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Monthly Insights: March Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial Sector finished February on the cusp of fresh 52-wk highs. Performance vs. the S&P 500 (chart, panel 2) established its own 52-wk high with a decisive upside break out at the end of the month.

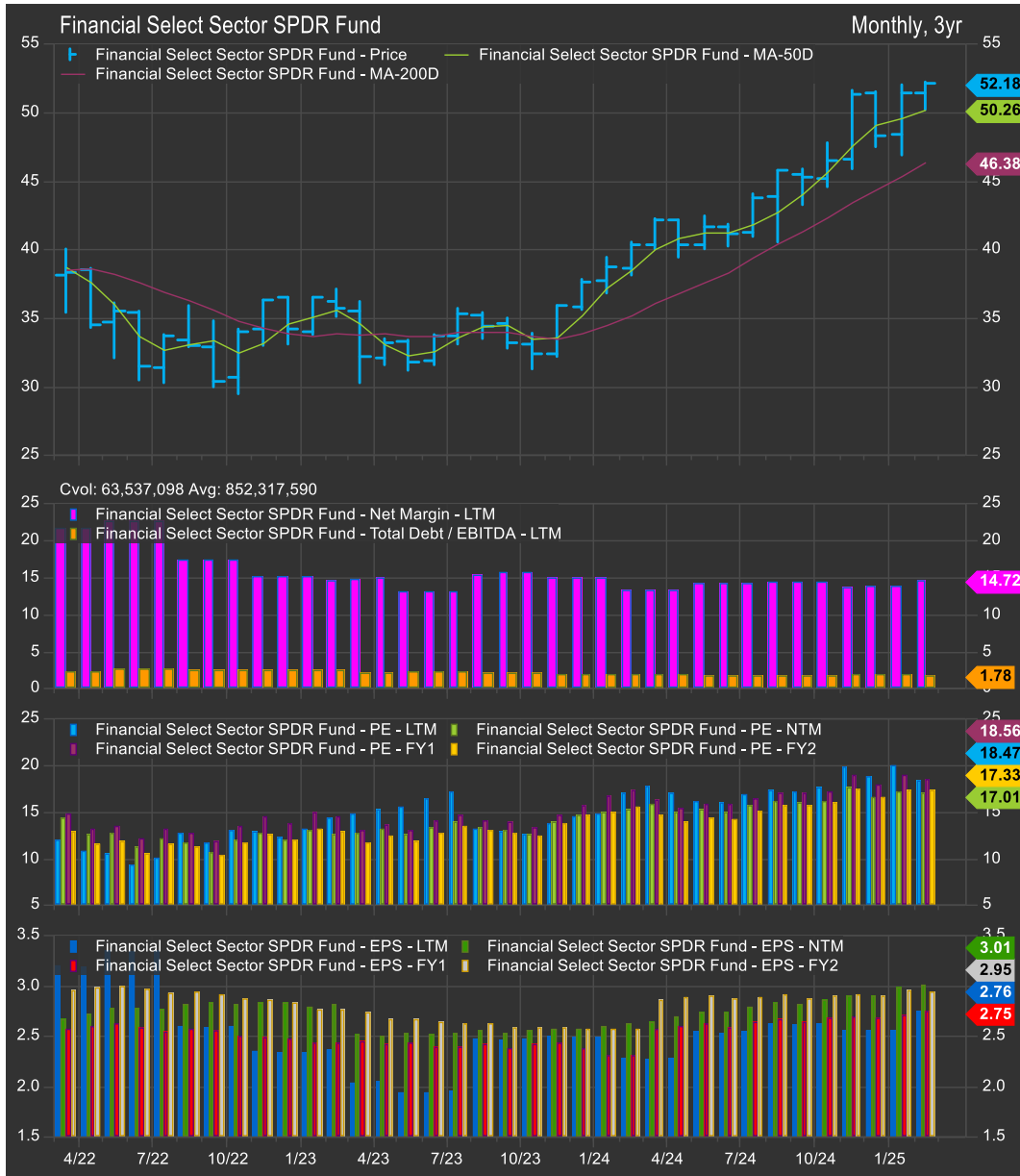
Given index level consolidation, oscillators have pulled back from recent overbought readings at the beginning of the month despite the sector outperforming. All else being equal, this is a very strong technical setup and a strong trend.

Given cross currents stemming from inflation and uncertainty about the economy, Financial can potentially benefit from inflation dynamics through trading revenue and tailwinds to net-interest margin earnings from rising long rates. The key is for rates to stay low enough not to knock the economy into recession.

We view the current softness in equities as centered primarily around rotation away from Growth themes and we think that supports the Financial Sector.

We start March out of the Financial Sector with an **OVERWEIGHT allocation of **5.16%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Financial Sector



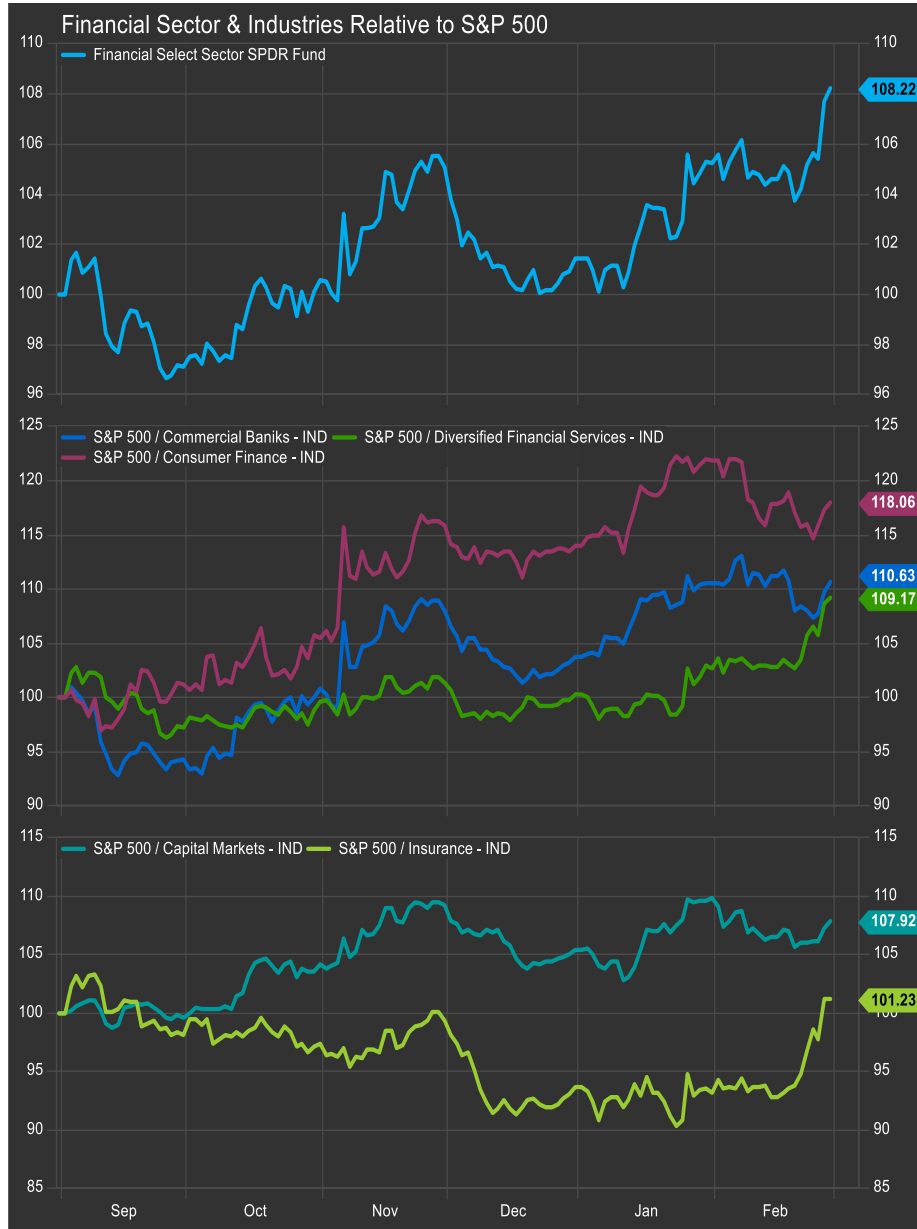
The chart (left) shows S&P 500 Financial Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins remained firm throughout 2024 (chart, panel 2) while valuation multiples expanded in the second half of the year (panel 3).

Despite expanding valuation, the sector still trades at a discount to the S&P 500 in the present and based on consensus forward projections.

The sector in aggregate has seen forward EPS guided higher in the back half of 2024 and into 2025

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): All five industries within the sector outperformed in February with Insurance stocks reversing their underperformance trend with some strong earnings reports

Financial Sector Internals (chart, right): 80% of Financial stocks remain above their 200-day moving averages, the highest reading among the 11 sectors.

Top 10/Bottom 10 Stock Level Performers: Financial Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
AJG	Arthur J. Gallagher & Co.	Uptrend	86,022.4	3.11	2.6	0.61	11.7	16.8	7.8	9.4	
PGR	Progressive Corporation	Uptrend	165,198.8	0.17	0.2	1.73	13.8	16.8	8.1	8.7	NT OVERBOUGHT
BRO	Brown & Brown, Inc.	Bullish Reversal	33,894.4	0.82	0.7	0.34	10.3	14.8	5.3	7.2	
F	Fiserv, Inc.	Uptrend	132,290.2	3.50	3.7	0.00	23.5	13.1	7.3	30.0	
AIG	American International Group, Inc.	Consolidation	49,211.0	0.91	1.7	1.63	4.9	12.1	8.5	3.8	NT OVERBOUGHT
AON	Aon Plc Class A	Bullish Reversal	88,370.4	1.46	1.5	0.48	10.2	12.1	4.6	13.7	
BRK.B	Berkshire Hathaway Inc. Class B	Bullish Reversal	1,110,827.6	-1.95	-1.8	0.00	5.6	11.1	6.8	3.4	
ICE	Intercontinental Exchange, Inc.	Bullish Reversal	99,531.9	1.57	1.5	0.59	5.5	10.8	8.2	1.2	
V	Visa Inc. Class A	Bullish Reversal	625,080.8	0.68	0.5	0.39	18.8	10.4	15.9	28.0	
CME	CME Group Inc. Class A	Bullish Reversal	91,447.1	0.34	0.3	7.14	10.4	10.0	10.5	14.9	

Insurance names led the top gainers for February as AJG, PGR and BRO posted strong results

On the downside, asset managers have retraced some of their outperformance. We continue to like KKR, BX and APO despite the correction and we will be looking for accumulation opportunities over the near-term

The rest of the laggard list had a “weak getting weaker” dynamic as serial underperformers MKTX, IVZ, TROW and FIS broke lower

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
PYPL	PayPal Holdings, Inc.	Retracement	70,285.7	1.02	1.7	0.00	-9.8	-17.7	-17.5	-6.3	NT OVERSOLD
KKR	KKR & Co Inc	Retracement	120,435.0	3.00	3.1	0.16	0.3	-17.0	-14.8	4.6	
MKTX	MarketAxess Holdings Inc.	Support	7,266.9	0.14	0.1	0.79	-24.5	-11.6	-25.6	-25.5	
BX	Blackstone Inc.	Retracement	116,358.0	2.19	1.9	0.95	1.0	-10.7	-13.6	9.4	
APO	Apollo Global Management Inc	Retracement	85,155.6	0.65	0.9	0.44	8.3	-9.8	-13.5	25.2	
FIS	Fidelity National Information Services, Inc.	Downtrend	37,671.7	11.79	22.7	1.06	-15.5	-9.8	-16.1	-18.9	
RJF	Raymond James Financial, Inc.	Support	31,693.4	0.52	0.9	0.61	8.9	-8.1	-8.4	25.0	
IVZ	Invesco Ltd.	Consolidation	7,783.8	2.28	5.9	1.63	-2.3	-7.3	-2.1	-2.4	
SYF	Synchrony Financial	Bullish Reversal	23,589.3	-0.39	-1.2	0.67	9.6	-6.9	-9.0	16.4	
TROW	T. Rowe Price Group	Downtrend	23,536.9	0.01	0.0	1.89	-11.6	-6.8	-13.6	-6.7	

Metrics:

(Formulas are in the appendix at the end of the report)

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

Economic & Policy Drivers: Financial Sector

Interest Rates and Fed Policy Uncertainty:

- January core PCE inflation came in at 2.6% y/y, reinforcing expectations that the Fed will be cautious on rate cuts.
- Treasury yields remained volatile, with the 10Y yield falling below 4.30% at one point before rebounding, affecting bank net interest margins (NIMs).
- Goldman Sachs and JPMorgan (JPM) flagged weaker fixed-income trading activity, citing rate uncertainty as a headwind.

Banking Sector Performance and Credit Trends:

- Large banks (JPM, BAC, WFC) benefited from strong deposit bases and stable loan growth, but flagged higher loan loss provisions.
- Regional banks (RF, PNC, KEY) underperformed due to commercial real estate (CRE) concerns, particularly in office REIT exposure and urban retail properties.
- Higher credit card delinquencies were flagged by Discover (DFS) and Capital One (COF), with rising charge-offs reflecting consumer financial stress.

Regulatory and Policy Developments:

- Trump administration indicated plans to ease some financial regulations, particularly in capital requirements for small and mid-sized banks.
- SEC pressured hedge funds and private equity firms on transparency rules, impacting asset managers like Blackstone (BX) and KKR.
- House passed reconciliation blueprint with tax cuts and spending reductions, but uncertainty remains on broader tax policy.

Trade and Tariff Impacts on Financial Stocks:

- Trump confirmed 25% tariffs on Canadian and Mexican imports effective March 4, along with a 10% tariff on Chinese goods, creating concerns about higher inflation and slower growth.
- Higher inflation expectations from tariffs could delay Fed rate cuts, pressuring rate-sensitive sectors like mortgage lenders and housing-related finance.
- Credit spreads widened amid tariff concerns, raising borrowing costs for corporate issuers and leveraged buyouts.

Consumer and Mortgage Lending:

- Mortgage rates remained elevated (~6.7% for 30-year fixed), weighing on home loan demand.
- Mortgage lenders like Rocket Mortgage (RKT) and UWM Holdings (UWMC) signaled softer origination volume, though refinancing activity showed signs of picking up.
- Visa (V) and Mastercard (MA) flagged stable consumer spending trends, though credit card delinquencies ticked higher.

Insurance and Asset Management:

- Property & casualty insurers (TRV, CB) benefited from higher premium pricing, with Hurricane Ian-related claims largely absorbed.
- Life insurers (MET, PRU) saw stable investment income, though long-duration liabilities remain a concern with rate volatility.
- BlackRock (BLK) and Vanguard saw weaker ETF inflows as retail investors pulled back, though institutional demand remained resilient.

Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

Valuation Adjusted Earnings Growth

Higher scores with positive momentum preferred

Valuation Adjusted Earnings Growth (simple mean)

Relative Earnings Growth Multiple (vs. Benchmark)

Divided by

Rel. Valuation Multiple (vs. Benchmark)

Relative Earnings Growth Multiple:

Company Earnings Growth:

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) /
Restated LTM Annual Earnings

Divided by

Benchmark Earnings Growth:

Benchmark consensus mean EPS NTM / Restated Annual Benchmark
EPS

Relative Valuation Multiple

Company NTM P/E / Index NTM P/E

Volatility Adjusted Income

Higher score preferred when equities and yields are moving
lower

Volatility Adjusted Income (simple mean)

Dividend Yield Multiple

Divided by

3yr Beta Vs. S&P 500

Dividend Yield Multiple

Stock Dividend Yield (Consensus NTM)

Divided by

S&P 500 Dividend Yield (Consensus NTM)

Appendix: Metric Interpretation/Descriptions

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings * weight of each company in the universe 1-n

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.