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Monthly Insights: June Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



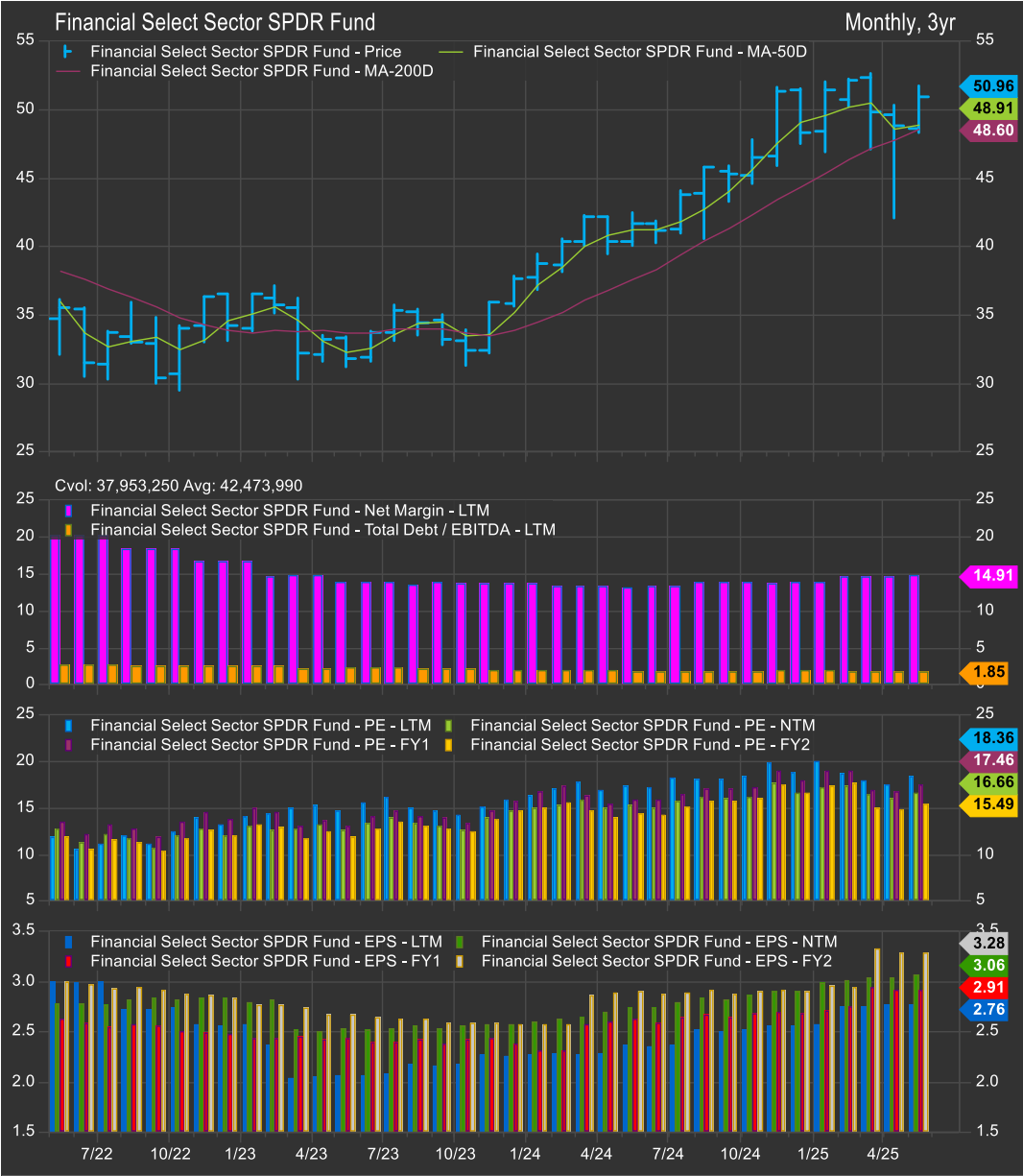
The Financial Sector retraced some gains in May as investors sold insurance stocks to chase riskier assets in other sectors.

Bank stocks have lost momentum from the second half of 2024 and now that demand for lower vol. insurance stocks is subsiding the sector is lacking a thematic catalyst in the near-term. We remain positively disposed towards many of the investment banks and asset managers in within the sector as one of the secular themes we see developing is the continued use of private credit to fund large scale infrastructure projects and other quasi-public works.

Crypto stocks saw renewed enthusiasm though we're also starting to hear more from lawmakers about regulating digital currencies, however a central issue for the sector and the economy in general is how high mortgage rates (approaching 7% on average nationally) have capped loan growth amidst bad affordability. With US Treasury Yields back above 4% we aren't getting a thaw in the housing market dynamic and that may eventually put pressure on the business cycle's ability to continue expanding

We start June long the Financial Sector with an **OVERWEIGHT** allocation of **0.26%** 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. We think the sector looks attractive based on the consensus earnings outlook

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): The sector pulled back in May with Insurance and Diversified Financials (BRK.B, APO) also retracing YTD gains

Banks, Consumer Finance and Capital Markets stocks, particularly investment banks and brokerage houses firmed modestly, but not enough to offset outflows from lower vol. industries

Financial Sector Internals (chart, right): Internals gages for the Financial Sector were in stasis in May as weakness in Insurance stocks was too big a headwind to overcome

The sector has been stable relative to other areas of the equity market and we see near-term weakness as profit taking rather than something structural

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
COIN	Coinbase Global, Inc. Class A	Bullish Reversal	52,606.6	1.62	-1.4	0.0	3.67	14.3
BEN	Franklin Resources, Inc.	Consolidation	11,456.4	0.40	1.7	3.9	1.63	9.8
NTRS	Northern Trust Corporation	Bullish Reversal	20,877.9	0.53	4.4	1.9	1.17	7.7
SYF	Synchrony Financial	Consolidation	22,172.9	0.29	0.2	1.3	1.88	5.3
BK	Bank of New York Mellon Corp	Uptrend	63,723.7	0.50	14.3	1.5	0.98	4.8
MS	Morgan Stanley	Bullish Reversal	205,609.5	0.58	4.2	2.0	1.25	4.7
BAC	Bank of America Corp	Consolidation	333,210.2	0.46	-1.6	1.6	1.39	4.2
AXP	American Express Company	Consolidation	206,939.9	0.74	2.2	0.7	1.41	4.2
C	Citigroup Inc.	Bullish Reversal	141,069.9	0.37	5.3	2.0	1.40	4.1
GS	Goldman Sachs Group, Inc.	Uptrend	185,595.9	0.52	4.6	1.4	1.34	3.7

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
FI	Fiserv, Inc.	Retracement	88,498.7	0.59	-23.3	0.0	1.14	-20.3
BRK.B	Berkshire Hathaway Inc. Class B	Uptrend	1,091,623.6	0.97	3.2	0.0	0.84	-11.8
AFL	Aflac Incorporated	Consolidation	55,583.7	0.60	-4.3	1.5	0.70	-11.3
APO	Apollo Global Management Inc	Support	75,265.8	0.63	-12.7	1.0	1.72	-10.4
MKTX	MarketAxess Holdings Inc.	Consolidation	8,028.2	1.08	-4.6	0.9	0.99	-9.6
EG	Everest Group, Ltd.	Downtrend	14,731.9	0.27	-8.6	1.6	0.28	-9.5
GL	Globe Life Inc.	Bullish Reversal	9,985.2	0.34	8.9	0.6	0.57	-8.9
GPN	Global Payments Inc.	Downtrend	18,498.3	0.24	-30.3	0.9	1.01	-7.5
FIS	Fidelity National Information Services, Inc.	Consolidation	41,122.7	0.53	-1.1	1.4	1.23	-6.9
ERIE	Erie Indemnity Company Class A	Support	16,445.2	1.07	-15.5	1.0	0.35	-6.4

Insurance and Diversified Financials gave back some YTD gains in May as investors moved into riskier exposures like Crypto, Investment Banks and card issuers

Insurance and payment stocks which had improved during the market correction have lagged on reflation

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

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

Loan Growth & Credit Quality

Banks continued to report steady loan growth across commercial and industrial segments, with management teams citing resilient corporate demand for working capital and equipment financing. Consumer credit trends remained broadly healthy, although signs of softening emerged.

Credit card delinquencies and **auto loan defaults** ticked modestly higher from prior months, particularly among subprime borrowers, echoing concerns about stretched household budgets.

Despite this, **bank charge-offs remained low**, and most institutions maintained optimistic commentary on credit quality, pointing to elevated savings buffers and strong wage gains.

Mortgage Issuance & Housing Credit

Rising mortgage rates capped new issuance volumes:

Mortgage applications fell to a three-month low as the **30-year fixed rate approached 7%** in late May.

The April **pending home sales index dropped 6.3% m/m**, its worst reading since 2022, reflecting affordability pressures.

Lenders noted declining refinancing activity and weaker demand for purchase mortgages, especially in high-cost urban markets.

These trends weighed on regional banks and mortgage-focused lenders, though the pullback in long-term yields later in the month offered some relief.

Bank Earnings & Capital Markets Activity

Q1 earnings from large-cap financials showed resilient profitability but weaker capital markets income:

Net interest margins (NIMs) were stable to slightly lower as funding costs leveled off and deposit competition eased.

Fee-based income was soft, with **investment banking, M&A advisory, and trading volumes**

remaining subdued.

Goldman Sachs management noted dealmaking optimism but acknowledged the pipeline remained thin heading into summer.

Insurers were relative outperformers in May, benefiting from a quiet catastrophe season and favorable premium trends. Conversely, **managed care** weighed on sector averages due to a sharp selloff in UnitedHealth (UNH), though healthcare-specific risks are excluded from this report.

Lending Standards & Regulation

Banks signaled cautious optimism around lending, though **standards remained tight**.

Regulatory discussions around the **Basel III Endgame** framework created concern over future capital requirements:

Executives warned that proposed capital increases could constrain balance sheet flexibility, particularly for mid-sized lenders.

Analysts flagged potential for reduced risk appetite across CRE and middle-market lending if the final rules are implemented without delay.

Fintech & Crypto

The month saw renewed attention on **digital finance regulation**:

Lawmakers reintroduced debate on **stablecoin oversight**, with mixed signals from Congress and the Treasury on how to proceed.

Some Republican policymakers argued that dollar-linked stablecoins are a “force multiplier” for U.S. economic power, while others emphasized national security risks.

Fintech platforms remained active in consumer lending but rising delinquencies and tighter funding conditions dampened investor enthusiasm.

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.