Finding Opportunities in a Changing Healthcare Investment Landscape



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In this episode, Keye Chow, Director of Research for Healthcare, discusses how the healthcare investment landscape has changed in recent years, where innovation is happening, AI's growing role, and how his team identifies opportunities.

RUDY MAJID: Hello, I'm Rudy Majid and you're listening to the Alger Podcast, Investing in Growth and Change. After a few years of underperformance, healthcare is back on the table for many investors. So, what's changed? Here to help us answer that question is Keye Chow, senior vice president, director of research for healthcare and senior analyst. Keye, welcome to the podcast.

KEYE CHOW: Hey, thank you, Rudy, great to be here.

RUDY: It's great to have you, Keye. Before we begin, can you tell us about your background covering healthcare at Alger?

KEYE: Yeah, I joined Alger a little over five years ago, it was about a year after Alger's prior long-term head of healthcare had retired. Dan Chung, our CEO, was out looking for a new head of healthcare, and he was looking to reboot the healthcare effort.

And Dan ended up meeting Sanjiv Talwar, who is the head of our team, and myself around the same time. Sanjiv and I were friends and co-workers. And the way things worked out is that he brought both of us on starting July 1 of 2021.

RUDY: And what's your role on that team?

KEYE: So definitely one of my roles is to coordinate the focus and the efforts of the team. So, that would be really the director of research side. And as a senior analyst, I also look after particular companies and particular segments of healthcare, where I take lead on that. We try to cover all of healthcare obviously, but I specifically spend more of my time looking at healthcare services, at life science tools, and at different biopharma companies. So that's my primary responsibilities. I also play a role in helping Sanjiv to manage our two dedicated healthcare funds.

RUDY: What are the two dedicated strategies?

KEYE: One is called the Alger Health Sciences Fund. It was launched in May of 2004. And its intent is to

bring sort of the Alger style of growth investing to the healthcare sector.

The team, we believe that, there's opportunity to make a difference versus the healthcare sector overall in terms of bottom up stock and sector picking and also we rely upon proprietary quantitative frameworks for helping us decide when to favor particular sub-segments within healthcare. And even when healthcare as a whole may not be doing well, there are always sort of sub-segments within healthcare that underperform or outperform one another. And being able to be aligned correctly to those intra healthcare dynamics is an important element of any healthcare fund.

RUDY: And Kai, what about the Alger Life Sciences Innovation Strategy?

KEYE: Yeah, thanks for asking about that. That's an exciting, or at least to me, it's an exciting strategy that we launched in the middle of 2022. It was a fund whose strategy is really a culmination of the life's work of the head of our team, Sanjiv Talwar. Even though we are not technically a biotech fund, a lot of our investments tend to be science driven investments, tend to be biotech companies, and the strategy of the fund is very much anchored around the belief that if you can identify a new, unproven therapy, oftentimes a drug, the earlier you kind of identify that therapy / drug as likely to be successful, the more impactful the investment returns will be, in our view.

RUDY: Well, Keye it's great to have your expertise for this discussion. How have the last few years been for healthcare investors?

KEYE: That's really simple. It's really been terrible.

Let me just share with you some facts, right. So, in the middle of 2021, the total S&P 500 market cap was roughly $36 trillion. And as of September 30, 2026, that became $58 trillion. And then meanwhile healthcare's weight within that has gone from 13 to 9 percent, 13 percent back in 2021 to 9 percent. So, healthcare has kind of become less and less important in terms of as a percentage of the S&P, and to put it into context, the ten years prior to the middle of 2021, healthcare actually outperformed the S&P.

It had gone up from 2011 through middle of 2021, healthcare within the S&P was up about 320 percent. And the biotech portion of healthcare was up like close to 500 percent over those ten years versus the S&P itself being up about 300 percent.

And since then, in the last five years, five years and change, healthcare within the S&P has gone up roughly 46 percent while the S&P itself has gone up 93 percent. So that gives you some sense of how much healthcare has underperformed the overall market over the last five plus years.

Now some of that has been, to be honest, like self-inflicted. We talked about the different sectors of healthcare and for a long time, for decades even preceding 2011, there were parts of healthcare that investors relied upon to generate great returns year in and year out. So, one that's close to my heart is the managed care industry. And that industry generated a lot of earnings growth and a lot of returns for public shareholders for decades. And then in the last five years, that industry … really in our view kind of was mismanaged and misforecasted, utilization, missed price products and had a lot of negative developments in margins and in earnings forecasting. And so that's an example of self-inflicted harm.

And then we can kind of repeat some of that in other sectors like the life science tools sector overinvested in capacity in every way around the COVID period. And people were hoping back in 2021 that it would take one or two years for that sector to kind of overcome the overinvestment. But it's really today, we believe, 2026 is the first clean year where that sector is going to go back to being a secular growth sector. So, definitely within healthcare there was some self-inflicted harm.

RUDY: So some of it, we believe was self-inflicted. What else was going on?

KEYE: There was kind of like macro, beyond your control kind of headwinds that were created. And specifically, a lot of that was with the second Trump Administration, which we believe was disruptive to the predictability of the regulatory process, to keep it very simple. And that caused both companies … so real world decision makers to pull back on taking risks, and more importantly, it caused public equity investors to just get out of healthcare, and specifically biopharma, and specifically biotech for much of that period. And so that was an overhang that really impacted the sector overall, but particularly biotech.

RUDY: With all those headwinds, has anything started to turn around, and if so what's driving the turnaround?

KEYE: Well, the good news is that, yes, it has already started to turn around since late 2025. Some of that is, not surprisingly, tied to kind of the clarification of some of the uncertainties around regulation. And so, when the White House started resolving some of its threats to change how drugs would be priced here in the U.S. and the President hosted a number of large biopharma CEOs to show up at the Oval Office and sign these most favored nation agreements, that started to create a sigh of relief across the industry that hey, we can be more confident about what regulation is going to look like going forward. And then that's kind of released more willingness and dollars to risk taking and then that's also flowed back into the public markets as well.

RUDY: With this current backdrop, where are you seeing innovation and potentially opportunities?

KEYE: First, I would remind you that regardless of what the stock market does and regardless of how healthcare stocks perform relative to the rest of the market, healthcare is a big part of the world and of the economy. So, academics and for-profit companies and not-for-profit hospital systems, they're all still working on innovation, on advancing healthcare. And so that never stopped, regardless of how public equity investors like ourselves are feeling.

What tends to grab people's attention is when there's like a breakthrough drug, right, especially when it's for a disease that affects a lot of people.

And certainly we can point to two of the most kind of talked about right, really like in less than five years, you know, the introduction of injectable and oral drugs that can help people reduce meaningful amounts of weight has really kind of brought obesity to the forefront. And so that's an innovation.

There's been drugs that have launched that have helped to slow the progression of Alzheimer's disease. And that's another area of innovation.

I think over the last five years, the number of people who are able to successfully get organ transplants here in the U.S. has gone from roughly 41,000 a year to 49,000 a year. And much of that increase was due to the fact that there was innovation around the ability to deliver an organ for successful transplant.

RUDY: So, where does AI fit into all of this?

KEYE: AI is certainly just starting to be pushed in the drug discovery, and frankly, in basic biology research. I think that people are starting to understand that it's not that you're going to feed all this existing data into more and more powerful AI engines and that they're going to somehow discover drugs faster. What they've pivoted to in the last 18 months is the scientific reality that we and frankly most scientists have anchored on, which is that so much of biology is undiscovered and unknown. And what AI is actually going to be able to enable us to do is to look at more data. And so now is the early stage of where you're seeing more and more companies, both traditional biopharma, biotech companies, some governments, but even like newcomers to the fray, people like Anthropic, realizing that the innovation in R&D is going to be driven by using AI to evaluate more biologic data, not taking the same stuff and doing it faster.

RUDY: Right. Thank you, Keye. I wanted to go back to our conversation on innovation and opportunity

within healthcare. Can you bring this to life with an example? Maybe a company your team had identified?

KEYE: I think there are many, but the story that we wanted to tell is the story of a very harrowing but successful investment. And this was a company called Forte Biosciences. And Forte was created in 2020 through a reverse merger. They had an asset that seemed very promising for treating eczema. And the company went from there to nearly a billion in market cap, and then the eczema drug had a failed phase two and the company collapsed, and almost went out of business. And the market cap, I think it went as low as like 20 million dollars, like literally it traded below its cash value. But, kudos to the CEO of Forte who battled through that and went out and took what assets he had remaining and found a new innovative drug candidate that was looking to treat skin diseases that were undertreated.

And somehow Sanjiv in his lifelong work around reading many, many scientific papers had actually known about this pathway. It's called the CD122 pathway. And had seen, back in the 2010s, a physician treat mice with skin disease on their tails with a predecessor version of this drug or equivalent of this drug and was able to relieve the condition.

And in late 2024, there was a 50 million dollar funding of Forte, which enabled it to pursue some of the clinical trials, which ultimate read out in mid 2026, which enabled the company to prove that this drug has high potential and that led to an acquisition of Forte, which remember, had been worth less than 100 million dollars at the end of 2024. And it was just taken out by Argenx in August of 2026 for 2.2 billion dollars.

And now there's multiple companies that are pursuing similar drugs along the same pathway. And so that's an exciting story, because it shows you a couple of things, right. Like there are many possibilities, arcane pathways that are untried and that can lead to innovative drugs that science oriented investors can take advantage of. I think it's a great human story of this company that went from rags to riches to rags and then was redeemed. And it's a great investment story in that it's one of the biggest winners that the Alger Life Science Innovation Strategy has had in its four-year inception.

RUDY: Wow, well, it sounds like Sanjiv and your team's scientific knowledge really paid off there. More broadly, how does your team decide which breakthroughs are worth investing in?

KEYE: Yeah. I think really kind of when it comes to pure science, you know, our work's really led by Sanjiv, who basically spends most of his time reading scientific papers. A lot of it is just evaluating other people's work, and evaluating scientists' work, less so than evaluating what Wall Street and management teams are saying. And so I think definitely number one is just an orientation around evaluating science. There's an orientation around, even when things are more advanced, kind of separating the Wall Street hype from the realities of the healthcare system, what's really possible for healthcare providers to do and also the economics of things.

RUDY: Before we wrap it up, if there's one thing you'd like investors to takeaway, what would it be?

KEYE: The one takeaway for investors is know that in the healthcare global economy, people are working on innovation. We believe innovation is coming through. So we're excited about that and it's great to see parts of the market come back and we think we're cautiously optimistic that that will continue.

RUDY: Keye, thank you so much for being on the podcast.

KEYE: Yes, thank you.

RUDY: And thank you for listening. For more information on healthcare investing, AI, or other insights, please visit Alger.com.

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