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Navigating the Health Care Industry in Trump's Second Term

Significant policy proposals could be in store, along with a more business-friendly approach.

As President-elect Donald J. Trump prepares for his second term in office, the health care industry is poised for a period of potential change, despite his relative silence on policy details. In this case, personnel may make a major difference, and, in our view, investors should prepare for a landscape influenced by health care and budgetary appointments. While market volatility is likely, we believe maintaining an emphasis on long-term trends will be essential in navigating an evolving industry landscape. Understanding the implications of regulatory changes and key administrative appointments will likely be important in identifying investment opportunities.

Here are some key issues to monitor.

Medicare Advantage: A Potential Tailwind for Insurers

The new Trump administration is expected to favor private Medicare Advantage plans through the provision of more positive payment updates, potentially increasing rates by 2 – 5% in contrast to the negative updates that occurred during the Biden years. The magnitude of these updates could hinge on the policy direction from recent nominees Robert F. Kennedy, Jr. (the proposed Secretary of the Department of Health and Human Services, or HHS) and Dr. Mehmet Oz (the nominated Administrator for the Centers for Medicare and Medicaid Services, or CMS), who are generally believed to view the Medicare Advantage program favorably.

Medicaid: Navigating Potential Headwinds

The Medicaid program requires significant federal funding, but there has been political resistance to enacting material changes to benefits, often from state officials, which could impact private health care providers. We think investors should watch for future proposals that might involve adjusting federal matching amounts.

Affordable Care Act (ACA) and Health Care Providers: Strategic Considerations

Efforts to “repeal and replace” the ACA appear largely to have been abandoned. However, the scheduled expiration of COVID-era ACA subsidies in 2025 (if Congressional action is not taken) could lead to significant disenrollment from the ACA and a migration to lower-benefit private plans.

For health care providers, we anticipate a softening labor environment, partially through the potential reversal of certain labor-related policies under the Biden administration. These include the likely rollback of the “80/20 rule” (requiring that a minimum of 80% of payments for personal caregiver services directly compensate caregivers) and similar labor-related policies. Trump’s continued focus on site-of-care will likely shift certain health care procedures from inpatient settings to lower-cost outpatient or ambulatory surgery centers.

Pharmaceutical Sector: A Double-Edged Sword

Trump’s focus on drug pricing could lead to reforms affecting pharmaceutical companies. Kennedy’s nomination to the HHS suggests possible changes in public health policies, but with uncertain outcomes; for example, while Kennedy has frequently spoken critically of vaccines, new regulation beyond current frameworks could be met with litigation. Trump has previously proposed a “most favored nation” drug-pricing model, in which Medicare would refuse to pay more for drugs than the lowest price of any similar country. A version of this framework could potentially be implemented through the existing Inflation Reduction Act negotiation process. Although Kennedy has criticized pharmaceutical advertising, efforts to regulate television ads could be met with obstacles, given that Trump’s previous attempt was struck down on First Amendment grounds. Finally, we expect modest reforms in pharmacy benefit management, which have bipartisan support.

Unconventional Cabinet Nominees

Despite their unconventional status, we believe that Trump’s health care nominees (including Kennedy and Oz, as well as Dr. Martin Makary, who has been picked to serve as head of the Food and Drug Administration, or FDA), are likely to be approved by the Senate or (if needed) elevated through the recess appointment process. Notably, the HHS Secretary manages multiple key health care agencies such as the CMS, the FDA, the Centers for Disease Control and Prevention (CDC) and the National Institutes of Health (NIH). Certain policy directions, while difficult to implement and likely to be met with legal challenges, could still be possible given the current crop of nominees.

Federal Trade Commission and Private Equity Investment: Regulatory Outlook

While the level of federal targeting seen during the Biden administration is unlikely to continue during a Trump term, state-level scrutiny on private equity investment in health care may persist, albeit with potentially lower intensity. The Trump administration’s stance on health care mergers and acquisitions remains uncertain, though a return to the lax policies of previous administrations is improbable.

Conclusion: Focus on Fundamentals and Strategic Opportunities

While the political environment may introduce uncertainties, the fundamental drivers of the health care industry are likely to persist. We believe investors should remain anchored to these long-term trends, looking beyond immediate political noise to identify strategic opportunities within the sector. As the administration’s policies become clearer, tactical opportunities may emerge, but maintaining a disciplined focus on enduring market dynamics will be key to navigating this period successfully.

By preparing for volatility and focusing on sustainable growth areas, investors can position themselves to capitalize on both the challenges and opportunities presented by Trump’s second term in office.

Summary: Post-Election Health Care Outlook

	Trump Outlook	Policy Catalysts
Medicare Advantage	<ul style="list-style-type: none"> • Payment updates for Medicare Advantage likely to rebound to the high levels of the first Trump administration • Payment rates of 2 – 5% vs. negative rate updates during Biden administration 	<ul style="list-style-type: none"> • Recent nominees generally view Medicare Advantage favorably • Potential outcomes include positive rate growth or even mandatory enrollment into Medicare Advantage
Medicaid	<ul style="list-style-type: none"> • Medicaid requires significant federal funding • Unlikely to see material change to benefits given frequent negative feedback from states on proposed cuts 	<ul style="list-style-type: none"> • Potential for proposals to adjust federal matching
Affordable Care Act	<ul style="list-style-type: none"> • “Repeal and replace” largely abandoned, with Trump moving away from his first-term priority due to ACA popularity • More concern about COVID-era ACA subsidies, which contributed to enrollment 	<ul style="list-style-type: none"> • ACA subsidies will expire in 2025 without Congressional action • Potential return of lower-benefit plans (i.e., fixed indemnity, short-term plans)
Health Care Providers	<ul style="list-style-type: none"> • Likely reversal of 80/20 rule and similar labor-related policies • Focus on site-of-care, with shift of certain health care procedures from inpatient settings to lower-cost outpatient/ambulatory surgery centers 	<ul style="list-style-type: none"> • Appointments in the CMS could be significant for program direction
Pharmaceuticals	<ul style="list-style-type: none"> • Focus on drug pricing, particularly where the U.S. pays more than other countries • IRA drug price negotiations could skew lower, targeting prices in other countries 	<ul style="list-style-type: none"> • Kennedy has negative views on vaccines and pharma advertising, though proposals on either could see legal challenges • Expect modest pharmacy benefit provider reform driven by bipartisan support
Federal Trade Commission/ Private Equity in Health Care	<ul style="list-style-type: none"> • Unlikely to see the same federal targeting as under Biden • Trump policy on health care M&A is still unknown, but a move to lax policy appears unlikely 	<ul style="list-style-type: none"> • Expect continued state attention on private equity investment in health care but potentially at a lower intensity

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