

Healthcare Perspectives

FEB
2026

Healthcare System Operating Portfolios: Balancing Stability with Need for Growth

Healthcare systems have faced an onslaught of challenges in recent years. They had to navigate the operational and financial headwinds stemming from COVID-19, a severe labor shortage, and 2022's double-digit drawdowns in both stocks and bonds. Since the end of 2022, global equity markets have returned more than 70% cumulatively, but a combination of portfolio draws and elevated cash expense growth has left median days cash on hand¹ roughly flat. Going forward, balance sheet liquidity is likely to be restrained. While operating margins are improving, the appetite for capital spending remains high and the effects of the One Big Beautiful Bill Act have yet to emerge. At the same time, equities are expensive and credit spreads are tight, limiting the margin for error. Health systems need to carefully weigh the risks of a significant market decline with the need for long-term growth.

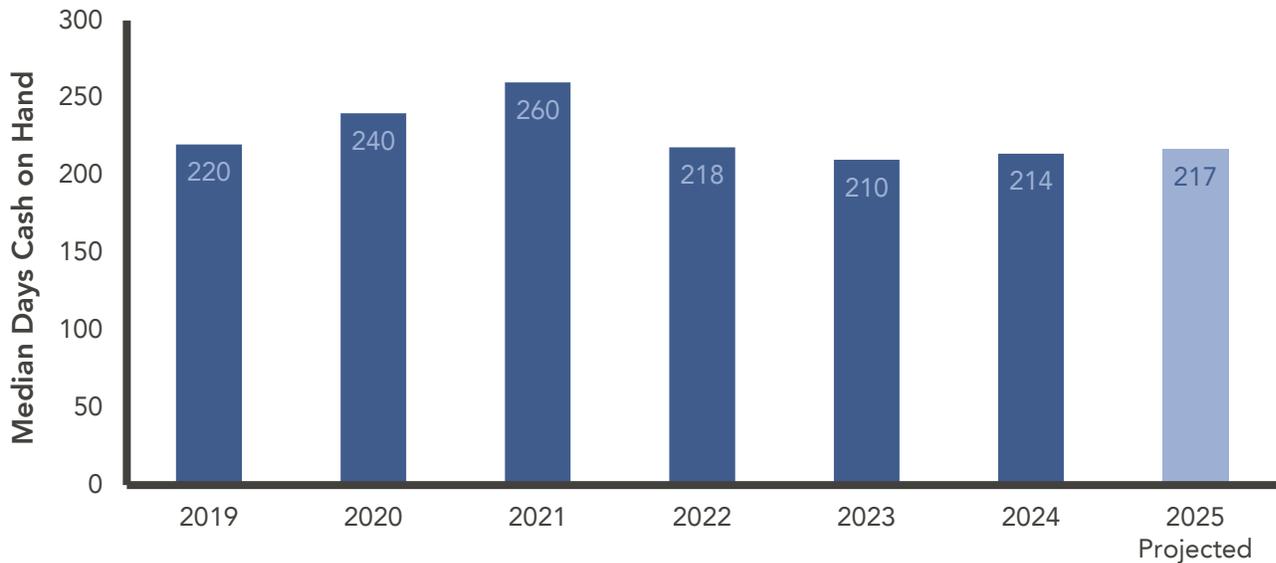
Between 2019 and 2025, the median healthcare system's balance sheet liquidity (as measured by days cash on hand) was roughly unchanged although the path was volatile (*Exhibit 1, next page*). The COVID-19 pandemic caused unprecedented disruption to healthcare system operations. Volumes collapsed, expenses increased, and capital projects were delayed to preserve liquidity. Healthcare balance sheet assets declined with the sharp equity market drawdown in the first quarter of 2020 before equity markets began to recover in April and ultimately finished the year up double digits. In 2021, balance sheet liquidity improved further due to CARES Act funding and strong equity market performance.



Chris Grimm, CFA, CAIA
Senior Vice President

¹ Days cash on hand = unrestricted cash and investments ÷ daily cash expenses.

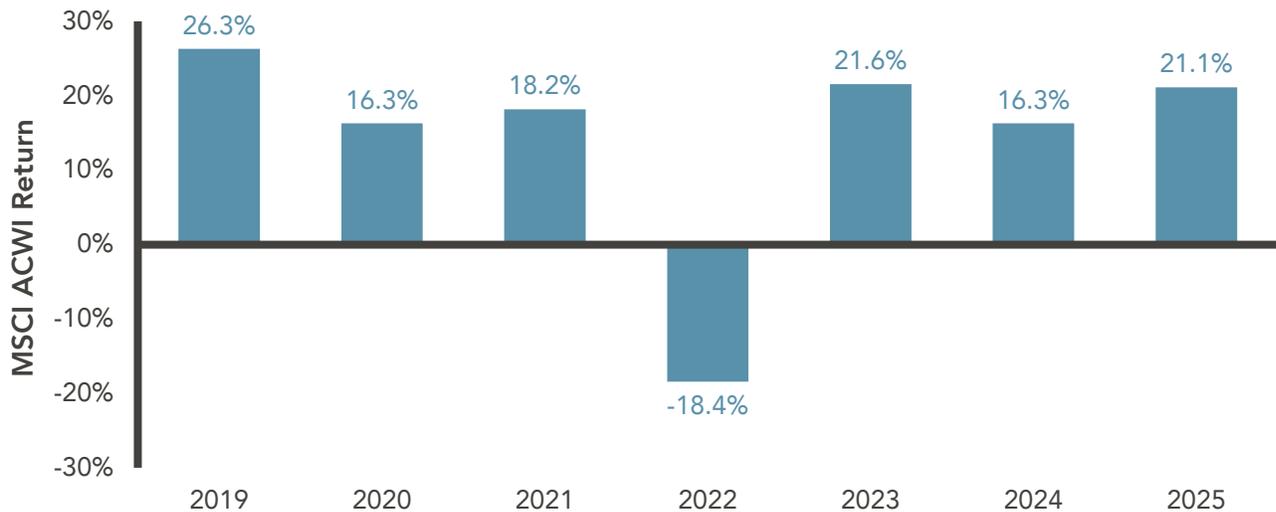
Exhibit 1: Liquidity has remained stable



Source: Fitch Ratings: USPF Hospital & Health System 2026 Sector Outlook

Balance sheet liquidity declined in 2022 due to negative investment performance and operations. It was one of the worst years for a stocks and bonds portfolio on record. Operationally, health systems were struggling with soaring labor costs. Many organizations had to liquidate investment portfolio assets to cover operational shortfalls. The decline in days cash on hand was exacerbated by rapid expense growth, which increased the denominator in the calculation. Since 2022, the median days cash on hand has been stable on the strength of exceptional equity market performance.

Exhibit 2: Equity markets have supported balance sheet liquidity



Source: eVestment

While recent equity market performance has been beneficial for healthcare system balance sheets, equity markets are unlikely to provide sustained 15%+ returns moving forward. Across multiple metrics, equity markets appear expensive. On the flip side, nominal fixed income yields, which are predictive of future returns, remain attractive when compared to the decade preceding 2022. In our view, more realistic long-term expectations for public equities range between 6% and 8% with bonds expected to deliver 4% to 5%.

Exhibit 3: Stock Market Valuations

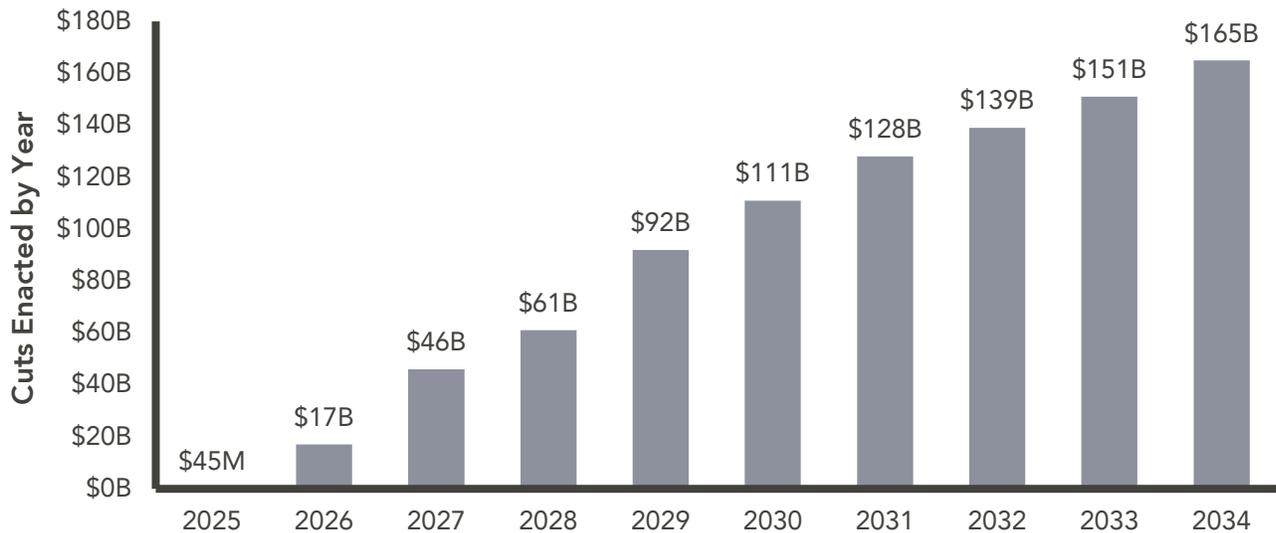
Valuation Metrics	S&P 500		Russell 1000		Russell Mid Cap		Russell 2000	
	CURRENT	HISTORICAL PERCENTILE (%)	CURRENT	HISTORICAL PERCENTILE (%)	CURRENT	HISTORICAL PERCENTILE (%)	CURRENT	HISTORICAL PERCENTILE (%)
P/E	27.8	95	27.3	95	22.1	88	21.1	82
Forward P/E	22.1	95	21.7	92	17.3	77	17.8	79
P/B	5.5	99	5.2	99	3.1	88	2.2	60
P/S	3.4	99	3.2	99	1.6	76	1.4	96
P/CF	21.8	97	21.2	97	13.2	84	15.4	83
EV/EBITDA	17.3	99	17.2	99	14.4	87	18.6	94
Average		98		97		83		82

Source: Bloomberg as of December 31, 2025, data compiled on January 6, 2025. P/E is adjusted for negative earnings; percentiles are based on data dating back to 2002 (except for FP/E, which goes back to 2006).

Since the pandemic, healthcare systems have been laser focused on operations and managing expense growth. Across the industry, organizations have had success slowing the growth of labor costs, which typically account for 50–60% of total expenses, through initiatives designed to automate tasks, optimize staffing, and reduce the reliance on high-cost contract labor. AI is being deployed to improve revenue cycle management and enhance operational efficiency across organizations. As a result of these efforts, operating margins have improved in recent years but are still below pre-pandemic levels.

One obstacle to healthcare systems achieving pre-pandemic operating margins is that profitability is expected to be negatively affected by the Federal Medicaid Cuts outlined in the One Big Beautiful Bill Act (OBBBA). While these cuts have garnered attention since the signing of the bill last summer, they are merely beginning and will grow through 2034.

Exhibit 4: Federal Medicaid Cuts in OBBBA



Source: KFF, Congressional Budget Office

How should a healthcare system structure its operating portfolio?

In the face of such uncertainty, it is imperative to remain mindful of downside risk. At the same time, we believe that healthcare systems need investment returns now more than ever to achieve their strategic financial plans. Cash flow from operations will likely be used for capital spending, IT projects, and to fund growth initiatives. Even if AI meaningfully reduces costs, healthcare systems are unlikely to capture the full benefit, as payors will push for lower reimbursement rates.

Marquette employs an Enterprise Risk Management (ERM) framework to help healthcare systems align organizational goals with investment risks. When guiding clients in the evaluation of their investment strategy in today's environment we are emphasizing the following actions:

- 1. Tier liquidity based on potential cash needs.** Equities and other growth-oriented assets require a long-term investment horizon. Investments that are reasonably expected to be liquidated in the near term should be invested in more conservative fixed income instruments.
- 2. Identify unacceptable downside thresholds.** One potential pitfall of stress test analyses is that setting an overly conservative threshold can result in lost opportunity over the long term. While breaching a debt covenant is an unacceptable risk, the importance of remaining above an arbitrary threshold level for a given metric deserves scrutiny.
- 3. Weigh stress test results versus other scenarios over various time horizons.** Stress test results are straightforward to interpret, but expected risk and return statistics do not capture the compounding effect of a higher return. Simulating results over five or ten years provides a clearer picture of the trade-off between risk and return.

In an environment defined by stressed operations, constrained liquidity, and elevated market valuations, healthcare systems must balance capital preservation with the need for long-term growth. An enterprise risk framework — grounded in tiered liquidity, carefully defined risk tolerance, and forward-looking scenario analysis — can help organizations navigate near-term uncertainty while remaining aligned with strategic objectives. By applying a disciplined approach, healthcare systems can make more deliberate investment decisions that support financial resilience without sacrificing future flexibility. ■

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601 PHONE 312-527-5500
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS WEB marquetteassociates.com

CONFIDENTIALITY NOTICE: This communication, including attachments, is for the exclusive use of the addressee and contains proprietary, confidential and/or privileged information; any use, copying, disclosure, dissemination or distribution is strictly prohibited. Marquette Associates, Inc. retains all proprietary rights they may have in the information.

Marquette Associates, Inc. ("Marquette") has prepared this document for the exclusive use by the client or third party for which it was prepared. The information herein was obtained from various sources, including but not limited to third party investment managers, the client's custodian(s) accounting statements, commercially available databases, and other economic and financial market data sources.

The sources of information used in this document are believed to be reliable. Marquette has not independently verified all of the information in this document and its accuracy cannot be guaranteed. Marquette accepts no liability for any direct or consequential losses arising from its use. The information provided herein is as of the date appearing in this material only and is subject to change without prior notice. Thus, all such information is subject to independent verification and we urge clients to compare the information set forth in this statement with the statements you receive directly from the custodian in order to ensure accuracy of all account information. Past performance does not guarantee future results and investing involves risk of loss. No graph, chart, or formula can, in and of itself, be used to determine which securities or investments to buy or sell.

Forward-looking statements, including without limitation any statement or prediction about a future event contained in this presentation, are based on a variety of estimates and assumptions by Marquette, including, but not limited to, estimates of future operating results, the value of assets, and market conditions. These estimates and assumptions, including the risk assessments and projections referenced, are inherently uncertain and are subject to numerous business, industry, market, regulatory, geopolitical, competitive, and financial risks that are outside of Marquette's control. There can be no assurance that the assumptions made in connection with any forward looking statement will prove accurate, and actual results may differ materially.

The inclusion of any forward-looking statement herein should not be regarded as an indication that Marquette considers forward-looking statements to be a reliable prediction of future events. The views contained herein are those of Marquette and should not be taken as financial advice or a recommendation to buy or sell any security. Any forecasts, figures, opinions or investment techniques and strategies described are intended for informational purposes only. They are based on certain assumptions and current market conditions, and although accurate at the time of writing, are subject to change without prior notice. Opinions, estimates, projections, and comments on financial market trends constitute our judgment and are subject to change without notice. Marquette expressly disclaims all liability in respect to actions taken based on any or all of the information included or referenced in this document. The information is being provided based on the understanding that each recipient has sufficient knowledge and experience to evaluate the merits and risks of investing.

This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any interest in any investment vehicle, and should not be relied on as such. Targets, ranges, and expectations set forth in this presentation are approximations; actual results may differ. The information and opinions expressed herein are as of the date appearing in this material only, are subject to change without prior notice, and do not contain material information regarding the Marquette Model Portfolio, including specific information relating to portfolio investments and related important risk disclosures. The descriptions herein of Marquette's investment objectives or criteria, the characteristics of its investments, investment process, or investment strategies and styles may not be fully indicative of any present or future investments, are not intended to reflect performance and may be changed in the discretion of Marquette. While the data contained herein has been prepared from information that Marquette believes to be reliable, Marquette does not warrant the accuracy or completeness of such information. Client account holdings may differ significantly from the securities in the indices and the volatility of the index may be materially different from client account performance. You cannot invest directly in an index. Artificial intelligence may have been utilized in the preparation of this document.

About Marquette Associates

Marquette was founded in 1986 with the sole objective of providing investment consulting at the highest caliber of service. Our expertise is grounded in our commitment to client service — our team aims to be a trusted partner and as fiduciaries, our clients' interests and objectives are at the center of everything we do. Our approach brings together the real-world experience of our people and our dedication to creativity and critical thinking in order to empower our clients to meet their goals. Marquette is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Marquette including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request and [on our website](#). For more information, please visit www.MarquetteAssociates.com.