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Monthly Insights: April Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial sector was one of the worst-performing areas of the S&P 500 in March, with XLF returning approximately -10% year-to-date through late March — making it the single worst-performing S&P 500 sector ETF of the eleven tracked, and a meaningful underperformer relative to the SPY's approximately 5–6% YTD decline. The gap between XLF and SPY widened materially through the month, reflecting sector-specific stress layered on top of the broad market drawdown rather than mere index-level participation.

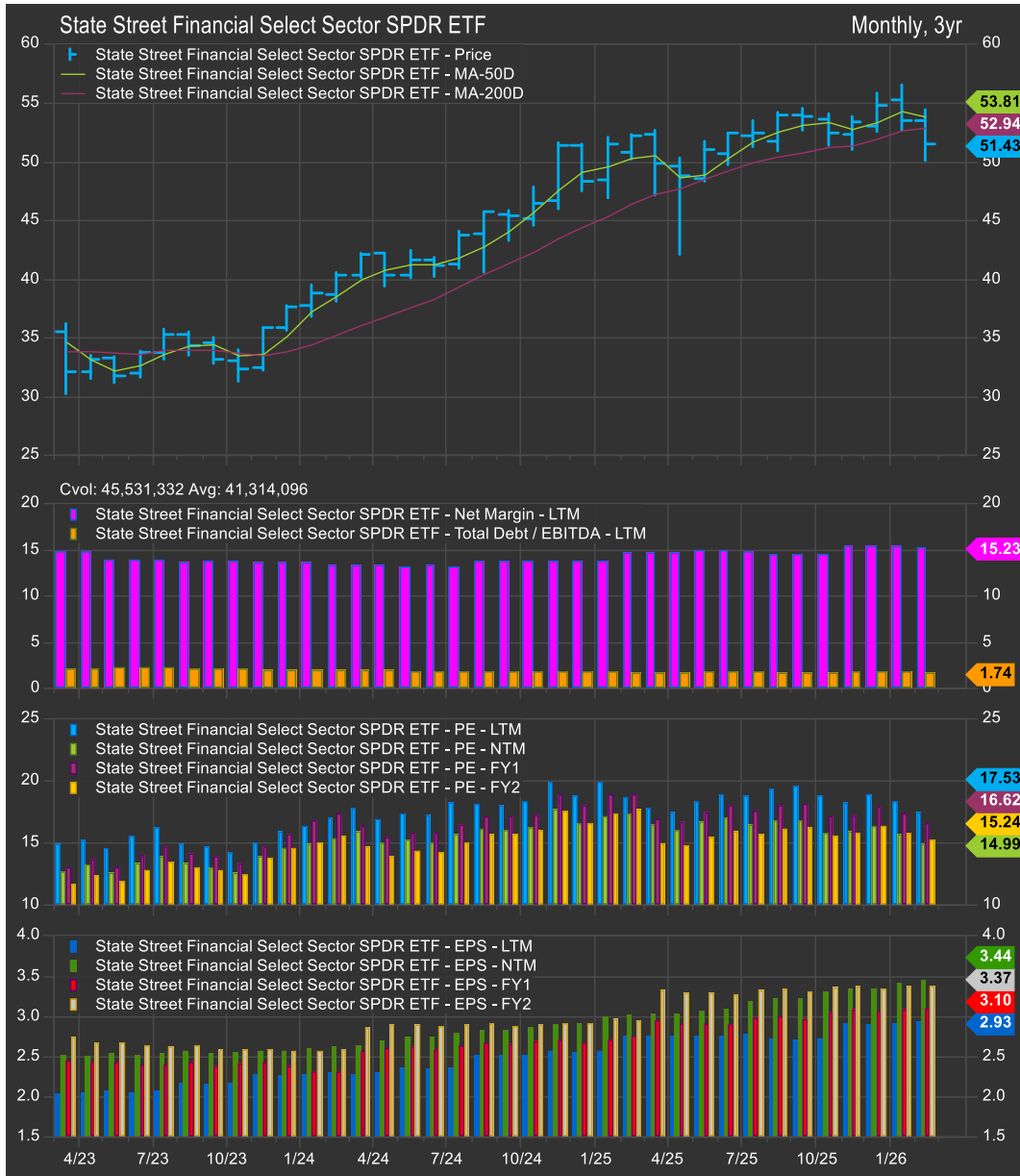
Three compounding forces drove the underperformance relative to SPY. Growth slowdown fears hit bank earnings models directly through loan loss provisioning, NIM compression risk, and capital markets revenue stalls — translating macro uncertainty into sector-specific earnings estimate cuts. Private credit market stress emerged as a significant and underappreciated risk, with growing concerns about leverage levels, valuation opacity, and contagion potential across asset managers and alternative investment platforms. Regulatory and AI disruption narratives weighed on credit card and payments names, as White House policy changes and the perceived threat of AI-driven financial services disruption introduced structural uncertainty alongside the cyclical pressure.

XLF's technical picture through March was among the most deteriorated of any major sector ETF, and notably worse than SPY's own chart structure. Having broken decisively below its 50-day moving average in mid-February, XLF spent the entirety of March below that level — a sustained failure that confirms distribution rather than consolidation. The ETF hit a 10-month low in the third week of March following a six-session losing streak — the longest consecutive decline in two years — before staging a modest stabilization into the final days of the month.

While there are some signs of the selling nearing an end, we see a vulnerable outlook, rising interest rates and continued uncertainty around the Middle East conflict to continue betting against the sector.

We start April out of the Financial Sector with an **underweight allocation of -12.47% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Financial Sector

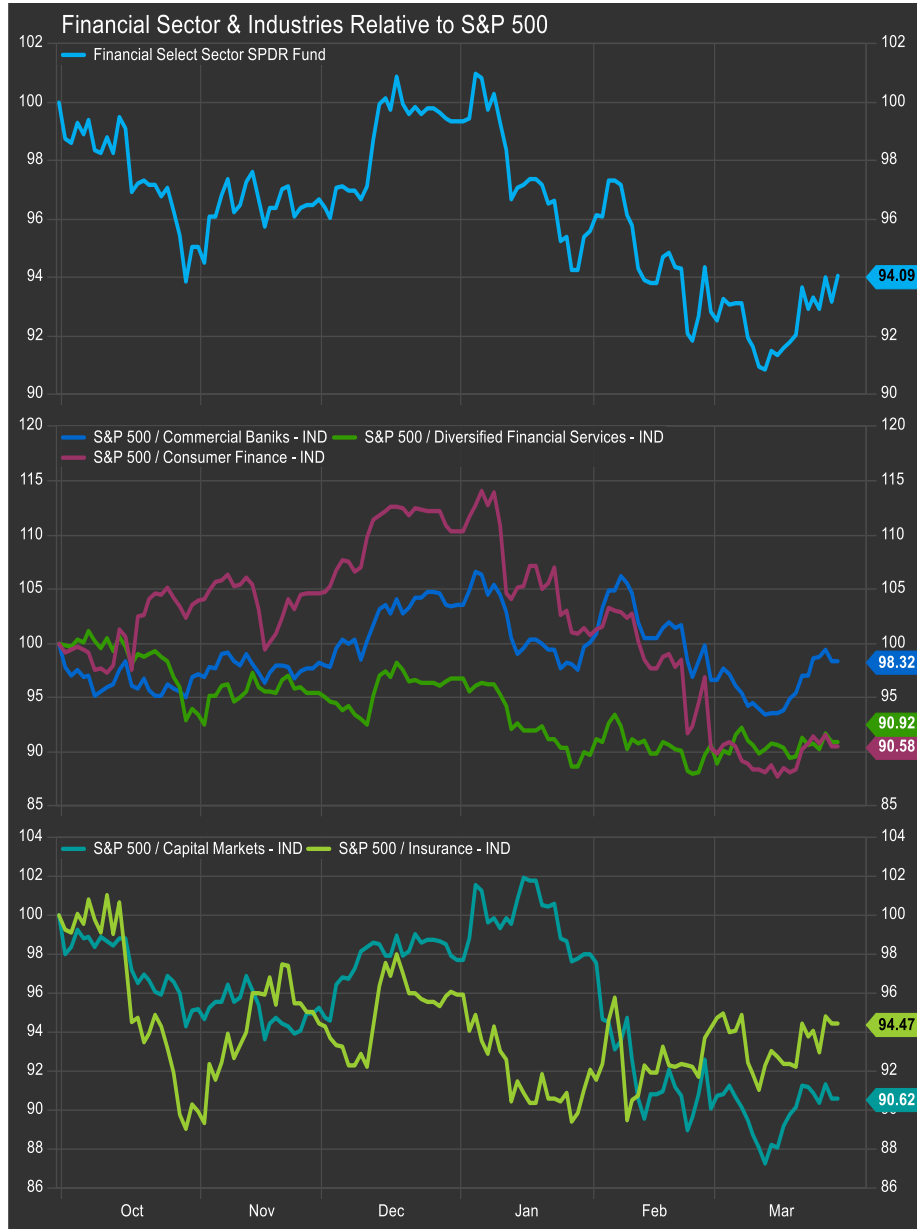


The chart (left) shows S&P 500 Financial Sector Margins, Debt/EBITDA, Valuation and Earnings

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 but consensus earnings upside isn't particularly robust.

Industry/Sub-Industry Performance and Breadth: Financial Sector



Financial Industries (chart, left): March saw a modest upside bounce vs. the S&P 500 for most industries within the sector. Consumer Finance was a bearish exception.

Internals (chart, right): Internals are approaching wash-out levels on both the short-term and long-term trend series. This is a potential recession indication in our opinion.

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
APO	Apollo Global Management Inc	Consolidation	62,693.6	0.58	-9.4	1.33	1.32	11.0
KKR	KKR & Co Inc	Support	78,902.3	0.67	-15.6	0.57	2.28	8.2
C	Citigroup Inc.	Bullish Reversal	187,841.9	0.51	2.7	1.51	1.37	4.8
SCHW	Charles Schwab Corp	Consolidation	161,834.1	0.77	0.7	0.84	1.23	4.3
BK	Bank of New York Mellon Corp	Uptrend	78,760.8	0.68	5.7	1.26	1.06	3.6
ARES	Ares Management Corporation	Support	23,477.5	0.81	-19.4	3.24	1.19	3.4
CFG	Citizens Financial Group, Inc.	Bullish Reversal	24,556.1	0.55	6.6	2.15	1.70	3.3
EG	Everest Group, Ltd.	Consolidation	12,841.2	0.29	1.0	1.72	0.08	2.7
BX	Blackstone Inc.	Retracement	80,207.5	0.83	-17.0	3.20	1.85	2.6
PNC	PNC Financial Services Group, Inc.	Bullish Reversal	81,638.2	0.55	3.8	2.24	1.39	2.6

Asset Managers rebounded in March after coming under pressure to begin 2026. With interest rates moving higher, we expect the reprieve for riskier credit to be a short one

Payment stocks and crypto plays remain weak. Banks have been uninteresting which is a good thing at this point in the cycle.

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
BEN	Franklin Resources, Inc.	Bullish Reversal	11,847.4	0.42	-0.3	3.72	1.68	-7.0
GPN	Global Payments Inc.	Downtrend	18,445.5	0.23	-10.7	1.12	0.87	-6.2
FSV	Fiserv, Inc.	Downtrend	28,824.5	0.33	-19.0	0.00	0.82	-6.2
HOOD	Robinhood Markets, Inc. Class A	Retracement	52,159.4	1.38	-29.4	0.00	4.29	-5.6
CPAY	Corpay, Inc.	Consolidation	19,389.6	0.54	-1.6	0.00	0.75	-5.0
XYZ	Block, Inc. Class A	Downtrend	30,179.0	0.74	-9.6	0.00	3.45	-4.8
BRO	Brown & Brown, Inc.	Retracement	21,592.8	0.70	-13.8	0.68	0.62	-4.4
IVZ	Invesco Ltd.	Bullish Reversal	10,293.2	0.43	-2.7	2.43	1.87	-4.3
BLK	BlackRock, Inc.	Consolidation	145,252.5	0.85	-7.6	1.65	1.42	-4.3
MCO	Moody's Corporation	Consolidation	75,324.1	1.26	-7.8	0.57	1.36	-3.5

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

Equity Market Stress — A Sector Leading the Downside XLF's underperformance relative to SPY is not merely symptomatic of broad market stress — it is amplifying it. The financial sector is the second-largest weight in the S&P 500 at approximately **12.5%**, and its correlation to SPY over the past three years has been an extraordinarily high **0.97**. When that correlation dips — as it has in 2026, falling to approximately **0.74** — it signals that sector-specific stress is overriding the index-level dynamic, and that financial weakness is a leading rather than coincident indicator of broader market deterioration. [morningstar.com](https://www.morningstar.com) The market's treatment of XLF as a bellwether means its recovery — or continued decline — will be closely read as a signal about the broader SPY trajectory heading into Q2.

Interest Rates — Necessary but Insufficient Support The Fed's hold at **3.50–3.75%** prevents the rate-driven NIM compression that a hiking cycle would impose but does not provide the yield curve steepening that genuinely benefits bank earnings. The most important rate variable for financial sector performance is not the Fed funds rate but the **2s/10s Treasury spread** — the slope of the yield curve that determines the spread between what banks borrow at (short end) and lend at (long end). A flat or compressed curve limits the structural profitability of the lending business regardless of where the absolute rate level sits. Any scenario where tariff-driven growth fears push the long end of the curve lower while the Fed holds the short end — a bull flattening — is net negative for bank NIM and earnings despite representing lower rates overall.

Private Credit Market Stress Private credit is the sector's most significant and least transparent risk in 2026. The rapid expansion of private credit markets over 2021–2024 — driven by institutional yield hunger and banks' withdrawal from certain leveraged lending markets post-Basel III — has created a pool of assets whose valuations are mark-to-model rather than mark-to-market. As growth slows and borrower stress increases, the quality of this loan book is coming under scrutiny. Asset managers with large private credit platforms — Apollo, KKR, Blackstone, Ares — have seen their stocks hammered as investors attempt to discount the risk of write-downs, reduced fee income from performance allocations, and potential redemption pressure from institutional investors. [morningstar.com](https://www.morningstar.com) The degree of bank exposure to private credit — through warehouse lending, subscription credit facilities, and co-investment arrangements — is uncertain and is actively being investigated by analysts and regulators,

creating an overhang that is difficult to price and therefore tends to be over-discounted in a risk-off environment.

Tariffs and the Credit Cycle Tariff escalation transmits into the financial sector through the credit cycle with a lag of two to four quarters — meaning the full impact of Q1 2026 tariff uncertainty on loan performance will likely not be visible in financial statements until late 2026 or early 2027. But markets price forward, and the repricing of credit cycle risk is happening now. Key transmission channels include:

Corporate lending: Tariff-exposed manufacturers and retailers face margin compression that increases probability of covenant violations and default on leveraged loans

Consumer credit: Tariff-driven price increases reduce disposable income and are beginning to show in delinquency trends on credit cards and auto loans

Small business: Import-dependent small businesses face the most acute near-term cash flow stress, with limited hedging capacity and thinner capital cushions than large corporates

Capital Markets Activity Stall Investment banking revenue — concentrated at Goldman Sachs, Morgan Stanley, and JPMorgan's CIB division — has been directly impaired by the Q1 volatility and uncertainty. IPO markets have effectively shut, M&A advisory pipelines have extended timelines as deal certainty becomes harder to establish and leveraged buyout activity has slowed as financing costs and valuation uncertainty compress sponsor returns. Trading revenue has partially offset this through volatility-driven volume, but the revenue mix shift from advisory toward trading represents a lower-quality, less recurring earnings stream that the market values at a lower multiple.

Economic & Policy Drivers: Financial Sector (Cont'd)

Sector-Specific Drivers

Large-Cap Banks — Resilient but Not Immune The money-center banks — JPMorgan, Bank of America, Wells Fargo, Citigroup — entered the year with fortress balance sheets, strong capital ratios well above regulatory minimums, and diversified revenue streams that provide earnings resilience unavailable to smaller competitors. JPMorgan's CET1 ratio, Bank of America's deposit franchise stability, and Wells Fargo's ongoing operational efficiency program all represent genuine fundamental cushions against moderate credit deterioration. These names are not immune to the current environment — earnings estimate cuts have been material — but the probability of existential balance sheet stress is negligible. In a stressed market, they represent the quality core of the sector.

Regional Banks — The Most Vulnerable Subsector Regional banks (KRE, KBE) have been the hardest-hit component of the financial sector in March, underperforming XLF which itself underperformed SPY. The combination of concentrated CRE exposure on balance sheets, limited fee income diversification, ongoing deposit competition from high-yielding money market funds, and geographic concentration in tariff-sensitive economies creates a fundamentally more precarious earnings profile. The echoes of the 2023 SVB stress period are not lost on institutional investors — while the current dynamic is driven by credit cycle fundamentals rather than a specific liquidity event, the result for bank equity valuations has been similarly severe. Any acceleration in CRE loan losses or deposit outflows would be a significant negative catalyst specific to this subsector.

Private Asset Managers Alternative asset managers with large private credit and private equity platforms have been among the most severely punished names within XLF in 2026. The business model — fee income from asset management plus performance allocations from realized gains — is highly sensitive to both asset valuations and deal activity, both of which are under pressure simultaneously. The opacity of private credit valuations introduces a mark-to-model risk that public market investors are increasingly unwilling to underwrite at prior multiples. Until private credit stress is better quantified and the deal activity cycle shows signs of recovery, these names are likely to remain under institutional pressure regardless of the broader market direction.

Insurance The insurance subsector is navigating a bifurcated environment. P&C carriers are benefiting from a hard pricing cycle that has restored underwriting margins after years of catastrophic loss events, and their earnings resilience in the current environment provides a defensive quality within an otherwise pressured sector. Life insurers and those with large equity investment portfolios face mark-to-market headwinds from the equity selloff. The insurance subsector as a whole is broadly more defensive than banks within XLF and is likely to show better relative performance if the equity market stress deepens.

Payments and Fintech Visa and Mastercard remain the highest-quality names within XLF on virtually every fundamental metric — asset-light business models, dominant network effects, high-margin recurring revenue, and minimal credit risk exposure. Their March underperformance was largely SPY-correlated rather than sector-specific, and their fundamental earnings power is essentially unaffected by the credit cycle concerns weighing on banks and asset managers. In a sector under broad pressure, V and MA represent the clearest quality refuge and are likely to outperform XLF in a recovery scenario while offering better downside protection in a continued stress scenario.

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.