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Monthly Insights: May Outlook

# Industrial Sector

Patrick Torbert, CMT

Editor & Chief Strategist

## Sector Price Action & Performance Review: Industrial Sector



Industrials continued to make steady headway vs. the S&P 500 in April and are now flirting with a long-term bullish reversal vs. the index over the prior 12-months. Stable commodities prices and a disaggregating global supply chain proved to be tailwinds for the sector in the past and we are seeing some signs of in several industries that historically have lead the sector higher.

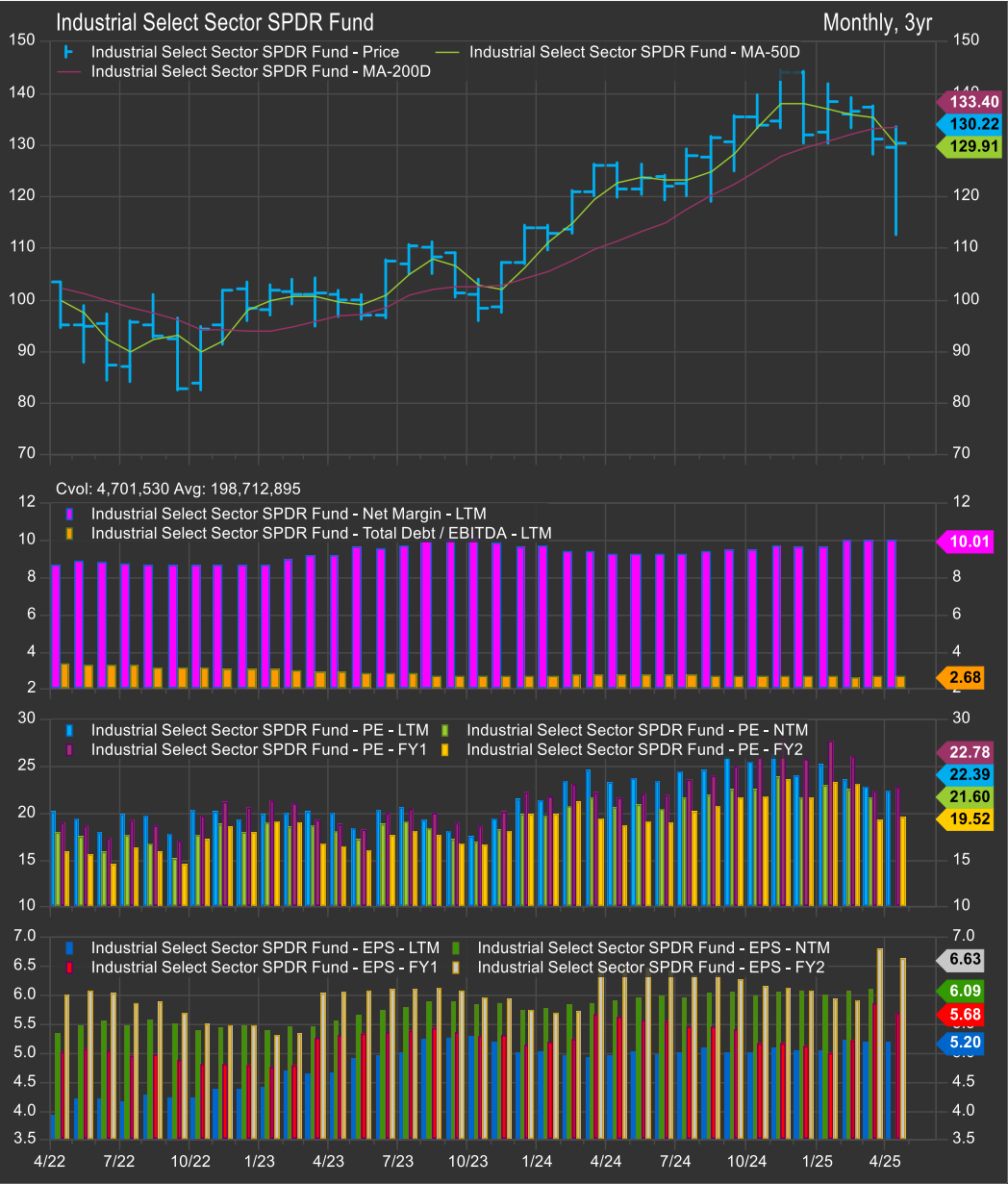
There is evidence that significant retracements in the Building Products, Construction & Engineering and Electrical Equipment Industries have run their course as those areas are to watch for potential accumulation. In aggregate are sector level oscillators are hooking higher from oversold levels and we're looking at \$130-135 as the pivot zone on the XLI SPDR price chart as a proxy for the sector.

With equities bouncing off a 20% peak-to-trough decline from February through April, we think a significant amount of bad news is priced. With yields moving lower on the long end of the curve there's elevated potential for the Fed to step in if economic softness continues. We also see a strong tailwind to the Aerospace/Defense sector and continued strength in Industrial services industries supporting the sector through turbulence

We don't think this is a month for big bets, but the Industrial Sector is improving in our process.

**We start May out long the Industrial Sector with an **OVERWEIGHT** allocation of **1.38%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Industrial Sector



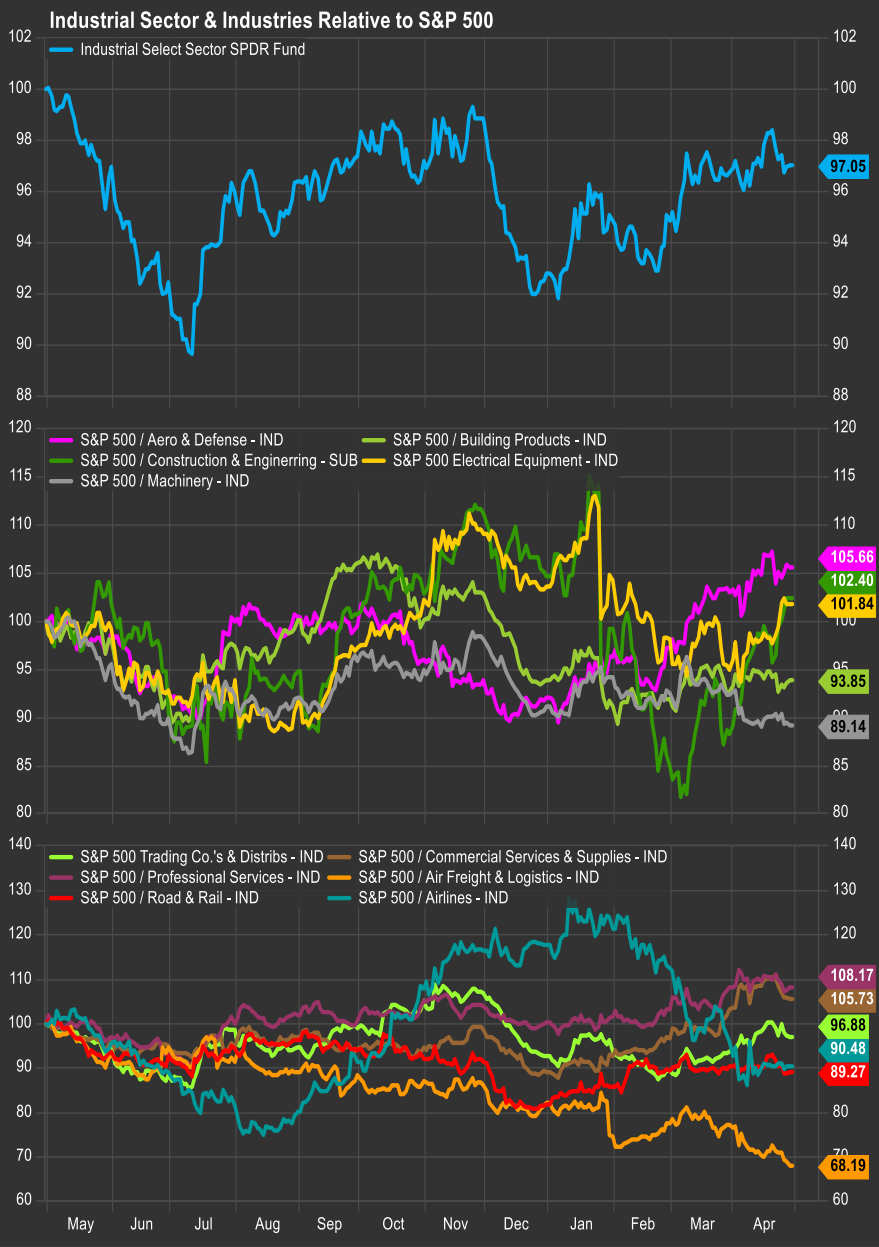
The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins in aggregate have firmed for the sector during the present reporting season (chart, panel 2)

Valuation (chart, panel 3) is now contracting as equities have corrected >10% while earnings season has been strong, bolstering FY2 guidance (panel 4)

Consensus forward earnings projections got a boost through Q1 earnings guidance and offer some hope for the sector though valuations remain elevated at a slight premium to the S&P 500

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



**Industrial Industries** (chart, left): The Aerospace and Defense Industry has been a driver of Industrial sector outperformance in 2025 complimented by Industrial services

We're seeing bullish transition from former bull market leading industries Construction & Engineering and Electrical Equipment, where names like PWR and ETN are rebounding after significant bearish retracements

To the downside, Airlines have continued to retrace August to January gains while the Air Freight Industry constituents populate the month's bottom 10

**Industrial Sector Internals** (chart, right): The % of sector constituents trading above their 50-day moving averages has topped 40% showing a modest but constructive expansion in breadth on the bounce...\$130-135 is the pivot zone for the sector. We think a significant amount of bad news is priced in and we're looking for incremental improvements from here

Top 10/Bottom 10 Stock Level Performers: Industrial Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
GEV	GE Vernova Inc.	Bullish Reversal	101,310.7	1.80	42.2	0.2	22.9	NT OVERBOUGHT
PWR	Quanta Services, Inc.	Bullish Reversal	43,349.3	1.11	2.5	0.1	15.3	NT OVERBOUGHT
AXON	Axon Enterprise Inc	Uptrend	47,575.3	3.80	36.0	0.0	14.5	
HII	Huntington Ingalls Industries, Inc.	Bullish Reversal	9,038.7	0.63	3.0	1.3	12.5	NT OVERBOUGHT
LDOS	Leidos Holdings, Inc.	Consolidation	18,919.2	0.54	-0.9	0.7	10.3	
CPRT	Copart, Inc.	Bullish Reversal	58,458.3	1.41	12.6	0.0	10.0	NT OVERBOUGHT
UBER	Uber Technologies, Inc.	Bullish Reversal	166,087.7	1.15	12.2	0.0	9.4	NT OVERBOUGHT
HUBB	Hubbell Incorporated	Support	19,258.0	0.81	-10.6	1.0	8.5	
LMT	Lockheed Martin Corporation	Consolidation	111,496.8	0.68	0.5	1.9	8.1	
ALLE	Allegion Public Limited Company	Bullish Reversal	11,892.0	0.70	6.8	0.9	8.0	

As we’ve seen in some other sectors, signs of pro-momentum leadership have resurfaced in April with bids for GEV and AXON along with and attempt at a bullish turn for PWR

Laggards primarily comprised the negative momentum crowd as express shipping, building products and trucking names populated the list, all with bottom quintile momentum scores

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
SWK	Stanley Black & Decker, Inc.	Downtrend	9,467.0	0.48	-28.5	3.4	-19.6	NT OVERSOLD
LUV	Southwest Airlines Co.	Support	15,534.5	0.68	-7.7	1.8	-18.6	
FDX	FedEx Corporation	Downtrend	50,279.8	0.43	-19.5	1.7	-12.9	NT OVERSOLD
CHRW	C.H. Robinson Worldwide, Inc.	Consolidation	10,443.0	0.71	-6.3	1.9	-12.4	
MAS	Masco Corporation	Retracement	12,753.6	0.65	-18.9	1.3	-11.7	NT OVERSOLD
UPS	United Parcel Service, Inc. Class B	Downtrend	70,969.5	0.52	-24.0	4.5	-11.5	NT OVERSOLD
GNRC	Generac Holdings Inc.	Support	6,750.7	0.57	-22.4	0.0	-10.6	NT OVERSOLD
JBHT	J.B. Hunt Transport Services, Inc.	Downtrend	12,935.0	0.86	-20.9	0.9	-10.5	NT OVERSOLD
EXPD	Expeditors International of Washington, Inc.	Consolidation	14,927.3	0.79	-4.9	1.0	-9.2	
ODFL	Old Dominion Freight Line, Inc.	Support	31,747.8	1.11	-18.7	0.5	-8.9	

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

- Valuation Multiple Relative to Index  
Premium (or discount) to benchmark valuation
- Momentum  
Long higher scores, short lower scores
- Dividend Yield Relative to Index  
Higher scores preferred when rates and equities are moving lower
- Near-term Overbought/Oversold  
Price is >10% away from the 50-day moving average  
Above/Below

GREEN|RED  
Company scores positively|negatively for Elev8 Sector Rotation Model for April

# Economic & Policy Drivers: Industrial Sector

## 1. Global Trade & Supply Chain Policy: Tariff Headwinds Persist Despite Relief Measures

The industrial space remains deeply exposed to the **ongoing U.S.–China trade conflict**, which is straining the cost structures of capital goods exporters, parts suppliers, and logistics operators.

**Eastman Chemical (EMN)** noted a late-Q1 hit tied to "reality setting in" around global trade tensions.

**UPS (UPS)** flagged **potential layoffs and called current trade environment "the most disruptive in a century."**

**Port of Los Angeles data** pointed to a ~35% y/y decline in inbound shipments expected in early May, signaling a **looming supply chain slowdown** due to prior frontloading and tariff-driven delays.

**Implication:** While some relief is coming through narrower exemptions, the sector still faces structural challenges from **elevated input costs, inventory imbalances**, and **logistics volatility**, particularly in aerospace, heavy machinery, and packaging.

## 2. Interest Rates & Capex Outlook: Easing Cycle Boosts Equipment Demand... for Now

April saw Treasury yields decline across the curve, with the **10-year falling below 4.3%**, its lowest in three weeks. This boosted investor appetite for industrials with longer-dated cash flows, especially in areas tied to commercial aerospace, capex-linked automation, and data center construction.

**Woodward (WWD)** and **Honeywell (HON)** both cited robust demand for **smart defense and commercial aerospace systems**, partially offsetting macro softness.

**Noble Corp (NE)** reported robust rig demand, adding 15 rig years to its floater backlog, benefiting from increased offshore exploration interest and stable capital budgets.

However, **construction and heavy machinery firms are starting to signal flattening orders:**

**Sherwin-Williams (SHW)** noted **delayed commercial projects and weak capex from property developers.**

**Crane (CR)** flagged uncertainty around 2H bookings, even while reaffirming guidance.

**Implication:** Lower interest rates support near-term capex appetite, but **demand fatigue may be setting in**, particularly in real estate and heavy construction.

## 3. Transportation & Freight: Mixed Signals from Airlines and Trucking

Transportation stocks in the sector saw **high dispersion** in April.

**JetBlue (JBLU)** and **Alaska Air (ALK)** cut full-year guidance, citing **demand softness and cost pressure**. Airline commentary pointed to macro hesitation among leisure travelers and weaker-than-expected international demand.

**UPS** posted **strong domestic parcel results**, but global logistics outlook deteriorated amid rising inventory drawdowns and export delays.

**Saia (SAIA)** was one of the worst-performing industrial names in April after missing on yield and flagging a **lack of seasonal volume rebound**.

On the trucking side, **Werner (WERN)** flagged **higher costs and soft one-way volumes**, and commentary from other logistics names suggests that **hiring and equipment purchases are being scaled back** in anticipation of continued weakness.

**Implication:** Freight and logistics trends are **increasingly soft**, and **tariff-driven volume disruptions** may pressure forward guidance into Q2.

## 4. Credit Markets & Lending Standards: Marginal Softening in Loan Growth

Loan growth to commercial & industrial (C&I) borrowers continues to **slow modestly**, according to recent **Federal Reserve H.8 data**. Regional banks reported:

**Tighter lending standards** across mid-sized business loans.

Slowing originations in equipment finance and real estate-backed lending.

Improved credit quality, but signs of caution amid **rising concern about demand stability**.

**Principal Financial (PFG)** and others flagged **lower investment returns** and slightly more **conservative pension risk assumptions**.

**Implication:** Credit availability isn't contracting sharply, but lenders are growing cautious, particularly for capex-heavy or inventory-sensitive borrowers. This limits upside for sectors like industrial automation and specialty manufacturing.

## 5. Regulatory & Fiscal Policy: Reconciliation Bill, Defense Spending, and Infrastructure

April saw progress—albeit slow—on the **next reconciliation bill**, with House Speaker Johnson eyeing a **Memorial Day framework** and Treasury Secretary Bessent targeting **July 4th**. Industrial executives are closely watching the package's:

**Incentives for reshoring** and infrastructure investment.

**Defense budget appropriations**, which support aerospace primes and subcontractors.

**Tariff offsets** or reimbursement mechanisms for impacted firms.

Separately, global defense spending continues to surge (up **+9.4% y/y in 2024**, per SIPRI), which benefits names like **Lockheed Martin (LMT)** and **Raytheon (RTX)**.

**Implication:** Fiscal tailwinds are plausible but timing and structure remain fluid. Tariff offsets, if finalized, could offer bottom-line relief heading into H2.

# Appendix: Metric Interpretation/Descriptions

## Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

### *Valuation Multiple Relative to Index*

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

## Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

### *Dividend Yield Relative to Index*

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

## 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.