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Monthly Insights: January Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial Sector was perceived as a primary beneficiary of the Fed's dovish move in December. The Sector outperformed, hitting highs for the year while registering near-term overbought conditions.

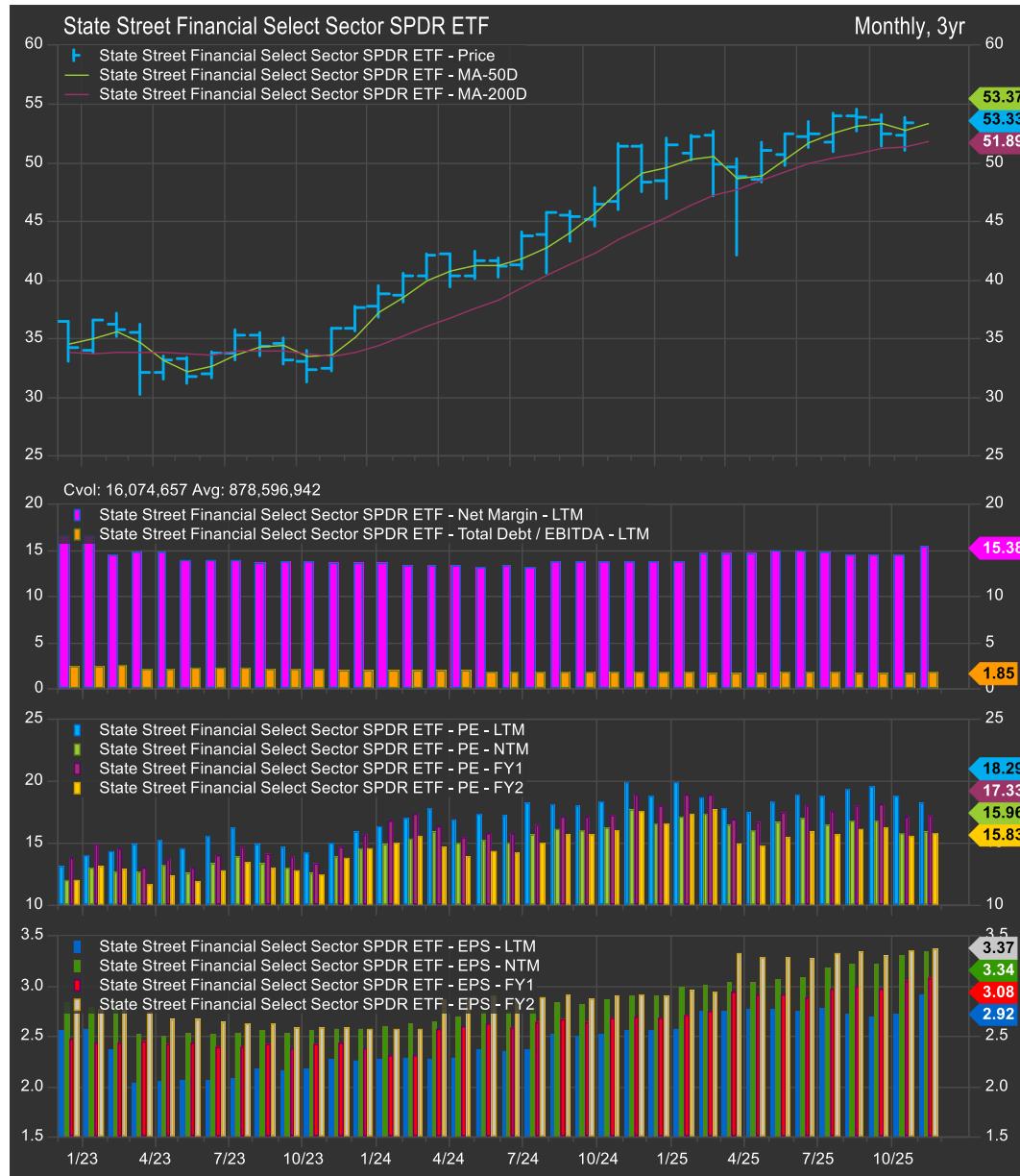
From a technical perspective the month's price action established a potential bullish reversal. Oscillators hit clear overbought signals which is a constructive technical development against the context of longer-term underperformance.

From a fundamental perspective, the Fed's support is likely to boost credit issuance and spur loan growth. This dynamic was boosted by December's cooler inflation print. With CPI coming in on a 2-handle, a potential stumbling block was temporarily removed, freeing the Fed to continue its goal of supporting the Main Street economy.

If the Mega Cap. Growth trade re-ignites, that could be a challenge for Financial Sector performance, but if investors remain focused on growing cash flows and improving execution the Financial sector would like to do well in a continued rotation towards Value and cyclicality.

We start January with an OVERWEIGHT allocation of + 1.69% to the Financial Sector 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 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 sectors in the S&P 500 index and showing far stronger technicals than those like Energy with similar valuation profiles

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): December saw broad improvement at the industry level as banks and capital market stocks traded into clear bullish reversals in the near-term.

Internals (chart, right): Internals reflected the broad relief dynamic represented by the Fed's dovish move as the % of stocks above their 50-day moving average surged from <20% in mid November to >80% a month later

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 |
|--------|------------------------------------|------------------|-----------|---------------------------------|----------------|-------------------------------|------------------------|-------------------------------|
| KEY | KeyCorp | Bullish Reversal | 22,771.5 | 0.47 | 10.9 | 2.6 | 1.49 | 14.4 |
| AIG | American International Group, Inc. | Bullish Reversal | 46,662.5 | 0.44 | 5.9 | 1.3 | 0.21 | 13.2 |
| C | Citigroup Inc. | Uptrend | 211,366.0 | 0.47 | 15.4 | 1.3 | 1.43 | 13.1 |
| COF | Capital One Financial Corp | Bullish Reversal | 156,231.5 | 0.47 | 7.5 | 0.7 | 1.47 | 11.2 |
| APO | Apollo Global Management Inc | Bullish Reversal | 85,478.8 | 0.64 | 2.9 | 0.9 | 1.24 | 10.8 |
| PNC | PNC Financial Services Group, Inc. | Consolidation | 83,125.8 | 0.48 | 4.8 | 2.1 | 1.33 | 10.2 |
| USB | U.S. Bancorp | Consolidation | 84,716.7 | 0.44 | 9.1 | 2.5 | 1.51 | 10.2 |
| STT | State Street Corporation | Bullish Reversal | 36,782.7 | 0.47 | 10.2 | 1.6 | 1.11 | 9.7 |
| WFC | Wells Fargo & Company | Uptrend | 296,706.3 | 0.54 | 8.4 | 1.2 | 1.25 | 9.2 |
| FTB | Fifth Third Bancorp | Bullish Reversal | 31,611.2 | 0.55 | 4.8 | 2.1 | 1.48 | 9.1 |

Financial sector stocks were primary beneficiaries of Fed policy in December with money-center, commercial and custody banks benefitting from pro-cyclical rotation.

Insurance stocks saw muted reaction while crypto adjacent stocks and momentum winners were also laggards in December

| 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 | Retracement | 53,340.8 | 1.37 | -30.9 | 0.0 | 5.26 | -15.2 |
| HOOD | Robinhood Markets, Inc. Class A | Uptrend | 92,341.8 | 1.86 | -6.1 | 0.0 | 3.93 | -9.5 |
| WRB | W. R. Berkley Corporation | Consolidation | 26,901.7 | 0.61 | -9.8 | 1.4 | 0.37 | -8.4 |
| PYPL | PayPal Holdings, Inc. | Retracement | 55,661.9 | 0.41 | -17.3 | 0.1 | 1.49 | -6.0 |
| ERIE | Erie Indemnity Company Class A | Downtrend | 13,276.1 | 0.82 | -12.5 | 1.3 | 0.46 | -3.7 |
| BRK.B | Berkshire Hathaway Inc. Class B | Consolidation | 1,081,155.0 | 0.93 | -4.7 | 0.0 | 0.35 | -3.4 |
| ALL | Allstate Corporation | Consolidation | 54,602.5 | 0.35 | -4.1 | 1.3 | 0.06 | -2.5 |
| L | Loews Corporation | Bullish Reversal | 21,955.5 | | 1.6 | | 0.41 | -2.4 |
| XYZ | Block, Inc. Class A | Downtrend | 36,102.2 | 0.82 | -11.7 | 0.0 | 3.31 | -2.3 |
| CINF | Cincinnati Financial Corporation | Consolidation | 25,741.5 | 0.78 | 0.7 | 1.4 | 0.71 | -2.0 |

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

In 2025, **large-cap Financials delivered solid but uneven performance**, broadly tracking the S&P 500 during risk-on phases while **lagging high-growth Technology leadership**. Returns were driven primarily by **rates volatility, capital markets activity, and regulatory expectations**, rather than credit stress or balance-sheet concerns.

Money-Center Banks: Resilient Earnings, Valuation-Capped Upside

JPMorgan Chase remained the sector bellwether, benefiting from scale, trading strength, and diversified fee income. However, valuation increasingly reflected its “quality premium,” limiting upside in risk-on tape.

Bank of America and **Citigroup** were more rate-sensitive, with performance swinging alongside Treasury yield expectations and net interest income (NII outlooks).

Overall, **credit quality remained benign**, and December data showed little evidence of consumer or corporate stress. Still, investor enthusiasm was capped by expectations that **peak NII is behind the group** as deposit repricing normalizes.

Capital Markets: Volatility, M&A, and Trading Drove Alpha

Goldman Sachs and **Morgan Stanley** benefited from **bursts of M&A, equity issuance, and trading revenue**, themes that repeatedly surfaced in December headlines tied to AI-driven consolidation and private equity activity.

Investor sentiment improved as **global M&A accelerated late in the year**, offsetting weaker advisory comparisons earlier in 2025.

Payments and Consumer Finance: Structural Winners Among Large Caps

Visa and **Mastercard** benefited from **steady consumer spending, pricing power, and cross-border volume recovery**, with December retail data reinforcing resilience despite higher rates.

American Express also held up well, supported by higher-income consumer exposure and strong travel-related spending.

Asset Managers and Insurers: Flows and Yields Mattered

Asset managers benefited from **rising equity markets and strong inflows late in 2025**, though fee pressure and passive competition continued to cap multiple expansion.

Insurers lagged during periods of falling yields, as **investment income expectations softened**, even as underwriting trends remained broadly stable.

Macro and Rates: The Dominant Driver in 2025

For large-cap Financials, **interest-rate expectations were the single most important variable**:

December data pushed market pricing toward **fewer rate cuts through 2026**, which supported banks’ near-term earnings but limited valuation upside.

Curve dynamics mattered more than absolute rate levels: **steepening episodes favored banks**, while flattening hurt relative performance.

Importantly, **credit concerns never became a dominant theme**, allowing investors to treat Financials as a macro/rates trade rather than a balance-sheet risk story.

Policy and Regulatory Backdrop

Regulation was a **persistent but manageable overhang** in 2025:

Ongoing debate around **capital requirements, stress-test calibration, and bank oversight** contributed to valuation discounts for money-center banks.

Late-year headlines suggested potential for **more pragmatic regulatory interpretation** in 2026, which helped Financials outperform during rotation phases.

2026 Outlook — Large-Cap Financials

Tailwinds

Stabilizing rates and a modestly steeper curve would support bank earnings visibility.

Sustained M&A, IPO activity, and private-market monetization could drive upside for capital markets leaders.

Payments and consumer finance should continue to benefit from **structural digitization and resilient spending**.

Headwinds

Peak NII dynamics and deposit competition may cap bank earnings growth.

Regulatory uncertainty remains a valuation constraint for money-center banks.

Financials may lag again if equity leadership remains narrowly concentrated in Technology and AI.

Investment Implications

Favor diversified large-cap franchises with multiple earnings levers over pure rate plays.

Overweight capital markets and payments as structural and cyclical beneficiaries.

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.