduce much of that uncertainty, contributing to a significant recovery in pharmaceutical shares.

With pricing concerns receding, attention is shifting toward another fundamental challenge: patent expirations.

Drugmakers benefit from patent protection and regulatory exclusivity to commercialize new medicines for a finite period. When those protections expire, generic or biosimilar competition can cause revenues from blockbuster products to decline rapidly — in some cases by 50%–80% within months. Several major medications are approaching this point, including treatments for cancer, immunological diseases, diabetes and obesity.

Exhibit 1: Pharmaceutical Patent Expirations



*2025 – **REGN, JNJ**, AMGN, ROG, AZN*

*2026 – **PFE**, **BMY**, NVS*

2027 – PFE

2028 – **BMY**, LLY

*2029 – **MRK**, **Roche**, NVS, AMGN, AZN*

2030 – ROG, AZN

2031 – **NVO**, **REGN**, **SNY**, **NVS**, **AZN**, Roche, AMGN, GSK, GILD

2032 – **AZN, JNJ**

>$8B in loss of exclusivity revenues in bold. Source: ClearBridge Investments.

We believe this coming patent cycle will increasingly separate pharmaceutical companies into haves and have-nots. Companies with younger product portfolios, diversified franchises and productive R&D pipelines should be better positioned to replace lost revenues and sustain growth. We believe Johnson & Johnson and AstraZeneca are two companies which currently possess these characteristics.

Drug Development Ecosystem Begins to Heal

Improvement is also emerging behind the scenes of pharmaceutical innovation. Contract research organizations (CROs) help biotech and pharmaceutical companies conduct the studies necessary to bring medicines to market, handling activities such as clinical trial management, patient recruitment, data collection and regulatory support. Life science tools companies supply the instruments, laboratory equipment and consumables scientists use for research.

Both industries suffered following the pandemic: CROs faced weaker biotech funding and more cautious clinical-trial spending, while tools companies absorbed slower research activity and customer destocking However, we believe that backdrop is beginning to change.

Biotech funding has rebounded to more than $50 billion year to date, with the current pace potentially putting full-year funding more than 50% above the prior year. Although financing can be volatile, the trend has clearly improved from cycle lows. Meanwhile, large pharmaceutical R&D — historically a steadier source of demand — is expected to continue growing at a mid-single-digit pace.

CRO bookings provide another encouraging signal. Net book-to-bill ratios, which compare new business won with revenue recognized, declined sharply during the downturn but remained above 1.0 for the broader clinical CRO group. Recent quarterly figures are beginning to stabilize, suggesting demand may be approaching a bottom.

Charles River Laboratories offers focused exposure to a potential recovery in preclinical research, while ICON could benefit from improving demand for outsourced clinical trials.

Bioprocessing Adds a Structural Tailwind

Within life science tools, bioprocessing appears particularly attractive, as it supports the manufacture of biologic medicines, including monoclonal antibodies, cell and gene therapies and vaccines.

These medicines are typically more complicated to manufacture than traditional small-molecule drugs, requiring specialized equipment and recurring purchases of consumables. Once a supplier's products are incorporated into a drug's manufacturing process, customers have strong incentives to continue using them to maintain manufacturing consistency and meet regulatory requirements. This can create sticky, recurring revenue streams for suppliers.

After pandemic-era inventory disruptions, bioprocessing has returned to high-single-digit growth. Potential reshoring of pharmaceutical manufacturing to the U.S. could provide an additional tailwind beginning in 2027. We believe improving biotech funding, stable pharmaceutical R&D and healthy bioprocessing demand should support a gradual acceleration in life science tools growth, with Thermo Fisher Scientific, Danaher and Sartorius among the better-positioned companies.

Normalizing Utilization Creates Winners and Losers

Elsewhere in health care, utilization is becoming an important differentiator. Procedure volumes surged following the pandemic as patients returned for delayed care, benefiting medical device companies. That catch-up effect is now fading. Although procedures continue to grow across many categories, sustaining strong organic growth for device manufacturers will depend to a greater extent on product innovation, pricing power and market share gains.

For managed care companies, however, slower utilization could prove beneficial. Health insurers collect premiums while paying the medical costs associated with members' care. When utilization comes in below expectations, medical costs can decline and profitability can improve. After unexpectedly strong utilization pressured managed care results in 2024 and 2025, early signs of deceleration could turn a significant headwind into a tailwind.

Health care's recovery is therefore unlikely to lift all companies equally. We believe improving R&D conditions, shifting patent dynamics and normalizing utilization are creating distinct winners and losers — an environment where fundamental research and active stock selection should become increasingly important.

About the Authors

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