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Monthly Insights: August Outlook

Financial Sector

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Sector Price Action & Performance Review: Financial Sector

Financials enter August as the **clearest model-supported broadening sector**. VFH's source proxy gained **6.3% over one month**, outperforming the S&P 500 proxy's **-0.7%** return, and the sector also has strong **3-month** and **6-month** returns. The model's **Bullish Reversal** pattern fits the tape: Financials are recovering from prior underperformance, but the rebound now has enough breadth and price confirmation to justify an overweight.

The strongest industry groups were **Financial Services, Capital Markets and Insurance**. The top stock table is led by PayPal, Willis Towers Watson, Intercontinental Exchange, Cboe, CME, Nasdaq, Global Payments, Ameriprise, FIS and Corpay. That mix shows the sector's leadership has broadened beyond money-center banks into payments, market infrastructure, exchanges, data and insurance brokers.

Banks remain constructive but more selective. JPMorgan, Bank of America and Wells Fargo remain important supports for the sector, helped by strong Q2 earnings, stress-test capital clarity and capital-return visibility. However, Citigroup, Huntington, KeyCorp and Fifth Third appear in the lower end of the Financials stock table, showing that the market is still differentiating based on execution, credit sensitivity and deposit/loan growth.

The weakest area is **high-beta trading platforms and selected consumer-credit exposure**. Robinhood was the weakest Financials stock in the updated file, while Synchrony and American Express were near the bottom. That does not weaken the sector call, but it keeps the August preference tilted toward exchanges, payments, insurers, high-quality banks and capital-market infrastructure rather than the highest-beta consumer-finance or trading-platform names.

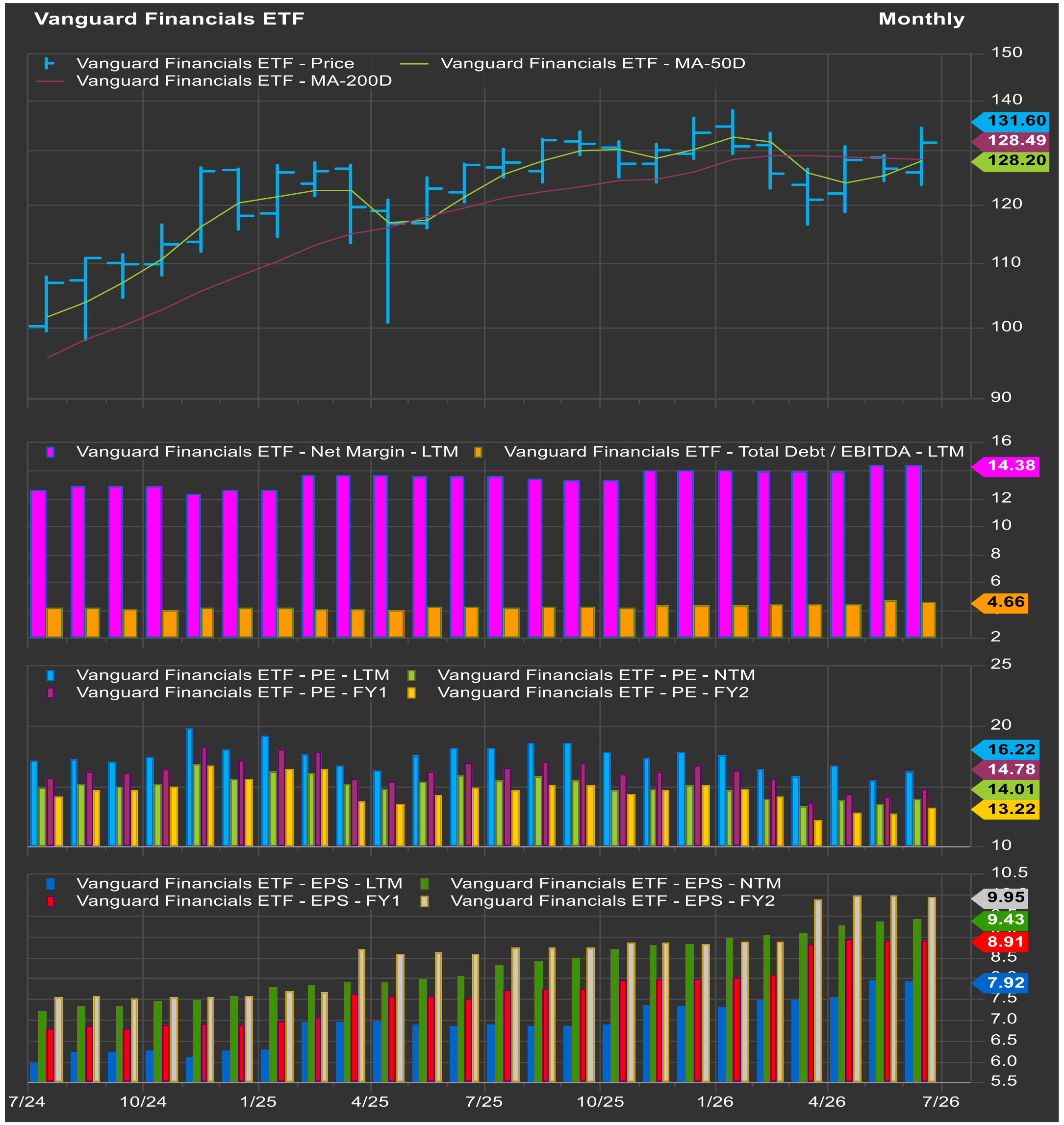
The August outlook for Financials is constructive and overweight. The sector has the highest Elev8 score, positive one-month and three-month momentum, strong industry breadth and a favorable capital-return backdrop. VFH should remain above benchmark weight.

The best August opportunities are in **Capital Markets, Financial Services, Insurance and high-quality Banks**. Capital Markets benefit from trading, market infrastructure, fixed-income electronification, investment banking and data/indexing. Financial Services benefit from payments and fintech repair. Insurance provides low-beta earnings resilience. Banks benefit from strong capital, dividend/buyback capacity and still-positive nominal growth.

The weaker areas are **high-beta trading platforms, Consumer Finance and selected regional banks**. Robinhood remains the key speculative Financials risk. American Express, Synchrony and Capital One remain tied to consumer credit and spending quality. Citi, Huntington and KeyCorp show that valuation alone is not enough without stronger momentum.

We start August with an overweight allocation of 4.51% 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 solid and improving. FactSet's Q2 Financials preview estimated sector earnings growth of **6.6%**, up from **5.2%** at the start of the quarter. That is not the fastest earnings growth in the S&P 500, but it is strong enough when paired with Financials' lower valuation profile, dividend support, and improving capital-return backdrop. (insight.factset.com)

The earnings mix is important. FactSet expected **Capital Markets** to post the strongest Financials industry earnings growth at **15%**, with **Investment Banking & Brokerage** up **30%** and **Asset Management & Custody Banks** up **16%**. Banks were expected to grow earnings **11%**, with both diversified banks and regional banks projected to deliver double-digit growth. (insight.factset.com)

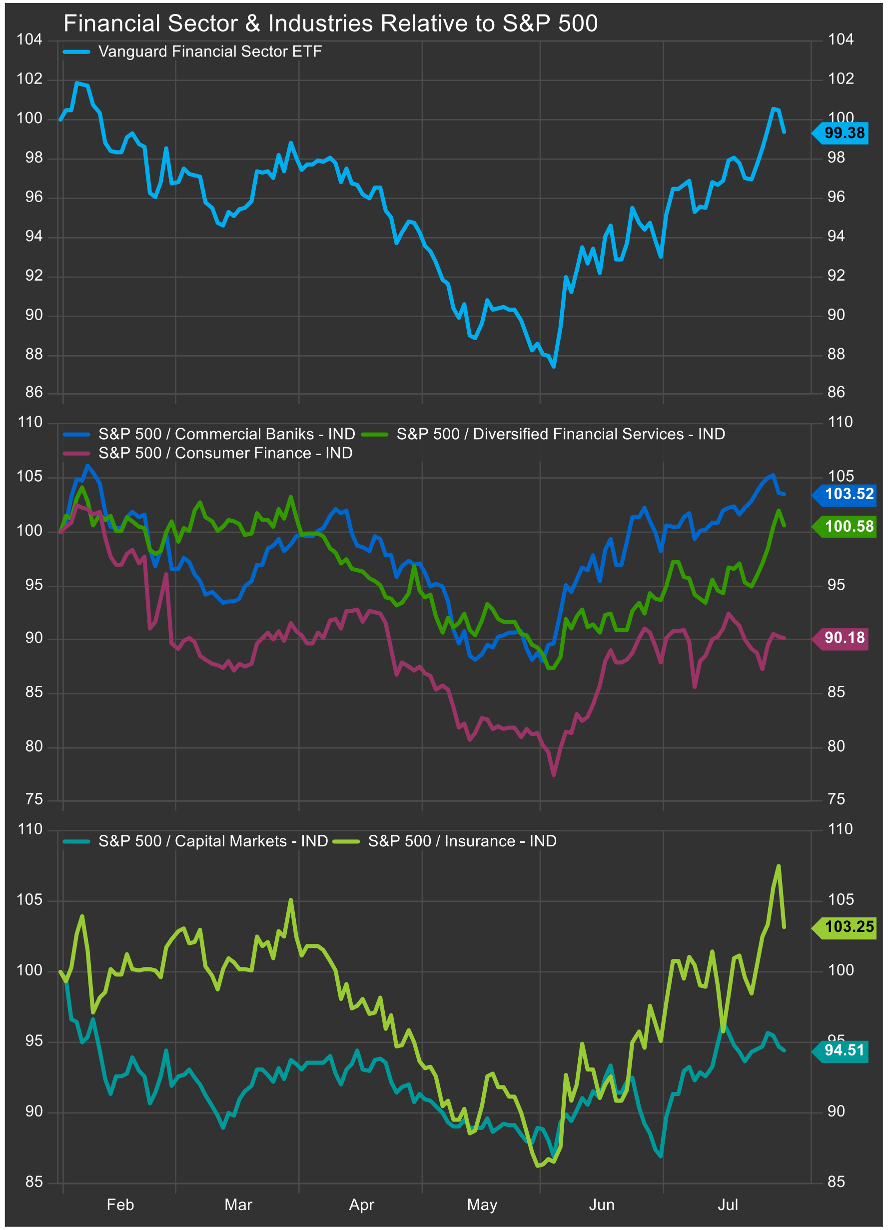
Q2 bank results support the sector's leadership. JPMorgan reported Q2 net income of **$21.2B**, EPS of **$7.70**, a **14.1%** standardized CET1 ratio and average loans of **$1.5T**. Bank of America reported **$9.1B** of net income, **$31.6B** of revenue, **$16.0B** of net interest income and a **17.0%** ROTCE. Citigroup reported net income up **45%** year over year to **$5.8B** and launched a **$30B** buyback plan. (sec.gov ; Bank of America filing ; Citigroup filing)

Stress-test results also support the sector. The Fed said all **32** tested banks remained above minimum CET1 requirements under a severe recession scenario, even after absorbing more than **$708B** in projected losses. The scenario included a **39%** decline in CRE prices, a **30%** decline in house prices and unemployment peaking at **10%**. (federalreserve.gov)

The investment implication is straightforward: Financials are not the highest-growth sector, but they have a favorable mix of valuation, earnings resilience, capital return and improving relative price action. That combination makes the sector the cleanest August overweight.

ETF	Price	1D	1W	1M	3M	6M	RSI
VOO	$741.69	+1.7%	+0.5%	-0.7%	+4.2%	+6.7%	49.2
VFH	$57.00	+0.6%	+2.1%	+6.3%	+9.8%	+7.6%	62.9

Industry/Sub-Industry Performance and Breadth: Financial Sector



Indicator	Latest Reading	July Message	Investment Interpretation
Elev8 Financials score	**7**	Strong positive	Highest sector score in the model.
Elev8 Financials rank	**1 / 11**	Leadership signal	Financials are the top-ranked August sector.
Elev8 pattern	**Bullish Reversal**	Improving	Sector is recovering with stronger price confirmation.
VFH benchmark weight	**12.7%**	Large index weight	Financials remain a major S&P 500 allocation.
VFH Elev8 weight	**17.2%**	Overweight	Portfolio holds VFH materially above benchmark.
VFH active weight	**+4.5%**	Largest positive active weight	Financials are the highest-conviction sector allocation.
VFH 1M return	**+6.3%**	Strong outperformance	Sector led the broadening trade.
VFH 3M return	**+9.8%**	Constructive	Intermediate trend is improving.
VFH 6M return	**+7.6%**	Positive	Longer-term relative weakness has been repaired.
VFH RSI	**62.9**	Healthy / strong	Momentum is positive but not yet excessive.
10Y real yield	**2.41%**	Restrictive	Supports asset yields, but requires credit discipline.
Fed policy range	**3.50%–3.75%**	Hawkish hold	Rate backdrop supports income, but credit risk must stay contained.

Top 10 Stock Level Performers: Financial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum	Div Yield Rel.	Beta
PYPL	PayPal	Financials	Financial Services	Support	+34.3%	0.53	16.7	0.39	1.16
WTW	Willis Towers Watson	Financials	Insurance	Consolidation	+29.3%	0.82	22.7	0.81	0.07
ICE	Intercontinental Exchange	Financials	Capital Markets	Downtrend	+27.7%	0.96	2.7	0.95	0.65
CBOE	Cboe Global Markets	Financials	Capital Markets	Retracement	+23.0%	1.07	5.6	0.74	0.41
CME	CME Group	Financials	Capital Markets	Retracement	+21.8%	1.10	-1.1	3.07	0.05
NDAQ	Nasdaq	Financials	Capital Markets	Retracement	+21.5%	1.11	4.9	0.90	1.03
GPN	Global Payments	Financials	Financial Services	Downtrend	+20.4%	0.30	17.8	0.98	0.99
AMP	Ameriprise Financial	Financials	Capital Markets	Retracement	+19.4%	0.57	10.9	0.88	1.03
FIS	Fidelity National Information Services	Financials	Financial Services	Downtrend	+19.1%	0.36	-0.6	2.86	0.81
CPAY	Corpay	Financials	Financial Services	Consolidation	+17.8%	0.70	20.5	0.00	0.91

The top table is a **payments, market infrastructure and insurance-broker rebound** list. PayPal, Global Payments, FIS and Corpay show that investors are rotating back into payments and financial technology after a long period of valuation compression. PayPal's Q2 results event helped anchor the move, with the company releasing results and investor materials on July 28. (newsroom.paypal-corp.com)

Capital Markets leadership is also strong. ICE, CBOE, CME, Nasdaq and Ameriprise all ranked near the top of the sector. ICE's proposed **$5.7B** acquisition of MarketAxess is especially important because it expands ICE's fixed-income trading and data capabilities and reinforces the value of market infrastructure during a period of high credit and rate volatility. (reuters.com)

Nasdaq also confirmed the broader data/infrastructure theme, reporting Q2 net revenue of **$1.5B**, up **15%**, with Solutions revenue up **17%**, ARR up **11%**, Financial Technology revenue up **16%**, and Index revenue up **38%**. (ir.nasdaq.com)

The caution is pattern quality. ICE, GPN and FIS are still in **Downtrend** patterns, while CBOE, CME, NDAQ and AMP are still in **Retracement**. This is a powerful recovery move, but August confirmation will require follow-through.

Bottom 10 Stock Level Performers: Financial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum	Div Yield Rel.	Beta
HOOD	Robinhood Markets	Financials	Capital Markets	Bullish Reversal	-12.9%	1.84	-0.3	0.00	3.63
CINF	Cincinnati Financial	Financials	Insurance	Bullish Reversal	-4.9%	1.03	0.9	1.53	0.51
C	Citigroup	Financials	Banks	Bullish Reversal	-4.7%	0.57	0.3	1.38	1.17
HBAN	Huntington Bancshares	Financials	Banks	Consolidation	-2.9%	0.53	-2.8	2.65	1.24
PGR	Progressive	Financials	Insurance	Consolidation	-1.6%	0.66	-0.2	3.14	-0.06
ERIE	Erie Indemnity	Financials	Insurance	Consolidation	-1.2%	0.96	-3.3	1.78	0.07
KEY	KeyCorp	Financials	Banks	Bullish Reversal	-1.1%	0.58	-0.6	2.60	1.40
BEN	Franklin Resources	Financials	Capital Markets	Bullish Reversal	+0.5%	0.56	8.3	3.12	1.81
AXP	American Express	Financials	Consumer Finance	Consolidation	+0.8%	0.92	-1.4	0.80	1.15
FITB	Fifth Third Bancorp	Financials	Banks	Bullish Reversal	+1.2%	0.71	6.1	2.06	1.31

The bottom table does not weaken the Financials overweight. Only seven of the bottom 10 stocks are negative on one-month excess return, and most of the laggards still have constructive valuation or dividend characteristics. This is a sign of strong sector breadth: even the weaker part of the Financials table is not breaking down broadly.

Robinhood is the clearest high-beta warning. It has the highest beta in the bottom table and remains a sentiment-sensitive trading-platform exposure. That is different from the broader Capital Markets signal, where exchanges, data and asset managers are improving.

The bank laggards require nuance. Citigroup reported very strong Q2 fundamentals and launched a major buyback, but the stock still lagged, suggesting the market had already priced in much of the turnaround or remains focused on execution risk. Huntington and KeyCorp are more regionally sensitive and remain tied to deposit costs, credit quality and commercial-loan trends. (sec.gov)

Consumer Finance remains the main caution area. American Express reported Q2 results on July 24, but the stock's muted performance reflects the market's concern that strong spending and premium-card demand may not be enough if revenue growth, reinvestment and credit conditions become less favorable. (ir.americanexpress.com)

Economic & Policy Drivers: Financial Sector

Banks

Banks remain a core Financials exposure, but they are no longer the only source of sector leadership. Large banks reported strong Q2 results, capital ratios remain healthy, and the Fed stress test confirmed that major banks are well positioned under severe stress. JPMorgan, Bank of America and Wells Fargo all reported strong net income, healthy capital and solid balance-sheet metrics, reinforcing the large-bank quality case. (sec.gov ; Wells Fargo filing)

August read: constructive. Favor higher-quality money-center banks and selected regionals with improving momentum, stable deposits, capital-return visibility and disciplined credit.

Capital Markets

Capital Markets are a preferred Financials industry for August. The updated stock file shows strong performance from ICE, CBOE, CME, Nasdaq, Ameriprise and FactSet. The group benefits from trading volatility, market data, fixed-income infrastructure, asset-management flows and stronger investment-banking activity.

Goldman Sachs and Morgan Stanley also confirm the capital-markets backdrop. Goldman reported Q2 net revenues of **$20.34B**, EPS of **$20.98** and annualized ROE of **23.5%**. Morgan Stanley reported net revenues of **$21.3B**, EPS of **$3.46** and ROTCE of **26.6%**. (goldmansachs.com ; SEC filing)

August read: positive. Favor exchanges, data, market infrastructure and investment-banking/trading beneficiaries, while watching pattern confirmation after a sharp rebound.

Financial Services and Payments

Financial Services had the strongest average one-month excess return inside Financials. PayPal, Global Payments, FIS and Corpay led the group, indicating that investors are rotating into payments and fintech after deep valuation compression.

August read: constructive but selective. Favor payments and fintech platforms where valuation has reset and earnings execution is improving. Avoid assuming all low-multiple processors are fixed until earnings guidance confirms margin and revenue improvement.

Insurance

Insurance remains one of the best-quality Financials industries. It posted strong excess returns, low average beta and broad participation across brokers, P&C insurers and life/health names. Willis Towers Watson led the top table, and the industry's average beta is only **0.34**, making it one of the cleanest lower-volatility Financials sleeves.

Progressive's June/quarter results show the nuance: Q2 net premiums earned rose **6%** year over year, but the combined ratio moved to **87.3** from **86.2** a year earlier. The industry remains attractive, but underwriting quality and catastrophe exposure still need monitoring. (sec.gov)

August read: preferred defensive Financials sleeve. Favor brokers and insurers with strong underwriting, low beta and improving momentum.

Consumer Finance

Consumer Finance is positive but lower conviction. The group is exposed to credit-card losses, consumer spending, premium-card demand, funding costs and regulatory risk. The Fed stress-test framework continues to identify credit cards as a key stress point, with roughly **$200B** of projected credit-card losses under its severe scenario. (federalreserve.gov)

August read: neutral to cautious. Favor high-quality lenders with stable credit metrics; avoid treating Consumer Finance as a broad leadership industry until credit momentum improves.

What Shaped the Financials Narrative in July

July's Financials narrative was **capital clarity plus industry breadth**. The Fed stress test confirmed capital resilience, Q2 earnings showed strong profitability, and the sector's price action broadened beyond Banks into Capital Markets, Financial Services and Insurance.

The second narrative was **market infrastructure leadership**. ICE's MarketAxess deal, Nasdaq's strong Q2 results and the rebound in CBOE/CME show that the market is rewarding platforms tied to trading, data, indexing, fixed-income electronification and volatility. That is an important shift because it makes Financials less dependent on yield-curve steepening alone. (reuters.com ; Nasdaq results)

The third narrative was **payments and fintech repair**. PayPal, Global Payments, FIS and Corpay show investors are willing to buy Financial Services companies where valuation has compressed and execution is improving.

The fourth narrative was **credit selectivity**. Banks are working, but the lower end of the Financials table still includes Citi, Huntington, KeyCorp, Synchrony and American Express. Investors want Financials exposure, but they are still differentiating based on credit quality, funding costs, consumer sensitivity and execution.

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

- **ETFInsight / Myrtle Tree Investment Research** Macro Technical Model, July 30, 2026 — SPDR proxy data, macro regime index, growth/inflation/liquidity/risk pillars, breadth, credit, rates, commodities and volatility.
- **ETFInsight / Myrtle Tree Investment Research** Elev8 Model Positions, July 31, 2026 — Vanguard sector fund implementation weights, benchmark weights, active weights and sector selection scores.
- **FactSet** 20260731_SP50_Stock_Data.xlsx — Financials stock-level excess return, valuation multiple relative to index, momentum score, dividend-yield multiple, beta, industry and chart pattern.
- **FactSet** S&P 500 Financials Sector Earnings Preview, Q2 2026 — Financials earnings growth, industry earnings estimates, Capital Markets, Banks, Financial Services, Consumer Finance and Insurance framework.
- **Federal Reserve** 2026 Bank Stress Test Results — large-bank capital resilience, projected losses, CRE stress, credit-card loss assumptions and CET1 framework.
- **Federal Reserve** FOMC Statement, July 29, 2026 — rate range, vote split, inflation language, labor-market assessment and policy backdrop.
- **JPMorgan Chase** Q2 2026 Earnings Release — net income, EPS, revenue, CET1 ratio, loans, deposits, credit costs and capital distribution.
- **Bank of America** Q2 2026 Earnings Release — net income, revenue, net interest income, ROTCE, CET1 ratio, loans/deposits and capital return.
- **Citigroup** Q2 2026 Earnings Release — net income growth, revenue, buyback plan, CET1 ratio, business-line performance and credit backdrop.
- **Wells Fargo** Q2 2026 Earnings Release — net income, EPS, revenue, loans, deposits, CET1 ratio and credit costs.
- **Goldman Sachs** Q2 2026 Earnings Release — net revenue, EPS, ROE, trading and investment-banking strength.
- **Morgan Stanley** Q2 2026 Earnings Release — net revenue, EPS, ROTCE, Institutional Securities, Wealth Management and net new assets.
- **Nasdaq** Q2 2026 Earnings Release — net revenue, Solutions revenue, ARR, SaaS revenue, Financial Technology revenue and Index revenue.
- **Reuters** ICE / MarketAxess acquisition, July 30, 2026 — fixed-income trading acquisition, deal value, trading/data strategy and market infrastructure read-through.
- **PayPal** Q2 2026 Results Release — payments and fintech recovery context.
- **Progressive** June / Q2 2026 Results — net premiums, net income, combined ratio and P&C insurance underwriting backdrop.

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

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

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