Corner on Market Sentiments: Growth Forecasts Revisited

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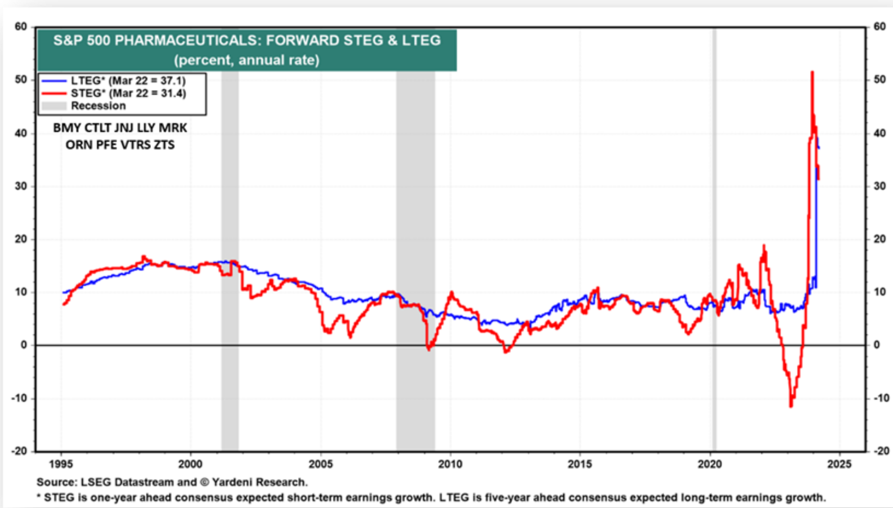
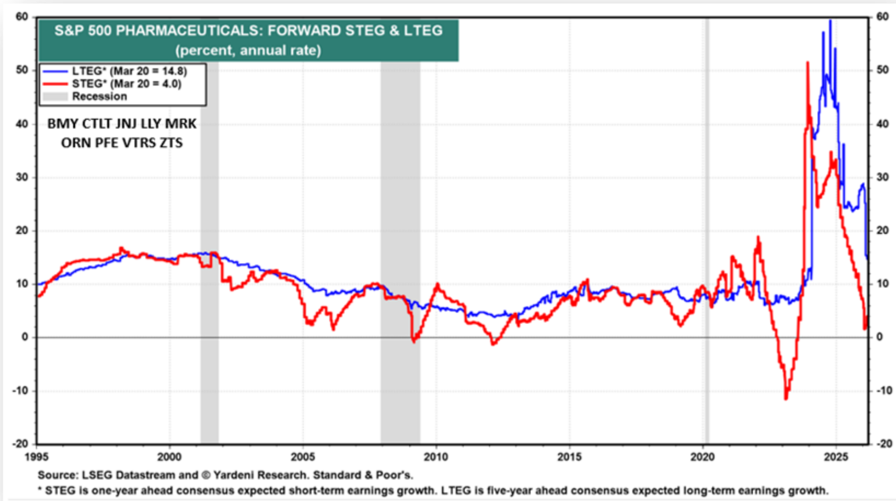
Big pharma in March 2024:



Back in March 2024, we highlighted a Yardeni Research chart (***above***) showing consensus expected short-term (1-year) earnings growth for big pharma on a near-vertical trajectory—akin to a VTOL (Vertical Take-Off and Landing) launch. At the time, this corner speculated that the surge might stem from a wave of 2023 FDA approvals combined with price increases on hundreds of existing drugs.

Big Pharma in March 2026



The extreme optimism in near-term growth expectations from early 2024 has moderated sharply. The same Yardeni-style consensus chart for S&P 500 Pharmaceuticals—tracking forward STEG (short-term earnings growth, 1-year ahead) and LTEG (long-term earnings growth, 5-year ahead)—has seen those once-soaring projections come crashing back to earth. The dramatic spike that peaked in the low-to-mid 50% range around 2024–2025 has given way to a steep decline, with recent data (as of March 20, 2026) showing STEG at approximately 14.0% and LTEG at roughly 4.0%—far more normalized levels compared to the extraordinary highs previously charted, and now aligning closer to historical averages amid cooling hype and real-world delivery.

While the sector continues to benefit from innovation in oncology, obesity/diabetes (GLP-1 momentum), and other high-demand areas, the hype has cooled: recent company guidance and consensus estimates for major players now reflect more grounded, tempered outlooks, with high single-digit sales growth and slightly faster EPS growth in cases like Sanofi (projecting high single-digit sales and modestly faster business EPS for 2026), double-digit contributions from newer products at Pfizer, and solid but not explosive overall sector performance in late 2025 earnings seasons.

The FDA approved 46 novel drugs in 2025 (similar to recent years, down slightly from 50 in 2024 but still robust), supporting pipeline momentum without delivering the explosive pace some anticipated earlier.

Consensus long-term (5-year) earnings growth expectations for big pharma appear less stratospheric than the "enormous magnitude" flagged in early 2024, with broader healthcare/pharma sector forecasts now blending innovation upside against persistent headwinds. Yardeni Research maintains a positive view on healthcare for 2026, recommending an overweight position due to its mix of growth, value, defensive qualities, biotech innovation, and potential M&A consolidation (including an emerging pharma M&A boom)—despite ongoing policy pressures.

The Inflation Reduction Act (IRA) continues as a major distorting factor. Negotiated prices for the first 10 Medicare Part D drugs took effect January 1, 2026 (e.g., Eliquis, Jardiance), with estimated Medicare savings of several billion dollars annually (e.g., ~22% net savings on round-one drugs relative to prior net prices). A second set of 15 drugs (including GLP-1s like Ozempic/Wegovy) follows in 2027, and more in 2028. While some analyses indicate manageable revenue impacts (negotiated drugs often represent a modest portion of totals), others note risks to innovation incentives (especially small molecules) and margin pressures. The sector has adapted via new launches, efficiencies, and strategies, but IRA-related news persists, sustaining market distortion.

From a P/E perspective, the sector looks far more attractive now than in early 2024. The S&P 500 Health Care sector's forward P/E stands around 17.5x (as of mid-March 2026), a discount to broader market levels and reflecting relative underperformance amid policy uncertainty. For pharmaceuticals specifically, forward P/E estimates range in the low-to-mid 20s (e.g., ~24x in some aggregates, with drugs/pharma at ~24.2x forward in NYU Stern data), a step down from prior highs and reasonable versus historical benchmarks like the ~18x range in 2003-2004.

If forward multiples stabilize or expand modestly while long-term earnings growth meets even a tempered consensus (factoring IRA offsets but supported by obesity, oncology, and breakthroughs), meaningful valuation upside remains possible—though more a steady ascent than the full VTOL once envisioned.