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Monthly Insights: May Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector



The Financial Select Sector SPDR Fund (XLF) had a constructive April after a difficult first quarter. XLF closed March 31 at **\$49.37** and was trading near **\$51.74** late morning on April 29, leaving the fund up roughly **4.8% month-to-date on price**. The ETF recovered from early-April levels near \$49.50, broke above \$51 by April 8, and reached an intramonth high of **\$53.19 on April 21** before consolidating back toward the \$51–52 range.

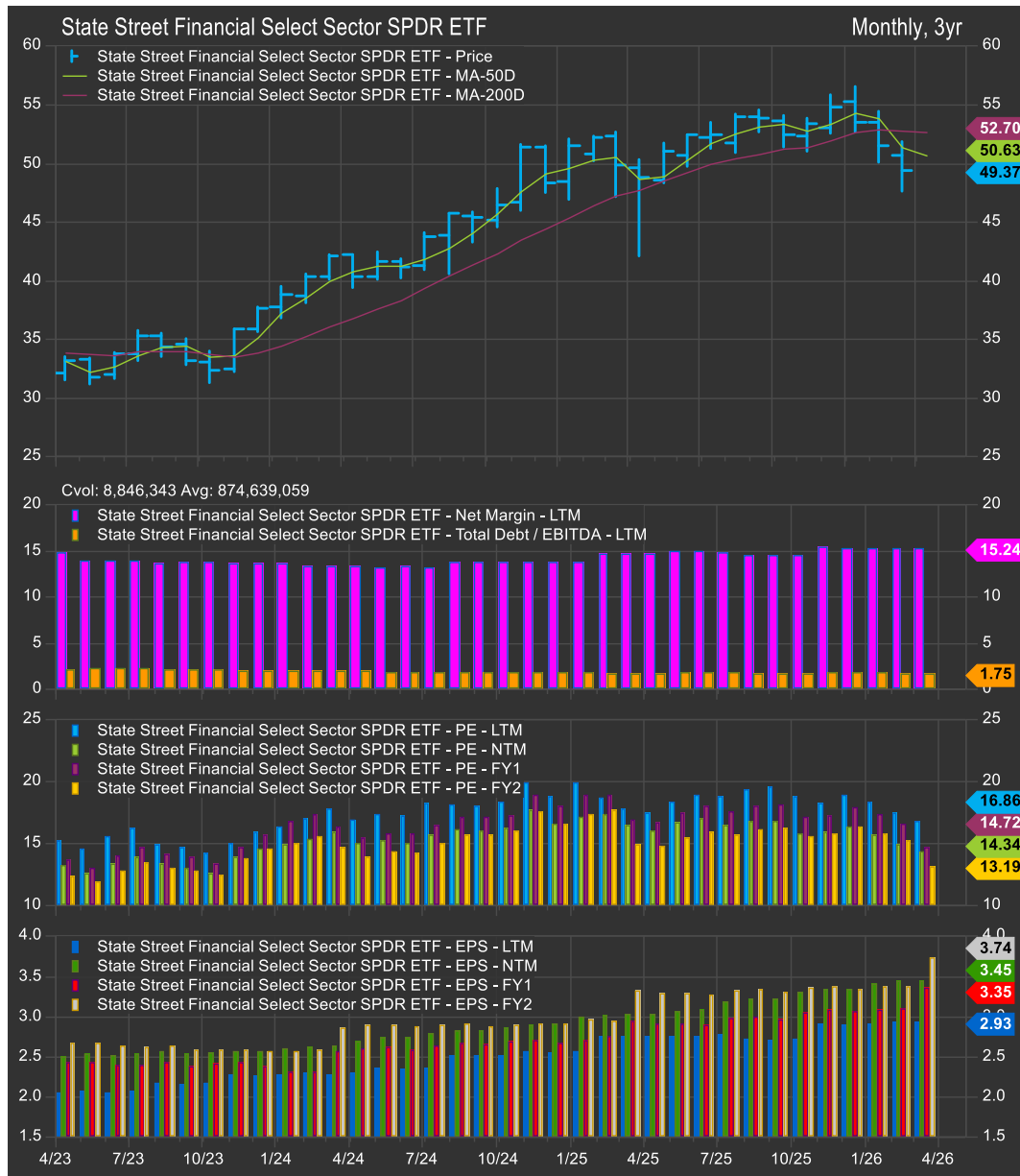
Technically, that leaves Financials in better shape than Healthcare, but not yet in a clean breakout. XLF repaired some of the March drawdown, but the April rally stalled near \$53, suggesting the sector still needs stronger breadth or a renewed earnings catalyst to reassert leadership. The key near-term support zone is around **\$51–51.50**, followed by the March 31 close near **\$49.37**. A sustained move back above **\$53** would improve the technical picture and suggest investors are willing to re-rate banks, capital markets, payments, and insurers into May.

The sector’s composition also matters. State Street data show XLF is heavily balanced across **Banks at 28.31%**, **Financial Services at 27.85%**, **Capital Markets at 26.19%**, **Insurance at 13.37%**, and **Consumer Finance at 4.27%**. The largest holdings are Berkshire Hathaway, JPMorgan Chase, Visa, Mastercard, Bank of America, Goldman Sachs, Wells Fargo, Morgan Stanley, Citigroup, and American Express. That mix gave XLF exposure to the April rebound in big-bank earnings, investment banking activity, payments resilience, and insurance underwriting strength. The issue for the sector was those earnings streams couldn’t keep pace with the big AI players.

Overall, the May setup is constructive, but the sector’s performance has been underwhelming. We have a preference for **Insurance, Capital Markets, payments networks, and the highest-quality diversified banks**. The main upside catalysts are continued earnings beats, improving deal activity, capital-rule relief, and stabilization in credit spreads. The main downside risks are a renewed rate shock, oil-driven inflation, weaker consumer credit, commercial real estate losses, or signs that private-credit stress is migrating back onto bank balance sheets.

We start May with an underweight allocation of -2.15% to the Financial Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Financial Sector



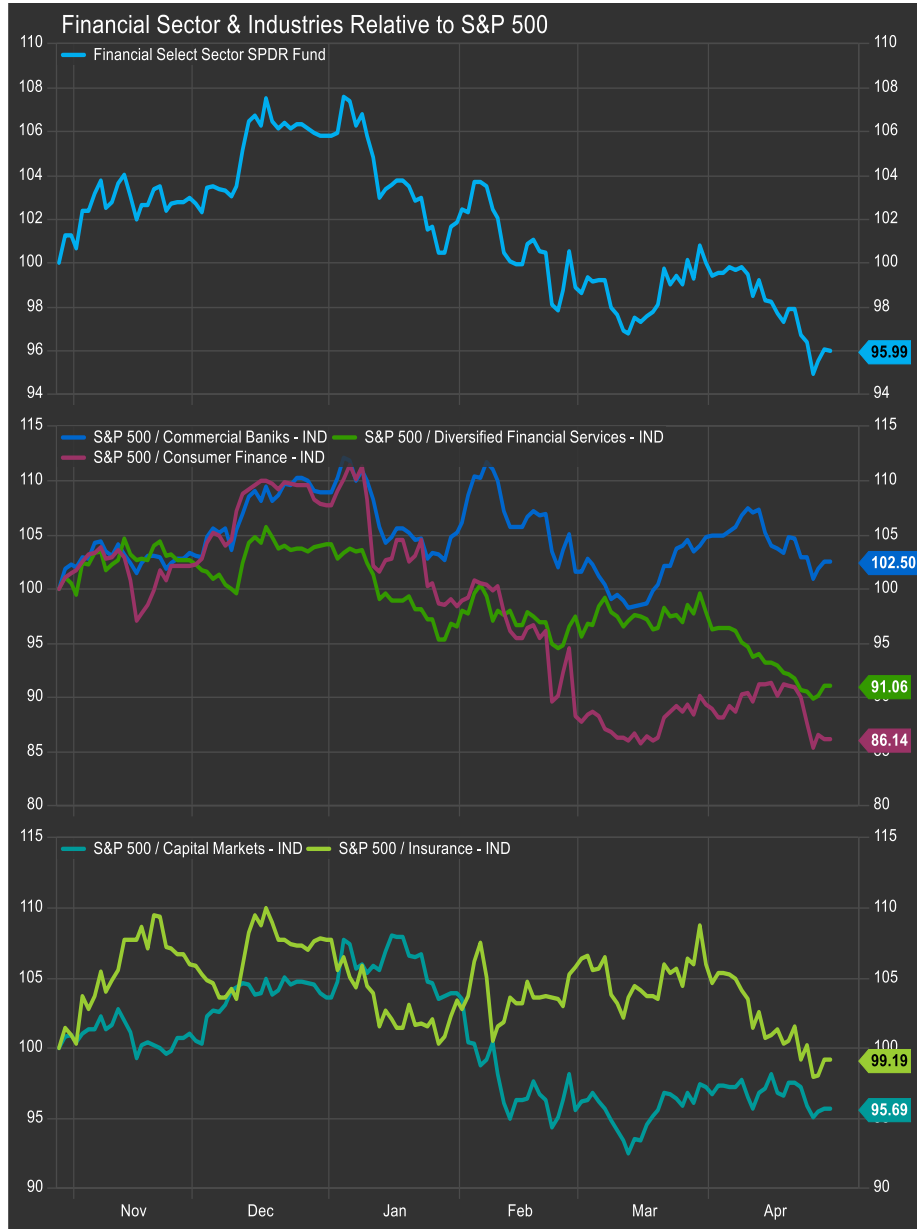
Financials were one of the strongest sectors in the April earnings cycle. FactSet’s April 24 Earnings Insight showed Financials reporting the **third-highest year-over-year earnings growth rate** among the eleven S&P 500 sectors at **19.8%**, up from 14.9% at the end of March. Revenue growth also improved to **10.8%**, up from 10.0% at quarter-end. FactSet attributed the upward earnings revision to positive surprises from JPMorgan Chase, Citigroup, Bank of America, and Morgan Stanley.

Importantly, all five Financials industries were reporting year-over-year earnings growth. Insurance led at **34%**, followed by Consumer Finance at **33%**, Capital Markets at **21%**, Banks at **16%**, and Financial Services at **9%**. That breadth is notable because the sector was not relying on one narrow driver. Banks benefited from resilient net interest income, capital markets firms benefited from stronger advisory and trading activity, insurers benefited from underwriting and investment income, and payments companies continued to show durable consumer and cross-border transaction growth.

The large-bank earnings reports reinforced that message. JPMorgan’s Commercial & Investment Bank produced net revenue of **\$23.4 billion**, up 19%, with investment banking revenue up 38%, investment banking fees up 28%, and markets revenue up 20%. Bank of America reported **\$30.3 billion** of revenue, **\$8.6 billion** of net income, earnings per share of **\$1.11**, and a **16.0% return on tangible common equity**. Goldman Sachs reported **\$17.23 billion** of net revenue, **\$5.63 billion** of net earnings, earnings per share of **\$17.55**, and a **19.8% annualized return on equity (ROE)**. Morgan Stanley reported record net revenues of **\$20.6 billion**, earnings per share of **\$3.43**, and a **27.1% return on tangible common equity (ROTCE)**.

The fundamental risk is that strong first-quarter earnings may represent a favorable mix of volatility, market levels, trading activity, and resilient credit rather than the beginning of a straight-line acceleration. Loan growth remains uneven, consumer credit is still normalizing, commercial real estate (CRE) risk remains an overhang, and higher-for-longer rates can pressure credit quality even as they support net interest income (NII).

Industry/Sub-Industry Performance and Breadth: Financial Sector



Industry / Group	Weight	Fundamental Read	Macro / Policy Sensitivity
Banks	28.3%	Earnings momentum improved, but the group is still being judged against deposit costs, loan growth, credit provisions, commercial real estate exposure, and consumer credit normalization.	Highly sensitive to the Federal Reserve, yield-curve shape, commercial real estate losses, deposit beta, bank-capital rules, and private-credit spillover risk.
Capital Markets	26.2%	Positive earnings revisions were broad across advisory, trading, wealth, and market infrastructure. Goldman Sachs and Morgan Stanley were key examples of stronger capital-markets execution.	Sensitive to equity-market direction, credit spreads, initial public offering activity, merger and acquisition activity, risk appetite, and capital-rule reform.
Financial Services / Payments / Diversified Financials	27.9%	This is one of the higher-quality parts of Financials, with strong margins, recurring revenue, and less direct balance-sheet risk than lenders. Visa and Mastercard remain central to the group's quality profile.	Sensitive to consumer spending, travel, cross-border volumes, interchange regulation, stablecoins, digital wallets, and alternative payment rails.
Insurance	13.4%	Fundamentals remain attractive, with better underwriting profitability and higher reinvestment yields supporting earnings. Insurance offers a useful blend of defensive quality and earnings growth.	Sensitive to catastrophe losses, claims inflation, pricing cycles, reinvestment yields, and regulatory scrutiny around premium increases.
Consumer Finance	4.3%	Prime and affluent consumer exposure remains more attractive than subprime-sensitive lending. Credit normalization is manageable for now, but the group is more economically sensitive than payments or insurance.	Sensitive to employment, wage growth, inflation, consumer confidence, funding costs, delinquency trends, charge-offs, and household balance-sheet stress.

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
BEN	Franklin Resources, Inc.	Bullish Reversal		0.50	17.8	3.22	1.74	19.1
STT	State Street Corporation	Bullish Reversal		0.56	17.8	1.64	1.06	13.1
HOOD	Robinhood Markets, Inc. Class A	Consolidation		1.72	-17.6	0.00	4.20	12.1
XYZ	Block, Inc. Class A	Consolidation		0.82	3.0	0.00	3.28	12.1
NTRS	Northern Trust Corporation	Bullish Reversal		0.71	13.7	1.41	1.61	11.5
IBKR	Interactive Brokers Group, Inc. Class A	Uptrend		1.41	4.5	0.32	1.71	8.5
COIN	Coinbase Global, Inc. Class A	Consolidation		2.49	-12.4	0.00	5.02	8.3
MS	Morgan Stanley	Uptrend		0.74	6.1	1.60	1.49	8.0
C	Citigroup Inc.	Bullish Reversal		0.54	12.3	1.39	1.29	7.5
BK	Bank of New York Mellon Corp	Uptrend		0.70	10.5	1.20	1.07	4.8
SYF	Synchrony Financial	Consolidation		0.37	1.9	1.21	1.59	4.5

Custody Banks, Brokerage and crypto plays led the sector in April as risk appetite firmed throughout the month

Insurance names lagged as defensive exposures were shunned during the month

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
ERIE	Erie Indemnity Company Class A	Downtrend		0.86	-20.2	1.83	0.45	-16.1
CME	CME Group Inc. Class A	Consolidation		1.09	-3.8	2.90	0.11	-15.3
SCHW	Charles Schwab Corp	Consolidation		0.68	-12.8	0.98	1.32	-13.8
FIS	Fidelity National Information Services, Inc.	Downtrend		0.34	-20.4	2.88	1.00	-13.4
BRO	Brown & Brown, Inc.	Retracement		0.64	-16.7	0.78	0.71	-12.6
JKHY	Jack Henry & Associates, Inc.	Downtrend		1.02	-13.3	1.09	0.59	-12.5
MRSB	Marsh & McLennan Companies, Inc.	Consolidation		0.76	-8.1	1.59	0.46	-10.7
AIG	American International Group, Inc.	Consolidation		0.43	-5.3	1.88	0.33	-10.5
BRKB	Berkshire Hathaway Inc. Class B	Consolidation		1.08	-4.8	0.00	0.38	-10.1
PGR	Progressive Corporation	Consolidation		0.59	-7.0	3.01	0.11	-10.0
ICE	Intercontinental Exchange, Inc.	Retracement		0.90	-9.6	0.96	0.82	-9.8

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

The macro and policy backdrop for U.S. large-cap Financials was more constructive than it was for many defensive sectors in April, but it was not risk-free. The sector benefited from resilient earnings, higher-for-longer rate expectations, stronger capital-markets activity, and improving regulatory optionality. However, investors continued to monitor credit normalization, commercial real estate (CRE), consumer delinquencies, private-credit linkages, and the risk that oil-driven inflation could keep the Federal Reserve (Fed) restrictive for longer.

1. Rates, inflation and the Fed

The interest-rate environment remained the central macro driver for Financials. Higher rates support net interest income for banks and investment income for insurers, but the benefit becomes less clean if rates stay elevated because of inflation rather than growth. Reuters reported in late April that expectations for Fed rate cuts had been pushed further into 2026 as war-related oil-price pressure complicated the inflation outlook.

For banks, this creates a two-sided setup. Large diversified banks can still benefit from higher asset yields, securities reinvestment income, and trading volatility, but they also face pressure from deposit costs, slower loan demand, and potentially higher credit provisions. For insurers, the rate backdrop is more favorable because reinvestment yields remain elevated and investment portfolios can earn more income. For capital-markets firms, the ideal setup is not simply “higher rates,” but stable rates, healthy credit spreads, and functioning issuance markets.

2. Credit quality and commercial real estate risk

Credit remains the most important downside variable for the sector. The Federal Deposit Insurance Corporation (FDIC) 2026 Risk Review highlighted funding, interest-rate, and credit risks facing banks, including trends in commercial real estate (CRE), nondepository financial institution lending, business lending, consumer lending, residential real estate, and agriculture.

CRE is still the most visible institutional credit overhang. High refinancing costs, lower office utilization, pressure on property values, and tighter lending standards continue to create risk for banks with heavier exposure to office and certain income-property loans. Large-cap banks are generally better positioned than smaller lenders because they have more diversified balance sheets, fee businesses, and capital-market revenue streams. Still, CRE losses remain a sentiment cap for the broader bank group.

Consumer credit is the other key watch item. Consumer Finance companies and card issuers have continued to benefit from resilient spending, but investors are watching delinquencies, charge-offs, funding costs, and lower-income borrower stress. This is why prime and affluent consumer exposure remains more attractive than subprime-sensitive lending. American Express-style exposure should be more defensible than lenders that depend more heavily on weaker household balance sheets.

3. Private credit and nonbank financial linkages

Private credit remains a growing macro-policy focus for Financials. The FDIC review specifically highlighted nondepository financial institution (NDFI) lending as one of the credit-risk areas being monitored. This matters because large banks increasingly have exposure to private-credit managers, asset-based lenders, business development companies, and other nonbank finance channels through credit lines, warehouse lending, fund financing, derivatives, and capital-markets relationships.

This is not necessarily a near-term systemic problem, but it is an important risk transmission channel. If private-credit losses rise or liquidity tightens, investors will ask how much exposure sits directly or indirectly on large-bank balance sheets. For May, this argues for favoring the strongest, most diversified banks and capital-markets firms rather than lower-quality lenders or balance-sheet models with less transparent credit exposure.

4. Bank capital regulation and policy optionality

Regulatory policy was a more constructive variable in April. The Fed, FDIC, and Office of the Comptroller of the Currency (OCC) requested comment on proposals to modernize the bank capital framework, with comments due June 18, 2026. A more balanced capital framework would be supportive for large banks because it could improve return on equity, reduce capital drag, and eventually create more flexibility for lending, trading, market-making,

dividends, and share repurchases.

This is especially important for banks and capital-markets firms. If final rules are less punitive than earlier Basel III “endgame” fears, the market may assign higher earnings multiples to large banks and broker-dealers. The investment implication is that regulation has shifted from a pure overhang to a potential source of upside optionality. That said, the process is not complete, and investors will still need to monitor final rule design, implementation timelines, and any offsetting supervisory scrutiny.

5. Capital markets, deal activity and market volatility

Capital Markets had one of the better macro setups in April. Equity markets recovered, trading activity remained healthy, and volatility created revenue opportunities for market-making and trading desks. At the same time, merger and acquisition (M&A), initial public offering (IPO), and debt-underwriting activity showed signs of improvement from depressed levels. This helped the earnings setup for Goldman Sachs, Morgan Stanley, JPMorgan, Bank of America, and other diversified capital-markets platforms.

The risk is that capital-markets strength depends heavily on confidence. A stable rate backdrop, contained credit spreads, and positive equity-market momentum would support advisory, underwriting, trading, and wealth-management revenue into May. A renewed oil shock, wider credit spreads, or renewed recession fears would likely slow issuance and pressure the more cyclical parts of the group.

6. Payments, consumer spending and technology disruption

Payments remain one of the highest-quality areas within Financials. Visa’s fiscal second-quarter results showed net revenue of \$11.2 billion, up 17%, with growth driven by payments volume, cross-border volume, and processed transactions. That reinforces the view that global payment networks remain less credit-sensitive than banks or consumer lenders because they are tied more directly to transaction activity than balance-sheet lending.

However, the policy and technology backdrop is becoming more important. Payments companies face ongoing scrutiny around interchange fees, merchant costs, credit-card regulation, digital wallets, real-time payments, and stablecoins. Stablecoins are both a competitive risk and a potential opportunity. If tokenized settlement and digital payments expand the addressable market, incumbent networks can participate. But if alternative rails compress economics over time, the group may face valuation pressure.

7. Insurance and claims inflation

Insurance remains one of the cleaner macro-policy stories in Financials. Higher reinvestment yields support portfolio income, while firm pricing and underwriting discipline continue to help property and casualty carriers. The key risks are catastrophe losses, claims inflation, legal-system abuse, and regulatory pushback against premium increases.

For May, Insurance still offers one of the best combinations of earnings visibility and macro resilience inside Financials. The group is less directly exposed to loan losses than banks and consumer lenders, and it benefits more clearly from elevated investment yields. That makes it a preferred Financials allocation if investors want sector exposure without taking full credit-cycle risk.

May investment implication

The macro and policy backdrop supports a **selective overweight to U.S. large-cap Financials**. The best-positioned groups are **Insurance, Capital Markets, payments networks, and high-quality diversified banks**. These areas benefit from a mix of rate support, fee income, improving capital-markets activity, and potential regulatory relief.

The main risks are credit-related. Commercial real estate, consumer delinquencies, private-credit exposure, and funding costs remain the key variables to watch. If the Fed can remain stable, oil-driven inflation fades, and credit losses stay contained, Financials can continue to outperform in May. If rates rise for the wrong reason or credit stress broadens, investors should expect leadership to narrow toward Insurance, payments, and the highest-quality balance sheets.

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.