

NDR Sector Views

JUNE 4, 2025

Financials: Marketweight effective 4/8/25

Key Takeaways

- Financials gained more than 4% in May but trailed the S&P 500 by roughly 200 basis points.
- The yield curve and loan growth have trended in positive directions for the sector in recent months.
- We remain marketweight, matching the sector model.

While Financials underperformed the S&P 500 in May, the sector still posted a solid gain of more than 4%. Outperformance from the Banks and Capital Markets industries were offset by underperformance from the sector's largest industry, Financial Services, as Berkshire Hathaway declined over 5% following Warren Buffett's retirement announcement. We remain marketweight for now, matching the sector model.

Key drivers: Two of the most important macro inputs we monitor for Financials are the yield curve and loan growth, both of which are reflected in our sector model. The Yield Curve indicator turned bearish on February 21 for the first time in over a year, but encouragingly reversed back to bullish on April 7, signaling a potential tailwind for the sector. While the Loan Growth indicator remains in bearish territory, it has shown steady improvement in recent months and appears on track to turn bullish in the next few weeks.

Indicators to watch: In addition to the positive developments from the Yield Curve and Loan Growth indicators, the sector's internal (price-based) composite showed further progress in May. The Relative Overbought/Oversold indicator shifted from bearish to neutral on May 22, and the Financials Trend indicator turned bullish

earlier in the month on May 2. While slowing U.S. and global economic growth remains a headwind, a soft-landing scenario could provide a supportive backdrop for continued strength in the sector.

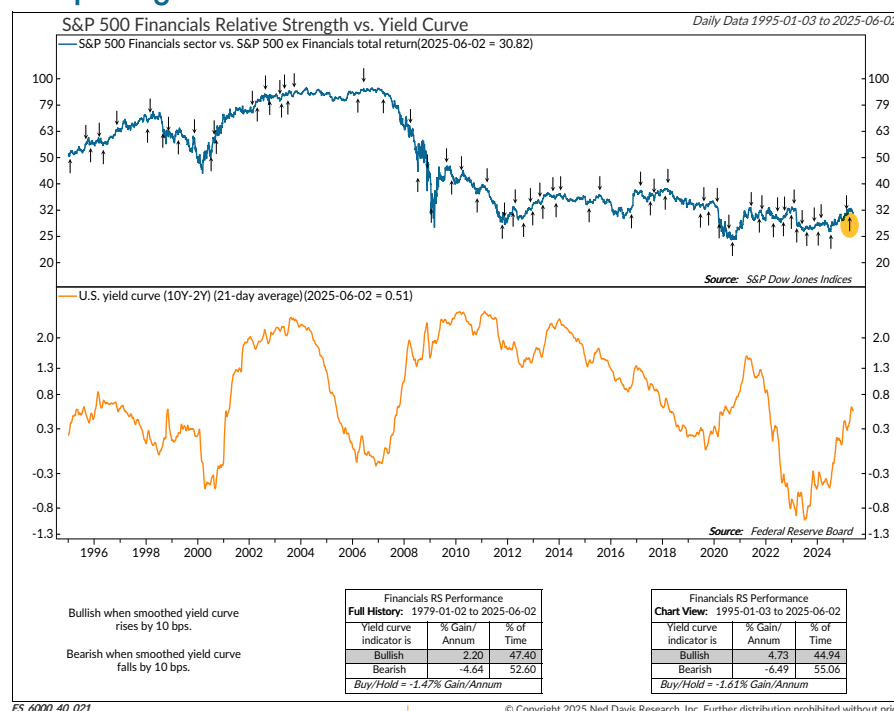
Sector positives

- Four of six curve composite models are in their steepening zones
- Sector could benefit from deregulation
- Berkshire Hathaway, the sector's largest company, is up almost 20% on the year

Sector negatives

- Berkshire Hathaway sold off after Buffett stepped down
- A weak dollar is historically bearish for the sector
- Financials has been the poorest performer when inflation is rising

Steepening curve is bullish for Financials



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Some sectors receive “over-,” “market-,” or “under-” weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

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