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Morning Briefing

On Health Care, Industrials & Robots

Check out the accompanying [chart collection](#).

Executive Summary: The Health Care sector is the S&P 500's most anemic performer ytd. But its downtrodden valuation might leave lots of room for upside on the slightest good news. And some of its component industries aren't ailing at all. Jackie examines how Trump 2.0's legislative initiatives have hurt some Health Care industries and benefited others. ... Also: Boeing's turnaround has sent its share price soaring and lifted the fortunes of its suppliers as well. ... And: Humanoid robots are fast becoming smarter, cheaper, and more skilled than ever, as a recent global AI conference showcased.

Health Care I: Ready for a Cure? The S&P 500 Health Care sector has been sickly this year, afflicted by tariffs, unexpected costs, and changes to government reimbursement. The horrific combination has caused the sector's stock price index to fall 2.5% ytd in a strong market—the overall S&P 500 index is up 8.3%.

In the ytd price derby (through Tuesday's close), Health Care's 2.5% decline puts it dead last among S&P 500 sectors: Industrials (15.8%), Information Technology (13.1), Utilities (11.6), Communication Services (10.7), Financials (9.1), S&P 500 (8.3), Materials (7.6), Real Estate (4.8), Consumer Staples (4.0), Energy (3.9), Consumer Discretionary (-0.8), and Health Care (-2.5) ([Fig. 1](#)).

Two positive points for investors interested in the S&P 500 Health Care sector to consider:

(1) *Performance isn't as bad as it looks.* One beleaguered large-cap stock in the Health Care sector has outsized sway over the sector's overall performance. UnitedHealth Group (UNH)—battered by unexpectedly high healthcare costs and the Justice Department's investigation into its billing practices—is down 48.4% ytd. Since UNH represents 4.1% of the Health Care sector's market capitalization (down from 9.6% in November), it skews both the sector's performance and that of its industry, S&P 500 Managed Health Care ([Table 1](#)). Excluding UNH and the Managed Health Care industry, the S&P 500 Health Care sector

would be up 3.3% ytd because some of the other Health Care stocks and industries have had respectable ytd results.

Here's the performance derby for the S&P 500 Health Care sector's component industries ytd through Tuesday's close: Health Care Services (15.8%), Biotechnology (8.7), Health Care Equipment (8.0), Pharmaceuticals (-2.2), Health Care Sector (-2.5), and Managed Health Care (-43.2) ([Fig. 2](#)).

(2) *Valuation is historically low.* The S&P 500 Health Care sector is cheap. Its forward P/E has dropped to 16.5, close to the bottom end of its range over the past decade ([Fig. 3](#)). At such a depressed valuation, it might not take much positive news to move share prices higher.

Health Care II: Which Industries Are Most Afflicted? While recent news has hurt the overall sector's performance, it has affected the individual component industries differently. Several are ailing, but notably biotech is not.

Here's a look at recent news and the effects it has had on industry price indexes:

(1) *Blame it on UNH.* UNH's price has been more than halved since it peaked at \$625.25 on November 11; the stock trades hands now at \$261.07. The Justice Department's criminal healthcare fraud unit is investigating the company's billing practices and allegations that it "deployed doctors and nurses to gather diagnoses that bolstered its payments," a July 24 *WSJ* [article](#) reported. The company is also the focus of a civil fraud probe into its practices for recording diagnoses.

UnitedHealth replaced its CEO in May, recently reported Q2 earnings far below analysts' expectations, and lowered its adjusted EPS guidance for this year to \$16, below analysts' \$20.64 consensus (itself down from \$29.50-\$30.00 earlier this year). The company underestimated the volume of services consumers used and the associated costs.

(2) *Managed Care's woes.* Things may not improve much for UNH and other insurance companies going forward. President Donald Trump's Big Beautiful Bill Act requires Medicaid recipients to work or participate in other qualifying activities and to reapply for benefits every six months instead of annually. As a result, enrollment may shrink, leaving mostly the sickest patients covered, which would hurt health insurance providers' bottom lines. Other health insurance companies have also felt the pain, with Centene and Molina Healthcare pulling their earnings guidance due to the pricing pressure on government-run health plans.

Health insurance companies benefited in the pandemic era as patients avoided doctors' offices and put off procedures. More recently, patients have reversed those patterns, accessing services for procedures they had postponed. So it's possible that the pendulum will swing back again, and the number of procedures will normalize. Case in point: Humana's shares, which have been cut in half over the past year and a half, popped on Wednesday after the company reported better-than-expected Q2 results. The company specializes in Medicare Advantage, the government funded, privately managed health care plans for seniors.

Analysts forecast revenue for the S&P 500 Managed Health Care industry will grow 11.2% this year and only 4.6% in 2026, while earnings are expected to fall 20.5% this year and rebound by 12.4% in 2026 ([Fig. 4](#) and [Fig. 5](#)). The industry's forward P/E at 10.8 was lower only once in the past 30 years, during the 2008-09 recession ([Fig. 6](#)).

(3) *Biotech is a bright spot.* The S&P 500 Biotechnology industry is the best performer in the Health Care sector, despite the threat of increased tariffs and pressure on pricing by the federal government. Trump has complained that US consumers pay far more for their medications than do folks in other developed nations.

The ytd performances of some biotech stocks are great; those of others, not so much. Among the winners ytd: Gilead Sciences (23.7%), Amgen (16.5%), and Vertex Pharmaceuticals (16.3%). On the other end of the spectrum: Regeneron Pharmaceuticals (-21.7%), Moderna (-21.5%), and Biogen (-16.4%). Fortunately, Gilead's market share represents 14% of the S&P 500 Biotechnology industry.

Gilead and Vertex shares have benefited because both companies hold most of their intellectual property (IP) in the US and pay high US taxes relative to competitors that have moved IP and manufacturing facilities overseas to lower their taxes. Trump wants drugs manufactured in the US again and to that end has imposed 15% tariffs on imports from the European Union. Gilead is also expected to benefit from the recent FDA approval of its new HIV shot, Yeztugo.

Regeneron's shares have fallen because its drug, Dupixent, may face competition from Kymera Therapeutics, which is developing a pill for autoimmune ailments like dermatitis. Moderna's shares have slumped because the company hasn't been able to replace the surge of revenue it had generated from its Covid-19 vaccine. And Biogen shares have had a tough time ever since Medicare refused to pay for its Alzheimer's drug, Aduhelm.

The S&P 500 Biotechnology industry is expected to grow revenues by only 2.9% this year and 5.5% in 2026, while its earnings are forecast to jump 30.2% this year and 13.4% in 2026 ([Fig. 7](#) and [Fig. 8](#)). Its forward P/E, at 16.3, is roughly in the middle of its range since 2005 ([Fig. 9](#)).

(4) *Pharma's patent cliff woes.* The S&P 500 Pharmaceuticals industry has come under pressure due to tariffs, Trump's focus on lowering drug prices, and the potential loss of patent protection for some large drugs. Merck, for example, will have to replace almost half of its revenue if Keytruda's patent expires in 2028. Likewise, Bristol Meyers has a number of drugs losing patent protection in upcoming years, and it received disappointing news on the efficacy of a schizophrenia drug it had hoped would be a blockbuster.

Here's how some of the largest names in the Pharmaceuticals industry have performed ytd: Johnson & Johnson (16.2%), Eli Lilly (-1.2), Pfizer (-8.4), Merck (-16.9), and Bristol Myers Squibb (-17.2).

The S&P 500 Pharmaceuticals industry is expected to post some surprisingly strong earnings growth. Analysts are forecasting revenue growth of 4.3% this year and 4.4% in 2026 accompanied by earnings growth of 27.2% in 2025 and 10.2% the following year ([Fig. 10](#) and [Fig. 11](#)). The industry's forward P/E has fallen sharply over the past year to 14.6 from a high of 19.4 ([Fig. 12](#)).

Industrials: Boeing's Positive Impact. Boeing's earnings report this week confirmed that the company is slowly turning around its operations and remains on the right flight path. Its Q2 revenues increased 35% y/y, as commercial plane deliveries increased to 150 from 92 a year ago.

The momentum should continue. Boeing has increased its production of 737 airplanes to 38 per month, and if its production system meets certain conditions, it will ask the Federal Aviation Administration for permission to boost production to 42 per month. If that occurs, the company should turn cash flow positive in Q4 and remain so next year. Boeing shares have soared 27.7% ytd.

Beyond pleasing investors, Boeing's ability to revive its manufacturing operation is extremely important to the US industrial sector. Boeing buys 80% of the components in its commercial jets and 90% of the components in its military business from US suppliers, and most of its aluminum and steel is sourced domestically. The company has more than 20,000 suppliers and partners.

So far, Boeing appears to be flying through Trump's tariff turbulence largely unscathed, helped by its largely domestic supply base. But risks still abound. Boeing's relationship with customers in China, its second largest market, could falter if the two countries can't agree to a trade deal. Boeing may also need to appease 3,200 union workers who produce Boeing fighter aircraft and munitions; the union rejected the company's contract proposal on Sunday.

Boeing belongs to the S&P 500 Aerospace & Defense industry, which has risen 31.8% ytd through Tuesday's close ([Fig. 13](#)). The industry's revenue surged 10.1% this year and is expected to grow a healthy 7.8% in 2026 ([Fig. 14](#)). Earnings are forecast to jump 87.8% this year and 29.3% next year ([Fig. 15](#)). Investors have pushed the industry's forward P/E up to an unprecedented high of 32.4 ([Fig. 16](#)).

Disruptive Technologies: Smarter & Cheaper Robots. The World Artificial Intelligence Conference (WAIC) wrapped up earlier this week in Shanghai. Many humanoid robots showed off their abilities to do everything from kickboxing to playing mahjong. Two evident takeaways: 1) the pace of change continues to accelerate; and 2) as the technology advances, the price of robots should continue falling, making them more accessible to businesses.

Here's a closer look:

(1) *What's new in China.* Robots built by AgiBot, Unitree Robotics, Fourier Intelligence, Keenon Robotics, Galbot, and Deep Robotics were on display at the WAIC, along with others. Six of 11 Chinese humanoid robot manufacturers plan to make more than 1,000 units this year, according to a July 29 [article](#) in the *South China Morning Post*.

Many of the featured humanoids were similar in appearance and abilities, but a few stood out. Unitree Robotics' remote-controlled G1 humanoid robots engaged in a kickboxing match. The company's R1 standard robot is priced at \$5,900, weighs 55 pounds, stands four feet tall, and has the flexibility to do cartwheels.

A PsiBot robot played mahjong with three humans. With vision, reasoning, language, and motor skills, the robot had the dexterity to move the tiles and the knowledge to play the complex game. The SMAN-F1 humanoid robots from Keenon Robotics served popcorn and cocktails to conference attendees. Fourier introduced "socially assistive" robots with emotional intelligence that are built to converse with humans and provide emotional support to ease loneliness and feelings of isolation.

(2) *Optimus sheltered*. The Chinese press made hay about Tesla's Optimus robot remaining enclosed in a glass box during the convention. But Tesla CEO Elon Musk remains enthusiastic about the robot, which he repeatedly declares will be the company's biggest product ever. Musk said on the company's recent [conference call](#) that he expects Optimus 3 prototypes by year-end, with production starting next year and ramping up to one million units within five years.

Musk envisions Optimus serving, cleaning, and maintaining Tesla's autonomous cybercabs, keeping the cost of providing the service low. Optimus was recently serving popcorn at the opening of Tesla's Diner in Los Angeles, though it [reportedly](#) stopped operating on occasion.

Tesla needs to prove that Optimus will be successful. Its shares have fallen 20.5% ytd through Tuesday's close, while the shares of industrial robot manufacturer Rockwell Automation have climbed 23.8%.

(3) *Robots relying on vision*. MIT's Computer Science and Artificial Intelligence Laboratory (CSAIL) engineers have designed robots that can be trained visually instead of by writing additional software code. They require far fewer sensors and can learn far more tasks than they are programmed for.

Training involves having robots perform random motions that are recorded by multiple cameras along with the outcomes of those actions. The bots infer the relationships between control signals and motion by watching. They operate in unstructured environments without expensive infrastructure, according to a July 24 MIT [article](#). This method of training a robot is possible due to recent advancements in computer vision, neural scene representation, and motion tracing.

The researchers believe their new training method will allow the deployment of bio-inspired, hybrid soft-rigid robots, which were previously difficult to model and control. It may also mean that mass-produced, low-cost robots can be trained without needing vast amounts of programming. More details are available in a June 25 [article](#) in *Nature*.

Calendars

US: Wed: Fed Interest Rate Decision 4.5%; Real GDP & Price Index 2.4% & 2.4%; ADP Employment Change 78,000; MBA Mortgage Applications; Pending Home Sales

0.0%. **Thurs:** Personal Income & Spending 0.2% & 0.4%; PCE Price Index 0.3%^{m/m}, 2.5%^{y/y}; Employment Cost Index 0.8%^{q/q}; Initial Claims 224k; Chicago PMI 42. (Source: FX Street)

Global: Wed: Eurozone GDP Flash Estimate 0.1%^{q/q}, 1.2%^{y/y}; Eurozone Economic Sentiment 94.5; Germany GDP Flash Estimate -0.1%^{q/q}, 0.2%^{y/y}; Germany Retail Sales 0.5%; France GDP Flash Estimate 0.1% ^{q/q}; Italy GDP Flash Estimate 0.2%^{q/q}, 0.6%^{y/y}; Spain CPI 2.7%; Japan Retail Sales; BoC Interest Rate Decision 2.75%. **Thurs:** Germany CPI 0.2%^{mm}, 1.9%^{y/y}; Germany Import Prices -0.2%; Germany Unemployment Rate 6.4%; France CPI 0.3%^{m/m}, 1.0%^{y/y}; Japan Unemployment Rate 2.5%; China Caixin M-PMI 50.5. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): During the July 24 week, the S&P 500's forward revenues ticked down for a third week from a record high during the July 3 week, and its forward earnings ticked down for a second week from a record high. The forward profit margin rose 0.1ppt w/w to a new record high of 13.7% and is now 3.6ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth was steady w/w at a 45-week high of 5.7%, just 0.1ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.4ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth rose 0.1ppt w/w to a 16-week high of 12.1%, up 1.2ppts from its 15-month low of 10.9% during the May 29 week. From a longer-term perspective, that's a bit stronger than its 20-year average of 11.4% and slowing from a 38-month high of 14.3% during the December 12 week. That's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.8% in 2025 (up 0.2ppt w/w) and 6.1% in 2026 (down 0.1ppt w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 9.9% in 2025 (up 0.4ppt w/w) and a 13.8% rise in 2025 (down 0.1ppt w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (unchanged w/w) and 0.9ppt y/y in 2026 to 14.0% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of July 24, the S&P 500's weekly forward P/E rose 0.3pt w/w to a 4-1/2 year high of 22.5, up 3.3pts from a 16-month low of 19.2 during the April 17 week. It's now 7.2pts above its

30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.05pt w/w to a record high of 3.08. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings & Margins ([link](#)): During the July 24 week, forward revenues rose for five of the 11 S&P 500 sectors, and six sectors posted gains in their forward earnings. Consumer Staples and Utilities were the only sectors with record-high forward revenues this week. Also close to record-high forward revenues are these four sectors: Communication Services, Financials, Information Technology, and Real Estate. Consumer Discretionary has dropped to 1.3% below its mid-March record-high forward revenues and Industrials' fell 1.2% w/w to 2.6% below its early September record. Forward revenues for Health Care dropped 0.7% w/w to 1.9% below its July 10 record high. Energy's fell 0.7% w/w, at remains depressed at 28.9% below its September 2008 record. Materials' has improved to a nine-month high to 5.0% below its June 2022 record high. These three sectors had record-high forward earnings this week: Communication Services, Financials, and Utilities. These four are less than 2.1% from their recent record highs: Consumer Staples, Industrials, Information Technology, and Real Estate. These two sectors are a bit further from their highs: Consumer Discretionary (4.0% below its March 6 record) and Health Care (3.7% below its April 3 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 39.6% and 24.1% below their respective highs during 2022. Looking at the forward profit margin, four sectors rose w/w and two fell. Communication Services and Financials each rose to new record highs, and these four sectors remain close: Consumer Discretionary, Industrials, Information Technology, and Utilities. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.4%, down from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.7, up 0.1ppt w/w to a new record high), Communication Services (19.3, up 0.2ppt w/w to a new record high), Real Estate (16.7, up 0.1ppt w/w to a five-month high and down from its 19.2 record high in 2016), Utilities (14.7, 0.1ppt below its 41-month high during the July 10 week and 0.4ppt below its April 2021 record high), S&P 500 (13.7, up 0.1ppt w/w to a new record high), Materials (10.8, up 0.1ppt w/w to a 25-week high and up 0.4ppt from 51-month low in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.2, down from a record high 9.4 in early April),

Energy (8.7, down 0.1ppt w/w and up 0.2ppt from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.3 record high in early January), Health Care (8.2, down 0.1ppt w/w to a new record low and down from its 11.5 record high in February 2022), and Consumer Staples (6.7, a 21-month low and down from its 7.7 record high in June 2020).

US Economic Indicators

GDP ([link](#)): Real GDP during Q2 was a surprise on the upside, accelerating 3.0%, above the consensus estimate of 2.4%, and rebounding from Q1's 0.5% decline. Meanwhile the GDP price index rose 2.0%, below the consensus of 2.2%. The increase in real GDP last quarter was driven mainly by imports and consumer spending. Real imports, which are a subtraction in the calculation of GDP, dropped 30.3% (saar)—contributing 5.18ppts to Q2 real GDP, while consumer spending contributed roughly a full percentage point. Real personal consumption expenditures increased 1.4% (saar) during Q2, with spending on consumer durable and nondurable goods up 3.7% and 1.3%, respectively, and services consumption 1.1% higher. Real nonresidential fixed investment rose 1.9% (saar), with solid spending on intellectual property products (6.4%, saar) and equipment (4.8) more than offsetting the 10.3% drop in structures. Residential investment contracted 4.6%, following Q1's 1.3% drop. Meanwhile, the change private nonfarm inventories was a major drag on GDP last quarter, showing a \$190.6 billion liquidation in inventory investment, following Q1's \$151.6 accumulation. Government spending was little changed with an increase in state & local spending offsetting the decline in federal spending.

ADP Employment ([link](#)): "Our hiring and pay data are broadly indicative of a healthy economy," noted Dr. Nela Richardson, chief economic ADP. "Employers have grown more optimistic that consumers, the backbone of the economy, will remain resilient." Private payroll employment was a surprise on the upside, with ADP showing a 104,000 increase in July, above consensus expectations of 78,000, while June's decline was revised to -23,000 from the initial estimate of a -33,000. Service-providing employment rose 74,000 this month, with goods-producing industries added 31,000. The increase in service-providing employment was led by leisure & hospitality (46,000), followed by financial activities (28,000), trade, transportation & utilities (18,000), professional & business services (9,000), information services (9,000), and other services (2,000), with only education/health services (-38,000) in the red. The increase in goods-producing jobs was led by a 15,000 increase in construction jobs, while natural resource/mining and manufacturing increased 9,000 and 7,000, respectively. According to the report, pay gains were little changed in July, with the

yearly rate for job-stayers at 4.4% and job-changers at 7.7%—holding steady for the past four months.

Global Economic Indicators

Eurozone Economic Sentiment Indicators ([link](#)): Europe's economic sentiment picked up in July with ESIs in both the EU (+1.0 points to 95.3) and Eurozone (+1.6 points to 95.8) rising this month, though both measures scored below their long-term average of 100. ESIs among the six largest EU economies were mostly higher, with France (+2.4 points to 92.3) posting the largest gain, followed by Spain (+2.2 to 104.3), Germany (+1.2 to 92.0), and Italy (+0.4 to 99.4). Poland's ESI (-2.1 to 99.4) fell sharply, while the Netherlands' (-0.2 to 97.0) was broadly stable. By sector, the ESI for the overall EU was driven by higher confidence in industry (+0.9 to -10.4), services (+0.7 to 4.2), retail trade (+0.8 to -5.6), and a marginal increase in consumer (+0.3 to -14.5) confidence, while confidence in construction (-0.6 to -5.3) fell during the month.

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