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# Monthly Insights: December Outlook

## Financial Sector

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## Sector Price Action & Performance Review: Financial Sector



The Financial Sector saw performance firm in November as rotation away from the mega cap. growth leadership lifted a larger cohort of stocks while the S&P 500 consolidated. Financials outperformed for the first time since August and only for the second month of the past 6.

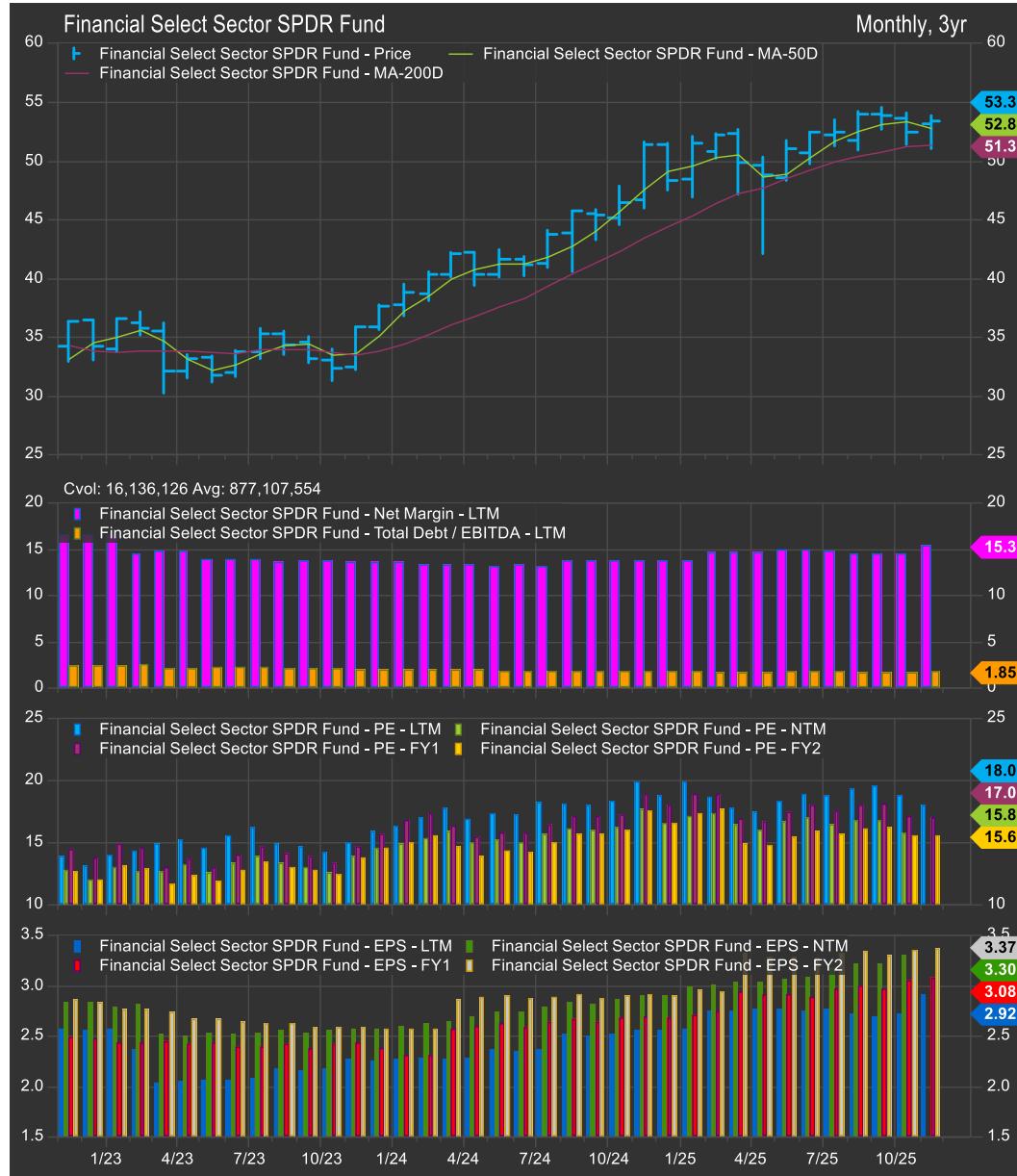
From a technical perspective the sector hit deeply oversold levels on price and stock level breadth also appears to be bottoming out. With the recent shift in sentiment to a more risk off tone, the Insurance and Financial Services industries have seen inflows while Capital Markets stocks have remained in a laggard position over the intermediate-term.

From a fundamental perspective, specialty lenders are seeing increased consumer credit delinquency while falling rates are a potential threat to net interest margins and sluggish home loan issuance has been a drag.

Positive sentiment to end the month was driven by expectations of Fed easing, but at previous points in the cycle dovish guidance from the Fed has caused interest rates to move higher over following months and we are skeptical that dovish interest rate policy can aid the consumer as intended.

**We start December out of the Financial Sector with a UNDERWEIGHT allocation of -13.23% 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 contracted in the near-term (panel 3) as higher multiple parts of the sector continue to see selling.

Valuation remains at a discount to the S&P 500 with Financials among the cheapest sector in the S&P 500 index

# Industry/Sub-Industry Performance and Breadth: Financial Sector



**Financial Industries** (chart, left): Some positive inflection Insurance and Financial Services industries as investors gravitated towards more conservative exposures in November.

Capital Markets stocks continued to retrace gains from earlier in the cycle with alternative asset managers and data providers remaining under pressure

**Internals** (chart, right): Internal gauges for the Financial Sector hit wash out levels in October and we think there is potential for a bounce as investors have been pricing in bad news for the past 6-months.

# 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
JKHY	Jack Henry & Associates, Inc.	Consolidation	12,587.8	1.05	0.3	0.9	0.64	12.1
ALL	Allstate Corporation	Consolidation	55,965.9	0.35	1.1	1.2	0.12	11.5
HIG	Hartford Insurance Group, Inc.	Bullish Reversal	38,283.8	0.42	0.3	1.0	0.55	10.7
ACGL	Arch Capital Group Ltd.	Consolidation	34,231.9	0.41	-1.3	0.6	0.03	10.6
TRV	Travelers Companies, Inc.	Bullish Reversal	65,696.6	0.45	2.9	1.0	0.47	9.7
CBOE	Cboe Global Markets Inc	Bullish Reversal	27,010.8	0.96	3.7	0.7	0.10	9.1
L	Loews Corporation	Bullish Reversal	22,373.0		7.4		0.42	9.0
AIZ	Assurant, Inc.	Consolidation	11,444.5	0.45	2.7	0.9	0.70	8.5
PRU	Prudential Financial, Inc.	Consolidation	37,789.5	0.29	-2.4	3.3	0.94	7.8
CINF	Cincinnati Financial Corporation	Consolidation	26,286.0	0.81	4.2	1.4	0.76	7.7

Insurance names led the sector in November as sentiment took on a “risk-off” tone.

On the negative side of the ledger crypto exposures, payment stocks and reinsurance were notable laggards

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
RSV	Fiserv, Inc.	Downtrend	32,701.4	0.29	-61.6	0.0	0.69	-51.2
COIN	Coinbase Global, Inc. Class A	Support	60,456.2	1.59	-20.9	0.0	4.73	-25.9
XYZ	Block, Inc. Class A	Retracement	35,614.8	0.83	-19.4	0.0	3.27	-18.1
GPN	Global Payments Inc.	Downtrend	17,748.7	0.22	-17.0	1.0	0.86	-12.8
HOOD	Robinhood Markets, Inc. Class A	Uptrend	100,810.8	2.13	21.9	0.0	3.55	-11.3
PYPL	PayPal Holdings, Inc.	Retracement	57,851.4	0.43	-17.3	0.1	1.37	-11.0
AJG	Arthur J. Gallagher & Co.	Retracement	63,819.9	0.76	-22.7	0.7	0.56	-10.1
ERIE	Erie Indemnity Company Class A	Downtrend	13,590.7	0.85	-20.0	1.2	0.53	-10.0
EG	Everest Group, Ltd.	Downtrend	13,098.4	0.23	-13.8	1.7	0.13	-7.9
BRO	Brown & Brown, Inc.	Retracement	27,467.3	0.70	-21.7	0.5	0.63	-7.3

## Metrics:

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

### Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueuation

### 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

The macro backdrop for large-cap Financials grew more challenging through November despite rising expectations for a December Fed cut.

## Cooling Labor Market and Weakening Consumer Health

A number of data releases suggested slower economic momentum:

**Continuing jobless claims** climbed to **1.96M**, the highest since 2021.

**Consumer confidence** fell to **88.7**, the weakest final print since mid-2022.

The government confirmed **October payrolls would not be published**, adding more uncertainty to an already cloudy labor picture.

## Funding Costs and Market Stress

Several policy and market themes added pressure:

The Fed's **repo rate remained elevated**, and reporting noted strain in short-term funding markets.

Big Tech borrowing surged, adding uncertainty to bond markets and pushing **funding costs higher** (Reuters).

CDS costs widened for major corporates, including **Oracle**, raising investor concerns about broader credit conditions.

These dynamics create risk for Financials that rely on short-term funding or have meaningful exposure to corporate credit cycles.

## Uncertain Regulatory Outlook

Senators pushed for renewed **FTC and SEC scrutiny of Meta** (Reuters).

Treasury Secretary Bessent hinted that the **next Fed chair appointment**—expected before Christmas—would prioritize simplicity and tighter supervisory clarity.

Large-cap banks favor regulatory stability, so continued uncertainty acts as a modest headwind.

## Sector Fundamentals: Sub-Industry Divergence Worsened in November

Performance within Financials remained split between **short-term winners** and **structural laggards**.

## Strength in Select Names, but Not Broadly

A few names supported the sector on better results or upgrade catalysts:

**Credit card and payments** names performed well during risk-on periods.

11/28/2025

**Regional banks** saw episodic relief rallies (e.g., FIBK inclusion in the S&P SmallCap 600).

**Insurance** saw strength on stable claims and strong underwriting dynamics.

## Persistent Pressure on Capital Markets and Trading

Capital markets activity was weaker:

JPMorgan's desk called the recent dip a "buying opportunity," but trading volatility surged, and equity issuance timelines slipped.

Hedge flows into the derivatives complex accelerated as Fed uncertainty rose (Reuters), creating unstable revenue visibility for investment banks.

## Mixed Earnings and Forward Guidance

Management tone across earnings skewed cautious:

Several Financials cut guidance or cited **slower loan growth, margin compression, or higher deposit competition**.

Specialty lenders stressed growing consumer delinquencies and softening discretionary spending.

Big banks warned that **AI infrastructure capex and private-credit expansion** may dilute return profiles into 2026.

## December Outlook: A Defensive Posture Is Warranted

While the broader equity market is leaning toward a year-end rally on the back of **80%+ odds of a December rate cut**, the setup for Financials is **distinctly more cautious**.

## Why the Sector May Lag in December

**Rate cuts hurt NIM** faster than they boost loan demand.

**Consumer and labor market softening** point to higher charge-offs ahead.

**Funding markets remain strained**, with repo rates elevated heading into year-end.

**Regulatory and Fed leadership uncertainty** may pressure valuation multiples.

**Capital markets visibility remains weak**, with volatility, AI-driven factor rotation, and geopolitical risk limiting issuance.

# 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.