BioSpectrum
the business of Bio & Health Sciences
ASIA EDITION

Biotech’s Resurgence: Innovation Amid Market Disruption or A Generational Opportunity in Innovation

02 August 2025 | Analysis | By Geofrey Hsu, Portfolio Manager, The Biotech Growth Trust

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The biotechnology sector is showing signs of a resurgence. After several years of underperformance particularly among small and mid-cap companies, a convergence of scientific breakthroughs, shifting market dynamics, and growth in investor sentiment, is setting the stage for a potentially compelling recovery. For long-term investors and industry observers, this represents a significant opportunity to engage with an innovative and high-growth sector in the global economy at compelling valuations.

Breakthroughs Driving the Sector Forward

From early 2021 through the middle of 2025, small-cap biotech stocks (as represented by the Russell 2000 Biotech Index) significantly underperformed the broader market (as represented by the S&P 500), declining by 47.1 per cent in British pounds, while the market appreciated by 67.5 per cent. Today, nearly a quarter of listed biotech firms are now trading at negative enterprise values.

This level of market dislocation appears increasingly disconnected from the sector’s scientific momentum and the technical progress being made, with new therapies and technologies continuing to emerge at a rapid pace. Recent clinical breakthroughs that highlight the sector’s momentum include ivonescimab, a bispecific antibody for lung cancer, showing a 49 per cent reduction in disease progression relative to the current standard of care Keytruda. Meanwhile, lenacapavir, developed by Gilead Sciences, a long-acting drug for HIV prevention and treatment, was found to demonstrate near-total prevention of HIV infections among high-risk populations, and was recently approved by the US FDA. Moreover, efruxifermin, a fibroblast growth factor analogue by Akero Therapeutics, showed histological improvement from cirrhosis to earlier fibrosis stages, a result previously unseen in liver disease trials. This represents a paradigm shift in treating advanced liver disease. These are just a few examples of how biotech is delivering real, measurable impact.

The FDA's Role in Accelerating Innovation

These milestones are part of a broader wave of innovation in the sector with strong government support. In 2024 alone, the FDA approved 59 new drugs, many of which are using innovative technologies such as gene editing, oligonucleotide silencing, and multispecific antibody approaches, to address diseases which were previously untreatable.

The FDA has embraced accelerated approval pathways to help biotechnology companies bring forth promising therapies to patients at a faster pace. These mechanisms are particularly important for small and mid-sized biotech firms, which often rely on timely regulatory feedback to secure funding and partnerships. They are also critical for patients who are in desperate need of effective therapies.

Moreover, the agency's openness to novel modalities—such as gene therapies, RNA-based treatments, and cell therapies—has helped validate emerging platforms and attract global investment. The FDA's continued collaboration with international regulators is also streamlining cross-border clinical development, further supporting the globalisation of biotech innovation..

M&A and Strategic Investment Trends

Large pharmaceutical companies are facing a looming patent cliff for many of their key products. This is fuelling a renewed appetite for mergers and acquisitions, particularly targeting innovative biotech startups. Smaller biotech firms with innovative solutions are attractive acquisition targets for larger pharmaceutical companies aiming to bolster their pipelines and maintain competitive advantage.

Earlier this year, Intra-Cellular Therapies, a commercial-stage biotech focused on treatments for psychiatric disorders, was acquired by Johnson & Johnson, for $14.6 billion. In April, Merck KGaA acquired U.S. biotech SpringWorks Therapeutics for $3.9 billion, gaining access to its medicine OGSIVEO, the first and only FDA-approved therapy for the treatment of desmoid tumors – a recurrent tumor that develops in connective tissues and joints.

This trend is creating a fertile environment for early-stage biotech firms to scale rapidly or exit through strategic partnerships. The combination of scientific innovation and strategic urgency is likely to drive continued consolidation in the sector. While M&A activity slowed in 2024, it has picked up in the first half of 2025 and we expect activity to continue to be driven by strategic consolidation and the pursuit of cutting-edge technologies.

A Sector Poised for Renewal

While emerging biotech is often associated with high risk, this dynamism is also what makes the sector compelling. The pace of scientific progress, evolving clinical data, and shifting regulatory landscape create an environment where change is constant—and opportunity is abundant.

For investors, this volatility can be a strategic advantage. It allows for tactical positioning around key milestones such as trial readouts, regulatory approvals, and partnership announcements. Many of the most successful biotech investors embrace this pace, using it to identify undervalued assets and capitalise on short-term dislocations that can lead to long-term gains.

With valuations now below even the levels seen during the dot-com bust and the 2008 crisis, we are looking at a notable opportunity. The biotech sector is navigating a complex but promising landscape. Valuations are low, innovation is accelerating, and global interest is rising. For those with a long-term horizon and a belief in the power of scientific progress, the current environment offers a compelling thematic opportunity — not just in specific funds, but across the entire spectrum of international biotech innovation.

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