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Monthly Insights: July Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector

Financials enter July as one of the strongest broadening sectors in the S&P 500. VFH gained **4.1%** over the past month while VOO declined **2.9%**, producing roughly **700 bp** of relative outperformance. The sector's strength was driven by **Banks, Insurance and Consumer Finance**, while **Capital Markets** and **Financial Services** were more mixed.

The strongest industry was **Banks**. Bank of America, Citigroup, Fifth Third, Citizens, U.S. Bancorp, M&T, PNC and JPMorgan all had positive 1-month excess returns and mostly bullish reversal patterns. The common setup is attractive valuation, dividend support and improving technical momentum. Banks also received a policy catalyst from the Fed stress-test results, which confirmed that large banks remain well capitalized under a severe recession scenario. The Fed said the 32 tested banks would absorb more than **$708B** in projected losses while remaining above minimum capital requirements.

Insurance was nearly as strong. Globe Life, Allstate, Cincinnati Financial and Progressive all ranked among the top Financials performers. The industry's average beta is much lower than Banks or Capital Markets, so the move looks like a combination of defensive quality, underwriting profitability, dividend support and rotation into lower-beta Financials rather than a pure cyclical risk trade.

Capital Markets was split. Robinhood, Interactive Brokers, T. Rowe Price, State Street, Franklin Resources, Morgan Stanley and Goldman Sachs held up or outperformed, but CBOE, CME, Coinbase, ICE, Nasdaq, Ares, MSCI and BlackRock lagged. The biggest pressure point was traditional exchanges. Reuters reported that U.S. exchange stocks sold off after approval of perpetual futures products increased concern about competitive pressure from newer trading venues and crypto-linked derivatives platforms.

July Outlook

Our macro model ranks Financials **3rd out of 11 exposures**, VFH has positive 1-month and 3-month returns, and the sector has one of the more attractive valuation profiles in the S&P 500. The sector also benefits from stress-test clarity, contained credit spreads and a macro backdrop that is still expanding.

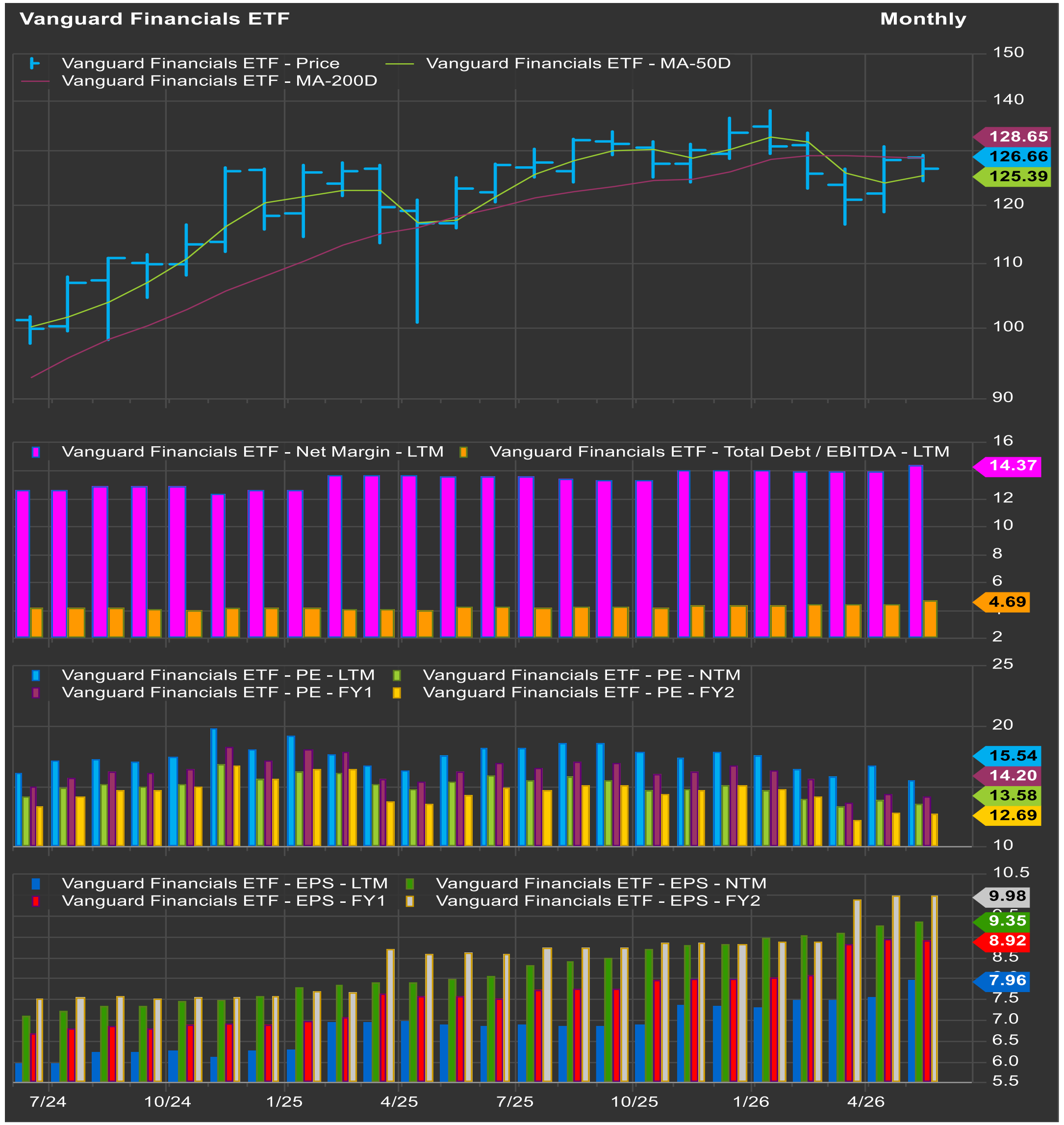
Upside case: banks report stable deposits, loan growth, manageable credit losses and stronger capital returns; insurance underwriting remains strong; and capital-market activity improves as AI-related financing and issuance stay active. In that scenario, Financials can continue outperforming as a broadening sector.

Downside case: credit-card losses rise, CRE concerns intensify, deposit costs pressure bank margins, or exchange competition continues to de-rate capital-market infrastructure stocks. In that scenario, Financials could lose leadership even if valuations remain attractive.

Bottom line: Financials are one of the better July sector setups. The model signal is positive, the sector is inexpensive, and Banks/Insurance are confirming with strong price action. Favor Banks, P&C Insurance and selected Consumer Finance; be more cautious on exchanges, processors and high-beta capital-market names with negative momentum.

We start July with an overweight allocation of 3.44% to the Financial Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Financial Sector



The Financials fundamental setup is not spectacular, but it is good enough to support the sector's improving price action. FactSet's June 26 Earnings Insight shows Financials expected to deliver **5.2%** year-over-year Q2 earnings growth and **8.8%** revenue growth. That is below the S&P 500's expected **23.1%** earnings growth, but Financials trade at a much lower valuation multiple, with a **15.0x** forward P/E, the second-lowest sector multiple after Energy.

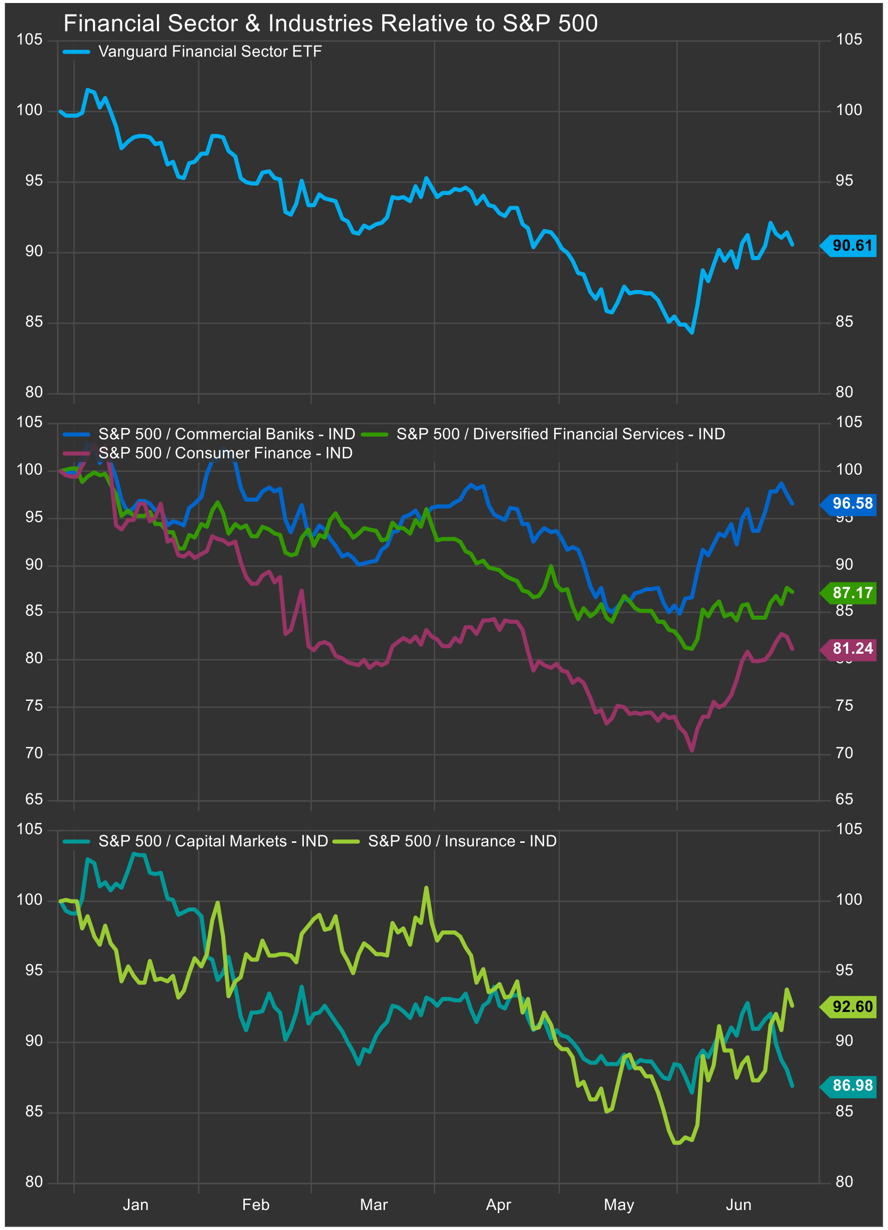
The guidance profile is better than the headline growth rate. FactSet's FY 2026/2027 guidance chart shows Financials with **10 positive** and **4 negative** guidance instances, or roughly **71% positive** guidance. That is one of the stronger guidance mixes among the 11 sectors and supports the view that the sector's earnings setup is stable even if it is not an AI-style growth story.

The valuation case is important. Banks, Consumer Finance and Insurance all trade at average valuation multiples well below the index in the stock file. That means Financials are not relying on multiple expansion alone. The sector can work if earnings stay stable, credit does not deteriorate and capital returns improve after stress-test clarity.

The main fundamental risk is credit. The Fed stress test showed large banks are resilient, but it also identified the stress scenario's largest projected losses: roughly **$200B** in credit-card losses, **$160B** in commercial and industrial loan losses and **$75B** in commercial real-estate losses. That does not imply those losses are coming, but it does define the pressure points investors will watch in Q2 earnings.

Ticker	Exposure	Price	1D	1W	1M	3M	6M	RSI
VOO	S&P 500	$670.26	-0.5%	-2.6%	-2.9%	+13.0%	+6.0%	43.2
VFH	Financials	$131.46	+0.3%	+0.0%	+4.1%	+9.6%	-2.8%	58.7

Industry/Sub-Industry Performance and Breadth: Financial Sector



Indicator	Latest Reading	June Message	Investment Interpretation
Financials model score	**0.79**	Positive	Sector ranks 3rd of 11 sectors.
Financials model rank	**3 / 11**	Strong	Model favors Financials as one of the better July sector setups.
Model profile	**Momentum / Trend**	Trend confirmation	This is not just mean reversion; Financials are showing improving trend.
VFH 1M return	**+4.1%**	Outperformed	Strong relative move versus the S&P 500.
VFH 3M return	**+9.6%**	Constructive	Intermediate trend has improved.
VFH 6M return	**-2.8%**	Still recovering	Longer-term trend has not fully repaired.
VFH RSI	**58.7**	Healthy	Positive momentum without being overbought.
10Y Treasury yield	**4.37%**	Rate pressure contained	Supports banks if credit remains stable, but not a major curve steepening tailwind.
10Y real yield	**2.18%**	Restrictive	Supports lending margins but pressures credit-sensitive borrowers.
HY OAS	**283 bp**	Credit contained	Credit spreads widened modestly, not recessionary.
IG OAS	**77 bp**	Stable	Investment-grade credit remains orderly.
Fed funds target	**3.50%–3.75%**	Higher-for-longer	Good for asset yields, but less helpful if credit demand slows.

Top 10 Stock Level Performers: Financial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
GL	Globe Life	Financials	Insurance	Bullish Reversal	+19.3%	0.55	18.4	0.51	0.79
HOOD	Robinhood Markets	Financials	Capital Markets	Bullish Reversal	+19.0%	2.21	17.9	0.00	3.53
ALL	Allstate	Financials	Insurance	Bullish Reversal	+18.9%	0.42	9.1	1.28	0.19
CINF	Cincinnati Financial	Financials	Insurance	Bullish Reversal	+18.3%	1.03	9.1	1.45	0.57
PGR	Progressive	Financials	Insurance	Consolidation	+18.0%	0.67	3.6	2.99	0.03
BAC	Bank of America	Financials	Banks	Bullish Reversal	+17.3%	0.60	8.7	1.46	1.26
C	Citigroup	Financials	Banks	Bullish Reversal	+16.4%	0.60	15.8	1.26	1.18
FITB	Fifth Third Bancorp	Financials	Banks	Bullish Reversal	+15.6%	0.70	12.8	2.04	1.37
BRO	Brown & Brown	Financials	Insurance	Consolidation	+15.6%	0.68	-7.8	0.76	0.39
CFG	Citizens Financial	Financials	Banks	Bullish Reversal	+15.5%	0.61	10.6	1.90	1.42

The top table is dominated by **Insurance and Banks**. Four of the top five names are insurers, and four of the top 10 are banks. That is the strongest evidence that Financials are participating in the market's June broadening trade.

Insurance leadership has a defensive quality. Allstate, Cincinnati Financial and Progressive all have low beta, dividend support and constructive chart structures. Progressive's May results reinforced the underwriting story: net premiums earned increased year over year, net income rose sharply and the May combined ratio improved to **82.1** from **86.9** a year earlier.

Bank leadership is more cyclical. Bank of America, Citigroup, Fifth Third and Citizens all have bullish reversal patterns, positive momentum scores and below-index valuation multiples. The group is working because investors are pairing stress-test capital clarity with a still-solid macro backdrop. It is not yet a runaway yield-curve trade; it is a recovery in cheap, under-owned cyclicals with improved policy visibility.

Robinhood is the outlier. HOOD has a very high beta of **3.53** and the highest valuation multiple in the top table, so its strength should be treated as a risk-appetite and trading-activity signal rather than a defensive Financials signal. It helps the sector, but it is a very different kind of Financials exposure than banks or insurers.

Bottom 10 Stock Level Performers: Financial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
CBOE	Cboe Global Markets	Financials	Capital Markets	Retracement	-26.8%	0.87	-23.8	0.95	0.26
CME	CME Group	Financials	Capital Markets	Retracement	-17.3%	0.88	-30.2	3.72	-0.03
COIN	Coinbase Global	Financials	Capital Markets	Support	-15.5%	2.63	-25.1	0.00	4.15
ICE	Intercontinental Exchange	Financials	Capital Markets	Downtrend	-13.5%	0.73	-27.3	1.22	0.60
NDAQ	Nasdaq	Financials	Capital Markets	Retracement	-10.7%	0.93	-18.2	1.10	0.80
ARES	Ares Management	Financials	Capital Markets	Retracement	-9.9%	0.81	-17.1	3.59	1.09
MSCI	MSCI	Financials	Capital Markets	Consolidation	-8.8%	1.31	-9.6	1.06	1.08
FISV	Fiserv	Financials	Financial Services	Downtrend	-8.8%	0.29	-21.4	0.00	0.89
FIS	Fidelity National Information Services	Financials	Financial Services	Downtrend	-4.9%	0.29	-27.4	3.41	0.74
BLK	BlackRock	Financials	Capital Markets	Support	-4.6%	0.84	-10.7	1.75	1.35

The bottom table is concentrated in **Capital Markets and Financial Services**, not Banks or Insurance. That distinction is important. Financials are not weak broadly; the problem is industry-specific pressure in exchanges, processors and certain fee-based platforms.

Traditional exchanges were the biggest losers. CBOE, CME, ICE and Nasdaq all had negative 1-month excess returns and poor momentum scores. The market is discounting competitive pressure from new derivatives venues, crypto-linked perpetual futures and retail trading platforms. Reuters reported that exchange operators sold off after perpetual futures approval raised concerns about competitive pressure in products historically dominated by incumbent exchanges.

Processors are the second weak spot. Fiserv and FIS are both in downtrends with deeply negative momentum scores, despite low valuation multiples. That is a classic value-trap pattern: the stocks look cheap, but the market is not yet seeing enough growth or execution improvement to reward the multiple.

Coinbase is also weak, but it is different from the exchange operators. COIN has the highest beta in the bottom table and remains tied to crypto trading activity, regulation and risk appetite. Its presence in the bottom 10 shows that speculative Financials exposure was not broadly rewarded in June even though Robinhood rallied.

Economic & Policy Drivers: Financial Sector

Banks

Banks have the best industry alignment inside Financials. The stock table shows broad bullish reversals across money-center and regional banks, while the Fed stress test reduced capital uncertainty. The Fed said all 32 banks tested remained above minimum CET1 capital requirements under a severe scenario that included a **39%** decline in commercial real estate prices, a **30%** decline in house prices and unemployment peaking at **10%**.

The stress-test read-through is positive but nuanced. Reuters reported that several large banks raised dividends or announced buybacks after the results, while also noting that this year's test would not change capital requirements because stress-capital-buffer requirements are being held until 2027 as the Fed reviews its testing process.

The macro backdrop is workable. A Fed on hold at **3.50%–3.75%** supports earning-asset yields, while contained credit spreads suggest the market is not pricing a recessionary credit event. The risk is that real rates remain restrictive enough to pressure credit demand, consumer credit and CRE. For July, the banks' setup is constructive as long as Q2 earnings confirm stable deposit costs, manageable credit losses and continued capital returns.

Insurance

Insurance is the best defensive Financials industry. It had strong 1-month excess returns, low average beta and broad participation across P&C, brokers and life insurers. The top performers — Globe Life, Allstate, Cincinnati Financial and Progressive — show that investors favored underwriting stability, cash-flow quality and lower-beta financial exposure.

The P&C story is still constructive but not risk-free. Allstate said estimated May catastrophe losses were **$289M**, or **$228M** after tax, and that April plus May catastrophe losses totaled **$1.16B** pre-tax. That is manageable relative to the stock's strong rebound, but catastrophe risk remains a standing volatility source.

Life insurers require more caution. Reuters reported that short interest in U.S. life insurers more than doubled over the prior year to more than **$5B**, partly reflecting concern about private-credit exposure. That does not invalidate the strong June price action in names like Globe Life, Prudential, MetLife and Principal, but it argues for monitoring credit quality and alternative-asset exposure.

Capital Markets

Capital Markets is the most bifurcated Financials industry. Brokers and trading platforms with retail/risk appetite exposure did well, including Robinhood and Interactive Brokers. Asset managers and investment banks were mixed. Traditional exchanges and market-data/index names were weak.

The key policy and competitive issue is derivatives market structure. Reuters reported that U.S. exchanges extended losses after perpetual futures approval unnerved investors, creating concern that newer venues could compete with incumbent exchanges in high-growth derivatives products. That explains why CBOE, CME, ICE and Nasdaq dominate the bottom table.

The broader capital-markets backdrop is still supportive because corporate financing activity remains active. Reuters reported that AI-linked corporate debt issuance is expanding, with hyperscalers raising large volumes of bonds and banks developing new financing structures tied to data-center and AI infrastructure demand. That supports investment banking and credit-market activity, but it also raises balance-sheet and leverage-cycle risks if AI spending sentiment turns.

Financial Services

Financial Services is a mixed industry. Berkshire, Visa and Mastercard held up, while processors such as Fiserv and FIS were weak. The stock table shows the distinction clearly: payment networks remain stable, but legacy processors are in downtrends.

The payments backdrop is supported by resilient nominal spending, but consumer price sensitivity and high revolving-credit rates remain constraints. The Fed's Consumer Credit report showed April revolving credit rising at a **10.4%** annual rate, while credit-card rates assessed interest were still above **21%** in the most recent data. That supports card-revenue growth, but also raises affordability and credit-loss risk if employment weakens.

The industry should be treated selectively. Visa and Mastercard remain high-quality compounders, but they are not deep-value Financials. FIS and Fiserv look cheap but have negative momentum and downtrend patterns, so they need better execution evidence before becoming attractive.

Consumer Finance

Consumer Finance had a strong industry-level return, led by Synchrony, Capital One and American Express. All three stocks are in consolidation patterns, and the industry average valuation multiple is below the index. That makes the group a cyclical value beneficiary if consumers keep spending and credit losses remain manageable.

The caution is consumer credit quality. Revolving credit growth is accelerating, credit-card interest rates remain high, and the Fed's stress-test scenario highlighted credit-card losses as the largest projected loss category under severe stress. That does not mean a credit event is imminent, but it does mean Consumer Finance needs stable employment and continued payment performance.

Policy is also a risk. Earlier in 2026, Reuters reported that a proposed cap on credit-card rates pressured financial stocks because it threatened an important revenue stream. That issue is not the dominant June driver, but it remains a policy overhang for card lenders.

What Shaped the Financials Narrative in June

June's Financials narrative was **capital resilience plus rotation into value and breadth**. The sector benefited from investors moving away from crowded mega-cap growth and toward groups with better valuation support, dividend yield and improving price structure.

The Fed stress test was the major policy catalyst for Banks. Passing the test did not create new capital requirements this year, but it confirmed resilience and opened the door for capital-return announcements. That is why bank stocks rallied broadly even though the yield curve was not giving the sector a clean net-interest-margin tailwind.

Insurance strength made the sector more defensive than a pure bank trade. Low-beta insurers, P&C carriers and brokers outperformed as investors looked for Financials exposure that was less tied to Technology volatility and less dependent on curve steepening.

The biggest disappointment was Capital Markets. The traditional exchange stocks looked like crowded quality names that suddenly faced a competitive threat from perpetual futures and crypto-linked trading products. That industry-level weakness is the main reason Financials should be implemented selectively rather than bought indiscriminately.

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

ETFInsight V8 Sector Model Workbook, June 26, 2026 — Vanguard sector ETF returns, RSI readings, sector selection scores, macro indicator readings, rates, credit, commodities, volatility and breadth data.

FactSet Earnings Insight, June 26, 2026 — S&P 500 and Financials Q2 earnings-growth estimates, revenue-growth estimates, sector valuation, forward P/E, guidance profile, bottom-up target-price revisions and analyst-rating context.

Federal Reserve FOMC Statement, June 17, 2026 — policy-rate backdrop, solid-growth language, inflation language, labor-market assessment and rate-sensitive Financials context.

Federal Reserve 2026 Bank Stress Test Results, June 24, 2026 — large-bank capital resilience, projected losses, CRE stress scenario, credit-card loss assumptions, C&I loss assumptions and stress-capital-buffer framework.

Reuters: Fed says large U.S. banks well positioned after stress tests, June 24, 2026 — stress-test results, capital-return implications, dividend/buyback announcements and regulatory-policy context.

Federal Reserve Consumer Credit G.19, June 5, 2026 — revolving credit growth, nonrevolving credit growth, consumer credit outstanding and credit-card interest-rate data.

Reuters: U.S. exchanges extend selloff as perpetual futures approval unnerves investors, June 2, 2026 — traditional exchange weakness, crypto/perpetual futures competition and Capital Markets industry pressure.

Reuters: Banks get creative and look further afield as AI-fueled debt soars, June 29, 2026 — corporate debt issuance, hyperscaler financing, data-center funding structures and capital-markets activity.

Progressive May 2026 monthly results — net premiums, net income, combined ratio, policies in force and P&C insurance underwriting profitability.

Allstate May 2026 monthly release — catastrophe losses, April/May catastrophe-loss total and P&C insurance risk backdrop.

Reuters: Short sellers' bets on life insurance stocks soar as private-credit concerns grow, April 27, 2026 — life-insurance short interest, private-credit exposure and credit-risk narrative.

Reuters: Financial stocks fall after proposed credit-card rate cap, January 12, 2026 — Consumer Finance policy risk, card-lending revenue sensitivity and regulatory overhang.

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.