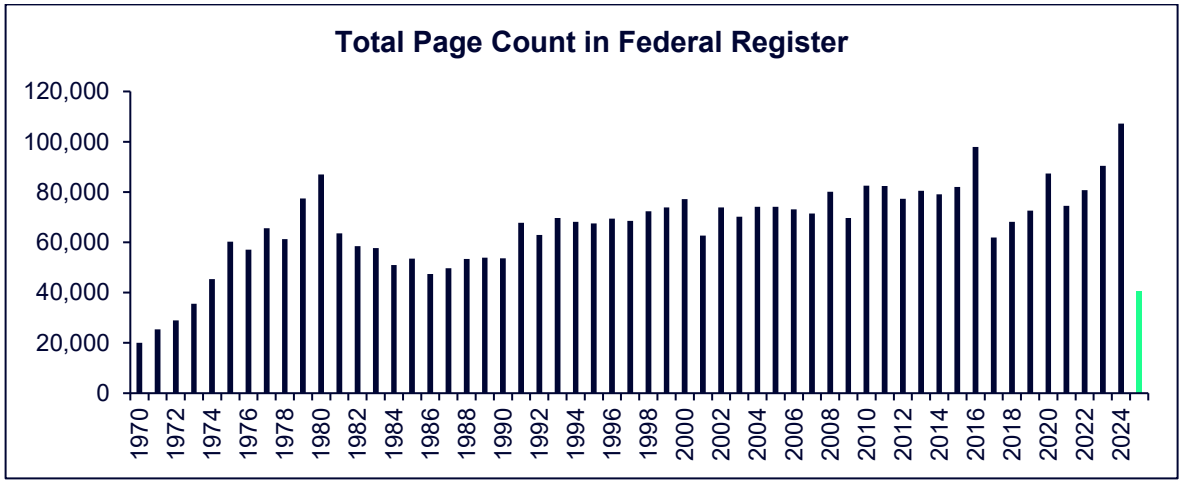
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
August 21, 2025

Mind on the Market

Chart of the Week



Source: The Daily Journal of the United States Government, Federal Register. Data as of 8/20/2025.

Deregulation has been a central pillar of the Trump administration's policy agenda, materializing through a series of executive orders aimed at reducing the regulatory burden. Among these, Executive Order 14,192—titled "Unleashing Prosperity Through Deregulation"—stands out for its sweeping mandate: for every new regulation introduced, agencies are instructed to identify ten existing regulations for repeal. While not a perfect metric, the number of pages published in the Federal Register serves as a useful proxy for the scale of federal regulation. The year-to-date reduction in page count has been dramatic, underscoring the administration's aggressive deregulatory stance. One of the sectors most sensitive to regulatory shifts is Financials, which we explore further below.

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Weekly Highlights

YoY Reduction of Pages in the Federal Register

62.05%

Data as of August 20, 2025

MSCI Europe Financials Total Return YTD Relative to S&P 500 Financials

38.36%

Data as of August 20, 2025

S&P 500 Financials NTM PE

16.48x

Data as of August 20, 2025

How Deregulation and Market Dynamics are Reshaping Financials

In last week's edition, we explored the current state of the Q2 earnings season and highlighted the Financials sector as a standout performer. The sector posted an earnings growth rate of 12.89%, significantly above the 5.13% estimate from the end of Q1, and has seen upward revisions to calendar year earnings for both 2025 and 2026. Year-to-date, Financials overall have performed roughly in line with the S&P 500. Market dynamics have muted the performance of industries such as insurance (+5.8% YTD) while benefitting players within the investment banking and brokerage industry (+23.4% YTD). The tailwinds that have supported much of the Financials sector may continue to drive performance.

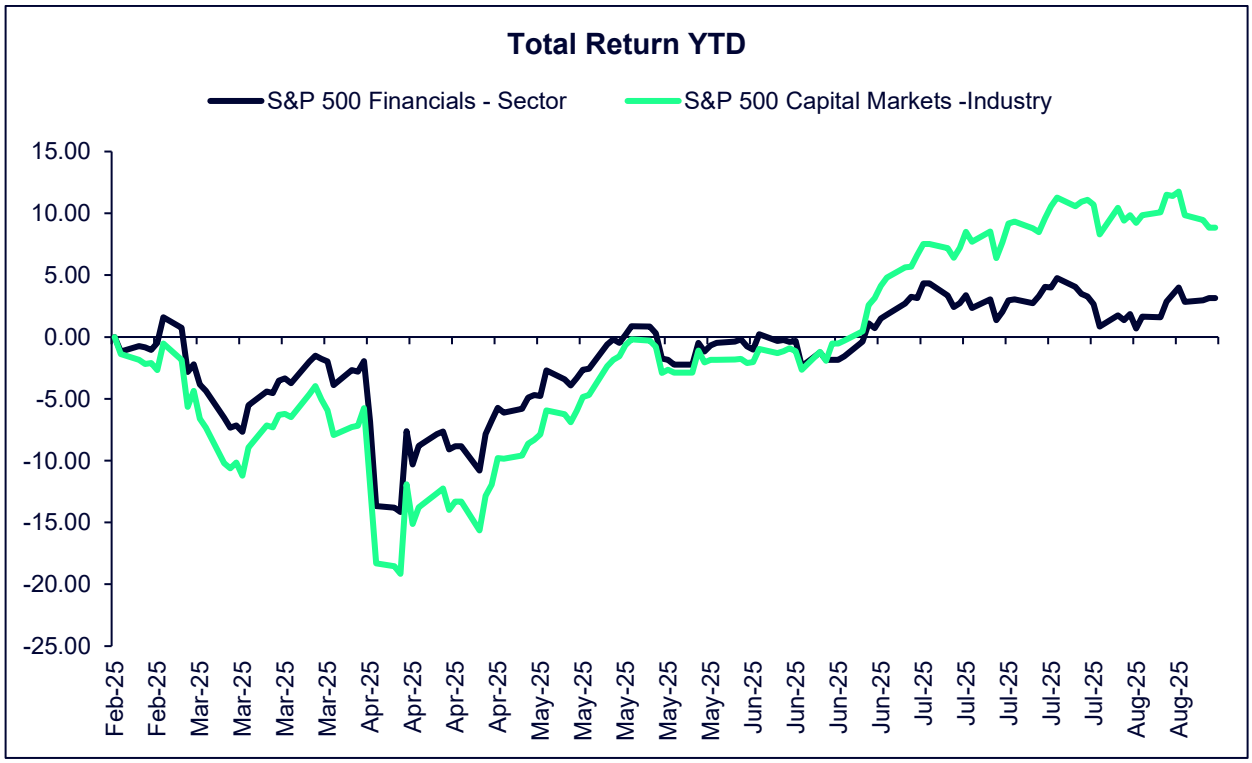
One notable boost has come from heightened market volatility, fueled by geopolitical uncertainty, tariff disputes, and trade tensions, all of which have contributed to stronger trading revenues for many large banks. While this surge in trading activity is unlikely to be a durable source of growth, the sector is also well-positioned to benefit from a steepening yield curve, a theme expected to unfold in the coming months.

Banks are highly sensitive to the shape of the U.S. Treasury yield curve, as they typically borrow at the short end and lend at the long end. A steeper curve widens this spread, directly enhancing net interest income. Upcoming Fed rate cuts could contribute to this steepening by lowering short-term yields, while upward pressure on long-term yields—driven by fiscal uncertainty or improving growth expectations—would also be supportive. However, not all steepening is created equal. If the curve steepens due to a growth scare rather than a healthy economic outlook, the cyclical nature of banks could turn this potential tailwind into a headwind.

A more structural tailwind for the Financials sector is the deregulation initiative under the Trump administration. In the aftermath of the global financial crisis, regulations such as Dodd-Frank and Basel III imposed stricter lending and capital requirements, making it more difficult for banks to extend credit. This environment has increasingly pushed borrowers toward alternative financing options like private

credit. Looking ahead, easing these regulatory constraints could unlock greater lending activity, stimulate credit creation, and enhance returns on capital.

Deregulation is also expected to create a more favorable backdrop for mergers and acquisitions. The Capital Markets industry, in particular, has begun to diverge from the broader financial sector, reflecting a surge in deal activity. M&A deal values have spiked as companies pursue larger, more strategic transactions to drive growth and innovation.



Source: FactSet. Data as of August 20, 2025.

Just as deregulation has served as a powerful catalyst for U.S. financial institutions, similar reform efforts abroad have begun to reshape the competitive landscape, which has been reflected in the performance of European financials. Companies within the industry have emerged as key beneficiaries of targeted regulatory simplification, reflecting a broader trend of policy-driven momentum across markets.

The EU's reforms to MiFID II and the Prospectus Regulation have reduced compliance burdens and enhanced market liquidity, making it easier for banks and asset managers to raise capital and innovate. The relaunch of the Capital Markets Union (CMU) has focused on reducing fragmentation and boosting

domestic financing, leading to increased IPO activity, and boosting trading volumes across EU financial hubs.

Strategic autonomy initiatives have encouraged financial firms to relocate operations from London to EU cities, strengthening local markets. Rather than full deregulation, the EU has embraced “smart regulation,” streamlining rules while maintaining oversight. This approach, in conjunction with more attractive valuations relative to the US, has attracted global investors seeking stability. Political alignment between policymakers and financial institutions has further supported growth, while enhanced technocratic utilization has bolstered investor confidence. Overall, these reforms have improved profitability, competitiveness, and market depth for European financial institutions, contributing to their strong performance, and especially within Diversified Capital Market companies that have delivered outsized returns YTD. Within the MSCI Europe index, the Financials sector is up 52.2%, while the Diversified Capital Markets industry is +55.0% and Banks +70.6% in USD (as of August 19th).

Taken together, the strength of the Financials sector in 2025 reflects a convergence of cyclical tailwinds, policy shifts, and global reform momentum. From trading-driven revenue boosts and yield curve dynamics in the U.S. to targeted deregulation and strategic realignment in Europe, financial institutions have found themselves in an environment increasingly conducive to growth, innovation, and capital formation. As regulatory landscapes continue to evolve and macroeconomic conditions shift, the sector’s ability to adapt and capitalize on these changes will remain a key driver of performance—both domestically and abroad.

Source: FactSet, State Street Investment Management. Past performance is not a reliable indicator of future performance.

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*This figure is presented as of June 30, 2025 and includes ETF AUM of $1,689.83 billion USD of which approximately $116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Marketing Communication

Important Risk Discussion

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Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price

fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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