

U.S. Elections 2024: What's At Stake For The Health Care Sector?

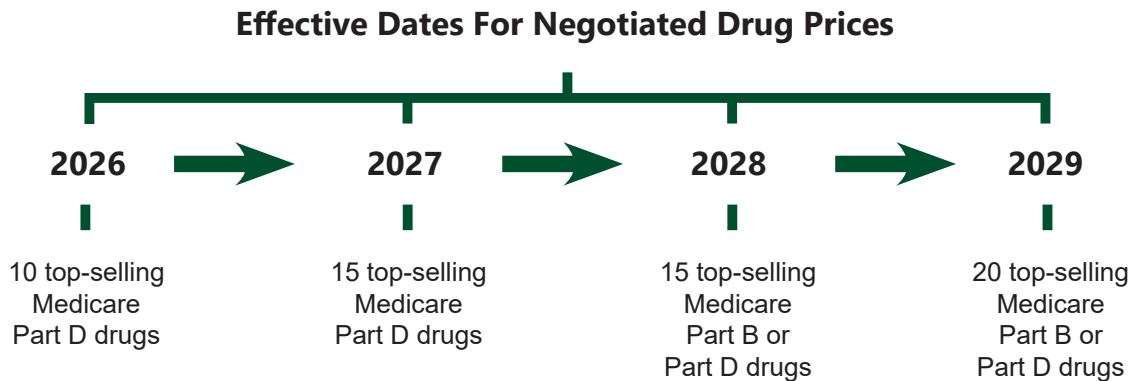
- Absent a unified government, significant changes to health care legislation are unlikely under either a Harris or Trump victory.
- A Harris win would potentially result in more regulatory headwinds for parts of the health care sector if accompanied by a Democratically-controlled Congress, especially the pharmaceutical and biotechnology sub-groups, which would face an expansion of drug price negotiations.
- A Republican sweep would put the enhanced subsidies for the ACA and federal funding for Medicaid at risk, with negative consequences for hospitals and Medicaid-exposed health insurers. However, a significant scaling back of support for these programs is unlikely given their popularity with the public.
- The lack of agreement on a replacement plan for the IRA within the Republican Party means that Trump is likely to retain Medicare drug price negotiations, albeit with a more industry-friendly approach.
- As a result, our working assumption is that the impact of the election on the health care sector will be minor and its performance will be dictated to a greater degree by the prospects for underlying earnings and the appetite of investors for defensive or high-quality equities.

Health care reform has not been a central focus of this election campaign, with debates about tax policy, immigration, and abortion overshadowing discussions about how to improve the health care system. However, **rising medical and prescription drug costs remain major issues for voters, who worry that less affordable health care is compounding the rising cost of living.** Democrats and Republicans have distinctly different visions about how to lower health care costs, with the former favoring a greater role for government in the provision of health care services, while the latter support a more de-centralized system and market-based solutions, arguing that price controls stifle innovation.

Rising medical and prescription drug costs remain major issues for voters

This report examines the health care policy stances of Vice President Kamala Harris and former President Donald Trump, and their implications for the U.S. health care sector and its various components.

Chart 1 Implementation Timeline Of Medicare Drug Price Negotiations Under The Inflation Reduction Act



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Policy Platforms

Below, we highlight the key elements of each candidate's health care policy positions.

Harris

The health care agenda of Harris centers around two main objectives: (1) increase access to health care by protecting and strengthening the Affordable Care Act (ACA) and Medicaid; and (2) build on the health care provisions of the Inflation Reduction Act (IRA). More specifically, she supports:

- Re-authorizing the enhanced subsidies available to people buying their own health insurance coverage through the ACA marketplaces, which are set to expire after 2025.
- Continuing to foster Medicaid expansion by providing financial incentives for states to adopt the program.
- Expanding the list of drugs subject to price negotiations under the IRA drug-pricing measures to 50 per year, likely in 2028-29, although the timelines for such action have not been formally specified (**chart 1**).
- Extending the applicability of other parts of the IRA such as, the US\$2,000 out-of-pocket drug-spending cap and the US\$35 per month insulin copayment cap for Medicare patients, to the commercial market.

Harris supports expanding the list of drugs subject to drug price negotiations under the IRA drug-pricing measures

Trump

Trump's health care policy platform is vague. He wants to provide better health choices for Americans at a lower cost through increased competition and new prescription drug options. Earlier this year, Trump backtracked from his pledge to repeal and replace the ACA, suggesting instead that his goal would be to "improve" the health care program, although he has not provided specific plans. He has also promised to protect Medicare but has been silent on Medicaid and unclear about how he plans to approach drug price negotiations. Gleaning from what Trump has expressed on the campaign trail and what Republican lawmakers support, the following policies are likely to be pursued in a second Trump Administration:

- Letting the enhanced subsidies for the ACA expire.
- Allowing consumers to buy the health care coverage that is tailored to their needs by increasing the availability of non-ACA compliant health care insurance options, including short-term plans.
- Reducing federal funding for Medicaid by converting the program to block grants (i.e. giving states a fixed pot of money) or capping the funding that states receive per enrollee in the program. Republicans also want to impose work requirements as a condition for eligibility into Medicaid and give states flexibility in the benefits they offer.

Table 1 provides a summary of the major health care policies of Harris and Trump, and their potential impacts on the various components of the health care sector, which we analyze in greater detail in the next section.

Trump has been unclear about how he would approach drug price negotiations

Republicans want to impose work requirements as a condition for eligibility into Medicaid

Outcomes And Implications

The health care sector would face greater regulatory threats under a Harris win, although the extent to which this is true will depend on the make-up of the Congress. In a Blue-sweep scenario, markets would worry about lower drug prices from the desire of the Democrats to expand the list of Medicare drugs subject to price negotiations, thus resulting in selling pressure on pharmaceutical and biotechnology stocks.

An extension of the US\$2,000 cap on out-of-pocket drug spending and the US\$35 insulin copayment cap to the commercial/private insurance market could also weigh on the performance of the broader health care sector. If passed, such measures would mean that pharmacy benefit managers (PBMs) and health insurers would have to bear a greater share of the cost of drugs above the spending cap. This increase in cost liability would force PBMs and health insurers to take a number of mitigating actions

The health care sector would face greater regulatory threats under a Harris win

Table 1 Summary Of Major Health Care Policies And Their Impact On The Health Care Sector

Proposal/Policy Stance	Candidate	Impact On Health Care Sector	Comments
Extend enhanced ACA subsidies	Harris	Positive for hospitals, Medicaid insurers	Requires Congressional approval; in a split Congress some subsidy extension is possible in exchange for Republican priorities
Increase the scope of Medicare drug price negotiations	Harris	Negative for pharma and biotech companies	Unlikely to be passed in a split Congress
Extend out-of-pocket drug spending caps to the commercial insurance market	Harris	Negative for commercial market health insurers and PBMs	Requires Congressional approval
Expand health insurance options by increasing access to non-ACA compliant plans	Trump	Positive for commercial market insurers; negative for insurers benefiting from ACA marketplaces, hospitals	Similar initiatives had a limited impact in undermining the ACA during Trump's first term
Roll back Medicaid expansion; reduce federal funding for the program	Trump	Negative for Medicaid insurers, hospitals	Medicaid expansion is entrenched, thus making significant cuts to the program politically difficult to undertake

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including striking harder bargains with drug companies for price discounts, increasing generic drug substitution on formularies, and/or charging higher premiums, which could slow enrollment growth in their plans.

Irrespective of the outcome of the Congressional elections, a Harris victory would likely result in continued uncertainty over the outlook for the private health insurers that run Medicare Advantage (MA) plans. Earlier this year, the share prices of these carriers slid after the government proposed lower-than-expected 2025 reimbursement rates for MA plans, which stoked worries about the profit margin outlook of health insurers already struggling with claims inflation due to the post-COVID rebound in medical procedures. The lower rate proposal was the result of efforts by the Biden Administration to rein in overpayments to MA plans. Under a Harris presidency, markets could worry that efforts to reduce these payments will persist, although health insurers would likely cut benefits and hike premiums to protect their profitability.

A Harris victory would likely result in continued uncertainty over the outlook for private health insurers that run Medicare Advantage plans

Some parts of the health care sector would benefit from a Harris win. For example, hospitals, Medicaid-exposed health insurers, and managed care companies offering ACA-compliant plans would be beneficiaries of efforts of the Democrats to permanently extend enhanced subsidies for the ACA marketplaces and support the continued expansion of Medicaid coverage to more states. Chart 2 highlights that enrollment in the ACA marketplaces grew significantly following the increase in subsidies that occurred with the passage of the American Rescue Plan in 2021.

However, the benefits to these sub-groups would not be sufficiently large to offset concerns that would overhang the drug stocks and the shares of MA insurers.

That said, all of Harris' major health care proposals would require Congressional actions to be passed into law. The odds of Harris winning the election with a unified government are low given that the Democrats face a difficult path to retaining control of the Senate. If Harris presides over a split Congress, the Democrats will still have some leverage to renew the enhanced ACA subsidies, which expire at the same time as the Trump tax cuts, and hence could be part of a deal between the two parties that extends the individual tax cuts. However, **absent a Democratic sweep, policies that would significantly change the profit outlook for health care companies are unlikely**, and any concerns about the impact of a Harris presidency on the sector would mostly be confined to MA insurers.

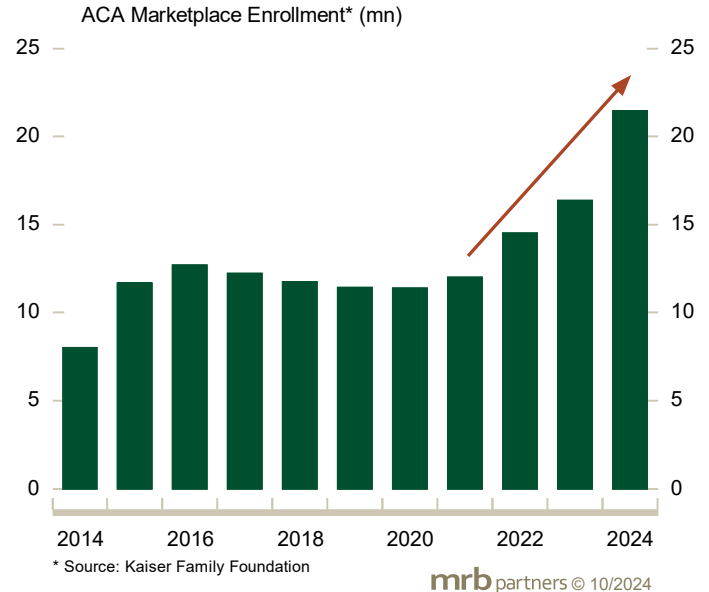
A Trump victory would pose fewer risks to the health care sector, especially pharmaceutical and biotech stocks, which would face lesser threats to their earnings.

While Trump wants to bring down prescription drug prices, his advisors and the Republican Party would likely take a more friendly view of the drug industry given their concerns that price controls would stifle innovation.

Despite making pledges to take on Big Pharma, Trump accomplished little to contain drug prices during his term as president. Executive actions to eliminate drug rebates, allow states to import drugs from Canada, and establish international reference pricing for prescription drugs ran into legal challenges and other impediments, and were either delayed or rescinded. Drug companies will benefit if Trump is unable to overcome these obstacles in a second term.

If elected, it is not clear what Trump would do with Medicare drug price negotiations. Repealing them will require Republican control of the Congress. Even if the Republicans were to win control of the Congress, eliminating drug price negotiations would be politically difficult given their popularity with the public. As a result, Trump is more likely to retain the program but could dial it back and/or soften the government's approach to the negotiations by exempting more drugs from the process.

Chart 2 Enhanced Subsidies Have Provided A Big Boost To ACA Enrollment



Despite making pledges to take on Big Pharma, Trump accomplished little to contain drug prices during his term as president

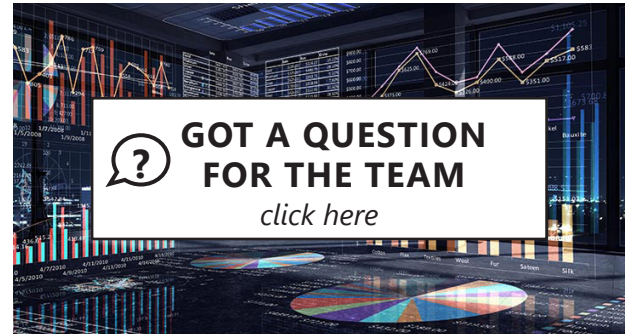
Medicare Advantage insurers would also benefit from a Trump presidency as they would likely see reimbursement headwinds ease in keeping with the GOP orthodoxy to support the growth of the private insurance market.

On the flip side, the expiration of enhanced ACA subsidies and GOP ambitions to shrink funding for Medicaid would result in a less insured population and lower enrollment in ACA and Medicaid plans, thus reducing the growth prospects for hospitals, Medicaid-exposed insurers, and managed care companies leveraged to the success of the ACA marketplaces. These developments are likely to be especially negative for hospitals, which are required to treat uninsured patients, and would also face the risk of higher bad debts from the growing ranks of the uninsured under Trump's policies.

Although Trump has backed away from repealing the ACA, he remains interested in reshaping the law with policies that he sees as being better and less costly. However, Trump has admitted that he still does not have a comprehensive plan to improve the health care system. He only has the "concepts of a plan", according to his answer when pressed on the issue.

The previous Trump Administration took several actions to undermine the ACA, but most of these had a limited impact. Trump is likely to pursue similar measures if elected. For example, his running mate J.D. Vance has signaled that potential reforms to the health care system would include expanding access to cheaper, short-term health insurance plans. These products would siphon healthier individuals from ACA plans, thus threatening their viability. However, initiatives to provide lower-quality insurance during Trump's first term were countered by Democratic state attorneys general who used the courts to slow down their adoption and private insurers who successfully sued to prevent a reduction of subsidies. Such efforts would likely be repeated in a second Trump term.

Ultimately, the popularity of the ACA will limit the ability of Trump to change or reshape the law. All but 10 states have adopted the expansion of Medicaid under the ACA, thus making it a major part of the health care system. The public's attitude towards the ACA also remains positive given the program's generous subsidies and the protection it provides to individuals with pre-existing conditions. A recent survey by the Kaiser Family Foundation found that more than 60% of Americans hold a favorable opinion of the law, up from 40% at the beginning of



The expiration of enhanced ACA subsidies and GOP ambitions to shrink funding for Medicaid would result in a less insured population

The popularity of the ACA will limit the ability of Trump to reshape the law

Chart 3 The Popularity Of The ACA Has Increased In The Past Decade

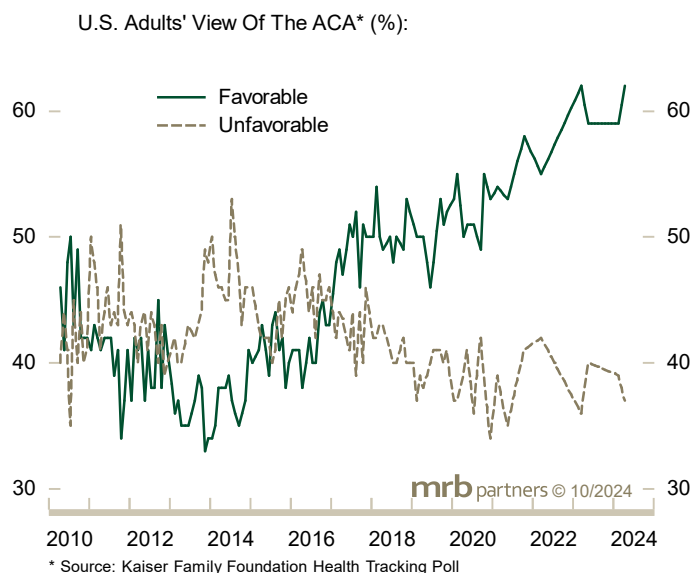
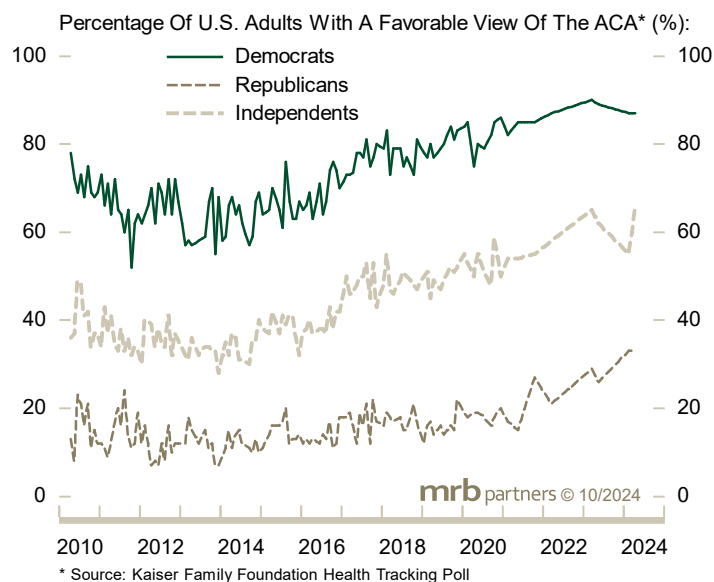


Chart 4 Favorable Views About The ACA Have Grown Among Democrats And Republicans



Trump's term as president (**chart 3**). During this period, the law's popularity has grown among both Democrats and Republicans, as well as independent voters (**chart 4**). Given the entrenchment of the ACA, making meaningful changes to the law and presiding over major cuts to federal funding for Medicaid would be controversial and politically difficult to accomplish, even with Republican majorities in the House and Senate.

Based on the above discussion, **table 2** provides a full list of the potential winners and losers under each candidate.

Table 2 Potential Health Care Winners And Losers Under Each Candidate

Harris Victory		Trump Victory	
Winners	Losers	Winners	Losers
Medicaid-exposed insurers Hospitals	Pharma, Biotech Medicare Advantage carriers	Medicare Advantage carriers	Medicaid-exposed insurers Hospitals

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Final Word: Absent a unified government, significant changes to health care legislation are unlikely under either a Kamala Harris or Donald Trump victory. A Harris win would potentially bring more regulatory headwinds for parts of the health care sector if accompanied by a Democratically-controlled Congress. A Democratic-sweep scenario would pave the way for an expansion of Medicare drug price negotiations and would be the biggest threat to the earnings of pharmaceutical and biotechnology stocks. However,

the odds of such an outcome are low given that the Democrats face a difficult path to retaining control of the Senate. A Republican sweep would put enhanced subsidies for the ACA and funding for Medicaid at risk, with negative consequences for hospitals and Medicaid-exposed insurers, but a repeal or significant scaling back of support for these programs is unlikely given their popularity with the public. The lack of agreement on a replacement plan for the IRA within the Republican Party means that Trump is likely to retain Medicare drug price negotiations, albeit with a less aggressive approach.

As a result, our working assumption is that the impact of the election on the health care sector will be minor, and its performance will be dictated to a greater degree by the prospects for underlying earnings and the appetite of investors for defensive or high-quality equities. We remain overweight the sector, with a preference for the biotechnology, pharmaceutical, and health care equipment & supply sub-groups.

Salvatore Ruscitti

Strategist, U.S. Equities

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For more information, please contact:

Client Relations

clientrelations@mrbbpartners.com

London

24 Old Bond Street, 3rd Floor,
London, W1S 4AP, United Kingdom
Tel (+)44 (0) 20 3523 9618

Montreal

1275 Ave. des Canadiens-de-Montréal, Suite 500
Montreal, Quebec H3B 0G4, Canada
Tel +1 514 558 1515

New York

1345 Avenue of the Americas, FL 2
New York, NY, 10105, United States
Tel +1 212 390 1148

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