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Monthly Insights: February Outlook

Financial Sector

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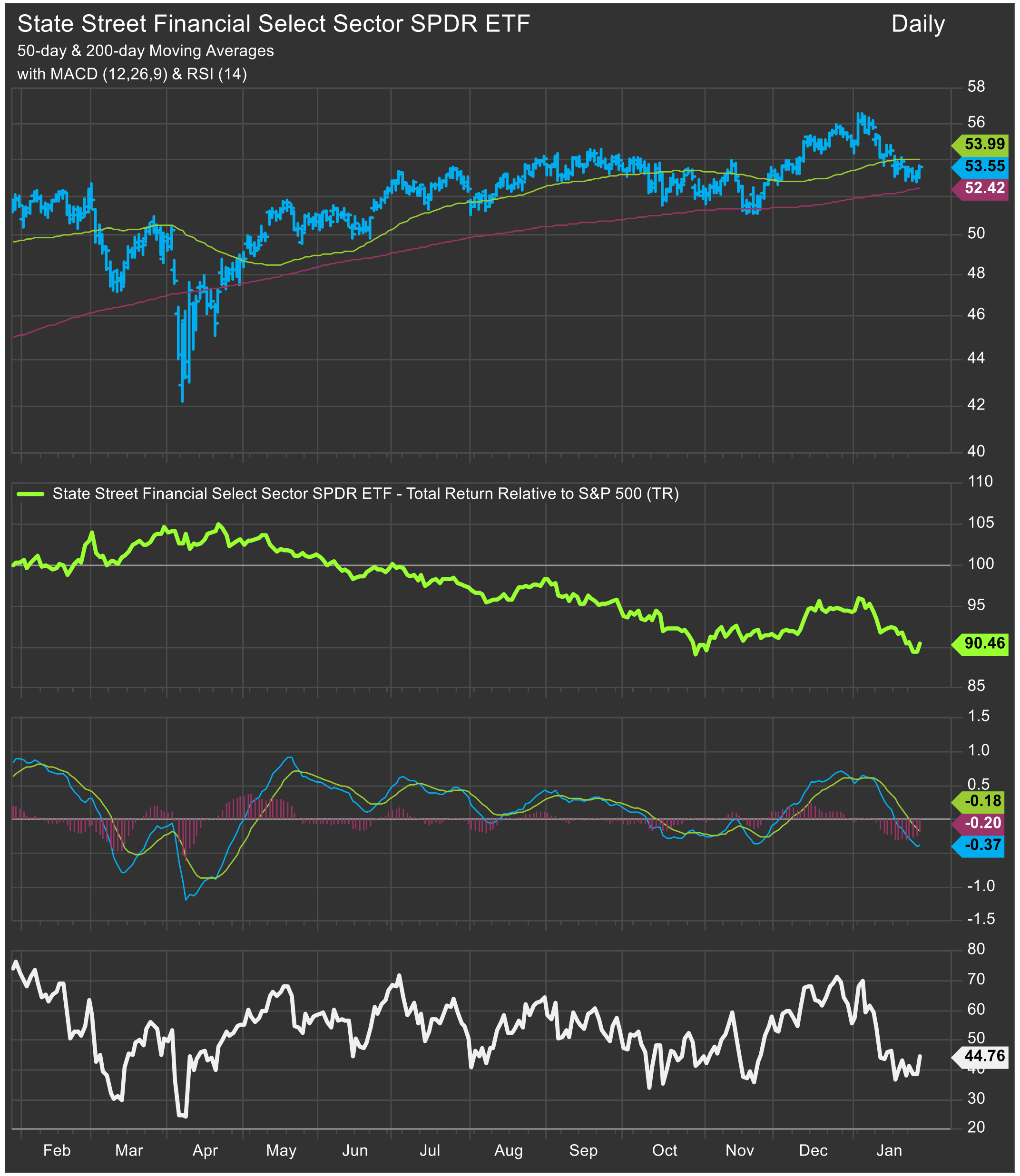
Sector Price Action & Performance Review: Financial Sector



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. That near-term trade was completely unwound in January as investors sold the sector and rotated towards Energy and Materials stocks.

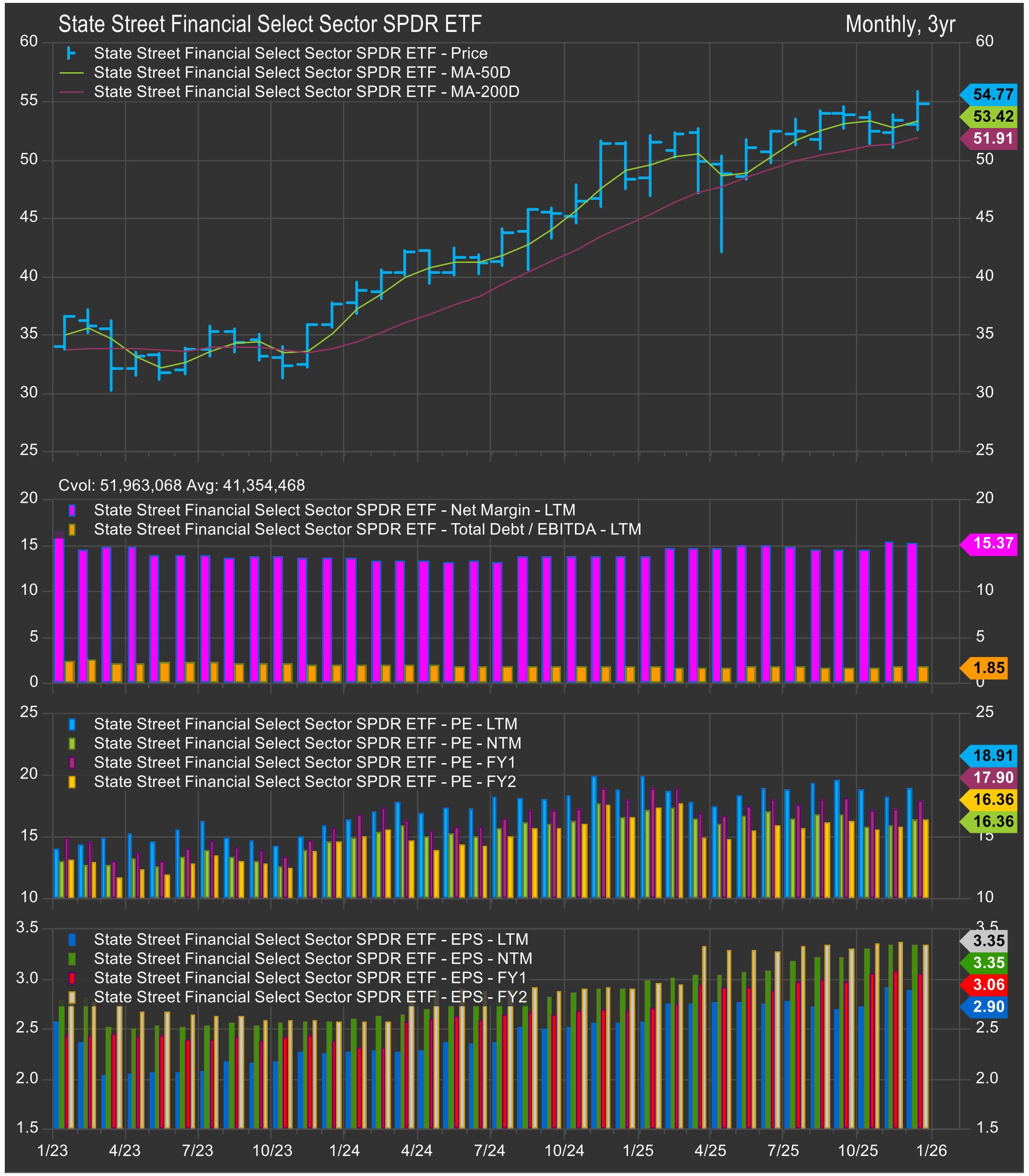
From a technical perspective the month's price action took the XLF back down to oversold levels where we expect it to be accumulated given the steepening of the 10yr-2yr spread, and an economy that's still growing and near full employment.

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. However, a bullish impulse is now lifting commodities prices to cycle highs and there is potential the Fed. may feel pressure to remain on the sidelines while these circumstances are in play.

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 likely do well, particularly as it enters February in an oversold position despite a continued rotation towards Value and cyclicality.

We start January with an OVERWEIGHT allocation of +1.76% to the Financial Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Financial Sector

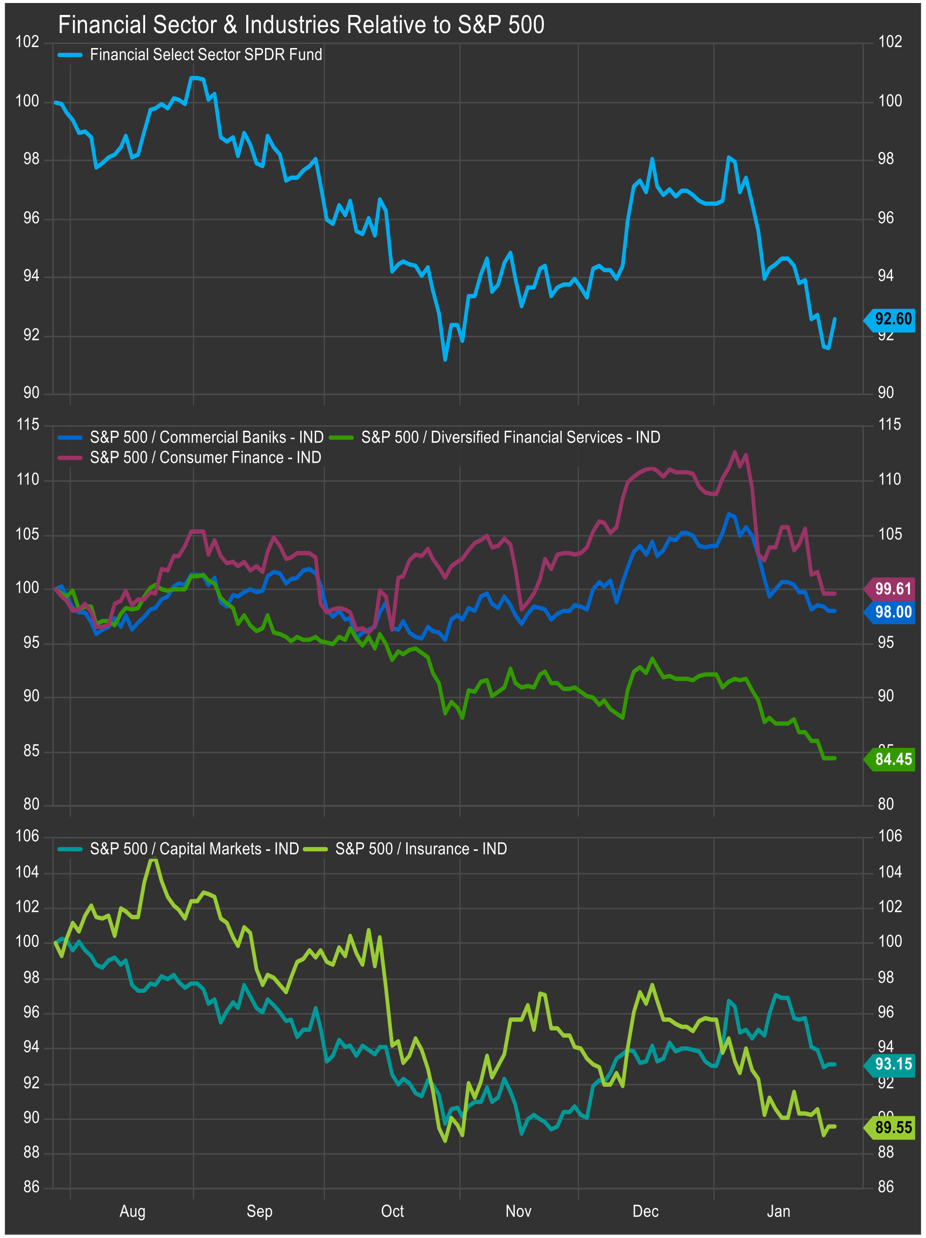


The chart (left) shows S&P 500 Financial Sector Margins, Debt/EBITDA, Valuation and Earnings

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): January was a mirror opposite of December where every industry in the sector retraced the previous month's gains and Diversified Financials moved to new 6-month relative lows.

Internals (chart, right): Internals have swung wildly as the sector has been whip-sawed by first Fed. easing expectations and then a whole bunch of Geopolitical developments in early 2026.

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
IBKR	Interactive Brokers Group, Inc. Class A	Uptrend	33,602.7	1.22	9.4	0.3	1.54	13.3
BEN	Franklin Resources, Inc.	Bullish Reversal	13,378.9	0.40	6.4	3.4	1.81	6.8
NTRS	Northern Trust Corporation	Bullish Reversal	28,414.9	0.60	12.0	1.4	1.62	6.4
ICE	Intercontinental Exchange, Inc.	Consolidation	98,321.6	0.91	2.6	0.7	0.81	4.7
PFG	Principal Financial Group, Inc.	Bullish Reversal	20,662.2	0.40	10.1	2.2	1.26	4.4
CFG	Citizens Financial Group, Inc.	Bullish Reversal	27,023.3	0.49	16.4	2.0	1.68	4.4
MSCI	MSCI Inc. Class A	Consolidation	46,201.0	1.25	2.9	0.9	1.17	4.3
MTB	M&T Bank Corporation	Bullish Reversal	33,334.0	0.46	11.3	1.9	1.10	3.9
PNC	PNC Financial Services Group, Inc.	Consolidation	86,342.1	0.48	12.5	2.1	1.34	3.5
FITB	Fifth Third Bancorp	Bullish Reversal	32,847.3	0.55	11.1	2.2	1.45	2.7

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
FIS	Fidelity National Information Services, Inc.	Downtrend	29,098.0	0.36	-21.1	1.9	1.04	-17.2
AIG	American International Group, Inc.	Consolidation	39,599.5	0.37	-11.7	1.6	0.18	-15.9
SYF	Synchrony Financial	Consolidation	26,443.8	0.32	-7.7	1.1	1.55	-15.4
HOOD	Robinhood Markets, Inc. Class A	Retracement	81,309.2	1.60	-22.0	0.0	4.08	-13.2
COF	Capital One Financial Corp	Consolidation	138,850.6	0.42	-6.6	1.0	1.40	-13.2
COIN	Coinbase Global, Inc. Class A	Retracement	47,787.0	1.33	-36.0	0.0	5.48	-12.4
ARES	Ares Management Corporation	Consolidation	32,484.5	0.90	-10.2	2.0	1.19	-12.0
BRO	Brown & Brown, Inc.	Retracement	24,616.4	0.64	-18.3	0.6	0.63	-11.5
APO	Apollo Global Management Inc	Consolidation	77,132.4	0.57	-4.5	1.0	1.18	-11.3
KKR	KKR & Co Inc	Retracement	104,083.3	0.69	-12.3	0.4	2.15	-11.2

Stock level return dispersion was clearly skewed to the downside this month. Insurers and alternative asset managers remained under pressure

COF had a bearish reversal after gaining strength through most of 2025

On the upside list, smaller regional banks flipped the script on their larger counter-parts and outperformed at their expense

IBKR remains a top stock in the sector while JPM and WFC have come under pressure.

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

Curve dynamics over "Fed direction." The sector's day-to-day beta has been tied less to "cuts vs no cuts" and more to **curve steepening vs flattening**. When the long end backs up and the curve steepens, banks catch a bid; when cuts get repriced in or the curve flattens, Financials lose momentum quickly.

Policy headline risk hitting consumer finance. The White House's affordability framing and renewed talk of **caps on credit card rates/fees** has been a direct overhang for parts of consumer finance (cards, some specialty lenders) and an indirect overhang for the broader sector via "regulatory temperature."

Macro resilience helping, but not evenly. "Run-it-hot" growth narratives and still-okay labor signals support loan growth and capital markets activity—but they also keep **inflation vigilance** alive, which keeps rates volatile and raises the bar for valuation expansion.

Dollar weakness / risk appetite. A softer dollar and risk-on tape tend to help brokers, exchanges, and asset managers through AUM and activity—but the same macro cocktail can coincide with rate volatility that hurts bank multiples.

How policy transmission actually hits XLF

Monetary policy (and curve shape)

Banks don't need cuts; they need **predictability**. The best tape for XLF is a **slow, orderly steepening** with stable credit.

Violent repricing in long-end yields creates multiple compression and raises hedging costs.

Affordability / consumer finance policy

Any credible movement toward **credit card APR/fee caps** is a *sector-specific shock* for card issuers and certain consumer lenders, and it bleeds into "risk premium" for the group.

Trade / geopolitics / shutdown risk

These mostly matter through **confidence and volatility**: they can freeze deal pipelines, hit market volumes, and tighten financial conditions quickly.

Capital rules / supervision tone

Even without formal new rules, a tougher supervision posture raises the discount rate for large banks through capital and ROE expectations.

What has been working — and what has not

Money-center banks

They're trading like **macro proxies**: when the curve cooperates and credit is calm, they stabilize; when policy headlines flare or the curve flattens, they become funding-cost / NII (net interest income) punching bags.

Regional banks

Regions have been the **cleanest "run-it-hot" expression** inside Financials when the market believes loan growth is re-accelerating and credit stays contained. They are also the first to get hit if the tape turns risk-off.

Investment banks / broker-dealers / exchanges

This is where you get the most leverage to **capital markets thaw + IPO/M&A optimism**. If risk appetite holds, these can outperform even when traditional banks are choppy.

Asset managers

Asset managers win on **AUM + flows**, but they're exposed to equity tape and rate volatility. In a steady risk-on environment, they can quietly compound; in a macro shock, they de-rate quickly.

Insurance (P&C and life)

P&C tends to be more defensive but can lag when the tape is chasing beta.

Life is highly sensitive to rate levels/vol and spread assumptions.

Payments / credit cards

This group is the most **policy-exposed** right now because affordability politics can target fees, APRs, and consumer pain points. Even strong fundamentals can get overshadowed.

Sector performance context

The Financials story in January hasn't been "XLF up or down"—it has been **violent dispersion**: some parts benefit from improving growth tone and market activity, while others are being discounted for **policy risk and margin pressure**. That's a clue for February: broad XLF beta is less attractive than **picking the right subsectors**.

Outlook into February

Base case: Financials are more likely to be a *market performer* than a market leader in February. The sector needs a cooperative curve and quieter policy headlines to outperform, and right now it's dealing with both **rate-path noise** and **Washington-driven consumer finance risk**.

That said, there's a very plausible upside path: if growth stays resilient, volatility stays contained, and deal/market activity improves, the **capital-markets complex** (IBs, brokers, exchanges) can carry the sector even if traditional banks are only "okay."

Bottom line

XLF can work in February, but it probably doesn't *lead* unless the curve steepens calmly and policy risk cools. The better trade setup is **within-sector selection**: lean toward capital-markets leverage and high-quality regionals, and stay defensive around policy-exposed consumer finance until the affordability narrative stops targeting it.

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.