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Monthly Insights: August Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial Sector retraced more gains in July as investors continued to sell insurance stocks to chase riskier assets in other sectors. Flat interest rates combined with Fed Chairman Powell's somewhat hawkish tone at the most recent FOMC meeting have been a drag on sector performance in the near-term.

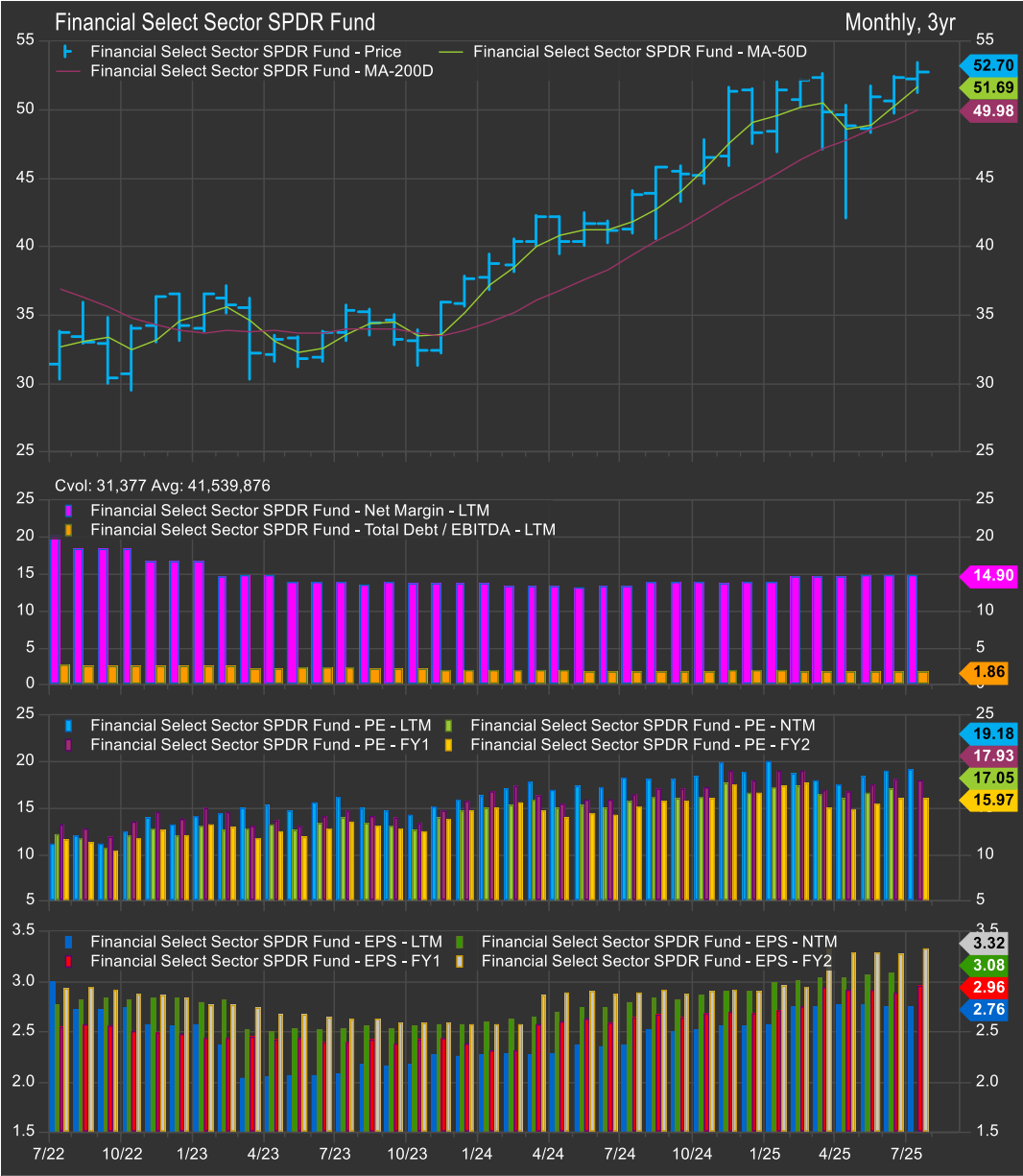
From a technical perspective, we think negative seasonal dynamics, a wide spread between high beta and low vol. performance (favoring the former) and pervasive oversold conditions in Insurance and Diversified Financial stocks are catalysts for potential buying. Any softening in risk appetite over coming months likely would benefit Insurance names and other big weights in the sector like Berkshire Hathaway.

M&A activity among Rails and Cyber Security firms is the latest evidence that the deal pipeline remains firm. NTRS and SCHW both announced stock buybacks, signaling increased confidence in the business environment. Fed policy for the rest of the year and inflation remain key potential pivot points for the sector, with lower rates likely a catalyst for outperformance.

We're expecting a bullish pivot for Financials in August. We think rotation away from the sector since April is overdone and investors are likely to take profits in the near-term from higher-beta exposures. This should benefit Financials which have been stable and are trading at a discount to the S&P 500 on a present and forward basis.

We start August long the Financial Sector with an **OVERWEIGHT allocation of **1.66%** 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 through the most recent earnings season (chart, panel 2) while valuation multiples are creeping higher again (panel 3) as Insurance earnings disappointed (panel 4). However, the sector in aggregate has seen forward EPS guided higher for 2026

Valuation remains at a discount to the S&P 500. We think the buyer will come back after stocking up on higher beta exposures over the past several months

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): At the industry level offensive exposures, Consumer Finance Capital Markets and Banking led the sector while Diversified Financials and Insurance stocks continued to correct which took the sector to negative territory versus the S&P 500 in aggregate

Financial Sector Internals (chart, right): Internals gages for the Financial Sector Continue to move sideways in July though the percent of stocks above their 200-day moving average remains firm above 60%... with insurance stocks now near term oversold we're expecting a bounce there that should improve sector breath

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
IVZ	Invesco Ltd.	Bullish Reversal	9,720.9	0.42	34.1	2.6	1.71	35.1
XYZ	Block, Inc. Class A	Consolidation	43,390.0	0.96	8.5	0.0	2.89	14.1
BX	Blackstone Inc.	Bullish Reversal	129,176.9	1.22	11.1	1.6	1.77	13.9
GL	Globe Life Inc.	Bullish Reversal	11,825.9	0.39	6.6	0.5	0.59	12.6
KKR	KKR & Co Inc	Bullish Reversal	134,486.9	1.02	8.4	0.3	2.06	9.2
BK	Bank of New York Mellon Corp	Uptrend	71,842.9	0.55	11.9	1.3	0.96	9.0
RF	Regions Financial Corporation	Bullish Reversal	23,543.0	0.43	10.3	2.7	1.34	8.9
C	Citigroup Inc.	Bullish Reversal	176,463.5	0.43	16.8	1.6	1.43	8.7
CFG	Citizens Financial Group, Inc.	Bullish Reversal	21,287.8	0.44	10.6	2.3	1.44	7.2
RJF	Raymond James Financial, Inc.	Bullish Reversal	33,898.8	0.59	4.0	0.7	1.13	6.7

Outperformers included XYZ (crypto), Asset Managers (IVZ, BX, KKR) and some Banks (C, RF, CFG)

A rotation out of insurance stocks continued to be a drag on the sector with the industry over represented on the monthly lows list

With some bottom fishing in lower vol. stocks starting to develop at the index level, we think selling in Insurance names may be overdone.

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
F	Fiserv, Inc.	Retracement	77,462.0	0.52	-33.0	0.0	0.97	-20.6
BRO	Brown & Brown, Inc.	Retracement	30,315.9	0.82	-24.1	0.4	0.64	-19.4
AJG	Arthur J. Gallagher & Co.	Support	73,846.4	0.93	-17.2	0.6	0.66	-12.5
PGR	Progressive Corporation	Support	141,567.1	0.59	-18.9	1.2	0.19	-11.8
AIG	American International Group, Inc.	Consolidation	45,484.0	0.44	-12.2	1.5	0.52	-10.0
MMC	Marsh & McLennan Companies, Inc.	Retracement	99,760.3	0.82	-16.9	1.1	0.66	-9.4
AIZ	Assurant, Inc.	Consolidation	9,389.1	0.41	-16.4	1.1	0.64	-9.2
FDS	FactSet Research Systems Inc.	Consolidation	15,708.3	0.92	-14.9	0.7	0.82	-9.2
CB	Chubb Limited	Consolidation	107,068.3	0.45	-14.6	0.9	0.37	-9.1
MKTX	MarketAxess Holdings Inc.	Support	7,769.2	1.03	-15.4	1.0	0.95	-8.9

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

Macro & Policy Backdrop:

The sector traded in a choppy range throughout July amid **conflicting policy signals**, macro resilience, and a crowded earnings calendar.

Interest rate outlook was a key driver: the **Fed held rates steady at 4.25–4.50%** during its July FOMC meeting (the fifth straight hold), but Powell's tone in the **31-Jul press conference** was interpreted as **hawkish**, pushing **September rate-cut odds below 50%**.

Despite this, the **July 31 ADP payrolls (+104K)** and **Q2 GDP print (+3.0%)** confirmed **ongoing US economic strength**, supporting financials with retail loan exposure and capital markets businesses.

Tariff policy volatility was a risk factor for lenders and insurers with global exposure. Trump's **universal 50% tariff on copper** and **escalation with India and Brazil** raised concerns about downstream cost inflation. However, the sector broadly benefited from **clarity on trade agreements** (e.g., US-EU deal at 15% tariff), which reduced uncertainty premiums in valuations.

Earnings Season Themes:

Financials saw **solid top-line and bottom-line beats**, with **blended EPS growth of +7.2% y/y** for the sector, per early FactSet data as of July 30. Roughly **80% of reporters beat EPS estimates**, above the one-year average.

Loan growth was mixed: **consumer and card lending** grew modestly, while **C&I demand remained soft**.

Net interest income (NII) trends diverged. Rate-sensitive banks and regionals reported **mild NII contraction** due to higher deposit costs, while **broker-dealers and asset managers** showed **improved fee income** from higher equity AUM.

Capital markets businesses benefited from **increased ECM and M&A advisory** activity amid July's **deal momentum** (e.g., **UNP-NSC** rail merger and **PANW-CYBR** cybersecurity deal).

Credit metrics remained stable overall. **Commercial real estate (CRE)** risk was a recurring concern in Q&A sessions, but no major impairments were announced. Loan loss provisioning

ticked up slightly but was not a major headline.

Insurance names like **UNM (-12.2%)** flagged **higher short-term disability claims and weaker LTD recoveries**, but others like **HUM (+12.4%)** posted strong results with **favorable medical loss ratios** and **volume leverage at CenterWell**.

Notable Company Developments:

PNFP and **SNV** announced a **\$8.6B all-stock merger**, reflecting consolidation pressure among regional banks.

SCHW authorized a **\$20B buyback**, signaling confidence in capital flexibility and long-term growth.

Outlook for August:

Fed policy remains the central driver. Market pricing reflects **~45 bp of rate cuts for 2025**, with incoming labor and inflation data in early August (July employment report on **2-Aug**) expected to guide expectations.

Treasury's **quarterly refunding announcement (31-Jul)** held auction sizes steady but doubled **long-end buyback frequency**, which could marginally benefit dealers and bond managers by improving secondary liquidity.

Continued **volatility in tariff headlines** may weigh on cross-border lending and financials with EM exposure.

M&A and **IPO pipelines** appear healthy heading into August, which should support investment banks and advisory arms if risk appetite persists.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.