# Market Coverage

Sector Overview – Financial

## Financial Sector Overview

### I. *Background*

- Sector Definition:
  - i. Provides financial goods and services to commercial and retail clients.
  - ii. Services include lending capital, investing capital, facilitating transactions, and providing advisory functions.
- Sector Size:
  - i. As of June 21, 2024, the financial sector is the **second largest sector** in the economy:
    1. More than $10.5 trillion in public market capitalization.
    2. Representing 14.35% of the total market.
- Sector Composition:
  - i. Banking; Insurance; Capital Market Services

### II. *Players in the Sector*

*Market Capitalizations as of June 21, 2024*

- Allstate Corp (NYSE: ALL) // Market Capitalization ~42 Billion
- Berkshire Hathaway (NYSE: BRK) // Market Capitalization ~$883 Billion
- Blackrock (NYSE: BLK) // Market Capitalization ~117 Billion

- Goldman Sachs (NYSE: GS) // Market Capitalization ~$145 Billion
- MetLife (NYSE: MET) // ~$50 Billion
- Wells Fargo (NYSE: WFC) // Market Capitalization ~$202 Billion

## *III. Sector Performance*

- <u>Return:</u>
    i. The sector has returned 9.9% throughout 2024 (year-to-date), based on the performance of the ETF SPDR Fund XLF.
    ii. Relative to the SPY, the financial sector has underperformed the general market by 6.1% YTD 2024.

## *IV. Additional Notes*

- The Financial Sector is highly dependent on interest rates, cost of capital, and the ability to efficiently lend and borrow money.
    i. For example: A bank's core function is to lend capital and provide the marketplace with liquidity. Therefore, contrary to other business models, a loan appears as an asset on the bank's balance sheet and not a liability.
        1. The bank's financial health is partially attributed to its ability to profit from Net Interest Income (NII).
        2. NII is the difference between interest received on deployed capital (bank asset) versus interest paid out on deposits (bank liability).
            a. In other words, the bank needs to collect more on interest coming in from its loan portfolio, compared to what it pays in interest to depositors.
- Consequences of a Raising Interest Rate Environment
    i. Increasing the cost of borrowing is detrimental to the overall return on capital projects, leading to contractions in both the financial sector and broader marketplace.

1. If the cost of borrowing deters businesses and consumers from engaging in transactions, then the financial sector originates less new business and the broader marketplace is less likely to expand.

- Interest Rate Sensitivities and Balance Sheet Risk
    i. Financial institutions have strict capital requirements and depend on asset values to remain steady for both liquidity and regulatory purposes.
    ii. Interest rates and bond prices have a negative relationship.
        1. An increase in interest rates, means a decrease in bond prices.
            a. If a bank is holding bonds for regulatory or capital purposes, and the value of those bonds decrease, then this could result in regulatory issues and liquidity issues if the bank needs immediate cash.

*The Warren Fox Group does not provide investment advice or legal advice. The information provided above should be used solely for educational purposes.*

*The material in this document reflects performance based on adjusted close prices for June 21, 2024.*

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