WEEKLY INVESTMENT REPORT

Markets in Transition: Interest Rate Expectations and Corporate Momentum

August 3, 2026

REPORT

NAVIGATING CROSSCURRENTS: FED POLICY, EARNINGS, AND MARKET ROTATION
ROTATION

U.S. equity markets closed a turbulent month of July with flat-to-negative performance: the S&P 500 ended the month down -0.13% and the Dow Jones up +0.32%. The Nasdaq closed the month in negative territory, down -3.2%, as semiconductor stocks posted their worst month since 2008, falling -11.6% amid growing concern over the rationalization of technology capital spending.

The Federal Reserve held its benchmark interest rate unchanged, between 3.5% and 3.75%, for a fifth consecutive meeting on July 30; the decision proved controversial, however, as three dissenting committee members—Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari, and Dallas Fed President Lorie Logan—voted to raise rates by 25 basis points to combat persistent inflation. Fed Chair Kevin Warsh’s post-meeting press conference triggered a sharp bond-market sell-off, with the 30-year Treasury yield jumping as much as 14 basis points to near 5.23%—its highest level in 19 years—as investors interpreted his cautious stance on rate hikes as a signal that action would be delayed despite his “zero tolerance” rhetoric on inflation, undermining market confidence in the central bank’s commitment to price stability.

Warsh downplayed the 0.4% month-over-month decline in June CPI, calling it “insignificant,” and reaffirmed that inflation remained “elevated,” though the gap between his hawkish rhetoric and dovish policy actions raised early doubts about the credibility of his leadership. United Parcel Service reported revenue of $22.8 billion, exceeding expectations, while raising its full-year revenue guidance to $91.2 billion and adjusted earnings-per-share guidance to $7.22. Meanwhile, Coca-Cola surged 5% after reporting results that beat consensus estimates on both revenue and earnings and raising its full-year outlook.

Amazon rallied sharply on Friday, helping propel the “Magnificent Seven” index 3.2% higher, although Apple declined amid profit-taking following an extended rally. Market rotations reflected growing investor uncertainty about whether large-cap technology valuations can remain sustainable given increasing capital intensity requirements and geopolitical risks.

Meanwhile, oil prices climbed back above $100 per barrel as renewed hostilities between the United States and Iran reinforced investor concerns that no lasting resolution to tensions in the Middle East is in sight. The resurgence in energy prices threatens to rekindle inflation expectations just as the Federal Reserve appears reluctant to pursue more decisive monetary tightening.

The week underscored the market's increasingly divided narrative. On one hand, investors celebrated July's second-best monthly performance since 2020; on the other, concerns surrounding Federal Reserve credibility and geopolitical risks suggested that the path toward inflation normalization remains uncertain and that monetary policy transmission may be weakening. We continue to believe that current inflationary pressures are primarily supply-driven and therefore likely to prove temporary.

redistribution.

Source: Sentosa & Co.
Co.

FLUCTUATIONS AND MACROECONOMIC DATA

KEY DATES FROM LAST WEEK (JUL 31)

Jul 27 — Durable Goods Orders: actual 0.3% (prev. 1.8%)

Jul 28 — CB Consumer Confidence: actual 90.8 (est. 92.4)

Jul 29 — FOMC Rate Decision: actual 3.75% (est. 3.75%)

Jul 30 — Core PCE m/m: actual -0.1% (est. -0.1%)

Jul 30 — Core PCE y/y: actual +3.7% (est. 3.7%)

Jul 30 — Q2 GDP Annualized: actual 1.5% (prev. 2.0%)

Jul 31 — U. Michigan Sentiment: actual 55.2 (prev. 54.0)

KEY DATES FOR NEXT WEEK

Aug 3 — S&P Global Mfg PMI: est. 53.8; ISM Mfg: 53.9

Aug 4 — Trade Balance: est. -$73.0B

Aug 7 — Nonfarm Payrolls: est. 85,000; Unemployment Rate: est. 4.2%

GLOBAL EQUITY INDICES	Last	5D	1M	YTD
MSCI WORLD	4,847.88	1.23%	0.11%	9.42%
MSCI EM	1,665.89	2.33%	-3.23%	18.62%
MSCI EM LATIN AMERICA	3,090.14	2.02%	3.84%	14.06%
MSCI AC ASIA x JAPAN	1,103.67	2.43%	-3.27%	20.83%
USA				
S&P 500 INDEX	7,489.72	1.05%	0.09%	9.41%
NASDAQ COMPOSITE	25,373.85	1.59%	-1.78%	9.17%
DOW JONES INDUS. AVG	52,485.03	1.04%	-0.78%	9.20%
RUSSELL 2000 INDEX	2,931.34	0.05%	-2.16%	18.11%
EUROPE				
STXE 600 (EUR) Pr	649.19	0.73%	-0.55%	9.63%
Euro Stoxx 50 Pr	6,358.01	1.23%	-0.85%	9.78%
DAX INDEX	25,629.24	2.11%	-0.58%	4.65%
CAC 40 INDEX	8,509.64	1.64%	0.02%	4.42%
FTSE MIB INDEX	52,172.53	0.71%	-1.22%	16.08%
IBEX 35 INDEX	19,782.90	1.01%	-0.35%	14.30%
SWISS MARKET INDEX	14,346.14	0.13%	-0.54%	8.13%
FTSE 100 INDEX	10,868.05	1.23%	1.77%	9.43%
ASIA				
NIKKEI 225	64,362.02	-0.39%	-7.72%	27.86%
HANG SENG INDEX	25,884.43	3.69%	10.85%	0.99%
CSI 300 INDEX	4,588.20	-1.31%	-5.25%	-0.90%
SENSEX	78,094.64	2.68%	0.43%	-8.36%
LATAM				
S&P/BMV IPC	66,936.99	0.83%	-0.18%	4.09%
BRAZIL IBOVESPA INDEX	177,999.00	2.27%	2.26%	10.47%
MSCI COLCAP INDEX	2,392.10	5.17%	4.20%	15.67%
S&P/CLX IPSA (CLP) TR	11,017.49	0.61%	1.81%	5.11%

EQUITIES SECTORS	Last	5D	1M	YTD
MSCI WORLD/CONS DIS	494.39	7.54%	1.22%	-1.68%
MSCI WRLD/COMM SVC	165.87	4.70%	-1.61%	-0.48%
MSCI WORLD/ENERGY	352.43	2.45%	12.41%	31.85%
MSCI WORLD/CON STPL	318.08	1.92%	0.27%	7.01%
MSCI WORLD/FINANCEVAL	206.78	1.04%	3.55%	11.38%
MSCI WORLD BANK INDEX	219.76	0.82%	4.07%	17.14%
MSCI WORLD/INDUSTRL	563.97	0.22%	-1.67%	12.90%
MSCI WORLD/HLTH CARE	408.83	0.10%	-1.68%	2.35%
MSCI WORLD/MATERIAL	427.69	0.02%	-3.12%	7.88%
MSCI WORLD/INF TECH	1,132.10	-0.06%	-1.19%	16.28%
MSCI WORLD/REAL EST	1,139.64	-1.20%	1.33%	8.14%
PHILA GOLD & SILVER INDX	307.90	-1.60%	-6.25%	-10.05%
MSCI WORLD/UTILITY	210.74	-3.23%	-2.70%	5.74%

US RATES	Last	5D Close	12M Close
2Y	4.29	4.33 (-0.04)	3.96 (+0.33)
5Y	4.45	4.43 (+0.02)	3.97 (+0.48)
10Y	4.73	4.68 (+0.06)	4.37 (+0.36)

BONDS CREDIT SPREAD	Last	5D Close	12M Close
EM Bonds Spread	227.13	226.5 (+0.7)	271.58 (-44.5)
HY Bonds Spread	268.00	278.0 (-10.0)	270.00 (-2.0)
BBB 10yr Spread	158.53	161.3 (-2.8)	169.20 (-10.7)

FIXED INCOME	Last	5D	1M	YTD
US High Yield	2,964.19	0.18%	-0.33%	1.71%
EM Bonds USD	1,396.48	-0.04%	-1.16%	0.70%
EM Local Currency	154.03	1.34%	0.49%	0.62%
CoCos USD	151.29	0.64%	-0.45%	0.02%
IG BBB 3-5yr USD	391.78	-0.01%	-1.43%	-2.22%
IG AA Corp USD	279.53	-0.08%	-2.33%	-0.41%

COMMODITIES	Last	5D	1M	YTD
CRB INDEX	385.10	-2.67%	9.08%	28.89%
WTI	84.67	-5.20%	21.83%	47.46%
Brent	96.22	-2.60%	34.54%	54.09%
US Natural Gas	2.75	-4.32%	-16.12%	-25.47%
S&P GSCI Precious Metal	5,418.81	-0.69%	-0.98%	-6.88%
Gold	4,046.15	-0.16%	0.95%	-6.33%
Silver	57.60	-1.00%	-1.71%	-19.63%
Platinum	1,648.38	3.54%	6.17%	-20.00%
Palladium	1,283.46	2.94%	5.88%	-20.77%
S&P GSCI Ind Metal Index	601.07	0.89%	3.63%	8.82%
Aluminum	3,184.00	0.78%	3.19%	6.29%
Copper	13,835.70	1.33%	3.65%	11.10%
Nickel	17,064.40	-0.70%	6.07%	3.42%
S&P GSCI Agriculture	384.04	-3.22%	5.38%	8.98%

CURRENCIES	Last	5D	1M	YTD
CHF vs. USD	0.8075	1.33%	0.11%	-1.85%
JPY vs. USD	157.4000	4.09%	3.27%	-0.44%
CAD vs. USD	1.4021	0.53%	1.25%	-2.12%
EUR vs. USD	1.1527	1.38%	0.92%	-1.86%
GBP vs. USD	1.3483	1.19%	1.67%	0.06%
AUD vs. USD	0.7019	0.57%	1.45%	5.19%
BRL vs. USD	5.0729	0.20%	1.75%	7.92%
MXN vs. USD	17.3426	0.80%	0.84%	3.84%
COP vs. USD	3,155.01	2.04%	8.34%	19.73%
CNY vs. USD	6.7531	0.27%	0.50%	3.48%
EUR vs. CHF	0.9304	-0.01%	-0.77%	0.04%
DOLLAR INDEX	99.9140	-1.53%	-1.26%	1.62%
BITCOIN	63,037.98	-2.88%	4.94%	-28.08%

Source: Sentosa & Co.

SECOND QUARTER 2026 — FINANCIAL RESULTS

EARNINGS GROWTH

Sector	Pos.	Inline	Neg.	%
S&P 500	246	5	54	57.00%
Materials	16	0	3	41.25%
Industrials	48	0	10	13.55%
Consumer Staples	10	1	2	7.41%
Energy	7	1	2	135.67%
Technology	27	0	3	61.09%
Consumer Discretionary	16	2	11	135.37%
Communications	9	0	2	119.35%
Financials	58	0	6	21.72%
HealthCare	27	0	3	19.82%
Utilities	11	0	7	13.55%
RealEstate	17	1	5	11.31%

EARNINGS SURPRISE

Sector	Pos.	Inline	Neg.	%
S&P 500	264	10	31	31.07%
Materials	16	0	3	6.32%
Industrials	51	2	5	6.22%
Consumer Staples	11	1	1	4.07%
Energy	8	0	2	6.11%
Technology	27	2	1	11.87%
Consumer Discretionary	21	2	6	120.71%
Communications	8	0	3	99.14%
Financials	58	1	5	10.65%
HealthCare	29	0	1	12.13%
Utilities	14	2	2	6.66%
RealEstate	21	0	2	1.85%

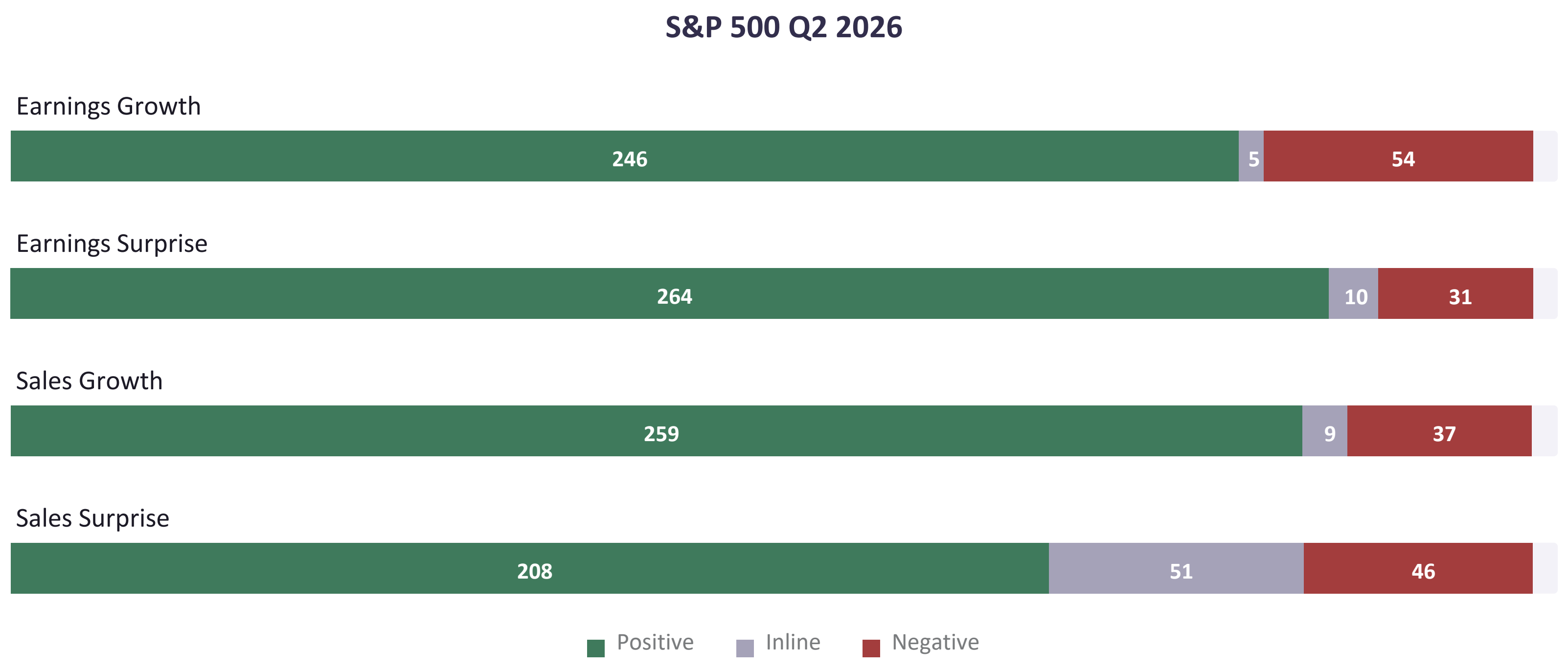
SALES GROWTH

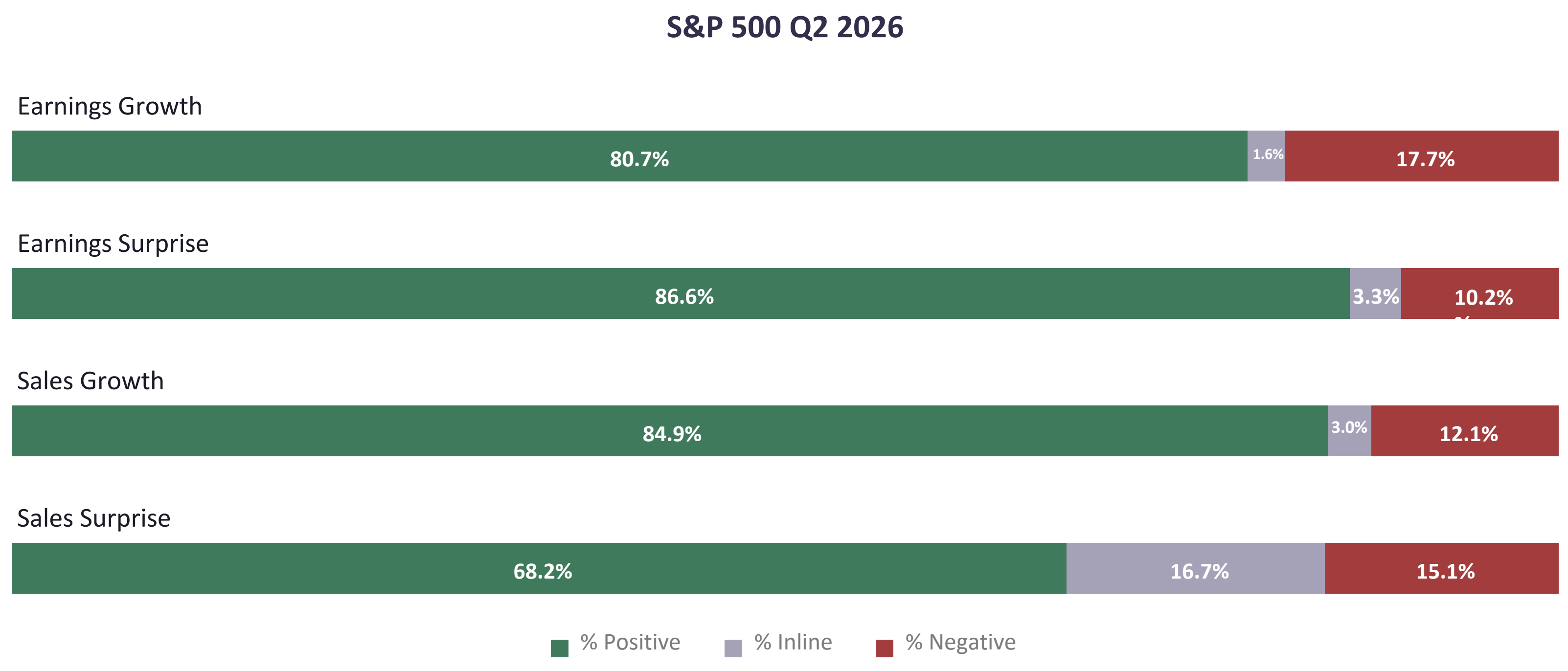
Sector	Pos.	Inline	Neg.	%
S&P 500	259	9	37	14.81%
Materials	16	0	3	9.04%
Industrials	52	2	4	10.71%
Consumer Staples	12	0	1	14.35%
Energy	6	0	4	39.09%
Technology	27	0	3	25.31%
Consumer Discretionary	19	1	9	10.53%
Communications	8	0	3	14.76%
Financials	60	1	3	15.55%
HealthCare	29	1	0	6.95%
Utilities	11	3	4	4.27%
RealEstate	19	1	3	12.52%

SALES SURPRISE

Sector	Pos.	Inline	Neg.	%
S&P 500	208	51	46	3.09%
Materials	13	2	4	1.72%
Industrials	44	7	7	3.23%
Consumer Staples	9	3	1	1.85%
Energy	9	0	1	8.96%
Technology	25	3	2	3.17%
Consumer Discretionary	14	7	8	1.49%
Communications	4	4	3	0.80%
Financials	41	13	10	4.56%
HealthCare	26	4	0	3.02%
Utilities	7	2	9	-1.50%
RealEstate	16	6	1	1.85%

SECOND QUARTER 2026 — FINANCIAL RESULTS





Source: Sentosa & Co.

LAST WEEK'S EARNINGS SEASON

Date	Company	Est. EPS	Est. Rev	Act. EPS	Act. Rev	EPS Diff.	Rev Diff.
07/28 AM	Boeing	($0.28)	$24.26B	($0.76)	$24.56B	NA	1.2%
07/28 AM	Coca-Cola	$0.93	$13.16B	$0.97	$13.37B	4.1%	1.7%
07/28 AM	American Tower Corp	$2.50	$2.70B	$2.68	$2.75B	7.2%	1.7%
07/28 AM	United Parcel Service	$1.67	$21.84B	$1.76	$22.80B	5.4%	4.4%
07/28 PM	Mondelez International	$0.68	$9.20B	$0.73	$9.36B	7.2%	1.6%
07/28 PM	Visa Inc.	$3.23	$11.40B	$3.32	$11.63B	2.7%	2.1%
07/29 AM	Procter & Gamble	$1.41	$21.34B	$1.43	$21.20B	1.5%	-0.6%
07/29 AM	General Dynamics	$3.97	$13.54B	$4.24	$14.09B	6.8%	4.1%
07/29 PM	Microsoft	$4.25	$87.72B	$4.74	$90.01B	11.5%	2.6%
07/29 PM	Meta Platforms	$7.15	$60.24B	$6.18	$60.80B	-13.5%	0.9%
07/29 PM	Lam Research	$1.70	$6.68B	$1.82	$6.72B	7.2%	0.6%
07/29 PM	Qualcomm	$2.22	$9.62B	$2.21	$9.95B	-0.2%	3.4%
07/29 PM	Starbucks	$0.65	$9.16B	$0.85	$9.32B	31.2%	1.8%
07/30 AM	Southern Co	$1.01	$7.20B	$1.13	$6.98B	11.7%	-3.1%
07/30 AM	Altria Group	$1.50	$5.35B	$1.48	$5.36B	-1.1%	0.2%
07/30 AM	Bristol-Myers Squibb	$1.60	$11.74B	$2.04	$12.97B	27.4%	10.5%
07/30 AM	Mastercard	$4.77	$9.08B	$5.04	$9.28B	5.6%	2.2%
07/30 PM	Amazon.com	$1.83	$197.01B	$5.75	$200.61B	214.6%	1.8%
07/30 PM	Apple	$1.89	$108.85B	$2.02	$109.42B	7.1%	0.5%
07/31 AM	Chevron	$5.65	$67.93B	$6.06	$70.06B	7.3%	3.1%
07/31 AM	Linde	$4.49	$9.01B	$4.50	$9.29B	0.3%	3.1%
07/31 AM	ExxonMobil	$3.54	$103.10B	$3.52	$116.02B	-0.5%	12.5%
07/31 AM	Colgate-Palmolive	$0.95	$5.35B	$0.99	$5.36B	4.5%	0.2%
07/31 AM	AbbVie	$3.61	$16.77B	$3.65	$16.99B	1.2%	1.3%

Source: Sentosa & Co.

NEXT WEEK'S EARNINGS SEASON

		ESTIMATE		ACTUAL		DIFFERENCE	
Date	Company	EPS	Rev	EPS	Rev	EPS	Rev
08/03	Palantir Technologies	$0.35	$1.81B				
08/03	Berkshire Hathaway	$7,499.71	$94.80B				
08/04	Caterpillar	$6.17	$18.13B				
08/04	McDonald's	$3.33	$7.12B				
08/04	Merck & Co.	($0.23)	$16.34B				
08/04	Pfizer	$0.68	$14.41B				
08/04	Booking Holdings	$2.42	$7.18B				
08/04	Advanced Micro Devices	$1.62	$11.31B				
08/04	Amgen	$5.62	$9.44B				
08/04	Duke Energy	$1.30	$7.64B				
08/04	Emerson Electric	$1.68	$4.80B				
08/04	Gilead Sciences	($7.17)	$7.40B				
08/05	Walt Disney	$1.86	$25.39B				
08/05	Uber Technologies	$0.84	$14.24B				
08/05	Honeywell Aerospace	$2.06	$4.61B				
08/05	Eli Lilly	$6.01	$20.59B				
08/05	CVS Health	$1.85	$100.02B				
08/06	ConocoPhillips	$2.90	$18.35B				

IN ON CAPITAL ASSET OUTLOOK

Despite our recent upgrade of the equity strategy to "Neutral" on improving fundamentals, the market is in a sideways consolidation phase since the highs reached in May. Prices are consolidating after a strong three-month rally led by the information technology sector. In fact, it is precisely this sector that is leading the current consolidation, having far outpaced the market between April and June with a +41% return in just two months. In any case, the economy is showing great resilience, and job creation is recovering strongly after the 2025 slowdown, which gives us confidence in the medium-term trend. Despite the risk of renewed pressure on large-cap stocks, we believe the market could be cushioned by a degree of sector rotation toward cyclical and defensive names. We remain optimistic despite the current short-term correction.

Asset Class	U	N	O
Fixed Income			
Equities			
Alternatives			

Regions (Equity)	U	N	O
North America			
Europe			
Emerging Markets			
Japan			

Equity Sectors	U	N	O
Consumer Staples			
Health Care			
Telcom Services			
Utilities			
Consumer Disc.			
Energy			
Financials			
Industrials			
Technology			
Real Estate			
Materials			

THIS WEEK'S THEME

Banks Hit Record Highs in 2026

Over the past several years, we have repeatedly noted that the banking sector is undervalued and holds upside potential. Specifically, we refer to European banks, which have consistently lagged their U.S. counterparts since the 2008 financial crisis due to stricter capital requirements imposed by regulators. We turned particularly bullish on European banks in early 2025 (see our February 2025 report: “European Banks Are Back!”) and have progressively upgraded our view from “neutral” to “overweight” over time. The reality is that the post-COVID-19 environment has been, quite literally, a tailwind for banks, which have benefited from the perfect combination of an aggressive Fed (and other central bank) rate-hiking cycle from 0.25% to 5.50% between 2022 and 2023, a significant pickup in economic activity driven by massive government liquidity injections, and a euphoric bull market fueled by that same liquidity.

In fact, from October 2023 to the present, the MSCI banking sector has posted an impressive +160% return (Chart 1). Of the 33 months between October 2023 and July 2026, 75% closed in positive territory. Ironically, despite this impressive performance, the banking sector appears to be only just beginning its long-term positive relative performance. Looking at the relative chart, banks emerged in 2025 from an 18-year relative bear market and now find themselves on an entirely new long-term relative trajectory (Chart 2).

Chart 1: MSCI World Bank — long-term chart (+150.63% / +39.75% annualized since 2023)

Chart 2: MSCI Banks vs. MSCI World ratio

Source: Sentosa & Co.

THIS WEEK'S THEME

US Banks vs. European Banks

The banking sector has delivered strong equity market performance in 2026, with the KBW Bank Index gaining 13.31% year-to-date, significantly outperforming the broader S&P 500 Financials sector, which is up 4.37%. Performance dispersion within the index has been substantial. BNY Mellon leads the large-cap group with a 34.6% return, followed by PNC Financial (+20.6%) and U.S. Bancorp (+19.1%). Morgan Stanley, Goldman Sachs, Citigroup, and Bank of America have also posted gains ranging from the mid-single digits to the mid-double digits. JPMorgan Chase, the largest U.S. bank by market capitalization at approximately $942 billion, is up 9.6%. Clear laggards include Wells Fargo (-9.4%) and Capital One (-15.0%), although the latter reflects consumer credit-specific pressures rather than a broader sector trend. While U.S. banks are leading in 2026 on an index basis, a longer-term perspective tells a different story. European banks have outperformed their U.S. counterparts across every time horizon analyzed (Chart 3). The most striking gap appears over the five-year period, during which the STOXX Europe 600 Banks Index (SX7P) returned 333.6%, compared with 78.8% for the KBW Bank Index (BKX). Even year-to-date in 2026, European banks lead with a 22.0% gain versus 13.4% for comparable U.S. banking indices. This outperformance has been driven by higher interest rates, disciplined cost control, and generous capital distributions, rather than by simple multiple expansion.

Importantly, Europe’s stronger performance has not made the sector expensive. European banks continue to trade at a discount to their U.S. peers on both earnings and book-value multiples, while offering nearly double the dividend yield (Chart 4). The SX7P trades at 12.3x trailing earnings and 11.6x forward earnings (2026E), compared with 13.4x and 12.9x, respectively, for the BKX. Similarly, European banks trade at 1.59x price-to-book value, versus 1.69x for U.S. banks. The income advantage is particularly notable: European banks offer a 4.31% dividend yield, compared with 2.29% for their U.S. counterparts, representing a spread of approximately 200 basis points, a meaningful contributor to long-term total return.

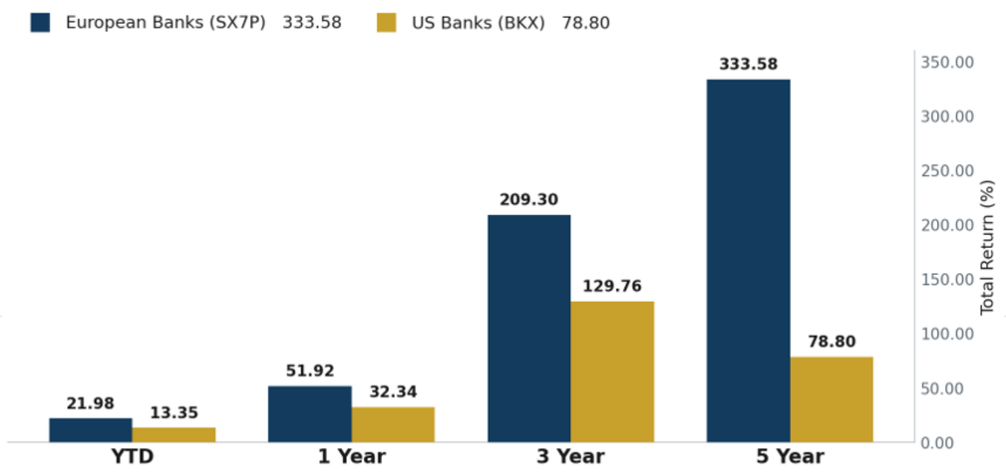


Chart 3: Total return — European Banks (SX7P) vs. US Banks (BKX)

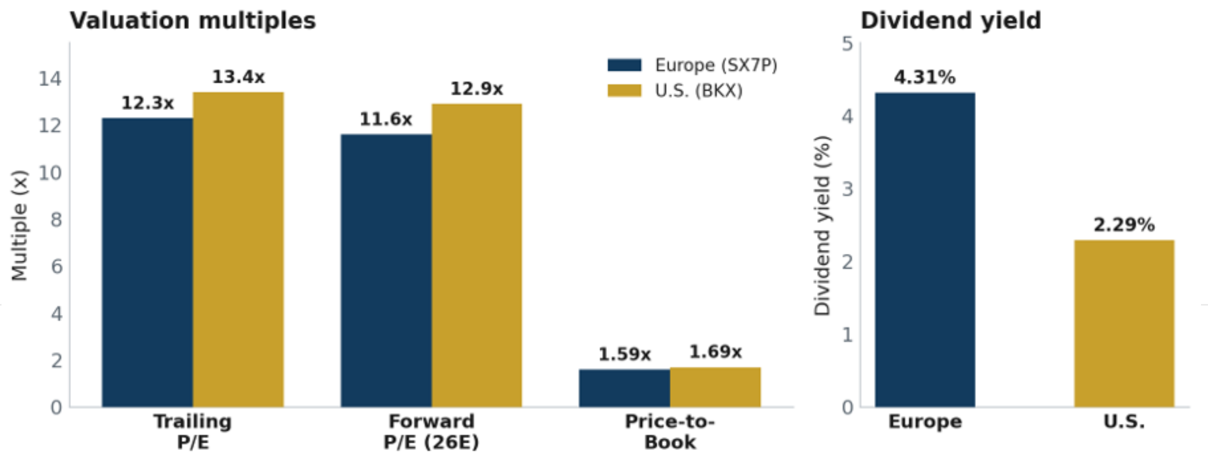


Chart 4: Valuation multiples and dividend yield

THIS WEEK'S THEME

Second-Quarter Earnings Season

The second quarter of 2026 marked one of the strongest bank earnings seasons in recent memory on both sides of the Atlantic, although the two regions told distinctly different stories. U.S. banks stood out for the magnitude of their earnings beats, driven by an extraordinary rebound in capital markets activity, while European banks impressed through disciplined cost management, broad-based upward revisions to earnings expectations, and steady underlying profitability (Chart 5). Overall, the reporting season reinforced the banking sector's position as one of the best-performing industries of 2026.

The defining theme for U.S. banks was the surge in capital markets and investment banking revenues, fueled by heightened market volatility and a revival in merger-and-acquisition activity. Of the 20 KBW Bank Index constituents that reported earnings, 19 exceeded consensus EPS estimates, representing a 95% beat rate, with an average EPS surprise of +12.6%. Both the breadth and magnitude of these earnings beats were exceptional by historical standards. JPMorgan Chase set the tone by reporting the largest quarterly profit in its history. Equity trading revenue surged 86% year-over-year to $6.03 billion, lifting total markets revenue to a record $12.1 billion, surpassing the previous all-time high. European banks also delivered a strong quarter, albeit a more moderate one, as 28 of the 33 SX7P Index constituents that reported earnings exceeded consensus EPS estimates, resulting in an 85% beat rate and an average EPS surprise of +6.6% (Chart 6). Although headline figures trailed those of their U.S. counterparts, the quality of the earnings beats was particularly notable.

The outperformance was driven primarily by disciplined cost control, lower-than-expected credit losses, resilient net interest margins, and, to a lesser extent, one-off gains from selected capital markets activities. BNP Paribas led the European banking sector with a +27.5% EPS surprise, followed by Deutsche Bank (+21.8%) and Standard Chartered (+18.3%).

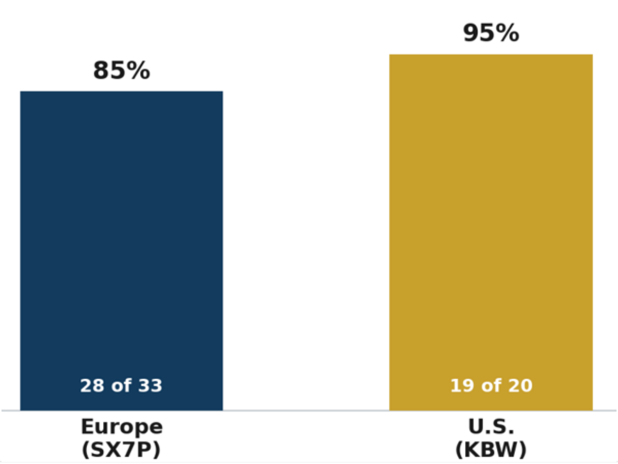


Chart 5: EPS beat rate — Europe (28 of 33) vs. US (19 of 20)

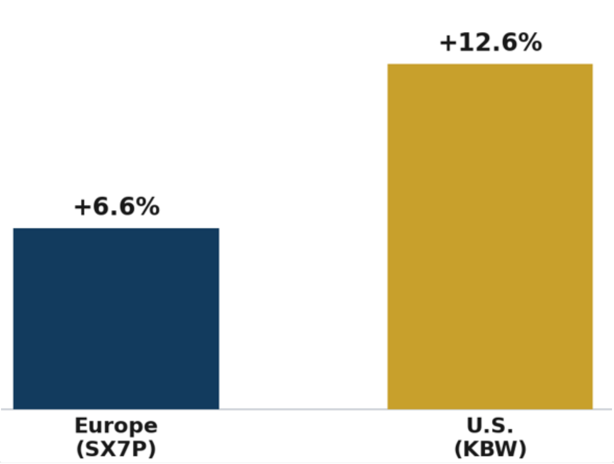


Chart 6: Average EPS surprise — Europe +6.6% vs. US +12.6%

Source: Sentosa & Co.

THIS WEEK'S THEME

The Main Drivers Behind Earnings Per Share

The key question for us is understanding where the sector's current growth is coming from and whether the current trend can remain sustainable in the coming years. As we have noted on numerous occasions across our various reports, we are betting on a dovish Fed and believe interest rates are peaking; therefore, it is important that growth drivers do not depend entirely on net interest income.

Looking back at the evolution of the five largest U.S. banks, three distinct phases emerge (Chart 7). Between 2020 and 2021, investment banking was the dominant growth engine: investment banking fees surged from $35.3 billion to $49.6 billion (+40%), as the post-pandemic dealmaking boom and the wave of SPAC transactions drove record fee income. Net interest income remained flat or declined during this period, as the Fed kept interest rates near zero. In the second phase, starting in 2022, net interest income became the primary growth driver, rising from $148.9 billion in 2020 to $213.2 billion in 2023 (+43%), as the Fed's aggressive rate-hiking cycle was directly reflected in loan yields and deposit margins. Investment banking fees, by contrast, collapsed between 2022 and 2023 as deal activity stalled amid uncertainty over the interest rate outlook.

The third and current phase, beginning in 2024, shows wealth management emerging as the second most powerful structural growth engine, increasing from $78.8 billion in 2020 to $111.7 billion in 2025 (+41.8%), driven by higher assets under management (AUM), stock market appreciation, and the growth of fee-based advisory services at Morgan Stanley, JPMorgan, and Goldman Sachs. Trading activity has also reaccelerated, reaching $60.1 billion in 2025, its highest level of the period.

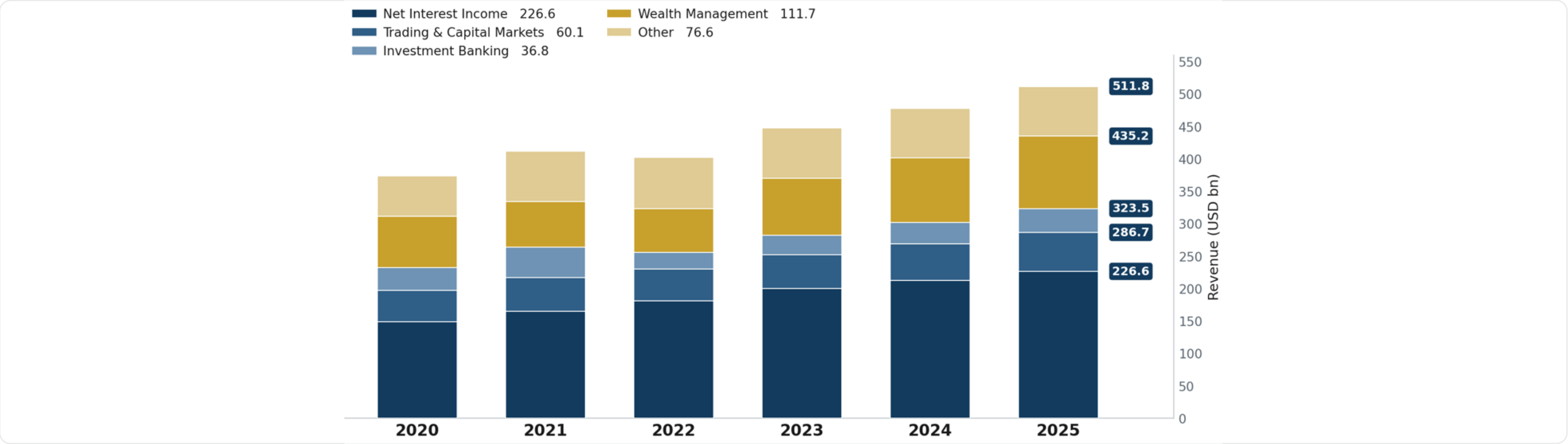


Chart 7: US banks — revenue driver evolution 2020–2025 (USD bn, JPM + BAC + GS + MS + WFC)

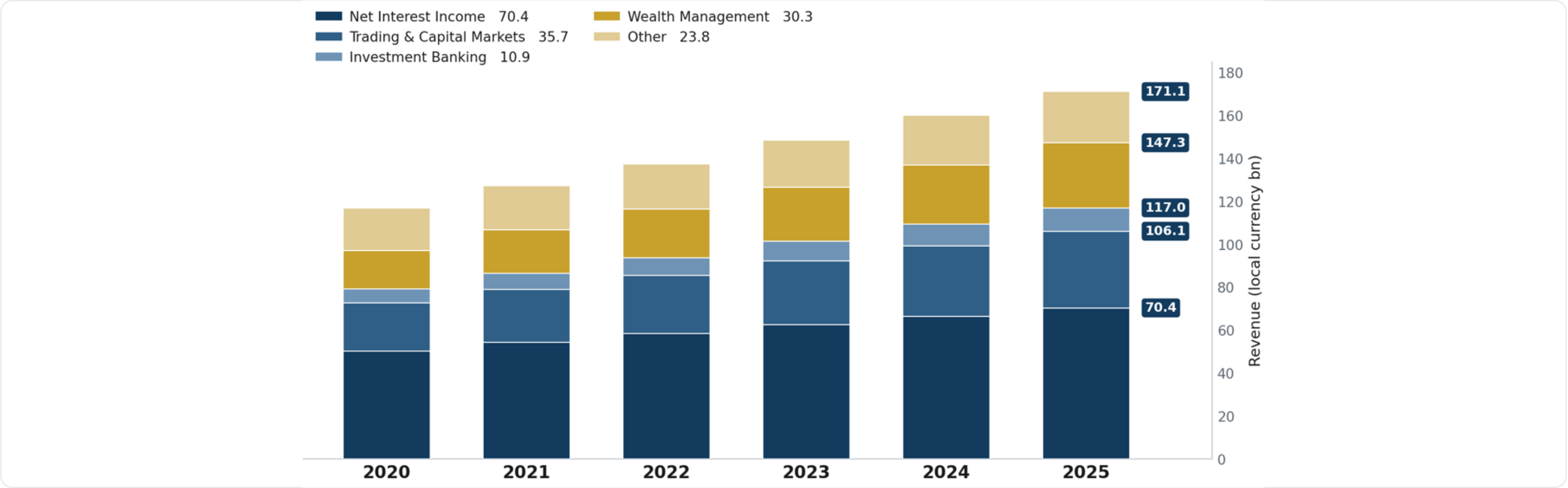


Chart 8: European banks — revenue driver evolution 2020–2025 (local currency, bn, BARC + BNP + UBS + UCG + NWG)

Source: Sentosa & Co.

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European Banks: A More Balanced Picture

The top five European banks present a more balanced picture (Chart 8). Net interest income remains the largest revenue line item in absolute terms, growing from €50.2 billion to €70.4 billion (+40%); the rate-hiking cycle beginning in 2022 was the main catalyst, particularly for UK banks (Barclays, NatWest) and Italian banks (UniCredit). However, in terms of growth rate, wealth management has been the fastest-growing engine, posting a +70.2% increase over the period, almost entirely attributable to UBS, whose Global Wealth Management division grew from $17 billion in 2020 to $26 billion in 2025, making it by far the dominant wealth management franchise in Europe. Trading & Capital Markets is the second-fastest-growing engine, up +58.7%, again heavily influenced by UBS's trading revenues following the integration of Credit Suisse. Investment banking grew by 67.7% in percentage terms, albeit from a low base, with BNP Paribas's Global Banking division being the most consistent contributor.

The overall conclusion is that net interest income (NII) was the primary growth driver during the 2022-2024 period, a direct consequence of the most aggressive rate-hiking cycle in four decades. However, as interest rates stabilize and the NII tailwind fades, wealth management is emerging as the more durable structural growth engine across both regions, supported by rising global assets under management (AUM), demographic aging, and the shift from transaction-based models to fee-based advisory models (Charts 9 and 10). Indeed, trading and investment banking are powerful cyclical amplifiers, as demonstrated in the second quarter of 2026, but their contribution is inherently volatile and cannot be relied upon as a consistent source of compounded growth.

Driver	2020	2022	2025	Growth 2020→25
Net Interest Income	148.9	181.1	226.6	+52.2%
Wealth Management	78.8	67.7	111.7	+41.8%
Trading & Capital Markets	48.3	48.8	60.1	+24.4%
Investment Banking	35.3	25.9	36.8	+4.2%
Other	62.7	79.0	76.6	+22.2%
Total Revenue	**374.1**	**402.5**	**511.9**	**+36.8%**

Chart 9: US banks — breakdown by revenue driver: Net Interest Income, Wealth Management, Trading & Capital Markets, Investment Banking

Driver	2020	2022	2025	Growth 2020→25
Net Interest Income	50.2	58.6	70.4	+40.2%
Trading & Capital Markets	22.5	26.9	35.7	+58.7%
Wealth Management	17.8	22.5	30.3	+70.2%
Investment Banking	6.5	8.3	10.9	+67.7%
Other	29.0	22.1	23.8	-17.9%
Total Revenue	**126.1**	**138.4**	**171.1**	**+35.7%**

Chart 10: European banks — breakdown by revenue driver: Net Interest Income, Trading & Capital Markets, Wealth Management, Investment Banking

Source: Sentosa & Co.

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Is the Sector Still Attractive?

Although fundamentals and growth expectations for the sector remain reasonable, the main question continues to be current valuation. Current P/B ratios stand at 1.70x and 1.52x for U.S. and European banks, respectively, compared with just 0.80x and 0.50x in 2022-2023. Three to four years ago, valuations represented a clear buying opportunity; since then, the sector has doubled those levels for U.S. banks and tripled them for European banks. Comparing these levels with historical averages, U.S. banks trade at a 36% premium to their ten-year average, while European banks trade at a 102% premium to the same average (Chart 11). It is worth noting that European banks have spent much of the past 15 years undergoing restructuring, which makes their ten-year average exceptionally low. For this reason, it is important to assess current valuations against a longer historical timeframe, which suggests that the sector is indeed trading at a premium, but one that is gradually approaching the levels seen prior to the Global Financial Crisis (Chart 12).

CONCLUSION

While the post-COVID period has provided a significant tailwind for banks and the long-term technical backdrop remains constructive, we maintain a cautious tactical stance over the coming months. Although our base-case scenario for 2026 is one of slow but steady growth, downside risks remain elevated in the second half of the year, driven by geopolitical tensions, the path of interest rates, and potential regulatory changes. Following a strong rally of 160% since 2023, with share prices now at record highs, we prefer to remain on the sidelines in the near term and maintain our Neutral rating rather than anticipate an imminent upgrade. In any case, we continue to monitor the sector closely for a potential future upgrade should valuations become more attractive following a short-term correction.

Chart 11: 10-year P/B ratio — US (1.70x vs. 1.25x); Europe (1.52x vs. 0.75x)

Chart 12: 25-year P/B ratio — US (1.70x vs. 1.35x); Europe (1.52x vs. 1.01x)

Source: Sentosa & Co.

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