

NDR Sector Views

AUGUST 5, 2025

Financials: Marketweight effective 4/8/25

Key Takeaways

- Financials underperformed by roughly 200 basis points in July.
- We are monitoring the yield curve and loan growth to help assess prospects for the sector, and readings are currently mixed.
- We remain marketweight, matching the sector model.

Indicators to watch: Financials tends to be one of the most economically sensitive sectors. The fact that more data has beaten estimates and resulted in a rise in the Citi Economic Surprise Index is a bullish development for the sector. However, the technical picture remains murky, with only half of the internal (price-based) indicators

in our sector model currently bullish. The model remains marketweight, matching our recommendation on the sector.

Sector positives

- All curve composite models are in their steepening zones
- Sector could benefit from deregulation
- Sector's internal (price-based) indicators lean bullish

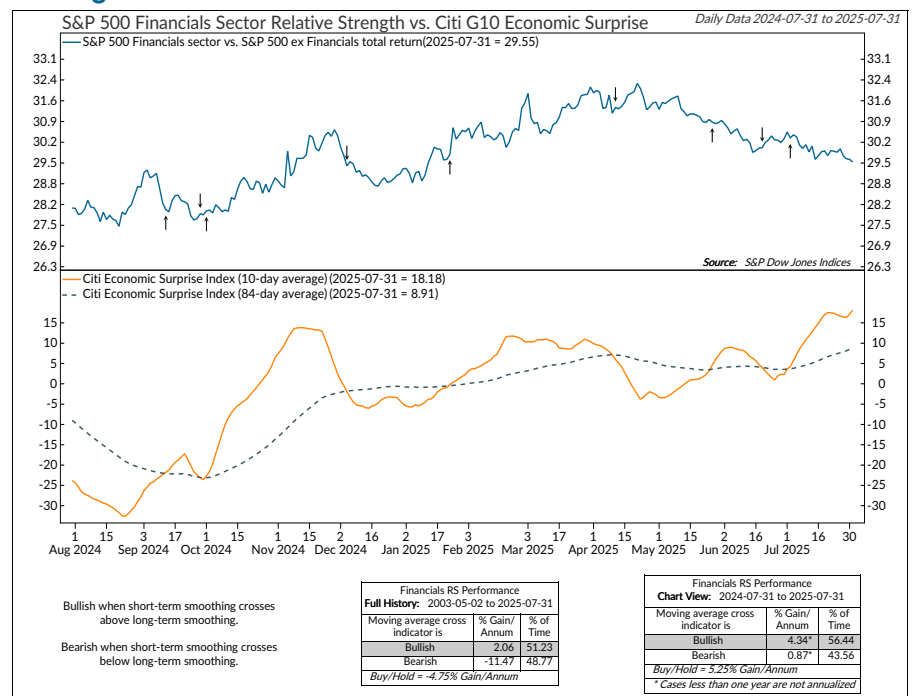
Sector negatives

- Sector's external (non-price-based) indicators lean bearish
- A weak dollar is historically bearish for the sector
- Berkshire has been weak since Buffett announced retirement

Financials has struggled to get into gear this year, with consistent divergences between industries. The trend continued in July, with the Capital Markets, Mortgage REITs, and Banks industries finishing with positive returns, while Consumer Finance, Financial Services, and Insurance all registered losses. As a result, Financials slipped 0.2% in July and was the fourth-worst performing sector during the month. We remain marketweight.

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 has since reversed back to bullish, signaling that a steepening curve could act as a 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 soon.

Strong economic data have been bullish for Financials



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Recommendations

NDR’s sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a “short leash” if they rank opposite the model’s top and bottom quintiles, unless industry-specific influences can be shown to dominate.

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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