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Monthly Insights: March Outlook

# Industrial Sector

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# Sector Price Action & Performance Review: Industrial Sector



Industrial sector consolidation continued in February. The longer this type of pattern drifts sideways, typically the more bearish the implication. A clear sell signal would generate on a move below \$130.

Headwinds to growth leadership and the emergence of tariff/trade war dynamics have halted upside momentum for US equities in the near-term. Negative momentum divergences in our MACD and RSI oscillator studies (chart, panels 3 and 4) from September-December were a bearish “tell”.

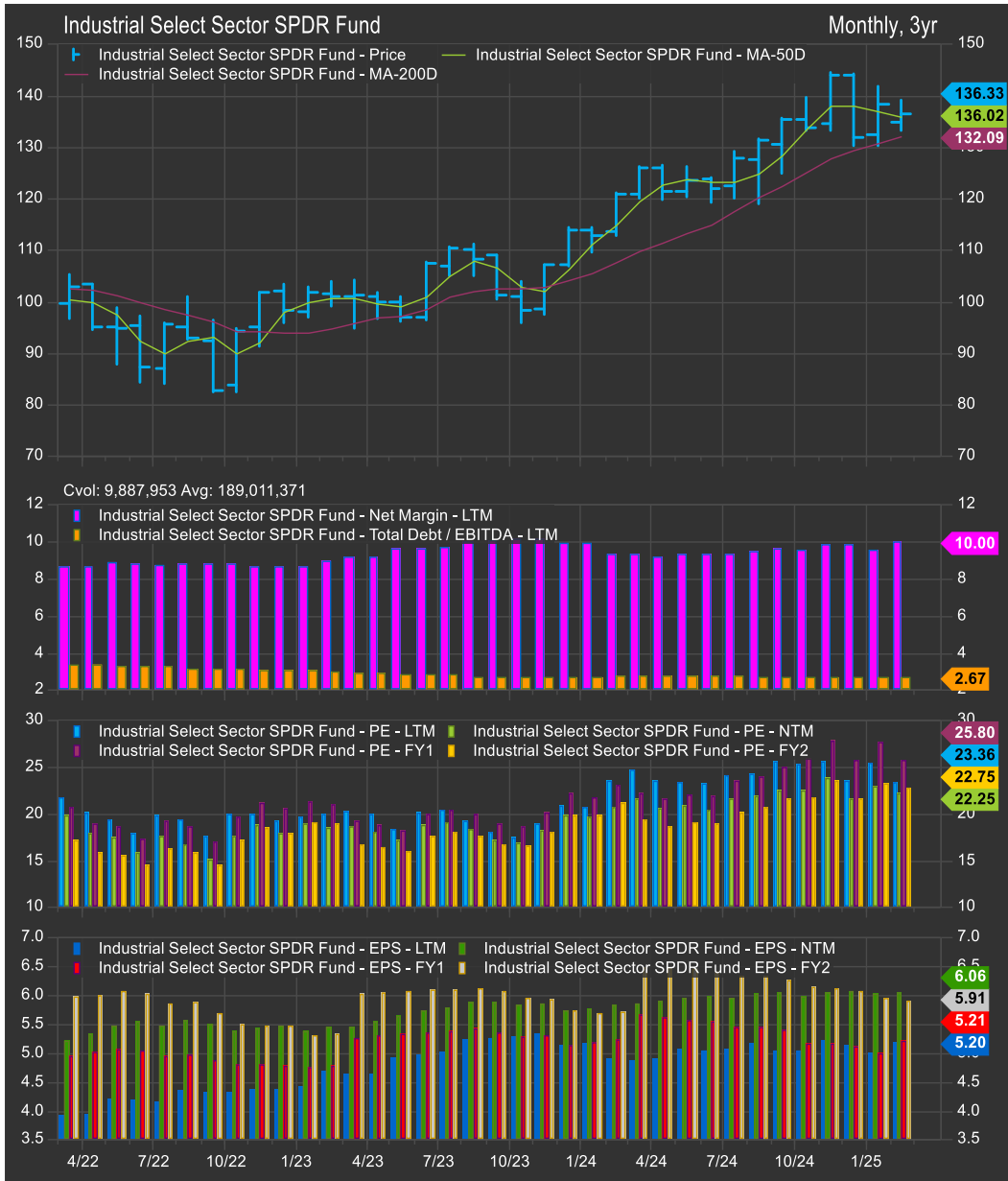
With consensus shifting from a bullish “soft landing” scenario to an economic picture with more uncertainty around inflation and employment, Industrial stocks continue to slowly lose ground vs. the broad market.

Many leadership groups from 2023 and 2024 including Building Products, Construction & Engineering, Electrical and Machinery Industries are seeing broad price corrections. Themes like “onshoring” and housing have lost momentum, with the latter arrested by persistently high interest rates.

**Outlook:** The Industrial Sector faces a mixed outlook for March 2025, with trade policy remaining the biggest wildcard as investors assess the impact of new tariffs on commodity input costs and demand. Interest rate uncertainty continues to weigh on highly leveraged Industrial firms, particularly those tied to construction and real estate, as Fed officials signal caution on inflation and limited near-term rate cuts.

**We start March out of the Industrial Sector with an **UNDERWEIGHT** allocation to the Industrial Sector of **-7.66%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Industrial Sector



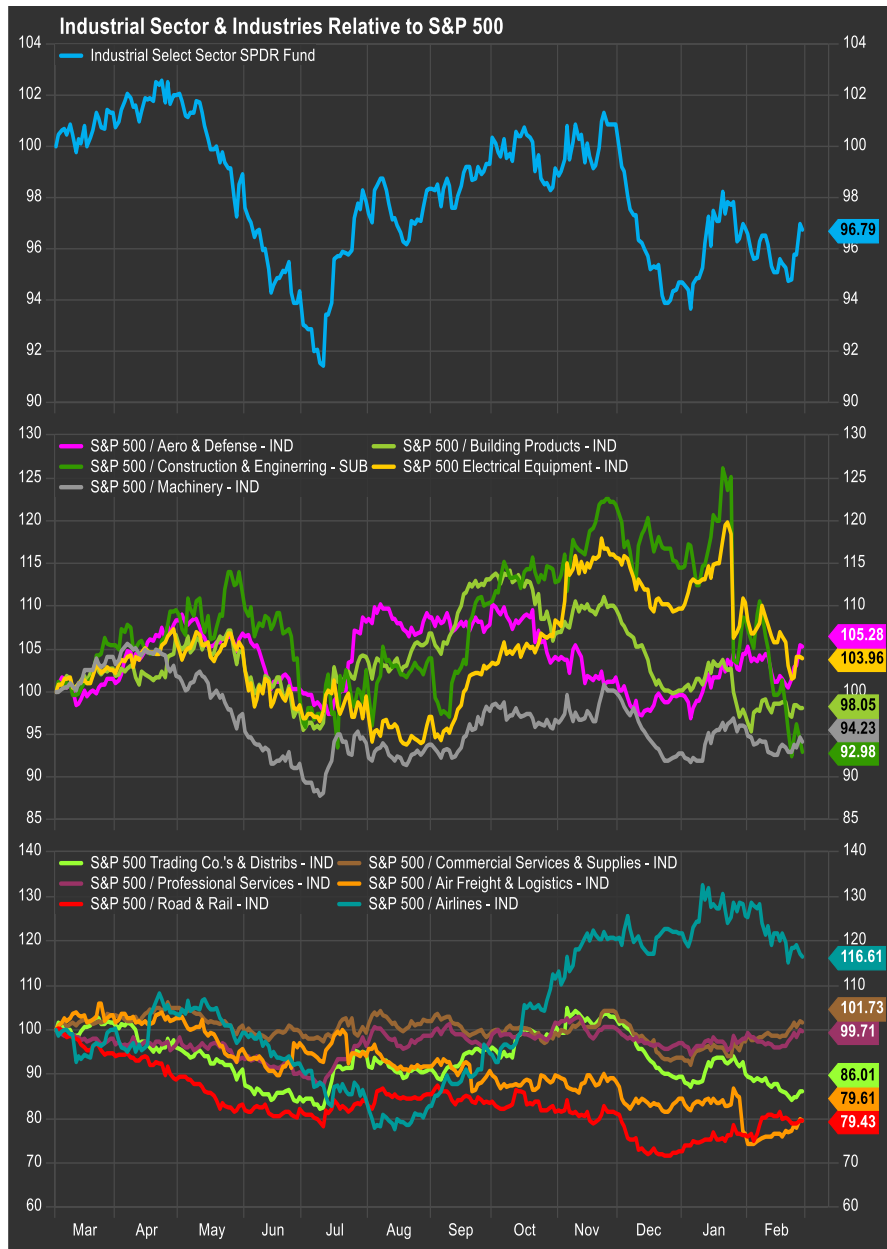
The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

The second half of 2024 saw net margins contract for the sector while debt burden relative to EBITDA ticked higher (chart, panel 2)

Valuation (chart, panel 3) has become elevated in the near-term and in out years as earnings results have underwhelmed throughout 2023 and 2024 and guidance for the sector has been cut

Consensus forward earnings projections are coming down, but valuations remain elevated

# Industry/Sub-Industry Performance and Breadth: Industrial Sector



**Industrial Industries** (chart, left): Rotation continues as previously eading industries (Construction & Engineering, Electrical Equipment, Building Products and Airlines) broke lower in February

Outperformance was picked up by Road & Rail, Commercial and Professional Services and Aero/Defense industries...that's a bearish tell

**Industrial Sector Internals** (chart, right): Stocks in the sector are having trouble sustaining price above intermediate and long-term trend proxies

After a promising bounce in January, Industrials stocks have shown no follow-through

# Top 10/Bottom 10 Stock Level Performers: Industrial Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
JCI	Johnson Controls International plc	Bullish Reversal	56,547.5	1.63	1.7	0.68	14.0	14.3	3.2	15.0	
UBER	Uber Technologies, Inc.	Bullish Reversal	158,785.6	-1.74	-1.4	0.00	-1.5	13.4	6.5	-1.4	
RSG	Republic Services, Inc.	Bullish Reversal	74,017.8	0.22	0.2	1.06	9.0	11.4	9.3	7.8	
WM	Waste Management, Inc.	Bullish Reversal	93,604.4	0.47	0.4	1.43	2.8	10.7	2.6	4.8	
XYL	Xylem Inc.	Consolidation	31,799.0	1.07	0.9	0.53	-4.3	9.9	4.9	-10.0	
HWM	Howmet Aerospace Inc.	Uptrend	55,326.1	0.63	0.4	0.12	37.3	9.9	17.6	34.5	
ROL	Rollins, Inc.	Consolidation	25,368.5	0.56	0.3	0.83	1.5	8.3	3.1	-2.3	
GE	GE Aerospace	Uptrend	222,149.7	-0.35	-0.2	0.23	20.6	8.2	15.2	13.6	
ADP	Automatic Data Processing, Inc.	Bullish Reversal	128,237.6	0.36	0.3	1.25	7.5	7.4	3.6	9.6	
CMI	Cummins Inc.	Bullish Reversal	50,617.8	-0.80	-1.2	0.98	10.5	7.4	0.1	14.3	

Trash trucks (WM, RSG) and Defense names (HWM, GE) give the top performers list a bit of a defensive feel

AXON and PWR among longer-term winners that are getting checked in the near-term while airlines are also retracing recent gains

BLDR leads the decliners amid general bearish retracement in building related stocks across sectors

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
BLDR	Builders FirstSource, Inc.	Support	15,792.2	0.28	0.5	0.00	-29.1	-16.3	-24.4	-26.8	
AXON	Axon Enterprise Inc	Uptrend	40,296.8	1.04	0.3	0.00	19.4	-15.4	-16.4	38.6	NT OVERSOLD
DAY	Dayforce, Inc.	Consolidation	9,775.8	76.57	68.5	0.00	-13.8	-14.6	-22.0	1.4	
URI	United Rentals, Inc.	Support	41,948.1	0.61	1.0	0.32	-21.1	-14.3	-24.5	-18.5	
IEX	IDEX Corporation	Support	14,727.1	0.95	1.0	0.87	-17.2	-10.4	-15.2	-10.9	
CAT	Caterpillar Inc.	Support	164,384.7	-0.29	-0.4	0.59	-10.9	-10.1	-14.1	-7.7	
UAL	United Airlines Holdings, Inc.	Bullish Reversal	30,707.7	1.55	5.2	0.00	64.3	-10.0	-2.2	119.8	
PWR	Quanta Services, Inc.	Uptrend	38,476.7	2.69	2.5	0.08	-14.3	-9.9	-24.1	-10.1	NT OVERSOLD
DAL	Delta Air Lines, Inc.	Bullish Reversal	38,835.2	1.68	5.1	0.30	19.7	-9.2	-4.9	42.3	
UPS	United Parcel Service, Inc. Class B	Downtrend	88,067.2	0.64	1.0	3.28	-15.4	-9.1	-10.6	-11.1	

Metrics:

(Formulas are in the appendix at the end of the report)

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

# Economic & Policy Drivers: Industrial Sector

## **Interest Rate Environment:**

- The Federal Reserve continues to emphasize patience on rate cuts, with officials including Richmond Fed's Barkin and Cleveland Fed's Hammack warning that inflation risks remain.
- January's core PCE inflation rose 0.3% month-over-month, with the annual rate easing slightly to 2.6% from 2.8%, reinforcing expectations that rates will remain restrictive.
- Higher interest rates increase borrowing costs for industrial firms reliant on financing for capital expenditures, infrastructure projects, and equipment purchases.

## **Tariff and Trade Uncertainty:**

- President Trump reaffirmed that 25% tariffs on Canada and Mexico will take effect on March 4, with an additional 10% tariff on China set for the same date.
- Steel and aluminum tariffs are expected to raise costs for construction, aerospace, and transportation industries, impacting companies like Caterpillar (CAT), Boeing (BA), and Deere & Co. (DE).
- The STOXX Automobiles & Parts Index has remained relatively stable, suggesting markets see some tariff threats as posturing rather than imminent risk.

## **Economic Growth and Demand Signals:**

- Q4 GDP held at 2.3% annualized, in line with expectations, but growth momentum appears to be slowing.
- January durable goods orders rose 3.1%, but excluding transportation, orders were flat, signaling weak underlying industrial demand.
- Core capital goods orders (ex-defense and aircraft) rose just 0.8%, below expectations, showing sluggish investment in equipment and machinery.
- January pending home sales declined 4.9%, marking a record low and weakening demand for construction-related industrials.

## **Global Trade and Geopolitical Tensions:**

- Trump's **noncommittal stance on Taiwan** and increased scrutiny on Chinese technology exports add further uncertainty for multinational industrial firms with global supply chains.
- The administration's executive order to investigate copper imports raised concerns about potential price volatility, impacting infrastructure and manufacturing sectors.

## **Sector-Specific Influences:**

- Boeing (BA) remains under pressure following safety concerns and production delays, which have led to greater regulatory scrutiny and potential order slowdowns.
- Union Pacific (UNP) and FedEx (FDX) saw volatility as transportation and logistics remain sensitive to economic slowdown fears and global trade risks.
- Increased automation and e-commerce-driven logistics continue to support select industrial segments, benefiting companies like Honeywell (HON) and Rockwell Automation (ROK).

# Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

## Valuation Adjusted Earnings Growth

Higher scores with positive momentum preferred

*Valuation Adjusted Earnings Growth (simple mean)*

**Relative Earnings Growth Multiple** (vs. Benchmark)

*Divided by*

**Rel. Valuation Multiple** (vs. Benchmark)

*Relative Earnings Growth Multiple:*

**Company Earnings Growth:**

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) /  
Restated LTM Annual Earnings

*Divided by*

**Benchmark Earnings Growth:**

Benchmark consensus mean EPS NTM / Restated Annual Benchmark  
EPS

*Relative Valuation Multiple*

Company NTM P/E / Index NTM P/E

## Volatility Adjusted Income

Higher score preferred when equities and yields are moving  
lower

*Volatility Adjusted Income (simple mean)*

**Dividend Yield Multiple**

*Divided by*

**3yr Beta Vs. S&P 500**

*Dividend Yield Multiple*

**Stock Dividend Yield (Consensus NTM)**

*Divided by*

**S&P 500 Dividend Yield (Consensus NTM)**

# Appendix: Metric Interpretation/Descriptions

## Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

### Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings \* weight of each company in the universe 1-n

## Momentum

Long higher scores, short lower scores

### Momentum (simple mean)

**1-Month Excess Total Return (vs. S&P 500) \* 0.1**

*Plus*

**3-Month Excess Total Return (vs. S&P 500) \* 0.3**

*Plus*

**6-Month Excess Total Return (vs. S&P 500) \* 0.4**

*Plus*

**12-month Excess Total Return (vs. S&P 500) \* 0.2**



# Metric Interpretation/Descriptions

## Price Structure

We categorize stock chart patterns into 7 categories

**Uptrend**—Stock exhibits sustained outperformance

**Bullish Reversal**—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

**Consolidation**—Sideways price action, generally a bearish pattern in a bull market

**Retracement**—A sharp move lower in a previously strong chart

**Distributional**—A topping pattern

**Downtrend**—Sustained underperformance, lagging the benchmark by >15% per year

**Support**—Price has reached a level where major bottom formations or basing has occurred in the past

**Basing**—A protracted consolidation at long-term support

## Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

## Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

## Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.