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Monthly Insights: May Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector

The Financial Sector held its own in April despite a big drawdown for the S&P 500 to start the month. The sector's uptrend relative to the S&P 500 which started in July of 2024 remains intact. Key levels for the XLF are the February and March price highs. The latter is just above the $50 level and the former is just below $53. A move above these levels confirms the bullish pivot for the sector.

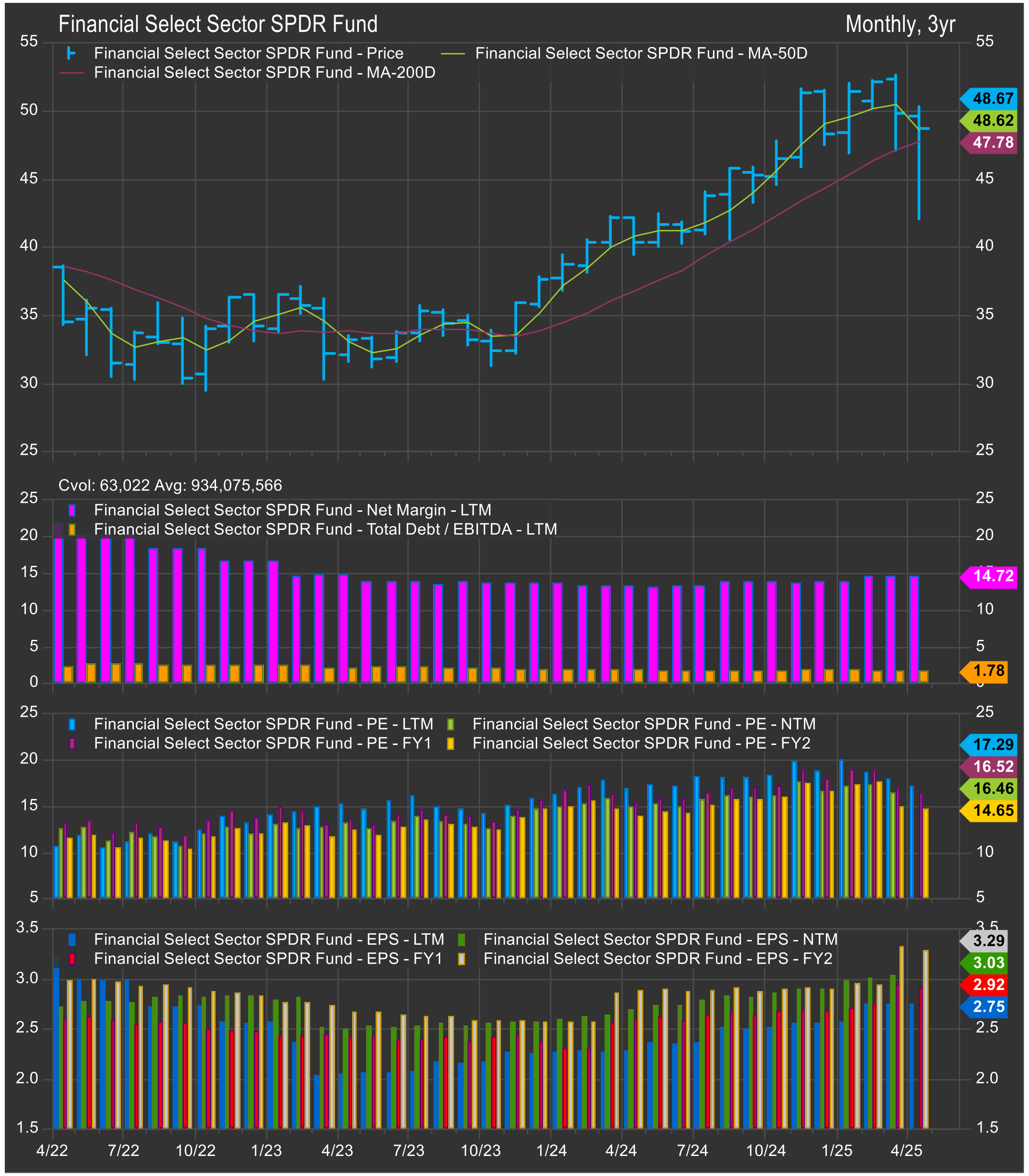
Our MACD oscillator study is showing a near-term buy signal and is about to cross the '0' line indicating negative-to-positive trend change.

In this report we cover sector level fundamentals, industry performance and economic and policy drivers for the sector. At a high level, corrective price action was spurred by concerns over escalating tariffs amidst some signs of a slowing US economy. We got a bounce early in April on conciliatory developments on global trade and some resilient earnings releases. The Financial sector benefitted from outperformance in Insurance stocks and some of the sector heavyweights like BRK.B and JPM acting as safe havens amidst equity volatility.

Concerns remain on the direction of the economy and whether trade dynamics will impact credit and lending, but the technical condition of the Financial sector remains strong heading into May.

We start May long the Financial Sector with an OVERWEIGHT allocation of 4.33% 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 ticked higher through the most recent earnings season (chart, panel 2) while valuation multiples inflected lower (panel 3) on corrective price action and stronger earnings results and forward guidance (panel 4) as the sector in aggregate has seen forward EPS guided higher for 2026

With multiples contracting in the near-term, valuation remains at a material discount to the S&P 500

Industry/Sub-Industry Performance and Breadth: Financial Sector

Financial Industries (chart, left): Diversified Financials (Berkshire) and Insurance names corrected in the 2nd half of April

Banks and Consumer Finance shares have firmed throughout April while Capital Markets have held flat against the S&P 500

Financial Sector Internals (chart, right): Internals gages for the Financial Sector (and the S&P 500 broadly) remain challenged, however we can see from the daily advancers/decliners series (panel 3) that the % of daily decliners has dried up on the recent rally

Top 10/Bottom 10 Stock Level Performers: Financial Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
DFS	Discover Financial Services	Bullish Reversal	46,640.1	0.50	20.4	1.0	17.1	NT OVERBOUGHT
FIS	Fidelity National Information Services, Inc.	Consolidation	41,649.6	0.54	0.4	1.4	7.0	NT OVERBOUGHT
COF	Capital One Financial Corp	Bullish Reversal	70,112.2	0.45	10.2	0.9	5.8	
SCHW	Charles Schwab Corp	Bullish Reversal	147,370.5	0.72	9.8	0.9	4.7	
CME	CME Group Inc. Class A	Bullish Reversal	98,153.0	0.98	24.4	2.7	4.1	
MKTX	MarketAxess Holdings Inc.	Consolidation	8,247.2	1.14	-4.8	0.9	2.6	
PYPL	PayPal Holdings, Inc.	Support	64,820.8	0.51	-12.7	0.0	2.1	
BRK.B	Berkshire Hathaway Inc. Class B	Uptrend	1,152,966.0	1.02	19.9	0.0	1.8	
JPM	JPMorgan Chase & Co.	Uptrend	680,776.6	0.52	10.1	1.5	1.7	
NDAQ	Nasdaq, Inc.	Bullish Reversal	43,598.8	0.93	5.9	0.9	1.6	

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
GPN	Global Payments Inc.	Downtrend	18,811.0	0.25	-25.8	0.9	-21.1	NT OVERSOLD
FI	Fiserv, Inc.	Retracement	102,731.0	0.69	-2.5	0.0	-14.0	NT OVERSOLD
ERIE	Erie Indemnity Company Class A	Support	16,435.0	1.09	-11.5	1.0	-12.8	NT OVERSOLD
BRO	Brown & Brown, Inc.	Bullish Reversal	30,950.8	1.01	10.0	0.4	-11.9	
AON	Aon Plc Class A	Consolidation	75,557.4	0.80	2.4	0.5	-11.0	NT OVERSOLD
PFG	Principal Financial Group, Inc.	Consolidation	16,780.6	0.36	-6.7	2.7	-9.9	
WTW	Willis Towers Watson Public Limited Compa	Bullish Reversal	29,997.8	0.70	4.8	0.8	-9.7	
MMC	Marsh & McLennan Companies, Inc.	Bullish Reversal	109,385.6	0.91	4.7	1.0	-7.8	
IVZ	Invesco Ltd.	Support	6,247.9	0.33	-14.5	4.0	-7.8	
AJG	Arthur J. Gallagher & Co.	Uptrend	81,103.7	1.08	15.7	0.5	-6.7	

Insurance names and exchanges pulled back from positions of strength in April

Consumer Finance stocks rallied on hopes of a recovery

There's a bias towards the larger stocks in the sector, particularly within the banking industry where JPM, WFC and C are still acting well, while regional banks along with BAC have started to show weakness in the near-term

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Financial Sector

1. Global Trade Dynamics: A Double-Edged Sword

April saw heightened volatility around trade policy, driven by the Trump administration's 2.0 tariff regime. The White House rolled out a *stacked tariff* policy, introducing or reiterating duties on autos, auto parts, steel, aluminum, and strategic technology imports from China. At the same time, there were gestures toward **select de-escalation**, including exemptions on USMCA-compliant parts and efforts to finalize deals with Japan, India, South Korea, and Vietnam.

Corporate confidence: Ongoing uncertainty has slowed investment and M&A in tariff-exposed industries, dampening advisory revenue for investment banks.

Supply chain credit stress: As highlighted by the Fed's Beige Book and Richmond and Dallas Fed regional surveys, there are rising concerns about supply chain disruptions translating into liquidity issues or defaults, especially for SMEs and logistics providers.

Capital markets volatility: Higher trade tension led to mixed equity inflows and pressured credit spreads in select sectors like industrials and consumer discretionary.

While banks have largely mitigated direct tariff exposure, extended trade turbulence increases the risk of **credit deterioration** in trade-exposed portfolios and weakens the outlook for **commercial lending**.

2. Interest Rates and Yield Curve Dynamics

The **interest rate environment** was supportive overall for financials, especially large banks and insurers. The Treasury yield curve experienced **flattening**, with long-end yields falling steadily (30Y yields back below 4.70% late April), which supported bond portfolios and marked-to-market gains.

Net interest margin (NIM) pressure remained a concern, especially for regionals. BankUnited (BKU) reported weaker NII and NIM in Q1, while **Zions (ZION)** and others flagged soft loan demand and fee income.

Loan growth trends were mixed. Consumer and card-based lending (e.g., COF) remained firm, but commercial lending saw pockets of weakness, particularly in CRE and small business.

M&A and underwriting: Lower rates supported a modest pickup in debt issuance activity, aiding investment banks.

If yields stay subdued and Fed rate cuts materialize in H2, large banks may see margin compression, though **capital market divisions** could benefit from improved issuance and trading volumes.

3. Consumer Credit, Loan Growth, and Lending Standards

The consumer side has continued to show strength:

Visa (V) and **Mastercard (MA)** reported resilient spending trends through April, although there were subtle signs of normalization.

Discover (DFS) and **Capital One (COF)** flagged improving credit metrics with lower net charge-offs and delinquencies.

However, **lending standards** are tightening, particularly for CRE and mid-market C&I loans. The Fed's Beige Book and regional Fed surveys pointed to reduced appetite for riskier borrowers and concerns over credit availability.

Meanwhile, the **residential real estate market** offered mixed signals:

Mortgage demand plunged nearly 13% in mid-April as 30-year rates hovered near two-month highs (~6.8%).

Existing home sales declined to 4.02M SAAR, with affordability and financing headwinds dragging on demand.

Loan growth outlooks remain modest, with banks cautious on underwriting new risk while monitoring for fallout from tariffs and consumer credit fatigue.

4. Federal Reserve Policy and Independence Debate

Fed policy was a central storyline throughout April. The Fed remains in a **pre-meeting quiet period**, but key signals emerged:

Market expectations point to ~85bps of rate cuts by year-end.

Multiple officials (Waller, Goolsbee, Kashkari) reinforced a *data-dependent*, dovish stance, but warned about unanchored inflation expectations and labor market slack.

More politically concerning was the **renewed pressure from President Trump**, who has:

Suggested calling Powell to push for preemptive rate cuts.

Reignited questions about firing Powell (despite no legal authority to do so).

Repeatedly blamed the Fed for economic softening.

This led to elevated volatility in the long end of the curve and raised concern over **Fed credibility**, especially ahead of possible 2026 leadership transitions. For banks and insurers, the prospect of a more politically compromised Fed could **undermine rate predictability**, a key variable for lending models and duration-matched portfolios.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

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.