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Monthly Insights: October Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector

The Financial Sector wasn't able to build on its bullish August pivot, retesting YTD lows vs. the S&P 500 in September. Oscillator studies are in a neutral position, while the relative curve has retraced all of the sectors Q1 2025 gains vs. the index.

From a technical perspective, we think Financials are an accumulation opportunity, but persistent weakness in Insurance and services stocks has been a headwind to performance. This underscores the utter lack of interest in low vol. stocks that has taken root since April.

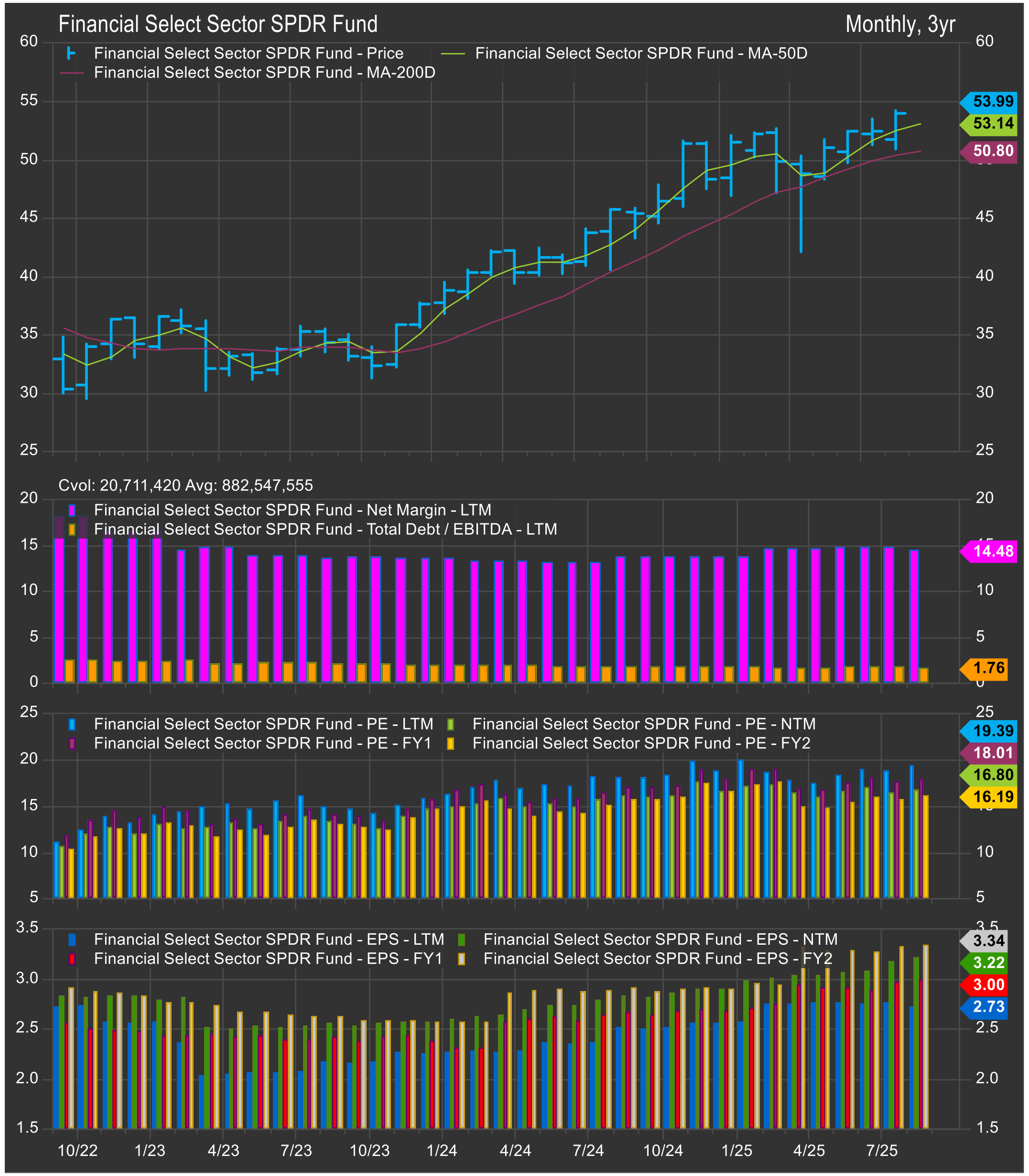
From a fundamental perspective, the Financial sector looks cheap relative to its consensus out year earnings growth. Margins remain firm.

Tariff policy remains a factor for Financials as the latest bout of saber-rattling on semiconductors and branded drugs has equity investors pricing in more inflation risk. This has put upwards pressure on rates in the very near-term and could potentially constrain credit if inflation dynamics gain momentum. Prior to that, we had mortgage rates at their lowest in 2025 (6.34%) and continued soft inflation readings offered some hope that the Fed can implement its preferred policy prescription.

We moved back to a long position in the Tech Sector this month (from neutral) which has us pulling in our Financials exposure towards market weight. There is strength in certain industries, but weakness in Insurance and Services has been a stiff headwind for the sector in the near-term.

We start October slightly long the Financial Sector with a MARKETWEIGHT allocation of 0.46% 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): Banks, Capital Markets and Consumer Finance industries continue to lead the sector while Insurance stocks have been unable to find their footing after equities bottomed in April.

Banking strength has been concentrated in the largest names (C, JPM, WFC).

Financial Sector Internals (chart, right): Internals gages for the Financial Sector Continue to move sideways, but when compared to the readings of low vol. sectors, this is what strength looks like in 2025

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
HOOD	Robinhood Markets, Inc. Class A	Uptrend	94,253.3	2.59	58.0	0.0	2.72	15.2
GS	Goldman Sachs Group, Inc.	Uptrend	242,936.7	0.63	11.8	1.2	1.48	5.1
C	Citigroup Inc.	Uptrend	190,385.6	0.45	14.9	1.5	1.44	4.5
WRB	W. R. Berkley Corporation	Uptrend	28,780.7	0.66	-2.6	1.0	0.46	4.3
MS	Morgan Stanley	Uptrend	255,589.3	0.68	8.8	1.6	1.35	4.3
IBKR	Interactive Brokers Group, Inc. Class A	Uptrend	29,439.7	1.25	16.6	0.3	1.31	3.2
JPM	JPMorgan Chase & Co.	Uptrend	869,087.1	0.62	4.5	1.2	1.21	2.7
AFL	Aflac Incorporated	Consolidation	59,558.8	0.62	-3.4	1.3	0.64	2.7
ALL	Allstate Corporation	Consolidation	56,063.4	0.37	-1.7	1.3	0.06	2.6
WTW	Willis Towers Watson Public Limited Comp	Consolidation	33,350.7	0.74	-0.5	0.7	0.57	2.3
AXP	American Express Company	Uptrend	237,769.0	0.82	2.6	0.6	1.38	2.2

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
FDS	FactSet Research Systems Inc.	Downtrend	10,952.2	0.67	-39.5	1.1	0.79	-25.0
SPGI	S&P Global, Inc.	Retracement	148,736.0	1.05	-15.3	0.6	1.20	-13.3
ERIE	Erie Indemnity Company Class A	Retracement	14,595.3	0.91	-19.5	1.2	0.55	-12.4
BEN	Franklin Resources, Inc.	Consolidation	12,081.7	0.38	-7.6	3.8	1.73	-11.2
XYZ	Block, Inc. Class A	Bullish Reversal	40,487.1	0.89	0.6	0.0	2.95	-11.1
CPAY	Corpay, Inc.	Retracement	20,951.3	0.51	-18.8	0.0	1.10	-11.1
JKHY	Jack Henry & Associates, Inc.	Support	10,885.5	0.92	-22.1	1.0	0.69	-10.2
NDAQ	Nasdaq, Inc.	Consolidation	50,212.8	0.97	-8.2	0.8	0.92	-10.1
FIS	Fidelity National Information Services, Inc.	Retracement	33,557.6	0.42	-23.2	1.7	1.11	-9.6
MCO	Moody's Corporation	Retracement	85,527.2	1.26	-10.9	0.5	1.51	-8.7
FI	Fiserv, Inc.	Support	70,427.9	0.46	-30.8	0.0	0.83	-8.2

Robinhood paced the sector after inclusion in the S&P 500 index. IBKR was recently promoted as well.

Money center banks continued to be strong along with big investment banks while some insurance stocks also saw bids

To the downside, rating agencies and financial services stocks were the most common laggards on earnings risks with XYZ and NDAQ attempting to trace out volatile bullish reversals

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

Rates & the Fed:

The Fed cut 25 bp in September and dots implied **another ~50 bp of easing this year**, but subsequent Fedspeak was split (e.g., Miran open to larger cuts; Goolsbee wary of front-loading). Markets trimmed the path to **~2 cuts** into year-end as data stayed firm (claims fell to **218k**; **Q2 GDP revised up to 3.8% SAAR**; **core PCE +0.2% m/m, +2.9% y/y**). For banks, a slower descent in short rates/lingering curve volatility kept **NIM normalization gradual**, while easing bias supported **AOCI** and funding costs over time.

Tariffs & Trade: A late-month tariff volley (heavy trucks 25%; selected housing inputs up to 50%; **talk of 100% on branded drugs** with manufacturing carve-outs; fresh **Section 232 probes** on medical gear/robotics; reports the White House weighed a **1:1 U.S. chip production "mandate"**) raised medium-term inflation/growth uncertainty. For financials this translates into **credit mix risk** (autos/housing suppliers), **vol-sensitive trading** upside, and potential **capital/spread impacts** if policy tightens supply chains.

Shutdown Risk & Data Cadence: A possible federal shutdown threatened **data delays** (NFP, CPI/PCE release timing), a nuisance for trading desks and risk models, but investors largely faded macro damage.

Labor & Immigration: The proposed **$100k H-1B fee for new applicants** injected hiring uncertainty for **banks, brokers, and fintechs** that rely on technical talent, potentially nudging wage inflation down the road and shifting on-/off-shore mix.

What Drove P&L Lines in September

NII / Deposits: The front-end eased but not aggressively; funding betas continued to **stabilize**, with deposit migration slowing. A somewhat **flatter curve mid-month** capped asset-yield uplift, but falling mortgage rates (30Y near the **lowest since Sep-24**) aided refi pipelines/MSR marks.

Fees & Capital Markets: Primary markets re-opened decisively: **U.S. IG issuance >$190B** for September (helped by an **$18B Oracle deal**); **HY supply the strongest September on record**; and the **IPO calendar headed for its busiest month since Nov-21**. That mix supported **IB fees, DCM, ECM, and trading**.

Insurance: Rate stability and improving risk appetite aided **life and multi-line** marks; catastrophe backdrop was manageable; **select M&A** (e.g., specialty re/insurance) and upgrades dotted the tape.

Credit, Provisioning & Underwriting

Household Credit: Mixed signals. **Student-loan delinquencies hit a record** in third-party surveys; auto credit showed strain (e.g., **CarMax** flagged share loss, higher provisions). Conversely, jobless claims receded and real incomes rose (**personal income +0.6% m/m**), tempering loss emergence. Expect **stable-to-slightly higher card/auto provisioning** and tighter score cutoffs in subprime.

Commercial: Private credit stress (BofA flagged rising defaults/deferrals) and tariff chatter argue for **selective tightening** in cyclical C&I, housing-adjacent names, and tariff-exposed importers. CRE remained bifurcated (industrial/resi steady; office rationalization ongoing).

Liquidity & Capital: Funding windows were wide open; bank TLAC/holdco supply well-absorbed; **AOCI sensitivity** improved as duration risk moderated. Buybacks slowed seasonally ahead of earnings.

Risks & Watch-Items for October

Tariffs: Scope/timing/counter-measures (autos, housing inputs, devices) with **pass-through to CPI** and **credit**; watch importers' revolvers and inventory financing.

Credit Turn: Low-end consumer and **auto** delinquency drift; private-credit workouts; office CRE repricing cadence.

Policy & Data: Shutdown odds and potential **data blackout**; any **Stars/health policy** knock-ons for managed-care-linked lenders/fintechs; **SEC/market-structure** headlines.

Capital Markets Durability: Can **IG/HY/IPO** momentum persist into Q4? A sustained window lifts **ECM/DCM fees** and trading VaR budgets but raises **underwriting risk** if volatility returns.

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.