

# The Outlook For Financials

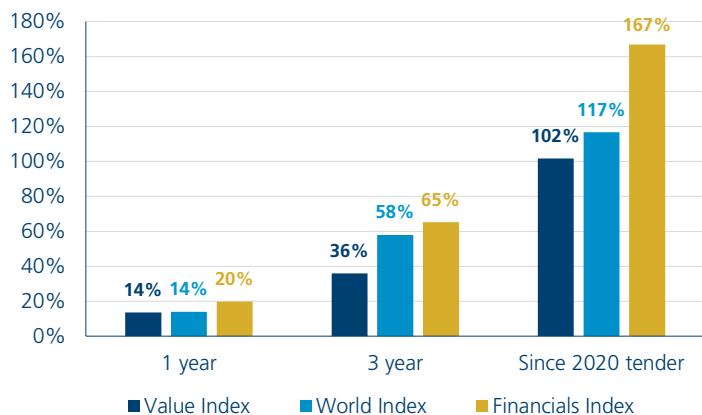
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Following a very encouraging year for Financials in 2025, we continue to be bullish about the sector going into 2026 for the following four reasons:

## 1. Strong performance should continue

The global financial sector had a standout year in 2025, delivering over 20% returns. This was the fourth year in the past five that Financials have outperformed global equities in sterling terms, in a market that is very focused on technology stocks. We think that many investors still underestimate quite how well financials have performed and we think the sector is set up to extend this momentum into 2026.

### Financials are outperforming global equities and value indices



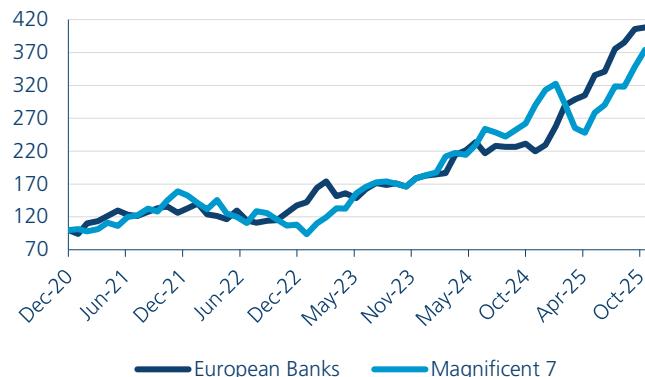
**Past performance is not indicative or a guarantee of future returns.** Source: Polar Capital, Bloomberg, to 31 December 2025. **Note:** The restructure took place on 22 April 2020. **Financials Index:** MSCI All Country World Financials Net Total Return Index (GBP); **World Index:** MSCI All Country World Index (GBP); **Value Index:** MSCI All Country World Value Index (GBP).

## 2. Exploiting exciting subsector trends

The operating environment for Financials is as supportive as we have seen it in many years. Return on equity is high, balance sheets are strong and capital returns to shareholders are compelling. Because the sector is so diverse, we are targeting multiple high-conviction subsector themes for clients.

For example, European banks, which are one of the largest exposures in our portfolio, have outperformed the Magnificent Seven over the past five years:

### European banks have outperformed the Magnificent 7 over five years



**Past performance is not indicative or a guarantee of future results.** Source: Polar Capital and Bloomberg, November 2025. **European Banks:** Euro Stoxx Banks Price (EUR). **Magnificent 7:** Bloomberg Magnificent 7 Total Return Index.

Our Asian life insurance holdings are delivering exceptional sales growth, driven by strong underlying client demand. Because dispersion in the performance of financial stocks has risen sharply, that is a really great environment for us as active stock pickers to take advantage of.

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### 3. Positive trends yet to be appreciated

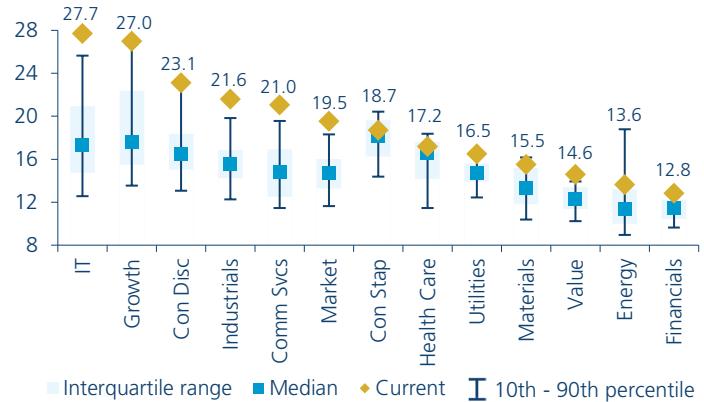
We think there are still a number of under-appreciated positives for the sector that can provide further rerating from here. One is interest rates. Some investors think that falling policy rates are universally bad for investing in Financials. However, with base rates likely to settle at 2 to 3% versus near zero in the past and a yield curve that is materially steeper, this means that banks and insurers can deliver structurally higher returns going forward.

Another factor is deregulation. After 15 years of regulatory headwinds, the direction is shifting towards a more pragmatic and pro-growth policy. We think that rising M&A activity is evidence that the industry expects a more supportive regulatory regime going forward, which can continue to drive rerating in the shares.

### 4. Attractive valuations and positioning

Financials trade on 13x forward earnings, which makes it the cheapest sector in global equities. That matters because it means that investors have not yet missed the opportunity that we are describing, despite the strong performance of the sector last year. Positioning also looks favourable, as many allocators remain underweight, creating a potential tailwind as exposures normalise.

### MSCI World sector/style valuation, 12-month forward P/Es relative to the last 20 years



**Past performance is not indicative or a guarantee of future returns. Source:** FactSet, Datastream, Goldman Sachs Global Investment Research, 7 November 2025. **Forward price-to-earnings (P/E):** a stock valuation metric that compares a company's current share price to its forecasted future earnings per share.

In conclusion, in an exceptionally concentrated market, we think that Financials offer the best way for clients to diversify their portfolios into a sector with strong fundamentals which is trading at compelling valuations. As returns continue to be strong and the deregulatory momentum builds, we think the prospects for Financials are decisively bullish for 2026.

**February 2026**

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The Company is an Alternative Investment Fund under the EU's Alternative Investment Fund Managers Directive 2011/61/EU as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018.

## The Investment Manager

Polar Capital LLP is the investment manager of the Company (the "Investment Manager"). The Investment Manager is authorised and regulated by the FCA and is a registered investment adviser with the United States' Securities and Exchange Commission.

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