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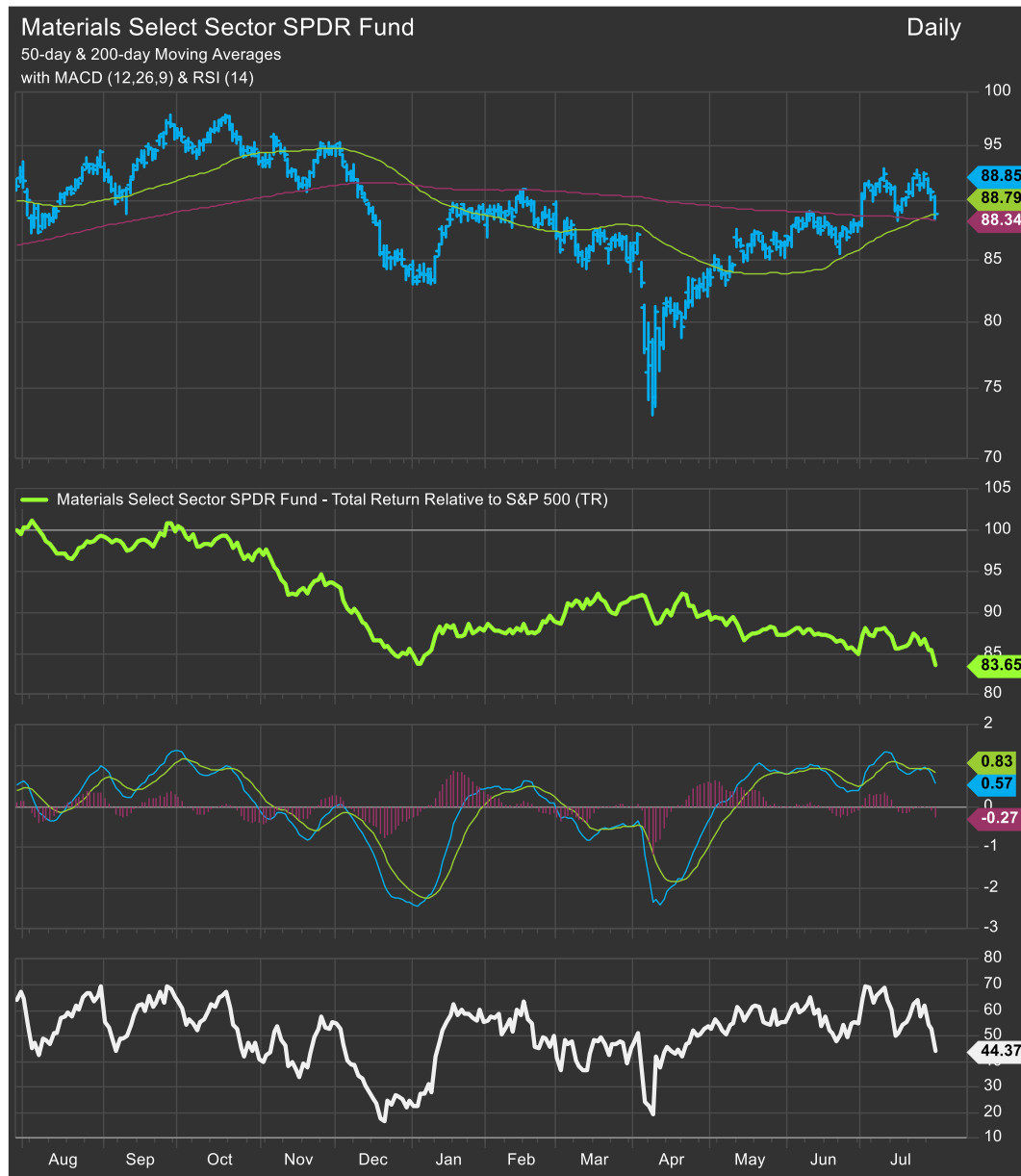
Monthly Insights: August Outlook

Materials Sector

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Sector Price Action & Performance Review: Materials



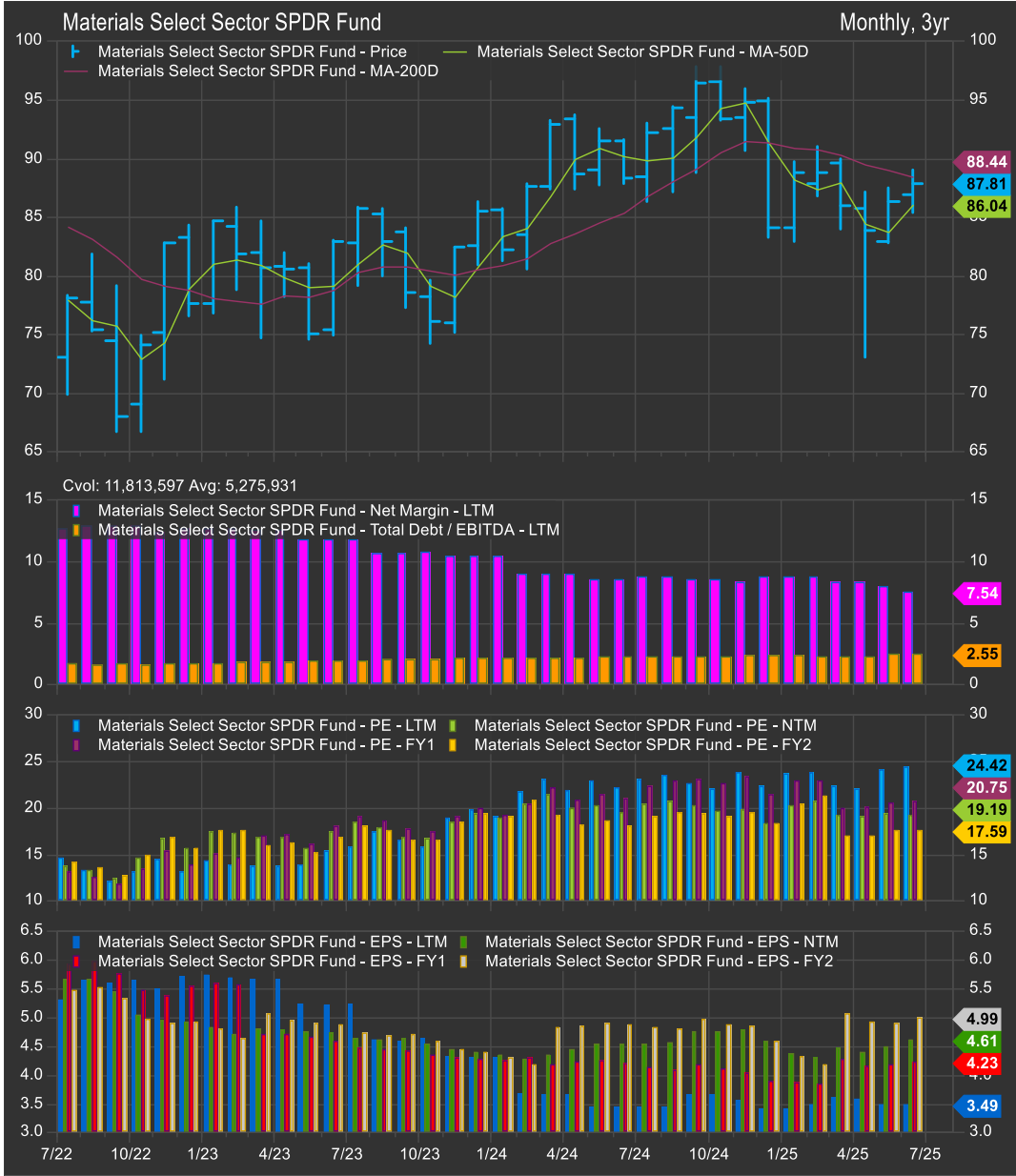
The materials sector traded to fresh 52-week relative lows vs. the S&P 500 in July. Concern around tariff cost escalation, a tight labor market for skilled workers and a slowing residential construction market in the near-term have been headwinds.

IP and NEM were top performing stocks within the sector as demand for precious metal continues despite the recent rotation away from “haven” exposures. However, earnings results and forward guidance proved to be too much for the sector to overcome. Over 60% of reporting companies lowered full year guidance in Q2. Chemicals stocks remain a drag in aggregate while Mining stocks outside of NEM couldn’t keep their momentum throughout the month.

Commodities prices have stayed muted despite disaggregation of the global supply chain. We expect this is because economic conditions (level of interest rates, labor cost, purchasing power) are somewhat constrained at present. With the Fed holding rates steady, we don’t see a clear impetus for easing conditions or a clear catalyst for the sector to change its fortunes

We start August out of the Materials Sector with an **UNDERWEIGHT allocation of **-1.86%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Materials Sector



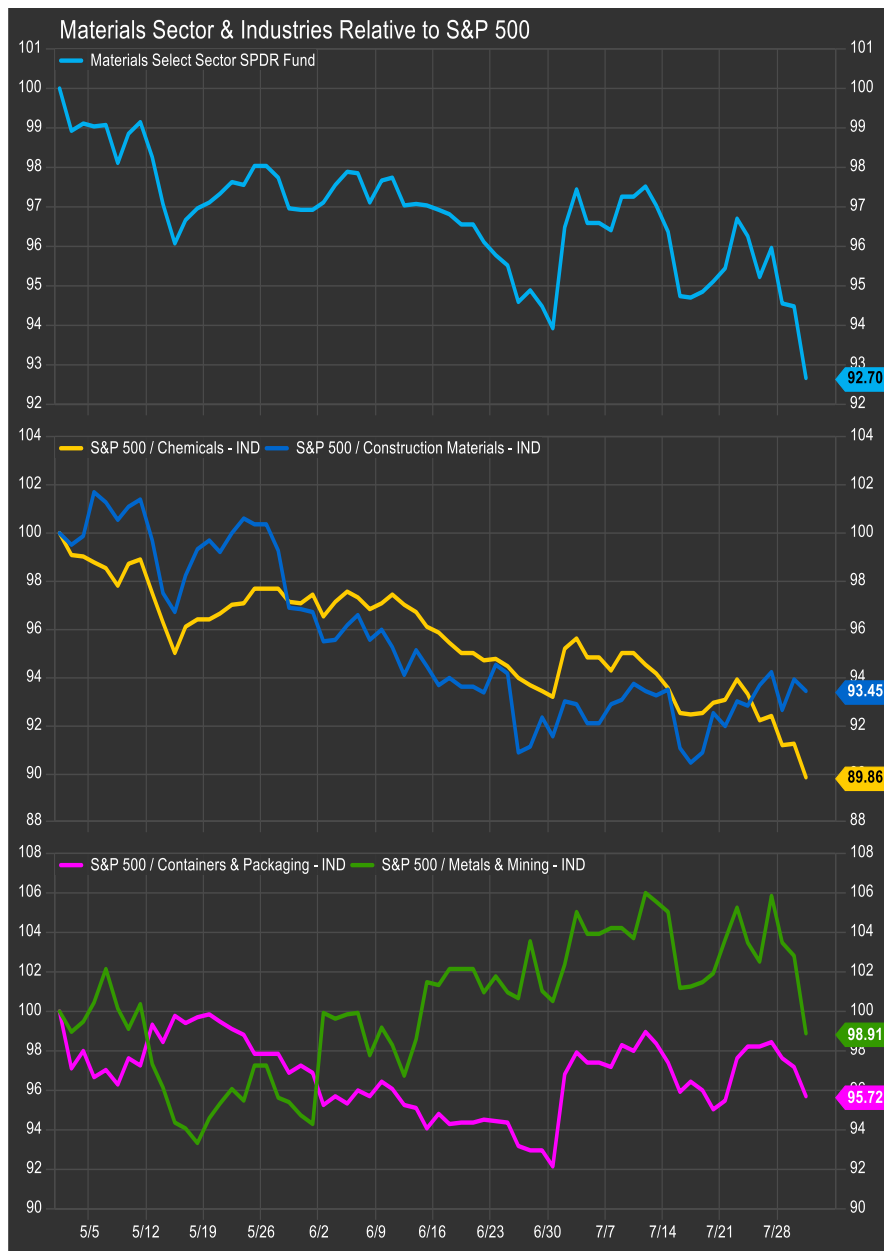
The chart (left) shows S&P 500 Materials Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to contract as companies report Q2 2025 earnings (chart, panel 2) While debt to EBITDA continues to tick higher.

Valuation (chart, panel 3) has become elevated in the near-term and is higher than average in out years as well, though consensus forward earnings expectations are showing some improvement (panel 4)

Overall, poor operating results aren't providing the value that Value investors need to maintain interest in the sector.

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): The Chemicals Industry continues to weigh on the sector and we aren't seeing improvement. Base metal miners retraced some gains in July driving the sector to fresh 3-month lows

On the positive side of the ledger, there has been some stabilization in Construction Materials aggregators VMC and MLM

Materials Sector Internals (chart, right): Based on our study of market internal trends for the material sector. We are seeing a potential pivot point.

The percent of stocks above their 50-day moving average has pulled back sharply from early June. And the week overall trend implies. That the sector is likely to lag while equities continue their advance.

7/31/2025

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
IP	International Paper Company	Consolidation	28,739.0	0.75	1.6	2.3	1.38	11.6
NEM	Newmont Corporation	Bullish Reversal	70,289.8	0.49	15.9	1.0	0.19	9.5
SW	Smurfit Westrock PLC	Consolidation	25,161.0	0.57	-0.4	2.3	1.31	8.7
ALB	Albemarle Corporation	Consolidation	8,424.5		0.8	1.6	1.49	7.0
DD	DuPont de Nemours, Inc.	Consolidation	31,094.5	0.66	-0.9	1.5	1.14	4.6
NUE	Nucor Corporation	Consolidation	32,452.8	0.58	4.4	1.0	2.13	4.2
PKG	Packaging Corporation of America	Consolidation	18,271.3	0.75	-3.5	1.7	1.11	3.9
LYB	LyondellBasell Industries NV	Consolidation	20,081.1	0.56	-6.6	6.1	0.85	3.2
MLM	Martin Marietta Materials, Inc.	Consolidation	34,960.7	1.15	1.0	0.4	1.03	2.1
APD	Air Products and Chemicals, Inc.	Consolidation	65,692.8	0.93	-5.1	1.7	0.85	1.9

IP and NEM paced the sector in July, the latter maintaining demand where other traditional “safety” assets have been sold

Chemicals names dot the highs and the lows list for the month, though most outperformers remain short of our “bullish reversal” threshold

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
DOW	Dow, Inc.	Downtrend	17,848.7		-26.8	5.7	0.89	-10.0
ECL	Ecolab Inc.	Consolidation	73,540.3	1.29	-6.8	0.7	0.96	-6.3
SHW	Sherwin-Williams Company	Support	84,017.8	1.11	-13.2	0.6	1.33	-5.8
STLD	Steel Dynamics, Inc.	Consolidation	18,930.1	0.46	-11.0	1.0	1.49	-5.7
CTVA	Corteva Inc	Bullish Reversal	49,716.5	0.88	1.3	0.6	0.92	-5.3
AVY	Avery Dennison Corporation	Downtrend	13,467.3	0.68	-11.8	1.4	1.09	-5.2
PPG	PPG Industries, Inc.	Downtrend	25,476.2	0.55	-7.3	1.7	1.14	-5.0
FCX	Freeport-McMoRan, Inc.	Bullish Reversal	62,086.9	0.76	2.3	1.0	1.37	-4.4
EMN	Eastman Chemical Company	Downtrend	8,751.9	0.39	-12.9	3.8	1.41	-3.8
IFF	International Flavors & Fragrances Inc.	Downtrend	19,130.6	0.68	-13.5	1.5	1.09	-2.7

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

Earnings & Margin Trends

Q2 earnings season revealed mixed results across the sector, with most large-cap materials firms beating on EPS but guiding more cautiously for Q3:

Revenue beats were modest, while **margin compression** was a common theme due to rising input costs, wage pressures, and tariff pass-through friction.

Guidance trends skewed cautious—roughly 60% of sector constituents either lowered or bracketed Q3 forecasts flat versus Q2.

Earnings call commentary often cited **demand resilience from reshoring projects** and public infrastructure spend, but **softness in consumer-facing segments** (e.g., appliances, tools, coatings) dragged on top-line growth.

Tariffs & Trade Developments

A material shift in trade dynamics emerged:

The **U.S.-EU trade agreement**, announced July 28, imposes a **15% baseline tariff** on a range of industrial inputs (aluminum, copper products, glass, and basic chemicals) beginning **August 1**.

China tariffs were extended for 90 days on **July 29**, pushing out the next decision to **October 27**, providing temporary relief for firms sourcing raw materials or specialty inputs from Asia.

The White House has flagged **India for a potential 20–25% tariff decision by August 5**, which may impact chemical and rare earth import flows.

Onshoring & Domestic Industrial Policy

Public-sector momentum continued to support domestic materials demand:

Construction spending on factories and infrastructure projects remained strong, with May's print showing **+1.4% m/m growth** in private non-residential activity.

Federal guidance (July 9) reaffirmed prioritization of **domestic supply chain buildouts** in critical sectors such as steel, glass, and advanced materials through 2026.

Companies referenced **resilient demand from datacenter, renewable energy, and LNG infrastructure projects**, which helped offset cyclical softness in autos, appliances, and

consumer durables.

Labor Costs & Supply Chain Pressures

Labor constraints and wage inflation persisted:

Manufacturing job openings fell to **533K in June**, per JOLTS data released July 30—lowest since 2020—but **quit rates remained steady**, signaling wage pressure is still elevated.

Several firms mentioned **continued wage growth above 4% y/y**, especially in skilled production and logistics roles.

This has weighed on **SG&A ratios**, particularly in chemical and industrial packaging firms with high U.S. labor intensity.

Sector Performance & Market Positioning

The **Materials sector (XLB ETF)** finished July **down ~1.1%**, underperforming the S&P 500 by ~140 bps.

Earnings dispersion widened, with commodity-sensitive names faring better than those exposed to discretionary or housing demand.

Equity analysts noted that **tariff uncertainty, input cost volatility**, and **soft Q3 outlooks** contributed to the relative weakness.

August Outlook

Key policy dates:

August 1: 15% tariff on EU goods takes effect.

August 5: India tariff announcement expected.

August 29: July PCE inflation release.

Macro themes to watch:

Tariff pass-through success vs. consumer demand elasticity.

Impact of **slower hiring trends** on sector labor costs.

Rail and energy M&A activity (UNP/NSC, BKR/GTSL) may influence capex cycles and bulk commodity flows

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.