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Monthly Insights: May Outlook
Materials Sector

Patrick Torbert, CMT
Editor & Chief Strategist

Sector Price Action & Performance Review: Materials



The Materials Sector underperformed in April in the context of a stalling ytd bullish reversal vs. the S&P 500. We aren't seeing compelling reasons to own the sector at the stock level, while the stability of commodities prices has supported performance in the near-term. We're expecting a bullish pivot to develop for equities and we aren't seeing any evidence in our momentum signals that there is real buyer interest in the sector

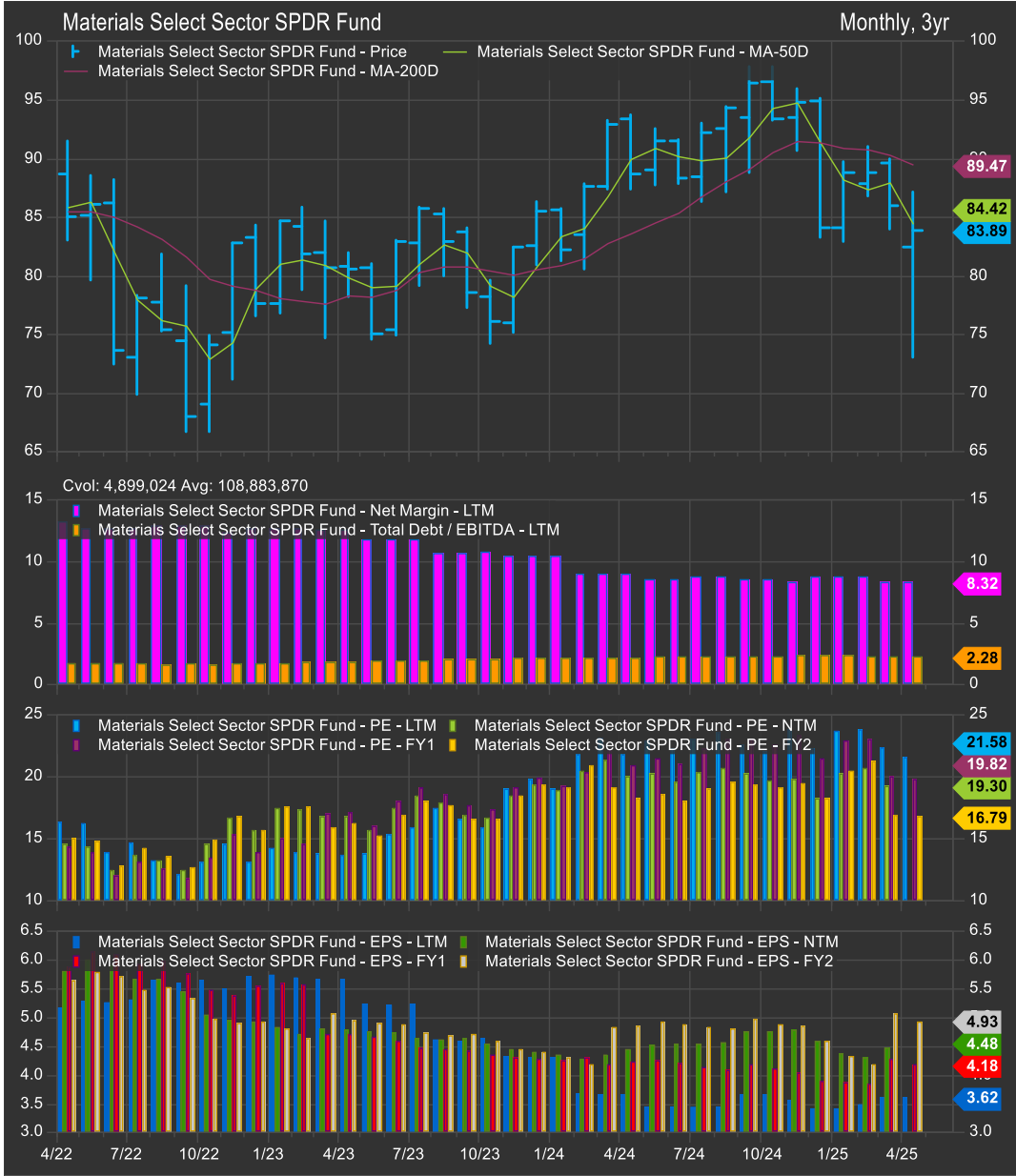
The way the Materials sector has been trading, we would expect it to outperform if equities move lower. Our process inputs have us expecting the developing bullish reversal in equities to continue in May and our technical and fundamental lenses aren't giving us compelling reason to think that will change.

Uncertainty surrounding global trade and capital investment are headwinds to the sector as we list in detail within this report

We're taking the "glass is half empty" view for the sector given weak long-term trends and near-term buying that falls well short of indicating enthusiasm.

We start May out of the Materials Sector with an **UNDERWEIGHT allocation of **-2.00%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Materials Sector

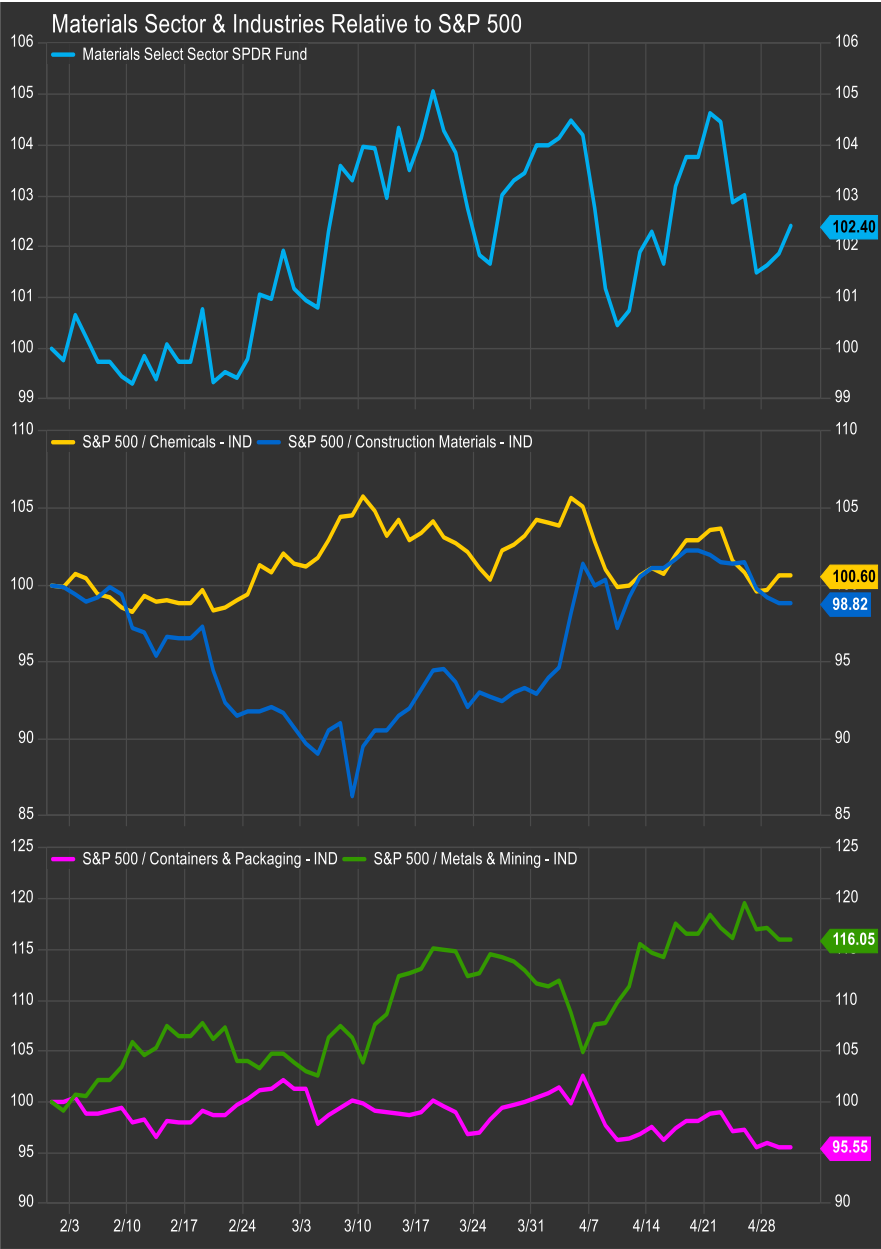


The chart (left) shows S&P 500 Materials Sector Margins, Debt/EBITDA, Valuation and Earnings

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, though the recent earnings season offered some improved guidance moving forward, whether that becomes a trend remains to be seen, but we will be watching closely

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): The sector started the month strong vs. the broad market, but was faded in the back half

Metals and Mining stocks remain a YTD standout but this has mainly been driven by NEM as Gold has been a going concern amidst equity market volatility and USD re-rating lower

Chemicals stocks have been a mixed bag, but the strongest are holding on to ytd gains while the weakest are breaking down

Materials Sector Internals (chart, right): Some signs of life in the near-term, but the way the sector has been trading, we think the only way it outperforms is if equities break lower in May while we think a continued bullish reversal is somewhat more likely scenario

Top 10/Bottom 10 Stock Level Performers: Materials

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
MOS	Mosaic Company	Bullish Reversal	9,596.2	0.50	11.3	1.9	11.3	NT OVERBOUGHT
NEM	Newmont Corporation	Bullish Reversal	58,944.3	0.49	21.8	1.2	10.4	NT OVERBOUGHT
MLM	Martin Marietta Materials, Inc.	Consolidation	30,594.7	1.04	-7.9	0.4	5.9	
VMC	Vulcan Materials Company	Consolidation	32,411.0	1.13	-3.6	0.5	5.6	
STLD	Steel Dynamics, Inc.	Consolidation	19,378.7	0.49	0.5	1.0	5.0	
CF	CF Industries Holdings, Inc.	Consolidation	13,282.4	0.55	-1.8	1.6	3.4	
SHW	Sherwin-Williams Company	Consolidation	87,558.2	1.14	2.8	0.6	2.7	
BALL	Ball Corporation	Support	14,793.8	0.58	-11.1	1.0	2.1	
IFF	International Flavors & Fragrances Inc.	Retracement	19,832.3	0.73	-11.5	1.4	1.7	
CTVA	Corteva Inc	Bullish Reversal	42,210.3	0.80	4.0	0.8	1.5	
ECL	Ecolab Inc.	Consolidation	70,031.7	1.28	3.5	0.7	-0.8	
LIN	Linde plc	Bullish Reversal	213,084.5	1.07	1.4	0.9	-1.6	
NUE	Nucor Corporation	Downtrend	27,405.7	0.53	-13.8	1.2	-1.9	
AVY	Avery Dennison Corporation	Support	13,560.0	0.69	-11.9	1.4	-2.0	
FCX	Freeport-McMoRan, Inc.	Consolidation	53,383.6	0.83	-10.9	1.1	-2.5	
AMCR	Arcelor Mittal	Support	13,485.1	0.48	-2.7	3.6	-2.9	
PPG	PPG Industries, Inc.	Downtrend	23,562.3	0.52	-13.4	1.8	-3.1	
SW	Smurfit Westrock PLC	Support	22,105.7	0.51	-6.1	2.6	-4.6	
PKG	Packaging Corporation of America	Support	16,724.8	0.71	-7.7	1.8	-4.6	
APD	Air Products and Chemicals, Inc.	Retracement	60,275.3	0.83	-5.7	1.8	-6.5	
IP	International Paper Company	Consolidation	25,142.7	0.68	4.6	2.6	-10.2	
DOW	Dow, Inc.	Downtrend	21,665.3	1.50	-29.5	6.0	-10.5	NT OVERSOLD
DD	DuPont de Nemours, Inc.	Downtrend	27,558.1	0.60	-13.2	1.6	-10.8	
EMN	Eastman Chemical Company	Support	8,802.7	0.40	-18.7	3.6	-12.1	NT OVERSOLD
LYB	LyondellBasell Industries NV	Downtrend	18,908.0	0.48	-26.4	6.1	-15.5	NT OVERSOLD
ALB	Albemarle Corporation	Downtrend	6,995.5		-34.6	1.7	-17.4	NT OVERSOLD

Some bullish reversals have been forming within the Materials Sector, but the Chemicals sector hasn’t shown any follow through in aggregate

Construction Materials stocks have shown modest improvement and are on watch for an upgrade but, so far, fall short of our thresholds

Newmont is obviously a sought-after stock with current turbulence roiling equities while MOS led all sector stocks with a sharp bounce

Overall we’re still seeing a downward bias in the dispersion of stock level returns for the sector

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: Materials Sector

1. Global Trade Policy & Tariff Volatility: Persistent Headwind for Materials Exports

Trade was the dominant macro theme in March for the Materials sector. While some hints of tariff relief surfaced, companies largely reported ongoing challenges related to heightened duties on raw materials and chemicals.

Eastman Chemical (EMN) flagged in its March guidance that **tariff uncertainty and global trade disruption** were weighing on customer visibility and demand planning, particularly in Europe and China.

PPG Industries (PPG) and other coatings players noted that although **demand trends remained constructive**, tariff-related inflation in raw materials (especially titanium dioxide and solvents) required continued pricing actions.

Although the Biden administration hinted at a more nuanced approach—such as possible tariff offsets for USMCA-compliant inputs—**key materials inputs like aluminum, steel, and polymers remained under elevated tariffs**, constraining flexibility for manufacturers and exacerbating cost pressures.

Implication: While not new, **tariff friction continues to erode margin flexibility** for global materials producers, particularly those reliant on cross-border supply chains. Limited clarity on timing of trade deals with China, India, and Southeast Asia leaves firms cautious into Q2.

2. Commodity Prices & Inflationary Pressures: Costs Rising Faster Than Demand

Commodity price volatility was another major theme in March:

Copper prices remained elevated early in the month due to global supply concerns and infrastructure demand, but weakened by month-end on **China demand doubts**.

Aluminum faced soft demand and rising inventories, weighing on downstream margin expectations.

Crude oil volatility also filtered into feedstock pricing for chemical firms.

Despite early-month optimism tied to **global manufacturing PMIs stabilizing**, March brought disappointing data from **European and Asian manufacturers**, pressuring pricing power for industrial commodity producers.

Freeport-McMoRan (FCX), while not explicitly guiding, saw expectations reset slightly lower amid lower realized copper prices and caution on Chinese end-market strength.

Implication: Input costs remain elevated while pricing power weakens in parts of the value chain. Producers of chemicals, coatings, and industrial metals may face **margin compression if raw material inflation persists into Q2**.

3. Demand Trends: Domestic Construction Holding, But Global Orders Mixed

On the demand side, sentiment was bifurcated. U.S. non-residential construction activity remained stable, supporting demand for coatings and insulation, but international orders slowed.

Sherwin-Williams (SHW) commentary from late March highlighted **resilient commercial and property maintenance demand** in the U.S., though **delayed capex and softer volumes in Europe and China** were flagged.

Industrial gases and chemical inputs (e.g., fertilizers) showed signs of stabilization in North America, but were offset by **demand uncertainty abroad**, especially in China, where stockpiling patterns changed due to trade concerns.

Implication: U.S.-centric names may outperform global peers as domestic infrastructure and maintenance work continues. **Companies with higher EM/Asia exposure will need to navigate policy risk and uneven recovery dynamics**.

4. Regulatory & Environmental Policy: Input Costs & Investment Uncertainty Rising

Environmental regulation and trade policy were intertwined in March.

Chemical firms flagged **new compliance costs** tied to evolving U.S. EPA guidelines and potential carbon-border tax discussions in Europe.

Tariffs on Chinese intermediate goods used in plastics and coatings manufacturing drove up production costs and complicated sourcing for many mid-cap firms.

Packaging firms—such as **Crown Holdings (CCK)** and **Ball Corp (BALL)**—warned of **potential aluminum shortages** due to tariffs and longer lead times, although they noted limited near-term impact due to inventory buffers.

Implication: Regulatory complexity is adding to capital allocation uncertainty for Materials firms, with **delays in investment plans** and added scrutiny around carbon-intensive operations.

5. Capital Expenditures & M&A: Tighter Budgets, More Discipline

Despite stable cash flows, many firms signaled **a cautious approach to new capex**:

Delays in global infrastructure approvals.

Uncertainty around tariffs and cost inflation.

Weakening order visibility.

However, strategic bolt-on M&A continued selectively in March, particularly in coatings and industrial gases, as larger players seek **scale efficiencies and regional diversification**.

Implication: Investment and capex discipline will remain tight heading into Q2. Any relief in trade tension or raw material volatility could unleash **pent-up capex**, but visibility remains low.

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.