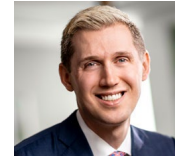


The Dividend Corner:

Health Care From Emergency Room to Recovery Room

In this episode of the Dividend Corner, we dive deep into Health Care with Investment Committee Member Kevin Gade, examining a sector teeming with innovation, but lately ignored by many investors. Topics include what landed Health Care, as a sector, in the “Emergency Room” and the combination of demographics and innovation that have moved many opportunities into the “Recovery Room”. [Hear the latest episode.](#)



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1. Why Health Care Has Struggled Recently (“Emergency Room”)

Health Care, Consumer Staples, and Utilities have endured a **brutal five-year stretch** as defensive sectors lagged a powerful bull market (S&P +100%).

Sector narrowness has intensified—**only 9 of 75 Health Care stocks** outperformed the S&P 500 over the past five years.

Key drivers of recent underperformance:

- **Policy and regulatory uncertainty**, particularly emerging around the **2024– 2025 election cycle**.
- Investor **rotation out of defensive sectors** and into momentum themes such as artificial intelligence (AI).

2. Long-Term Strengths of the Sector

Proceed to **02:00** to listen directly to this segment.

Health Care is the third best-performing sector over the past 30 years; **second best on a risk-adjusted basis (Sharpe ratio)**.

Sector benefits from:

- **Strong innovation** across pharma, biotechnology, and medical devices.
- Relatively **inelastic demand**—people consume health care regardless of economic cycles
- Global demographic tailwinds, including a **growing middle class**.

Reliability of business models has supported stable and **growing dividend streams**, a key anchor for Bahl & Gaynor.

3. Dividend Yield, Valuation, and Alpha Opportunities

Proceed to **04:19** to listen directly to this segment.

Health Care traditionally offers a **higher dividend yield**, reflecting reliable cash flows—not necessarily slow growth.

Elevated yields today often reflect **overdone uncertainty**, creating opportunities for fundamental investors.

Health Care valuations are **at historically low levels relative to the S&P 500**, and investor positioning is at the **3rd percentile** over 30 years.

Bahl & Gaynor seeks:

- **Growth at a reasonable price.**
- Reliable companies with **earnings capacity to support dividend growth**.
- Investments that enhance **income today and total return long-term**.

4. Innovation + Demographics = “Recovery Room” Case

Proceed to **09:47** to listen directly to this segment.

Key structural drivers that may support longer-term sector strength:

- **Breakthroughs in pharmaceuticals** (gene therapy, anti-obesity/anti-inflammatory pathways).
- **Rapid progress in medical devices**, including early-stage penetration of robotic surgery.
- The **“Silver Tsunami”**:
 - First Baby Boomers turn **80 in 2026**;
 - 80+ population is projected to grow **5% annually through 2040**;
 - Health Care consumption accelerates sharply after age 80.

These trends drive higher utilization, medical inflation, and increased revenue opportunities for providers delivering effective outcomes.

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5. Cost-Curve Bending & Down-Market Opportunities

Proceed to **12:00** to listen directly to this segment.

A third of U.S. non-discretionary spending flows to Health Care—pressuring policymakers and creating opportunities for innovators.

Attractive areas include providers that:

- Have lower cost vs. hospitals: **skilled nursing, inpatient rehab, outpatient therapy.**
- Improve system efficiency: potential AI applications, care-setting optimization.

End-of-life care (hospice):

- Growing **8% per year**, faster than the 80+ population.
- Saves Medicare **\$3B annually** while emphasizing compassionate care.

6. Managing Pharma's "Loss of Exclusivity" (LOE) Risk

Proceed to **13:48** to listen directly to this segment.

Bahl & Gaynor prioritizes **revenue diversity** to mitigate blockbuster concentration.

Often, valuation **compresses ahead of LOE events**, creating compelling re-entry points.

Historical examples discussed include:

- **AbbVie (Humira LOE, 2023)**
- **Johnson & Johnson (Stelara LOE, 2025)**
→ Both exhibited positive **post-LOE re-ratings.**

7. Outlook for the Sector

Proceed to **18:38** to listen directly to this segment.

Despite a difficult five-year stretch, B&G believes:

- **The worst may be behind us**, with multiple catalysts for recovery.
- Innovation, demographics, valuation, and cost-efficiency trends offer **multi-cap opportunities.**
- Large cap exposure leans toward **pharma and medical devices**, while Small- and mid-caps offers **diversified-care and cost-reduction plays.**

Regulatory uncertainty remains the **biggest perceived and actual risk**, but it also creates mispricing and **alpha potential.**

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