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Monthly Insights: July Outlook

Industrial Sector

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Sector Price Action & Performance Review: Industrial Sector



The S&P 500 Industrial sector experienced mixed performance in June, grappling with renewed trade tensions, softer global manufacturing data, and policy uncertainty surrounding tariffs and capital investment. While onshoring and infrastructure-related demand offered select support, broader weakness in ISM manufacturing and concerns about export headwinds weighed on sentiment across key subindustries.

From a technical perspective industrial sector remains on solid footing despite the June pullback price has broken out above the \$145 level and projects upside above \$160 based on our work. The MACD study is moving towards a tactical buy signal while RSI oscillator is hooking higher from bullish oversold levels.

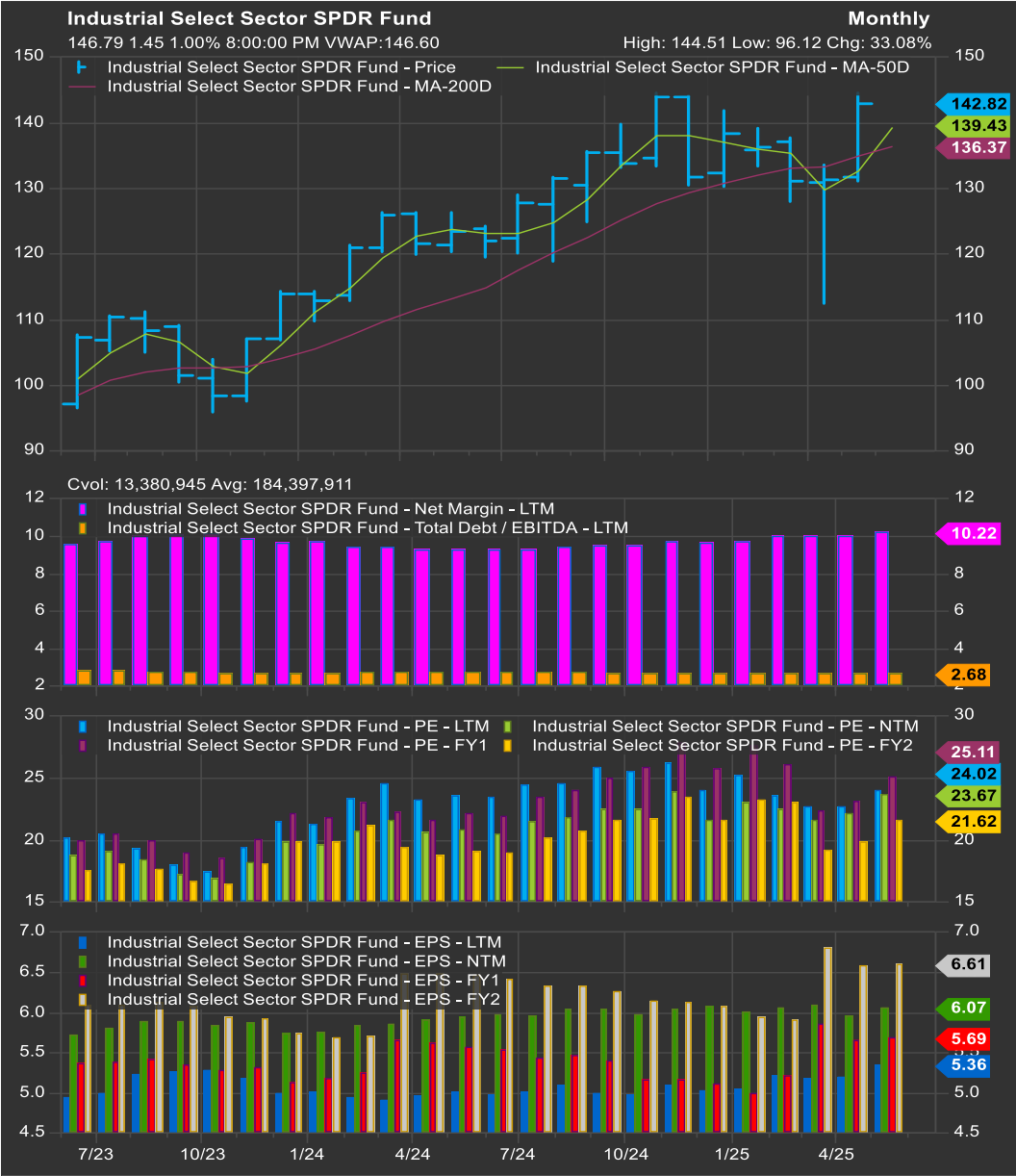
At the industry in stock level strength continues to be concentrated in Aero/Defense, Electrical and Construction and Engineering names while Transports and Industrial services broadly have lagged and are acting as a drag on sector performance Machinery stocks continue to play the middle.

The Fed's Beige Book echoed a moderate slowdown in manufacturing activity, with multiple Districts noting weak demand for durable goods and construction materials. Several large-cap names in the sector hinted at customer delays or project deferrals, reflecting growing caution on long-cycle orders. However, given policy continuity and fiscal support for military and energy initiatives, defense contractors and industrials tied to utility grid upgrades or EV infrastructure may be relative outperformers.

Expect a sector bifurcation: domestically focused, onshoring-aligned names may find support, while global exporters and cyclical manufacturers could see continued weakness

We start July long the Industrial Sector with an **OVERWEIGHT allocation of **2.68%** 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) remains elevate

Consensus forward earnings projections are firming (panel 4)

Industry/Sub-Industry Performance and Breadth: Industrial Sector



Industrial Industries (chart, left): Aero/Defense, Electrical and C&E companies continued to lead the sector in June

Industrial services and Transport stocks have remained sluggish and a drag on sector performance

Industrial Sector Internals (chart, right): breadth measures remain constructive for the Industrial sector with the percentage of stocks above their 200-day moving average hooking higher above the 50% level

6/30/2025

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
GNRC	Generac Holdings Inc.	Consolidation	8,413.8	0.73	0.8	0.0	1.78	9.4
PWR	Quanta Services, Inc.	Uptrend	56,502.2	1.39	24.4	0.1	1.13	7.1
EMR	Emerson Electric Co.	Bullish Reversal	74,908.1	0.85	8.5	1.1	1.35	6.3
NDSN	Nordson Corporation	Consolidation	12,156.2	0.82	-0.3	1.0	1.11	5.3
CAT	Caterpillar Inc.	Consolidation	180,934.9	0.78	5.1	1.0	1.67	5.1
AXON	Axon Enterprise Inc	Uptrend	63,728.7	4.77	28.2	0.0	1.62	4.0
RTX	RTX Corporation	Bullish Reversal	193,259.1	0.92	5.1	1.2	0.46	3.9
BLDR	Builders FirstSource, Inc.	Support	12,931.3	0.54	-12.0	0.0	1.72	3.9
TXT	Textron Inc.	Consolidation	14,504.5	0.50	0.7	0.1	0.91	3.7
HWM	Howmet Aerospace Inc.	Uptrend	74,639.3	1.94	29.4	0.1	1.58	3.6

A mix of previous leaders and laggards led the industrial sector in June

Electrical stocks got a boost on renewed interest in AI infrastructure while aero/defense names continued to lead ytd

Laggard's included commercial and professional services stocks as well as temporary employment firms and Trading companies Which are typically the lower vol. plays in the sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
PAYC	Paycom Software, Inc.	Bullish Reversal	13,138.4	0.97	-7.5	0.2	0.60	-17.4
PAYX	Paychex, Inc.	Support	51,845.8	1.06	-11.6	2.0	0.87	-13.3
CPRT	Copart, Inc.	Support	46,587.0	1.15	-19.9	#N/A	1.04	-12.4
ADP	Automatic Data Processing, Inc.	Consolidation	123,177.3	1.12	-8.2	1.3	0.83	-10.9
GWW	W.W. Grainger, Inc.	Consolidation	49,420.3	0.98	-7.1	0.6	1.18	-9.8
DAY	Dayforce, Inc.	Support	8,815.8	0.90	-16.9	0.0	1.00	-9.4
RSG	Republic Services, Inc.	Bullish Reversal	76,364.9	1.36	-3.4	0.6	0.46	-8.8
WM	Waste Management, Inc.	Consolidation	91,853.6	1.13	-6.0	0.9	0.57	-8.4
SNA	Snap-on Incorporated	Retracement	16,263.0	0.65	-12.8	1.8	1.02	-7.9
IEX	IDEX Corporation	Downtrend	13,320.0	0.83	-12.8	1.0	1.04	-7.4

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

Trade Policy and Export Sensitivity in Focus

Tariff Volatility Returns: The Trump administration reignited global trade tensions in June by:

- Doubling steel and aluminum tariffs to 50%.**

- Threatening further measures tied to rare earths and advanced technology.

- Delaying but not canceling a 50% tariff deadline on EU goods** to July 9, raising uncertainty for capital goods exporters.

These moves sparked criticism from trading partners and **dampened expectations for a near-term trade truce**, particularly with China. According to press coverage, the **"TACO" trade unwind narrative**—fueled by premature market optimism over tariff moderation—is now being reconsidered.

Export Exposure at Risk: Export-heavy subsectors such as **industrial machinery, aerospace components, and railroads** face downside risk from these developments. The **May ISM Manufacturing Index**, which showed the sharpest contraction in factory orders since January 2024, underscored the macro headwinds for capital goods exporters.

Onshoring and Domestic Capex as Partial Buffers

Onshoring Tailwinds Persist: USTR officials flagged progress in trade talks with the EU and emphasized the importance of trade pacts that support **domestic supply chain resilience**. Select industries continue to benefit:

- Construction equipment and industrial automation companies** aligned with reshoring and capacity buildout in semiconductors, clean tech, and energy infrastructure.

- Firms involved in **warehouse construction, utility buildouts, and defense contracts** have seen stable order pipelines despite macro softness.

Capital Spending Remains Selective: While overall factory orders fell in April and May, certain categories—particularly **automation and logistics equipment**—continue to see strategic investment as firms adapt to geopolitical risk and labor shortages. However, **small- to mid-cap industrials with global exposure** are seeing more muted demand.

Macroeconomic Signals Turning Softer

May ISM Manufacturing Data was a key disappointment:

- Headline index dropped**, with new export orders and production both declining.

- Feedback cited **tariff-related uncertainty** and **supply chain caution** as headwinds for purchasing managers.

Fed's Beige Book echoed a **moderate slowdown in manufacturing activity**, with multiple Districts noting weak demand for durable goods and construction materials.

Several large-cap names in the sector hinted at **customer delays or project deferrals**, reflecting growing caution on long-cycle orders.

July 2025 Outlook: Select Opportunities Within Broader Headwinds

Onshoring Trends Still Intact: July may bring incremental clarity on the U.S.–EU trade front. If current tariff threats are rolled back or redirected toward strategic sectors, **onshoring-exposed names in logistics, rail, and energy infrastructure** could benefit.

Manufacturing Contraction to Linger: With the Fed's Beige Book citing softening conditions and ISM data showing weaker new orders, the **short-term demand picture remains challenging** for broadly cyclical names.

Watch for Defense and Energy Infrastructure Plays: Given policy continuity and fiscal support for military and energy initiatives, **defense contractors and industrials tied to utility grid upgrades or EV infrastructure** may be relative outperformers.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.