

Not All Defensive Investments Are Created Equal

By Paul Ehrlichman



FLEXTION It's about *time*.

Traditionally defensive stocks are expected to lag during bull markets, but that assumption is now obscuring an important shift. While defensives as a group have trailed global equities and significantly underperformed cyclical sectors, benefiting from accelerating growth, treating them as a single category misses what's happening beneath the surface. A clear divergence is emerging: consumer staples continue to weaken, while healthcare has begun to turn higher.

With U.S. valuations stretched and the bull market increasingly mature, this split matters. The two largest defensive sectors are no longer moving in tandem, challenging long-held portfolio assumptions and carrying meaningful implications for risk management as market conditions evolve.



Why Staples are Losing Their Defensive Edge

Historically, food and beverage companies have been the textbook definition of safety. Today, they're facing a convergence of headwinds that weaken that role.

First, governments across the world are leaning heavily on fiscal and monetary stimulus to sustain growth and service roughly \$340 trillion in global debt. This environment favors economically sensitive sectors but squeezes staples. Rising input costs, higher labor expenses, and persistent margin pressure make it harder for these companies to pass inflation through to consumers already stretched by higher living costs.

Second, consumption patterns are changing. An aging population and a cultural shift toward health, wellness, and longevity is reshaping demand. That shift is already visible in the data: booming sales of GLP-1 weight-loss drugs are coinciding with declining demand for alcohol and sugary beverages. Staples are fighting secular trends, not just cyclical ones.

Healthcare's Structural Tailwinds

Healthcare, by contrast, is benefiting from multiple reinforcing forces.

Demographics alone create a powerful demand floor. Aging populations require more pharmaceuticals, medical devices, diagnostics, and healthcare services, not less. But the story doesn't end there.

Healthcare is also one of the earliest and most impactful beneficiaries of artificial intelligence. AI tools are accelerating drug discovery, improving diagnostics, enabling more personalized patient care, optimizing clinical trials, and driving operational efficiency across the system, directly enhancing productivity and profitability.



In other words, healthcare isn't just defensive. It's defensive with growth, a rare and valuable combination in today's market.

A Defensive Rotation in Progress

The takeaway is simple but important: the two sectors investors traditionally relied on for stability are no longer moving in lockstep. Staples remain vulnerable to margin pressure and shifting consumer behavior, while healthcare is supported by secular demand, innovation, and improving fundamentals.

If this divergence persists, and the underlying forces suggest it will, healthcare is likely to continue separating itself from other defensive categories.

Bottom Line: defensiveness alone is no longer enough. In a world shaped by debt, demographics, and technological acceleration, the most resilient investments will be those that combine stability with structural growth. Right now, healthcare stands apart.

At Flexion's, we've identified several healthcare-focused funds and ETFs that score highly across our evaluation framework:

- ▶ Schwab Health Care Fund
- ▶ Horizon Kinetics Medical ETF
- ▶ Vanguard Health Care Fund
- ▶ Baron Health Care Fund
- ▶ BlackRock Health Sciences Opportunities Portfolio
- ▶ State Street Health Care Select SPDR ETF
- ▶ State Street Biotech SPDR ETF
- ▶ Fidelity MSCI Health Care ETF
- ▶ State Street Pharmaceuticals SPDR ETF
- ▶ iShares Genomics, Immunology & Health Care ETF

FLEXTION *It's about time.*

About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

For more information contact:

Paul Ehrlichman, CEO and CIO ▶ paul@flextion.ai  

Bevin Crodian, President and COO ▶ bevin@flextion.ai 