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Monthly Insights: September Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial Sector pivoted to the upside in mid-August as carried higher by money-center banks, commercial banks and consumer finance names.

From a technical perspective, we think Financials paid a price for outperforming during the equity correction. Insurance stocks, which led sector gains during the down draft have been sold hard since. Now that the sector has retraced almost all of those gains, we would expect the buyer to begin re-allocating to the sector.

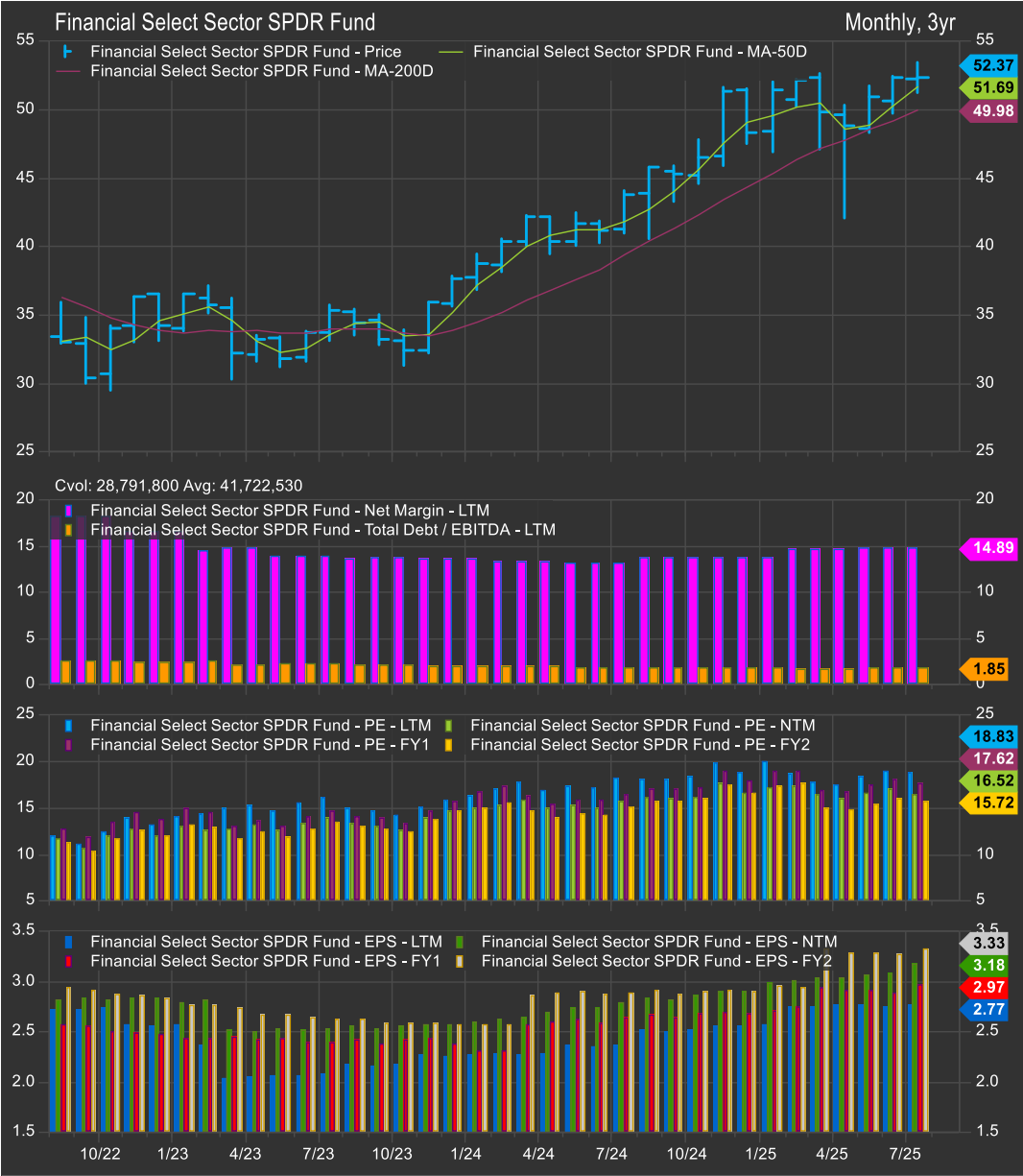
Crypto stocks are pulling back after coins hit overbought conditions in early July. Stablecoin approval is becoming a new talking point for the sector with some optimism. The emergence of a dovish Fed could potentially help thaw out the mortgage market which has been sluggish due to a mix of poor affordability and high mortgage costs. On the margins, things are improving as the 30yr mortgage rate hit 10-month lows in August while existing sales were up +2% m/m.

On the negative side, there is still potential for tariffs to pressure business and household cash flows which could further constrain credit.

Given recent softness in rates and a continued strong bid for equities, we continue to take a “glass half full” approach to Financials.

We start September long the Financial Sector with an **OVERWEIGHT allocation of 2.17% 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 with Financials arguably the cheapest sector in the S&P 500 index

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): Commercial Banking and Consumer Finance industries lifted the sector in August while Insurance and Diversified Services industries attempted to stabilize with investors taking a positive view of Berkshires acquisition activity

Capital Markets names continue to retrace gains as the industries upside participation narrows. Exchanges, rating agencies and a growing number of asset managers are slipping into the laggard bucket

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
AIZ	Assurant, Inc.	Consolidation	10,906.3	0.45	1.7	1.0	0.67	14.5
HIG	Hartford Insurance Group, Inc.	Bullish Reversal	37,415.5	0.42	-1.4	1.0	0.66	6.3
FTB	Fifth Third Bancorp	Bullish Reversal	30,122.5	0.48	6.0	2.2	1.30	4.7
CFG	Citizens Financial Group, Inc.	Bullish Reversal	22,387.0	0.46	12.3	2.2	1.52	4.2
COF	Capital One Financial Corp	Bullish Reversal	143,603.6	0.48	5.7	0.7	1.44	4.2
HBAN	Huntington Bancshares Incorporated	Consolidation	26,092.8	0.47	3.5	2.3	1.13	4.1
WTW	Willis Towers Watson Public Limited Compa	Consolidation	32,197.7	0.72	-3.3	0.7	0.55	3.8
PRU	Prudential Financial, Inc.	Consolidation	38,533.4	0.31	-3.1	3.3	1.12	3.8
USB	U.S. Bancorp	Consolidation	75,879.8	0.42	1.9	2.8	1.39	3.7
L	Loews Corporation	Consolidation	19,989.7	#N/A	0.6	#N/A	0.66	3.6

COF joins a group of insurers and regional banks on the monthly outperformance list.

Laggards spanned industries within the sector with COIN correcting within the context of an intermediate-term bullish reversal while KKR is now in the “last chance Saloon”, if it doesn’t get picked up in September, it’s not getting picked up

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	66,477.7	1.65	3.7	0.0	3.57	-22.7
FIS	Fidelity National Information Services, Inc.	Consolidation	36,435.9	0.46	-17.9	1.6	1.15	-16.4
MKTX	MarketAxess Holdings Inc.	Downtrend	7,006.1	0.94	-18.0	1.1	0.96	-12.5
PYPL	PayPal Holdings, Inc.	Consolidation	66,542.1	0.50	-12.4	0.0	1.02	-12.3
APO	Apollo Global Management Inc	Retracement	77,635.5	0.63	-10.9	1.0	1.56	-11.4
FDS	FactSet Research Systems Inc.	Downtrend	14,374.9	0.84	-22.5	0.7	0.75	-10.9
JKHY	Jack Henry & Associates, Inc.	Support	11,859.1	1.01	-16.7	0.9	0.72	-9.3
KKR	KKR & Co Inc	Bullish Reversal	125,151.6	0.92	-0.4	0.4	2.06	-9.1
BRO	Brown & Brown, Inc.	Retracement	31,697.9	0.86	-20.2	0.4	0.56	-8.5
AJG	Arthur J. Gallagher & Co.	Support	76,591.8	0.95	-17.5	0.6	0.61	-6.8

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

August recap: macro & policy drivers

Rates & curve: Powell's dovish Jackson Hole tone lifted cut odds back toward ~80–90%, while the curve **steepened meaningfully** late month (2Y/30Y spread >120 bp on Aug-26, ~130 bp on Aug-27). A steeper curve is **constructive for bank NIM** over time even as near-term deposit pricing remains competitive.

Tariffs/fees: Expanding tariff regime (steel/aluminum **+407 categories**; furniture probe; India **50%** tariffs) added **input-cost and inflation** risk; potential pass-through weighs on household cash flow and small-business margins—relevant for **credit performance**.

Liquidity/crypto: Sector chatter noted banks fear potential **stablecoin rules could trigger large deposit outflows**, a watch-item for **funding costs and NIM**.

Credit, lending & the consumer

Lending standards: No formal survey this month, but tone across updates stayed **cautious** (tariffs, soft freight pricing, and weaker permits signal tighter underwriting in select C&I and CRE pockets).

Delinquencies: Reports flagged that **even high-credit-score households are starting to fall behind** on repayments—an early-cycle stress indicator to watch for bankcards/autos.

NIM & balance-sheet dynamics

Steeper curve = medium-term tailwind: Late-Aug steepening supports **loan-asset yields vs. funding**, particularly for asset-sensitive banks, though immediate NIM lift can lag.

Funding competitiveness: Stablecoin/deposit alternatives and treasury bill yields keep **deposit betas elevated**; easing cycle could **lower funding costs** into 4Q if deposit competition cools.

Capital & buybacks: The risk-on days featured renewed appetite for **regional-bank**

beta; dividends/buybacks (e.g., **MTB raised its dividend**) remained a support.

Housing & mortgage issuance

Activity indicators: July housing starts **+5.2% m/m**; permits fell for the **7th time in 8 months**—a mixed pipeline signal. **Existing home sales +2.0% m/m** late month.

Rates: **30-yr mortgage rate at the lowest in ~10 months** (AP) boosted **refi/purchase** chatter at the margin.

Issuance outlook: Expect **modest improvement** in August/September volumes relative to early summer, tempered by **thin inventory** and still-tight affordability; builders offering incentives and discounts (NYT).

Capital markets & fee income

IB/ECM outlook: Headlines pointed to **Mexico ECM recovery in 2026** and mixed US IPO/M&A tone. Near-term, results skewed stock-specific (e.g., **IBKR** added to S&P 500).

Insurance & brokers: P&C names were mixed month-to-date; **asset managers** benefited from the late-month index rebound.

September Outlook

Policy path & curve shape: A **Sept rate cut** (widely priced) plus continued steepening would be **incrementally NIM-positive** into 4Q, assuming deposit betas ease.

Credit trajectory: Monitor **early-stage delinquencies** in cards/auto, small-biz strain from tariffs, and freight softness; watch **continuing claims** and labor prints for loss-rate models.

Mortgage flow: If mortgage rates hold near recent lows and existing sales stabilize, expect **better purchase pipelines**; permits weakness argues for **measured** optimism.

Funding mix: Keep an eye on **deposit competition** (money-market yields, potential stablecoin regulation) and treasury supply (2s/5s/7s auctions).

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

$(\text{Company Price}/\text{NTM EPS}) / (\text{Index Price}/\text{NTM EPS})$

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

$\text{Company FY1 Rolling Dividend Yield} / \text{Index FY1 Rolling Dividend Yield}$

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.