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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hi there, everybody. Thank you so much for making the time to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. Hopes that a ceasefire deal could pave the way for an end to the conflict in Iran have been driving stocks to new records. The S&P has now logged nine consecutive weeks of gains, and that is its longest winning streak since way back in 2023. Bullish sentiment clearly carrying into the start of summer right now, and this momentum is building even before we see the kickoff of what is expected to be a blockbuster IPO season.

So to talk about that and what this could mean for investors, we're excited to be joined today by Scott McAdam, who is a CFA and an Institutional Portfolio Manager. And his team here at Fidelity manages millions of client accounts. We're also excited to welcome a first timer to the show today, Eddie Yoon. He's a Portfolio Manager here at Fidelity, and he manages the Fidelity Select Health Fund. And he's the health sector team leader here at Fidelity.

There have been a lot of changes in the sector over the past 10 years, especially in the last five years since the pandemic happened. And Eddie's going to be getting us caught up on the trends happening in this space and talk about what that might mean for opportunities for investors. So I'm excited for this conversation, gentlemen. Scott, great to have you back on the show. And, Eddie, I'm excited to have you on for the first time.

EDDIE YOON: Thanks for having me, Heather.

SCOTT MCADAM: Happy to be here.

HEATHER: So, with that, let's get right to the headlines. We got a lot to talk about. Scott, I'm going to start with you. Today is Tuesday, June 2. The conflict in Iran is now entering its fourth month now.

But I think what's more surprising, even, than that from a market perspective is that the market doesn't seem to be too overly concerned about it anymore based on where we are right now, right? Especially when you think about when the conflict did start and the market was reacting to the price shock of oil trading at over $100 a barrel. It was one of the key drivers of the market for a while. But, Scott, is it safe to say now that the market has moved past this?

SCOTT: Well, yeah. Just as you noted, Heather, the stock market has been on a tear. And it's been trading at the highest levels we've seen. So, sure, oil is the lifeblood of economies, but it's corporate profits, massive capital expenditures on AI, and resilient consumer spending that have really fueled this rally.

Now, nobody knows how this conflict ends. But if you want to get the market's best guess, just look at oil futures. Right now, crude is trading around $90 a barrel, maybe $92. The December 2026 contract is pricing in $80. So that's an 11% haircut from today, yet still well above the $65 level that we saw prior to the conflict.

The punchline is that Wall Street's collective wisdom predicts this conflict won't drag on for years. Fingers crossed it's just a few more months, hopefully sooner.

HEATHER: I like the way you put it—a haircut. It's going in the right direction. We want to see a haircut. We don't want to see the hair grow, right?

SCOTT: True. Bald would be good.

HEATHER: Exactly. Yes. If we had our druthers. Switching gears, I had mentioned at the top of the show one of the other big stories right now that we've got to address, Scott, is the large amount of anticipated IPOs coming out over the next couple of months that we know investors are watching right now, including in the AI space.

And AI has been the biggest driver of this bull market and of this economy. So I'm wondering from you, and I know that we're asking you to really think about something that hasn't happened yet, but what could these IPOs mean for the bull market and for its animal spirits? How are you thinking about these IPOs right now?

SCOTT: Yeah. Well, the air is certainly buzzing with all the talk of, certainly, the AI IPOs. There's some massive players eyeing the public markets. But beauty is in the eye of the beholder. One group of investors is excited about new capital being drawn in and the tide lifting all boats. On the other hand, you have a group who are worried that the size of those offerings might torpedo the market.

And this is a great example of how headlines can be provocative but somewhat misleading. There are three really large IPOs everyone's focused on. And the combined valuations of

these companies is estimated around $3 trillion. Now, given that there are only about a dozen companies in the S&P 500 that have market capitalizations above $1 trillion, these IPOs are a huge deal. However, there's also a huge wrinkle. And that's in the details the headlines don't tell you about.

While the company valuations are enormous, the actual amount of stock that's going to become available to trade this year is a fraction of that $3 trillion valuation. In fact, the most recent numbers that I've seen are estimated at around $300 to $400 billion of new tradable stock that's going to hit the market. Now, $300 to $400 billion is not insignificant, but it's a lot more manageable for the market to absorb than $3 trillion. So that amount, that $300 to $400 billion, represents about 1/2 of 1% of the S&P 500.

Then, as the saying goes, the market doesn't wait, it anticipates. Studies that we've seen show that the institutional investors like mutual funds, they tend to manage their cash positions around large IPOs that are coming. Now, that cash raise has historically shown little evidence of significant selling pressure of those IPOs. And if you look back and focus to today, we see exactly that occurring. The S&P is up about 5% over the past month, so that's a pretty good sign that the markets are likely to take these IPOs in stride.

HEATHER: All right, well, certainly something to watch. And before we get into our topic of the day, just a quick housekeeping note too that we are going to be talking more about risks and opportunities of this bull market next week on our big midyear outlook show for 2026. That's going to be live next Tuesday at 2:00. And our experts are going to be in person for a roundtable for that. And you can register for that on Fidelity.com/MarketSense.

But thank you for that perspective, Scott. Eddie, I'd like to bring you in here now. So I feel bad for you because I know it is tough to compete with the enormous success of the AI trade. And that just has been the dominating story right now and the defining theme of the bull market. But for investors looking to diversify beyond tech, and I know diversification is something that Scott preaches about a lot, you think there is meaningful momentum at a building in the health care space right now. So I'm really excited to dig into some of the innovation opportunities that you're seeing in a moment. But I think it might just be helpful for this conversation, first, if we just level set and talk about what exactly encompasses the health care sector.

I think somebody might have a bias and just think about health care insurers or might think about big pharma. But walk us through how broad the health care sector is, what falls under it.

EDDIE: Sure. Great, Heather. And thanks for having me. So I've been investing in health care companies at Fidelity for 20 years now, and nearly 25 years for my entire career. And it's incredible how much has changed over that time period. Healthcare is not just pharmaceutical companies, not just the big insurance companies, but biotechnology. It's health care services. It's

medical technology, and a lot of these analytical tools that are sold into developing innovative tools to look at the genome, even to analyze and help the quality control of some of these AI semiconductor companies. So it's really wide and broad.

HEATHER: So I know you've been in the space for almost two decades. So you've seen it be up and down. And I'm wondering, in your mind, what is causing the health care sector right now to be, perhaps, under-loved or underappreciated? And what do you like about it? What do you find fascinating and exciting about it?

EDDIE: So I think, first, we need to acknowledge the amount of investment that's going into the AI economy, which is unprecedented. And I think within health care, innovation health care health has been a constant. And it's always been underappreciated over my time. During the pandemic, what we saw was the industry sort of mobilized, came together to create billions of vaccines to help the world really get through the pandemic. The sector has had to work off some of those excesses over the last four or five years. And we obviously don't have the explosive growth that we're seeing in this AI economy. So the relative growth isn't as attractive.

But I think health care, when you look at the long term historical valuation ranges, we're pretty inexpensive relative to that long term average. And we're improving off the bottom. And I think that's pretty interesting. Innovation has continued, most prominently in the biotechnology space. But it's happening everywhere across the sector as well. And I think we're going to use the advances of this AI economy in the future to really bolster the growth of this sector over the course of time.

And I think, once this AI economy and this AI investment spending starts to slow down a little bit, we'll come back and refocus on this. But, despite what's going on in the AI economy, the health care economy is also improving and using a lot of these tools to our benefit.

HEATHER: Well, you can't separate, you can't just talk about health care without talking about AI, is that right? There's been a lot of discussion around how AI will reshape modern medicine. So I'm wondering, from your vantage point on the front lines, how are you seeing AI influence the health care space? And how could it potentially transform this sector in the future?

EDDIE: Yeah, I think that's absolutely right. And I think we're already seeing the benefits of AI within the sector. It's just not as prominent as it is in some other parts of the market. And when I think about the way AI is going to impact the health care economy, I see it in three phases. And these three phases are measured over longer periods of time.

The first phase, which I would consider to be the near term, the one to two-year horizon, I see this as a big productivity driver for the health care economy. We all have to remember that health care is still 20% of our GDP. We spend an enormous amount of dollars in this health ecosystem. And AI is going to materially improve the consumer experience.

Right now, interacting with the health care economy, as we all know, isn't very efficient. Administrative costs within the health care economy is very much a large portion of how we spend money. And we all know that health care costs are far too high. And we're going to use AI to drive productivity and reduce those costs. And hopefully those costs will flow to consumers and payers alike.

I think in the intermediate term, when I think about the intermediate term, I'm thinking about the two to five-year time horizon, I think there's going to be material impacts on research spending. And I think where we're going to see this is new drug discovery models. I think how we're going to use AI to build true frontier biology models is going to be fundamentally game changing. And in order to be able to do this, it's the reason why this isn't going to happen tomorrow, is that we need compute. We need the power of this AI infrastructure build to filter out into the economy and have compute become more liquid.

And with that, we're going to learn the real first principles of human biology and allow us to build drugs from the ground up. And I think a great example of this, when we think about building bridges—right now, we don't have to do experiments on how to build bridges. We understand the forces of gravity. We understand the forces of support. These are all basic laws of physics that are indisputable.

We do not have those first principles of human biology. And we need to understand those first principles of human biology. And when you look at the analytical tools that are being made by some of these health companies, and you marry it with what's going to be contributed through this AI ecosystem and the compute that's going to come with this AI ecosystem, we're really going to solve these first principles of human biology. And that's really going to change the drug discovery landscape. And I think that's really going to drive this resurgence in early stage health care research spending.

And then when you think longer term, when compute is really liquid, I think we are going to start to impact the top of health care innovation, which is using these AI models to develop drugs through the first principles of biology. And, ultimately, that's going to be the pipeline of the future biotech companies that we'll see in the 5 to 10-year time horizon.

So as this innovation cycle turns, as a health care investor, we can invest in each part of that ecosystem and each part of those verticals. And that's what I'm probably most excited about as a health care investor is leveraging all the tools that are coming at this industry to continue that innovative sort of cycle that we've seen over the last 20 years I've been doing this.

HEATHER: I just want to that point you made, make sure I fully understand, Eddie, that you are saying in the next two to five years, once we have the AI combined with the liquid computing that you said, the computing space and ability to handle making some of these models, we will understand fundamental human biology better. And it will be transformative.

EDDIE: Yeah. Like, two to five years is my estimate. It's tough to really put your arms around exactly when that's going to happen. I don't think it's in the immediate term. I don't think it's tomorrow. There are a lot of people that think it's going to be tomorrow. I don't think it's going to be tomorrow.

But I think over the course of time, that is something that we can dream about. And I think it's something that we can get very excited about—really building computational models that are going to help us discover drugs. And, ultimately, once you discover these drugs using computers, you're going to have to test them in wet labs. And you're still going to have to run clinical trials. And there are different pieces of the health sector that you can invest in to take advantage of where that investment dollars are going.

HEATHER: Just incredible. And that explanation that you had, that analogy that you gave about the bridge, and now we don't need to test every bridge anymore because we know how they work, you're saying that is how we will be thinking about human biology in the future. And that knowledge will be applied to many different use cases.

EDDIE: Yeah. And I think the use cases that I'm even talking about today are just the very sort of early building blocks. And the use cases are just going to get bigger, and broader, and more impactful as time passes.

HEATHER: Fascinating. It's fascinating to me that even though you're saying you don't expect this to happen at the end of 2026, you're also not talking about it decades from now, either.

EDDIE: That's right. And I do think things can happen in the near term that are going to fundamentally change how we think about this. And that's where I'm placing my own investment dollars today.

HEATHER: Yeah. Speaking about how we think about this, just in terms of understanding the moment that we're in right now, Eddie, I know there's been a lot of comparisons made to the early '90s and the dotcom era to where we are now with AI. How was the health care sector impacted by the dotcom era in the '90s? And do you see any parallels to where we are today when it comes to the health care space?

EDDIE: Yeah. I'm glad you brought that up. I think there are a lot of parallels when you think about what happened in the late '90s and the early 2000s. Obviously, that was the internet boom, and that's what we all remember. But when we think about what happened in health care because of the internet boom, we sequenced the first human genome in the late '90s, early 2000s. It cost over $1 billion to do. It took multiple years. It took an army of researchers to put this together.

And when we think about where we are today, we can sequence a human genome today for less than $1,000. And it takes less than a day. And we rode that cost curve through the invention of technology, marrying these health care analytical tools with what came with the internet. And we saw this massive wave of innovation.

A lot of it didn't actually work, but we spent the dollars to do it. And we invented what's known today as the biotechnology industry. And we rode the back of the internet and a lot of what happened in technology. And I think this is really going to be not that different. When you think about what's happening today, we're not going to be talking about sequencing a human genome for less than $100. That is on the roadmap.

But what's actually going to happen, instead of thinking about genomes, we're going to start to look at cells in spatial context in real time. And once we are able to do that at scale, which I think, again, is in that three to five-year time horizon, we can map cells, map biological models, and really understand, when you impact a cell with a certain gene expression or a certain RNA guide, what happens to that cell downstream?

And I don't want to make this too complicated, but understanding what cells are doing in real time, it's just a massive unlock for human biology. And we're marrying both the tools that are coming to the market from this AI ecosystem and AI infrastructure, but you also have to marry that with analytical tools that are sold by health care companies that I invest in. And I think that's where that next multifold log order improvement in our understanding of human biology is going to change.

HEATHER: Yeah.

EDDIE: Human biology is one of the most complicated computers in the world. And every time we've looked more deeply, we've understood it to be more complicated. And we're really getting the tools now and the technology to be able to understand these at their first principles.

HEATHER: At the cellular level, which the applications, like you said, are just endless. And for anybody who has a disease, or a diagnosis, or an ailment, that could be life changing and life saving.

EDDIE: Yeah.

HEATHER: Amazing. And I know we could do a whole show talking about the applications from new weight loss drugs right now, to gene therapies, gene editing. But I'm wondering, from you, because you're in this space every day, what you find to be things that might be flying under the radar that you are most excited about.

EDDIE: Yeah. So I think some of the analytical methods that I just talked about are somewhat underappreciated. But I think when you think about things that we can all relate to on a day-to-day basis, when you think about the American Cancer Society, the American Cancer Society recommends people, as early as the age of 45, up until you go 65, 75, 85, to go get screened for colorectal cancer.

And the way to get it done today is by colonoscopy. And despite the American Cancer Society recommending this, we as a society are massively under screening because going and getting a colonoscopy is not that convenient. People don't like it.

HEATHER: It's not fun either, right?

EDDIE: And it's not fun either. You gotta take time off of work. And there's a lot of things that get in the way of people's busy lives. But imagine if you can do this through just a blood draw, right? You go see your doctor once a year for a regular checkup, you give a bunch of blood to get your basic labs done—why not give an extra tube or two of blood to see if you can detect colon cancer in your blood?

And I would say these technologies are uniquely good at finding stage 3, stage 4 colon cancer. And we're getting better at detecting stage 1 and stage 2 colon cancer. And this technology is going to keep getting better. And when you think beyond colon cancer, through this thing called liquid biopsy, we're going to be able to detect other types of cancers.

So there's this thing called multi-cancer early detection. And it's not just colon cancer we're talking about. We'll be able to detect all types of different cancers just looking at blood. And I will say this technology is very much in its early phases. But this is the technology roadmap. This technology is going to get better and better and better.

And, just like we saw with mammography is getting better with better MRI machines, liquid biopsy is in its very early innings. And, again, all this technology is coming together. And our understanding of the genome is getting better. And our understanding of the transcriptome is getting better. And our ability to see cancer cells in human blood are getting better. And that's the roadmap that we're going to follow. And it's a really exciting part of the sector that I think people don't talk enough about.

HEATHER: You are exciting us and energizing us about this sector. And I just wanted to quickly bring in Scott for a moment, Eddie, because, given everything that you're talking about, Eddie, you would expect the fundamentals to be even stronger in this space with all of the promise here. They're improving in pockets, like some of the pockets that Eddie talked about—biotech. But it hasn't fully participated in the broader market's momentum in the past few years.

So just wondering, Scott, if you think, with some of these AI developments that Eddie's talking about here, are we seeing any early signals right now that things could be shifting and health could resume its market leadership role in the near term.

SCOTT: Oh, absolutely. As I mentioned, the sector itself is pretty well diversified. So you have the ability to select whether you would like to get exposure to, say, more defensive non-cyclical types of managers. That's what we pick at strategic advisors. We choose managers. Actually, Eddie is one of our managers that we have in our stable. And our selection and our view is that exactly what he's talking about is the exciting part of the health care sector. And we've chosen to take on that strategy.

HEATHER: All right. Well, thank you, Scott, for explaining that and for explaining the connection between you and Eddie. And, Eddie, I imagine if you are trying to do this on your own and stock pick some of this, it might feel like you need a PhD or to have had some biology classes, at the very least, to understand some of the research papers on this.

I think Scott was just mentioning that his team leans on you. You're part of their stable, so to speak. And I'm wondering how a retail investor might want to think about navigating a sector as complex as health care. Is it a DIY field? Or does it help to have some help in this space?

EDDIE: Well, look, health care is a very big sector. I've been doing this almost 25 years. And I'm super privileged to lead the team here at Fidelity. The team is one of the most experienced teams in the industry. We've worked together for over a decade. We have multiple PhDs on our team. This is what we live and breathe every single day.

I've been doing this for almost 25 years, at Fidelity for 20 years. This is what we're uniquely focused on. This is what we spend our days doing. And I think that type of experience is a really differentiating quality given our approach to the sector.

HEATHER: Well, I just wish we had more time with both of you, but I've got to leave it at that. We're right at the 20-minute mark here. So, Scott and Eddie, thanks for the discussion today.

Eddie, it's hard to wrap your mind around some of the stuff that you're talking about. Just terrific insights and ideas about what might be to come. Clearly, this is a sector where innovation is happening in real time. If you would like to read more about the latest happenings in the health care sector, and actually some more thought leadership from Eddie as well, you can bookmark Fidelity.com/PMInsights—PM for "portfolio manager." And on that page, you'll find more ideas from our sector leaders just like Eddie.

On behalf of Scott and Eddie, I'm Heather Hegedus. Thanks so much for your time today. We hope to see you back here next week live for that in-person 2026 midyear outlook happening at 2 o'clock next Tuesday. It will be a little bit longer, 45 minutes—an in-person roundtable. We'll see you then.

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