Yardeni Research

July 10, 2025

Morning Briefing

On Banks, Crypto & Nuclear Fusion

Check out the accompanying chart collection.

Executive Summary: Banks and brokerages are beneficiaries of Trump 2.0 policies, particularly the reduced regulations they'll be bound by. The S&P 500's Investment Banking & Brokerage industry and its Diversified Banks industry have record-high earnings expectations and the ytd share price outperformances to show for it, Jackie reports. The Regional Banks index can't boast that. But trading at a much lower P/E and with rosy earnings rebound prospects, Regional Banks may be the more interesting play. … Also: Cryptocurrency companies want to break into traditional banking; three so far have applied for US banking charters. … And: Scientists are making headway harnessing nuclear fusion as an energy resource.

Financials I: A Banner First Half. The top performing S&P 500 sectors in the first half of the year are a relatively diverse bunch that gained anywhere from 8.0% to 13.0% ytd through Tuesday's close. While tech-related industries top the leaderboard, others—including Financials, Industrials, and Materials—have been pulling their weight as the year enters its home stretch.

Here's the performance derby for the S&P 500 and its 11 sectors ytd through Tuesday's close: Industrials (13.0%), Information Technology (8.8), Communication Services (8.5), Materials (8.2), Financials (8.0), Utilities (7.0), S&P 500 (5.8), Consumer Staples (5.0), Energy (3.5), Real Estate (1.6), Health Care (-1.9), and Consumer Discretionary (-4.4) (*Fig. 1*).

The Financials sector's 8.0% overall ytd gain belies much higher advances by some of its component industries. The S&P 500 Investment Banking & Brokerage industry's stock price index more than doubled the sector's gain, rising 18.2% ytd and leading the pack; following were Diversified Banks (up 13.9%) and Consumer Finance (13.2%) (*Fig. 2* and *Fig. 3*). The banks and brokers are benefitting from reduced regulation under the Trump administration, strong capital positions that have allowed for increased dividends and stock buybacks, and the hope that the IPO market will gain even more momentum as the year progresses.

Here's a look at what has driven banks and brokerage stocks higher and what we'll be watching to see if they've flown too close to the sun:

(1) *Looser regulations & higher dividends.* The nation's largest banks passed the Federal Reserve's stress test with flying colors this year. They had enough capital to absorb massive losses from a severe recession and were still able to continue lending and exceed minimum capital requirements. This year's test was deemed a bit less strenuous than last year's, as it factored in a stock market decline of 50% versus a decline of 55% last year and a 30% drop in commercial real estate prices versus a 40% drop last year. That said, the downside scenario tested was still exceedingly harsh.

With the 2025 test in the rearview mirror and excess capital on hand, some of the country's largest financial institutions—including Bank of America, Citigroup, JPMorgan, US Bank, and Wells Fargo—raised their dividends in recent days. Most notably, Goldman Sachs pushed up its dividend by 33% to $4 per share.

Increased buyback activity is also expected, with JPMorgan announcing a new $50 billion share repurchase program and Morgan Stanley reauthorizing a $20 billion share repurchase program.

The banks could find that they have even more capital to deploy if bank regulators loosen some regulations. The Federal Reserve's board voted to issue a proposal to lower the enhanced supplementary leverage ratio, a June 25 *WSJ* *article* reported. Doing so would lower the amount of capital that large banks must hold against their total assets. The Office of the Comptroller of the Currency has released a similar proposal.

"The move is part of a broader set of rollbacks the Trump administration is expected to undertake, including changes to how banks are rated, how they are examined by regulators for financial stability, and the annual stress tests the largest lenders must take," the *WSJ* article noted.

(2) *Capital markets provide a boost.* When the large commercial banks and brokers announce earnings results next week, they may benefit from the strong capital markets. US equities issuance has surged to a recent $163.1 billion over the past 12 months through May (*Fig. 4*). Year-to-date total equity issuance has jumped 23% y/y, and IPO issuance has surged 70% y/y to $28.0 billion, according to *data* from Dealogic. US fixed-income issuance, which excludes Treasuries, is essentially flat ytd compared to last year, Dealogic reports.

Traditional bank lending has risen slowly but steadily this year. All loans and leases made by commercial banks increased by 3.8% y/y as of June 25, although commercial and industrial loans just inched up, by 2.4% (*Fig. 5*). The banks should be making decent returns on their loans, with FDIC-insured banks' net interest margin coming in at 3.2% in Q1, which is about average over the past two decades (*Fig. 6*).

Worth watching are the banks' provisions for loan losses, particularly among consumer loans. The job market remains strong, and households' debt service ratio remains relatively low at 11.2%, but interest rates have surged on credit cards (to 21.2%), car loans (7.6%), and home mortgages (6.7%) (*Fig. 7* and *Fig. 8*).

Delinquency rates on loans that are 90 days or more past due as percent of total loans have jumped to 8.0% for student loans now that they are being serviced again and 7.0% for credit cards, higher than it's been since 2013. Auto loan delinquencies are creeping up but remain relatively low at 2.9% (*Fig. 9*).

(3) *Diversified banks & brokers lead the charge.* The stock price indexes of both the S&P 500 Diversified Banks and the S&P 500 Investment Banking & Brokerage industries have broken out to record highs, while the Regional Banks stock price index is far from that point (*Fig. 10*, *Fig. 11*, and *Fig. 12*). It's 36.5% off of its record levels of January 13, 2022.

Those stock price performances mirror analysts' fundamental expectations for the three industries' component companies. The Diversified Banks industry's companies in aggregate have been enjoying record-high forward revenues and operating earnings per share, and analysts' consensus estimates imply earnings growth of 2.8% this year and 13.1% in 2026 (*Fig. 13*). The Investment Banking & Brokerage industry likewise is forecast to post record forward operating earnings per share, with earnings growth of 13.8% expected this year and 11.6% in 2026 (*Fig. 14*). Conversely, the Regional Banks industry's forward revenues and operating earnings remain well off their 2023 highs, but earnings growth is expected to improve sharply from a 7.6% decline in 2024 to increases of 11.3% and 15.5% this year and next (*Fig. 15*).

In terms of valuation, the Diversified Banks and Investment Banking & Brokerage industries also have the highest forward P/Es, at 13.3 and 15.9, while Regional Banks has the lowest forward P/E at 11.1. With a low P/E and speculation that banking mergers and acquisitions stand to pick up under the Trump administration, the S&P 500 Regional Banking industry may be an interesting area for investors to explore.

Financials II: Crypto Players Want In. It's starting: More cryptocurrency players are attempting to enter the world of traditional banking, despite all of the red tape and regulation involved. Circle Internet Group and Ripple Labs each have applied for US trust bank charters, following in the footsteps of Anchorage Digital. Now that the US government is working to establish federal regulatory oversight of stablecoins, other crypto players may decide to apply for banking charters as well.

Here's a quick look at each of the players in this dynamic new industry mashup:

(1) *Circle and USDC.* Circle manages the stablecoin USD Coin (USDC) and has applied to establish a new entity, the First National Digital Currency Bank. The new bank would manage the USDC reserve and would offer digital asset currency services to institutional customers, a company *press release* stated. Currently, Circle houses USDC's reserve assets at the Bank of New York Mellon. The company's shares, which priced at $31 each in a June 5 IPO, soared as high as $263 before reversing some of those gains, and they currently trade around $200.

(2) *Ripple and RLUSD.* Ripple is known for its XRP cryptocurrency and ledger, which allows it to offer cross-border payment services. Most recently, the crypto company launched a stablecoin, Ripple USD (RLUSD), pegged to the US dollar. The company has applied for a Master Account with the Federal Reserve, which would allow Ripple to hold RLUSD reserves directly with the Fed. Until then, the crypto company uses Bank of New York Mellon to provide custody services.

(3) *Anchorage led the way.* Crypto company Anchorage Digital received its banking license in 2021 and remains the only crypto company to have one. Anchorage provides crypto trading, custody, and staking for institutional investors. The privately held company counts Andreesen Horowitz, Goldman Sachs, KKR, and Visa as investors.

Disruptive Technologies: Nuclear Fusion Advancements Continue. Scientists are ever so slowly clearing the technical and scientific hurdles in the way of reaching a holy grail in nuclear energy: utilizing fusion as an energy resource.

In nuclear fusion, atoms collide and fuse in superheated plasma, releasing vast amounts of energy. This is different from nuclear fission, which is used today in reactors that split atoms and create radioactive waste.

Before fusion can be used as an energy source for practical purposes, scientists need to determine how to control and maintain reactions such that they produce more energy than they consume. Here are some of the recent advancements that keep scientists enthusiastic about fusion's future:

(1) *German scientists break record.* Scientists using the Wendelstein 7-X stellarator at the Max Planck Institute for Plasma Physics in Griefswald, Germany achieved a new record high in the triple product, which measures a combination of particle density, temperature, and energy confinement time. The higher the triple product, the more efficient the reaction and the closer the reaction gets to producing more energy than it consumes.

The Wendelstein fusion reaction occurs in a stellarator, a ring-shaped vacuum chamber that uses powerful external magnets to control the plasma. It's different than the tokamaks used by many others chasing the fusion dream. Tokamaks put a current through the plasma to generate a magnetic field.

The Wendelstein reactor has kept the plasma controlled for 43 seconds. Researchers at the Joint European Torus (JET) fusion reactor in England claim to have achieved "containment" for up to 60 seconds, a July 3 *Scientific American* *article* reported. The JET is a tokamak reactor.

(2) *CFS gets a second Google nod.* Commonwealth Fusion Systems (CFS), a company spun out of MIT, will provide 200 megawatts of power for Google from the ARC fusion power plant it's developing in Virginia. The company aims to have ARC provide power to the grid in the early 2030s. Google invested in CFS in 2021.

At CFS's Massachusetts headquarters, its fusion demonstration machine is expected to produce its first plasma next year and net fusion energy shortly thereafter, a July 7 *item* on Power Engineering noted. CFS's reactor has the benefit of being much smaller than many of its competitors.

(3) *China's scientists in the mix, too.* China is also focused on developing fusion reactors as part of its effort to increase domestic energy sources. The Burning Plasma Experimental Superconducting Tokamak (BEST) is under construction in Hefei, China with an expected completion data of 2027. The project's chief engineer is from the Institute of Plasma Physics in Hefei, and Neo Fusion is the state-backed company leading the project.

BEST follows China's first-generation tokamak, which showed that controlled fusion is feasible in experiments. BEST is expected to move from experiments to real energy producing fusion reactions that generate more energy than the tokamak consumes, a May 4 *South China Morning Post* *article* reported. It will be followed by the Chinese Fusion Engineering Test Reactor, a fusion plant demonstrator.

China has a number of fusion projects under development. There's an "X"-shaped facility in Sichuan that resembles the US National Ignition Facility at the Lawrence Livermore National Laboratory in the US. There's also a 40-hectare complex for fusion research in Central China, a May 9 *article* in *Popular Mechanics* reported.

Calendars

US: Thurs: Initial Claims 235k; FOMC Minutes; Daly; Waller. **Fri:** Federal Budget -$20.5b; IEA Monthly Bulletin; WASDE Report. (Source: FX Street)

Global: Thurs: Germany CPI 0.0%m/m, 2.0%y/y; Italy Industrial Production 0.1%; Breeden. **Fri:** France CPI 0.4%m/m, 0.8%y/y; UK GDP 0.1%m/m, 0.4%q/q; UK Headline & Manufacturing Industrial Production 0.0%m/m, 0.4%y/y & -0.1%m/m, 0.4%y/y. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward revenues, earnings, and profit margin all hit new record highs during the July 3 week. The forward profit margin rose 0.1ppt w/w back up to its record high of 13.6% and is now 3.5ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to a 22-week high of 5.6%, just 0.2ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.3ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.5ppt w/w to a 12-week high of 11.9%, up 1.0ppt from its 15-month low of 10.9% during the May 29 week. From a longer-term perspective, that's in line with its 20-year average of 11.4% and slowing from a 38-month high of 14.3% during the December 12 week. That's down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.5% in 2025 (unchanged w/w) and 6.1% in 2026 (unchanged w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 9.2% in 2025 (unchanged w/w) and a 13.8% rise in 2025 (unchanged w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.5ppt y/y to 13.0% in 2025 (unchanged w/w) and 1.0ppt y/y in 2026 to 14.0% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of July 3, the S&P 500's weekly forward P/E rose 0.2pt w/w to a 19-week high of 22.1, up 2.9pts from a 16-month low of 19.2 during the April 17 week and just 0.3pt below its four-year high of 22.4 during the February 20 week. It's now 6.9pts above its 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.05pt w/w to a 19-week high of 3.02, up 0.43pt from a 12-month low of 2.59 during the April 17 week and only 0.01pt below its record-high 3.03 during the February 20 week. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the July 3 week, forward revenues rose for ten of the 11 S&P 500 sectors, but the forward earnings and profit margin rose for all 11 sectors. These five sectors had record-high forward revenues this week: Communication Services, Consumer Staples, Financials, Health Care, and Information Technology. Also close to record high forward revenues are Real Estate (-0.1% below) and Utilities (-0.3). Consumer Discretionary has improved to 0.9% from its mid-March record-high forward revenues and Industrials' is up to 1.2% below its early September record. Energy's remains depressed at 29.4% below its September 2008 record while Materials' has improved to an eight-month high to 5.5% below its June 2022 record high. These five sectors had record-high forward earnings this week: Communication Services, Financials, Industrials, Information Technology, and Utilities. These four sectors are a bit further from their highs, but are improving too: Consumer Discretionary (3.6% below its March 6 record), Consumer Staples (1.5% below its January 2 record), Health Care (0.7% below its April 3 record), and Real Estate (2.4% below its August 2022 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 39.5% and 25.0% below their respective highs during 2022. Looking at the forward profit margin, all 11 sectors rose w/w. Notable this week: Financials rejoined the record high club and Utilities' rose to a 41-month high. Communication Services has stepped outside the record high club momentarily, and these three are close despite being away for longer (from September 2024 through early April): Consumer Discretionary, Industrials, and Information Technology. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.4%, up 0.2ppt w/w and down from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.5, up 0.1ppt w/w and back at a record high), Communication Services (19.1, down 0.1ppt from its 19.2 record high during the June 19 week), Real Estate (16.6, up 0.1ppt w/w to a four-month high and down from its 19.2 record high in 2016), Utilities (14.8, up 0.1ppt to a 41-month high and 0.3pt below its April 2021), S&P 500 (13.6, up 0.1ppt w/w to a record high), Materials (10.7, up 0.1ppt w/w to a 12-week high and up 0.3ppt from 51-month low in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.2, up 0.1ppt w/w and down from a record high 9.4 in early April), Energy (8.7, up 0.1ppt w/w and from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.3 record high in early January), Health Care (8.3, at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (6.7, a 21-month low and down from its 7.7 record high in June 2020).

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102