

[ETFSector.com](https://www.ETFSector.com)

Monthly Insights: June Outlook

Financial Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Financial Sector



The S&P 500 Financials sector should be treated as **market weight and selective** heading into June. The sector has several attractive ingredients: reasonable valuation, improving capital-markets activity, solid large-bank profitability, strong regulatory capital, better fee income, and potential policy support from a more bank-friendly regulatory regime. However, the setup is not clean enough for an overweight. The group remains highly sensitive to the Fed path, yield-curve shape, credit quality, commercial real estate refinancing, consumer delinquencies and regulatory uncertainty. In the current sector framework, Financials are useful for value and cyclical balance, but they do not have the same clean leadership profile as Technology or Industrials, nor the same inflation-hedge characteristics as Energy and Materials.

Using VFH as the reference ETF, the technical backdrop is subdued. In the 5/28 return and flow data, VFH is down **0.83% over one month**, down **0.64% over three months**, and up only **1.96% over six months**, with a **52.7 RSI**. That is not a broken chart, but it is also not a leadership chart. Flows reinforce the same message, with approximately **-\$118 million over one month**, **-\$385 million year to date**, and **-\$39 million over one year**. Investors are not abandoning the sector, but they are allocating incremental risk capital elsewhere. Negative flows over one month, year to date and one year suggest that investors are not using Financials as a core June overweight. This is consistent with the macro narrative: investors like select money-center banks, payments and capital-markets beneficiaries, but they remain reluctant to own the sector broadly because the rate and credit setup is still unresolved.

The June outlook for Financials is **market weight to underweight**. The sector has enough earnings support, valuation appeal and policy optionality to remain in portfolios, but not enough momentum or macro clarity to justify a broad overweight.

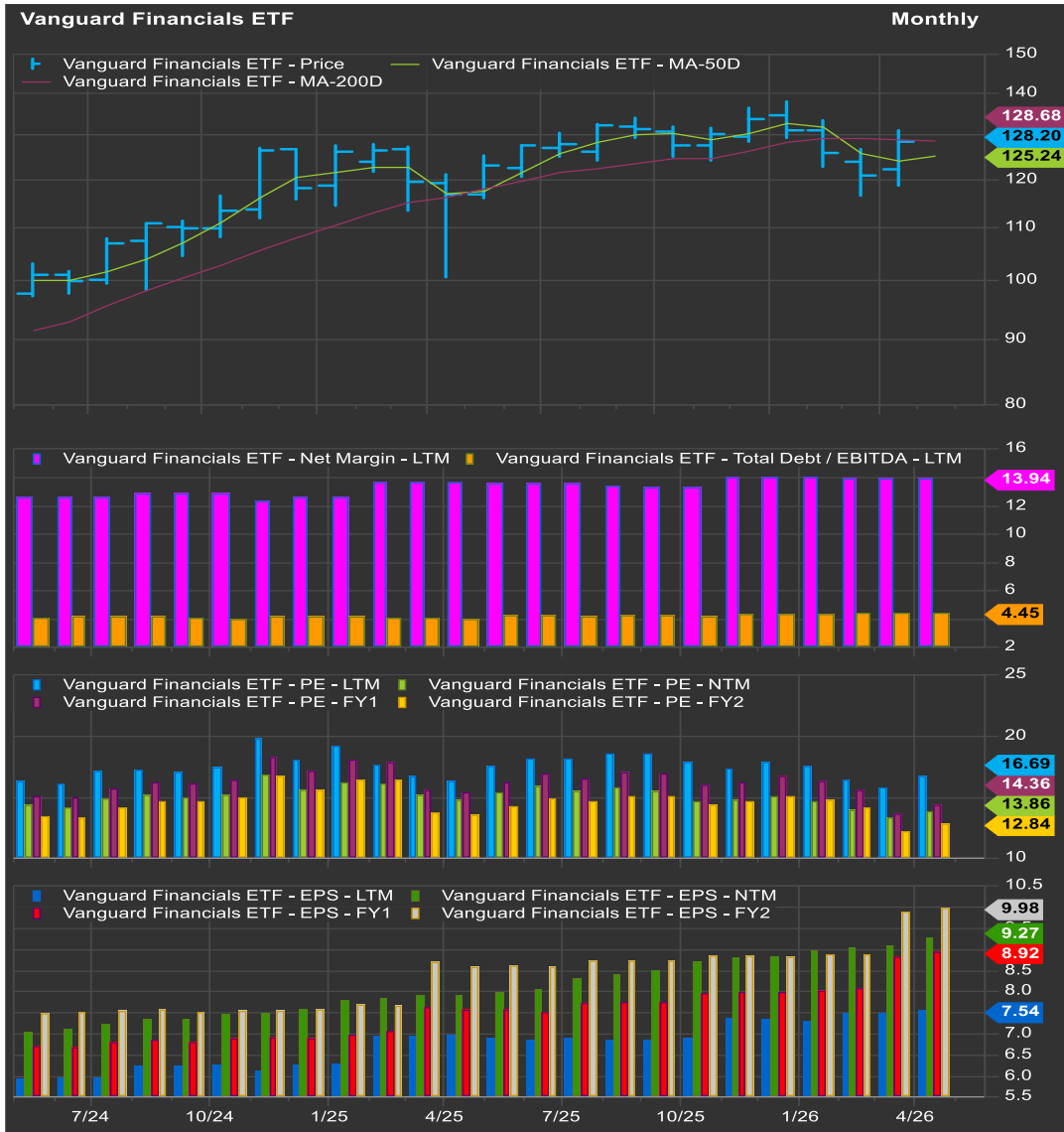
The upside case is that capital markets remain strong, IPO and M&A activity continues to recover, credit quality remains stable, the Fed stays on hold without becoming more hawkish, and regulatory capital proposals continue to move in a bank-friendly direction. In that scenario, diversified banks, investment banks, exchanges, asset managers and insurers can outperform. Payment networks should also benefit if nominal consumer spending remains resilient.

The downside case is that inflation keeps rates higher, the curve remains unhelpful, loan demand softens, CRE refinancing stress resurfaces, consumer delinquencies rise, or regulatory easing becomes politically contested. In that scenario, the sector's valuation discount may persist, and VFH could continue to lag the broader market despite acceptable absolute earnings.

Bottom line: Financials are not a leadership sector for June, but they are not a sector to abandon. The group offers valuation, earnings support and capital-markets upside, but those positives are offset by weak relative momentum, negative flows, credit pockets and rate uncertainty.

We start June with an underweight allocation of -3.98% to the Financial Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Financial Sector



Fundamentally, Financials are inexpensive relative to the broad market, but the discount is deserved until earnings breadth and credit visibility improve. Vanguard's VFH profile shows **415 holdings**, a **15.9x P/E**, **2.0x P/B**, **12.8% return on equity**, and **12.2% earnings-growth rate**. The sector's valuation is meaningfully below the S&P 500, but its profitability and growth profile are also less compelling than Technology and the higher-quality cyclical sectors.

The composition of VFH is diversified, which is one reason to prefer the ETF over narrow bank exposure. The top holdings are JPMorgan Chase, Berkshire Hathaway, Mastercard, Visa, Bank of America, Wells Fargo, Goldman Sachs, Morgan Stanley, Citigroup and American Express, with the top ten representing **44.3%** of assets. Subindustry exposure includes **Diversified Banks at 23.0%**, **Transaction & Payment Processing Services at 14.6%**, **Investment Banking & Brokerage at 10.2%**, **Property & Casualty Insurance at 8.5%**, **Multi-Sector Holdings at 8.3%**, **Asset Management & Custody Banks at 7.6%**, **Financial Exchanges & Data at 7.3%**, **Regional Banks at 7.2%**, and **Consumer Finance at 4.8%**.

This mix argues for selectivity rather than a blanket view on "banks." Diversified banks have scale, deposit franchises, fee income, trading, capital markets and expense leverage, but they still need a manageable rate path and stable credit. Payment networks are high-quality compounders tied to nominal spending, travel, e-commerce and cross-border activity, but they carry valuation and regulatory risks. Investment banks and brokers are leveraged to M&A, IPOs, trading and market levels, which are improving. Exchanges and data companies have high-quality recurring revenue and volatility optionality. P&C insurers can benefit from pricing, higher reinvestment yields and underwriting discipline, but catastrophe risk and social inflation remain issues.

FactSet's Q1 earnings data support the balanced view. Financials' blended earnings-growth rate improved to **21.8%** from **14.8%** since quarter-end, helped by positive EPS surprises from JPMorgan, Allstate, Citigroup, Bank of America and Morgan Stanley. Financials revenue growth also improved to **10.9%** from **10.0%**, supported by positive revenue surprises at Citigroup, Morgan Stanley and JPMorgan. Those are solid numbers, but not enough to overcome the sector's weak relative price trend and ongoing credit/rate concerns.

Ticker	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VFH	\$127.37	+0.28%	+0.47%	-0.83%	-0.64%	+1.96%	52.7	-\$117.9M	-\$384.6M	-\$38.7M

5/28/2026

Industry/Sub-Industry Performance and Breadth: Financial Sector



Industry	Approx. Fund Weight	Fundamental Read	Macro / Policy Sensitivity
Diversified Banks	23.0%	Scale, fee income and capital returns support quality banks.	Fed path, yield curve, credit, capital rules, stress tests.
Transaction & Payment Processing	14.6%	Secular card and digital-payment growth supports premium multiples.	Consumer spending, cross-border, interchange, fintech, cybersecurity.
Investment Banking & Brokerage	10.2%	Capital-markets recovery can drive operating leverage.	IPO/M&A, equity markets, volatility, rates.
Property & Casualty Insurance	8.5%	Pricing remains strong; catastrophe and litigation matter.	Reinsurance, weather, social inflation, rates, state regulation.
Multi-Sector Holdings	8.3%	Diversified quality and insurance float income.	Equity markets, insurance losses, rail/energy, buybacks.
Asset Management & Custody Banks	7.6%	AUM and market levels drive revenue.	Flows, fee compression, short rates, custody spreads.
Financial Exchanges & Data	7.3%	High-quality recurring revenue and volatility optionality.	Trading volumes, market structure, data pricing.
Regional Banks	7.2%	Valuation support, but CRE and deposits remain gating issues.	CRE, deposit betas, loan growth, capital, M&A.
Consumer Finance	4.8%	Credit normalization and household liquidity drive earnings.	Unemployment, delinquencies, CFPB, funding costs.
Brokers / Life Insurance / Other	5.8%	Brokers high quality; life insurers more rate-sensitive.	Rates, annuity demand, mortality, fiduciary rules.

Top 10/Bottom 10 Stock Level Performers: Financial Sector

Symbol	Name	GICS Sector 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
CBOE	Cboe Global Markets Inc	Financials	Bullish Reversal	36,387.1	1.21	11.5	0.65	0.22	11.6
BEN	Franklin Resources, Inc.	Financials	Bullish Reversal	16,456.9	0.52	15.4	3.35	1.94	9.9
ARES	Ares Management Corporation	Financials	Consolidation	28,104.4	0.91	-0.7	3.10	1.06	7.9
CPAY	Corpay, Inc.	Financials	Consolidation	23,046.6	0.59	3.6	0.00	0.82	7.8
IVZ	Invesco Ltd.	Financials	Bullish Reversal	12,239.4	0.48	0.1	2.24	1.69	4.3
AIZ	Assurant, Inc.	Financials	Bullish Reversal	12,489.0	0.55	1.1	1.01	0.82	3.4
MET	MetLife, Inc.	Financials	Consolidation	53,533.9	0.38	4.1	2.07	1.13	3.0
PRU	Prudential Financial, Inc.	Financials	Consolidation	35,217.0	0.34	-4.6	4.00	0.78	2.7
GPN	Global Payments Inc.	Financials	Downtrend	20,094.5	0.24	-8.3	1.24	0.97	2.6
MS	Morgan Stanley	Financials	Uptrend	317,996.4	0.78	8.6	1.50	1.49	1.6

On the upside custody banks, brokerage and asset managers represented while the downside list saw a concentration in insurance brokers and legacy crypto exposures down double-digits relative to the S&P 500

Symbol	Name	GICS Sector 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
BRO	Brown & Brown, Inc.	Financials	Downtrend	19,255.6	0.58	-28.8	0.86	0.45	-18.8
WTW	Willis Towers Watson Public Limited Comp	Financials	Downtrend	23,993.6	0.58	-24.5	1.09	0.20	-17.1
PYPL	PayPal Holdings, Inc.	Financials	Downtrend	38,600.9	0.38	-20.4	0.54	1.33	-17.0
COIN	Coinbase Global, Inc. Class A	Financials	Consolidation	38,653.3	3.14	-19.5	0.00	4.24	-16.6
JKHY	Jack Henry & Associates, Inc.	Financials	Downtrend	9,681.4	0.89	-23.6	1.27	0.44	-14.7
FSV	Fiserv, Inc.	Financials	Downtrend	29,659.6	0.31	-18.3	0.00	0.99	-14.2
HOOD	Robinhood Markets, Inc. Class A	Financials	Support	60,312.0	1.70	-19.1	0.00	3.48	-14.1
FS	Fidelity National Information Services, Inc.	Financials	Downtrend	21,719.3	0.31	-26.2	3.20	0.83	-12.8
AMP	Ameriprise Financial, Inc.	Financials	Consolidation	39,839.7	0.46	-13.6	1.11	1.19	-11.9
RJF	Raymond James Financial, Inc.	Financials	Consolidation	28,336.0	0.53	-13.8	1.09	1.30	-10.7

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

Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- **FDIC Quarterly Banking Profile, Q1 2026** — bank profitability, net interest margin, asset quality and sector resilience.
- **New York Fed Household Debt and Credit Report** — household debt, credit-card, auto, mortgage and delinquency trends.
- **Reuters: Bank of America trading and investment-banking outlook** — capital-markets and large-bank revenue momentum.
- **Reuters: Goldman Sachs M&A volume outlook** — investment-banking and M&A-cycle recovery.
- **Federal Reserve Financial Stability Report, May 2026** — CRE, banking-system resilience, leverage and credit-risk framework.
- **Federal Reserve bank-capital proposal release** — regulatory capital modernization and policy catalyst.
- **Federal Reserve stress-test scenario release** — supervisory capital and stress-test framework.

Economic & Policy Drivers: Financial Sector

The macro backdrop is mixed for Financials. A moderate-growth, high-nominal-rate environment can support bank revenues, payment volumes, insurance float income, asset-management fees and capital-markets activity. However, it also raises funding costs, pressures loan demand, increases refinancing risk and keeps credit-sensitive investors focused on consumer and CRE quality.

The Fed remains the central variable. Fed Vice Chair Philip Jefferson said the current **3.50%–3.75%** federal funds target range leaves policy “well positioned,” while acknowledging upside inflation risks and downside labor-market risks. For Financials, this is neither clearly bullish nor bearish. A steady Fed is acceptable; a constructive curve steepening would be bullish; a renewed inflation-driven tightening scare would be negative for credit, CRE, mortgage activity and valuation.

The Federal Reserve’s May Financial Stability Report captures the sector’s macro cross-currents. The Fed said business and household debt vulnerabilities remained moderate, and that household balance sheets remained strong overall, but it also noted elevated credit card and auto delinquencies relative to the past decade. It described the banking system as sound and resilient, with regulatory capital near historically high levels, while noting that fair-value losses on fixed-rate assets had improved but remained sizable and sensitive to long-term rates.

Commercial real estate remains the largest structural concern. The Fed said CRE prices had stabilized after prior declines, but vulnerabilities tied to upcoming refinancing needs remained. That is not a systemic-crisis statement, but it is enough to keep investors cautious on regional banks and lenders with concentrated office, multifamily or non-owner-occupied CRE exposure.

Policy is a potential upside catalyst. Softer capital requirements, a more transparent stress-test process and a less punitive supervisory culture could improve capital return, lending capacity and investor sentiment. The Fed’s 2026 stress-test scenario remains severe, with unemployment peaking at **10%**, a **30%** house-price decline and a **39%** CRE price decline, so the large-bank capital framework still demands resilience. But the direction of travel in regulation is more favorable than it has been in recent years.

Other Important Narratives:

The first major May narrative was that bank profitability was resilient, but not uniformly strong. The FDIC reported that U.S. banks generated **\$80.5 billion of Q1 net income**, up **3.6%** from the prior quarter, with industry return on assets of **1.26%**. The gain was driven by a **\$5.0 billion**, or **5.8%**, increase in noninterest income at larger institutions, partially offset by lower net interest income and higher expenses. This is a very important distinction: the banking sector is profitable, but the driver of improvement is increasingly fee income, trading, loan-sale gains and capital-markets activity rather than simple net interest margin expansion.

The second narrative was margin pressure. The FDIC reported that the industry’s net interest margin declined **8 basis points** sequentially to **3.31%**, as earning-asset yields fell more than funding costs. That does not undermine the sector’s profitability, but it does weaken the classic bullish case that

5/28/2026

higher rates automatically benefit banks. The current rate regime helps asset repricing and reinvestment yields, but deposit competition, funding costs and a still-inverted or uneven curve limit the pass-through to earnings.

The third narrative was improving capital-markets momentum. Financials benefited from renewed optimism around trading, investment banking, wealth management and M&A. Bank of America’s CEO said the company expects **15% year-over-year growth in Q2 trading revenue**, described investment banking as in “pretty good shape,” projected low-teens wealth-management revenue growth, and raised its 2026 net interest income growth outlook to **6%–8%** from **5%–7%**. He also said credit and debit card spending per household rose **4.8% year over year** in April, suggesting consumer spending remains resilient at the aggregate level.

Goldman Sachs also reinforced the capital-markets recovery narrative. Its president said industry M&A volumes in 2026 are on track to approach or exceed the 2021 record, with strong backlogs and corporate-led deal activity. Reuters noted that Q1 transactions exceeded **\$1.2 trillion**, and that Goldman remained constructive on the IPO market. This is positive for investment banks, brokers, exchanges, asset managers and wealth platforms.

The fourth narrative was credit quality: stable overall, but with pockets of stress. The FDIC said asset quality metrics remained generally favorable, with the industry’s past-due and nonaccrual rate declining to **1.53%** and net charge-offs declining to **0.59%**. However, it also noted elevated problem areas in multifamily CRE, non-owner-occupied CRE, credit card portfolios and auto loans. The market is therefore right to avoid a broad credit-stress conclusion, but it is also right to demand a discount for regional banks, consumer lenders and CRE-heavy balance sheets.

The fifth narrative was household credit. The New York Fed reported that total household debt rose only **\$18 billion**, or **0.1%**, in Q1 to **\$18.8 trillion**. Credit card balances declined seasonally to **\$1.25 trillion**, while auto loans rose to **\$1.69 trillion**. Aggregate delinquency was little changed, with **4.8%** of outstanding debt in some stage of delinquency. But serious delinquency flows remain meaningful: credit cards were **7.10%**, auto loans **2.97%**, mortgages **1.48%**, and student loans **10.86%**. The consumer is not breaking, but the distribution of stress is important for consumer finance, card lenders and banks exposed to lower-income borrowers.

The sixth narrative was regulation. The regulatory tone has become more favorable for large banks. In March, federal bank regulators requested comment on proposals to modernize the capital framework, saying the proposals would streamline requirements while maintaining safety and soundness, with aggregate capital requirements expected to decline modestly for large banks and more for smaller banks. The comment deadline is **June 18, 2026**, making regulatory capital a live June catalyst. Reuters also reported that Wall Street banks are pushing the Fed to cement a less stringent supervisory regime, including reduced use of “matters requiring attention,” while critics argue the changes could weaken financial safeguards.

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.