

ETFSector.com

Monthly Insights: September Outlook

Materials Sector

Patrick Torbert, CMT
Editor & Chief Strategist

Sector Price Action & Performance Review: Materials



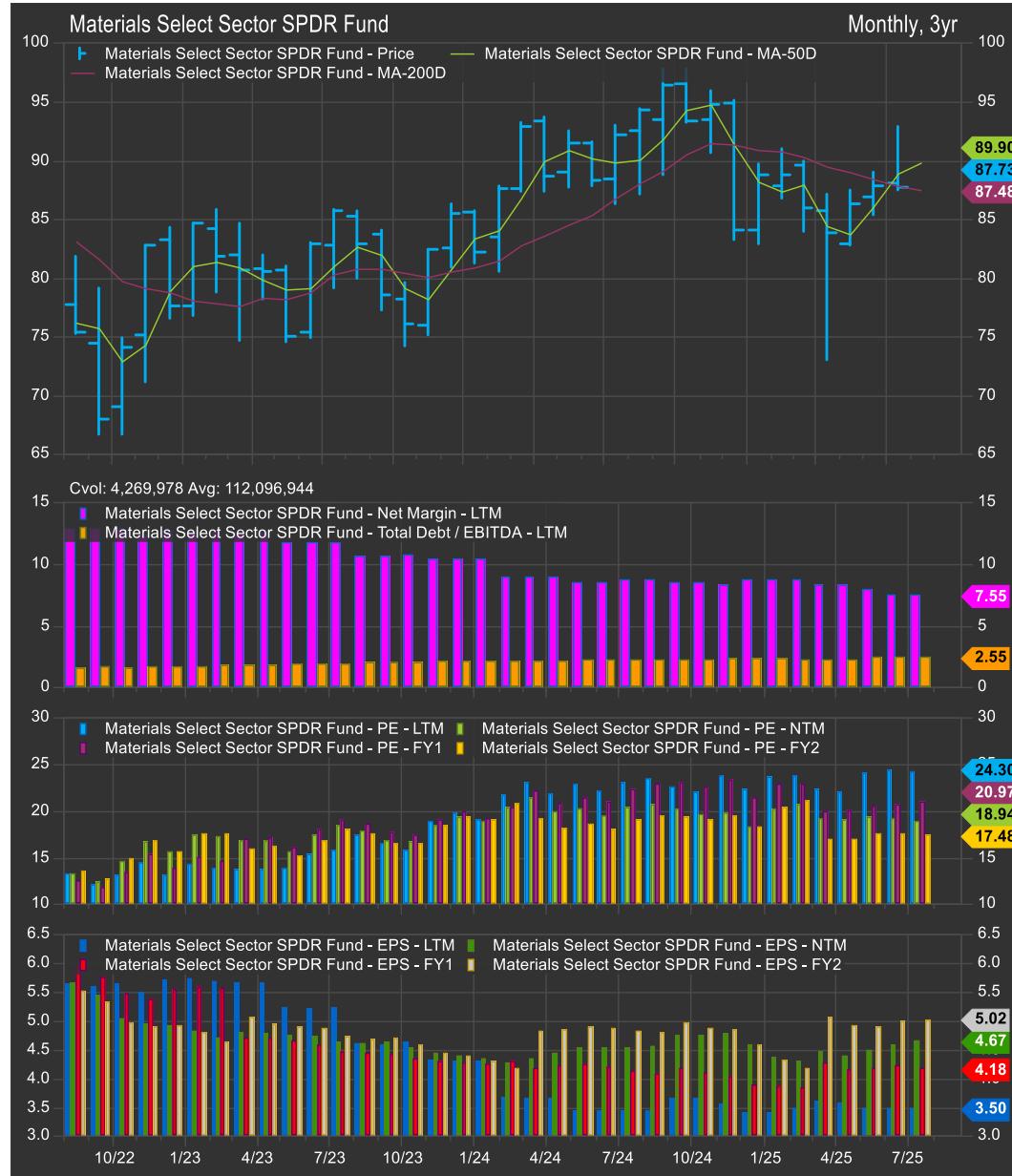
The Materials sector rebounded in August, but the negative longer-term trend remains in force. The XLB's RSI oscillator has been unable to reach overbought levels since July 2024 which is a sign of a lack of buyer enthusiasm and a weak long-term trend.

Metals & Mining stocks continue to be a positive standout in the sector, though continued tariff headlines have added an unwelcome layer of volatility. Chemicals stocks have pushed the sector to outperform in the near-term though they generally remain in weak long-term trends, and we would recommend fading continued strength. Containers & Packaging stocks continue to be put under pressure as tariff implementation has had a negative impact on global shipping volumes.

Commodities prices have stayed muted despite disaggregation of the global supply chain. This could change with the Fed signaling it is likely to take a dovish path with its policy rate into year end, but increased costs are likely to be a headwind for a sector replete with relatively low margin businesses, and we are skeptical that rates can move too much lower without triggering some inflationary pressures.

We start September out of the Materials Sector with an **UNDERWEIGHT allocation of **-1.95%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Materials Sector



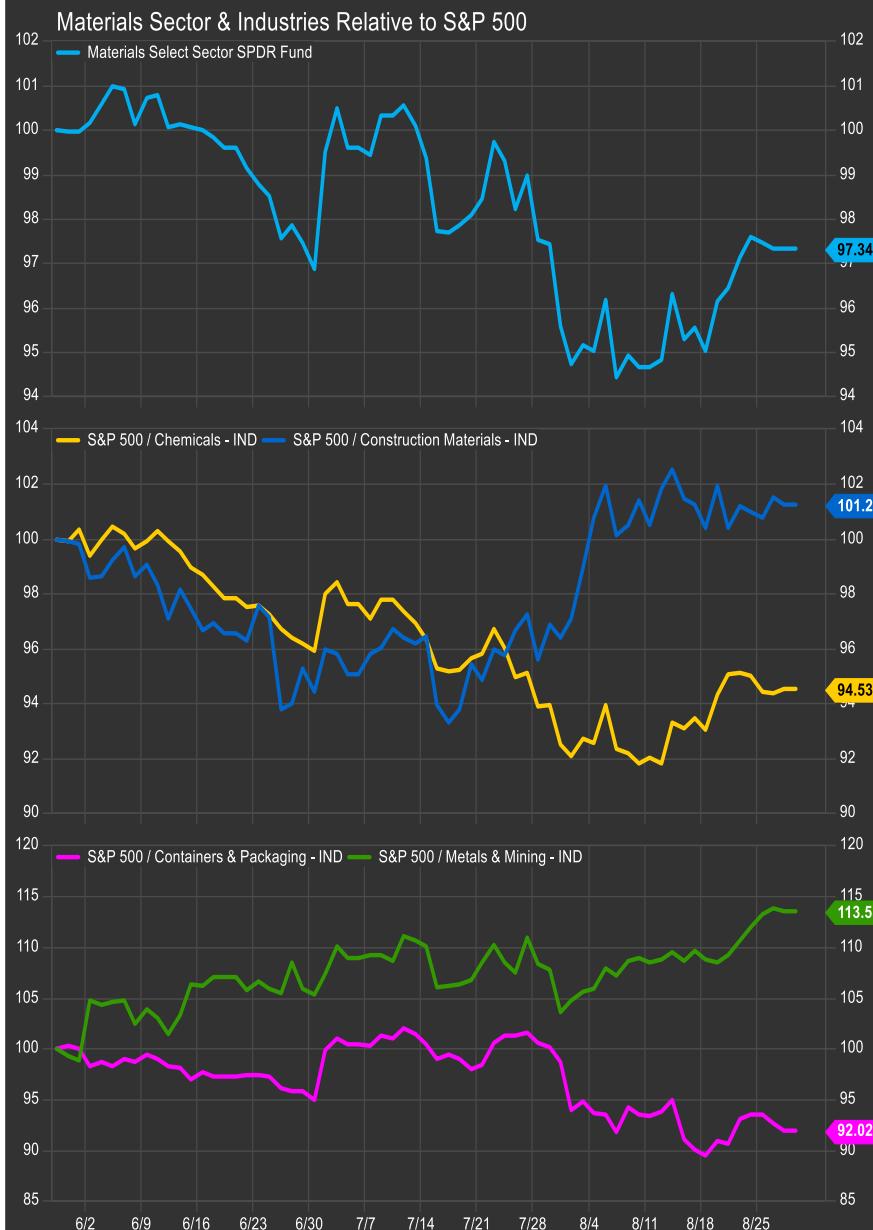
The chart (left) shows S&P 500 Materials Sector Margins, Debt/EBITDA, Valuation and Earnings

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. This has been an ongoing concern.

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): The Chemicals Industry has boosted the sector in August with a near-term rally led by SHW on hopes the Fed's intervention will boost lagging stocks

Metals & Mining concerns confirmed their intermediate-term bullish reversal and remain the strongest industry in the space while Construction Materials also continue to improve in the short-term

Longer-term, the sector remains challenged

Materials Sector Internals (chart, right): Internal trends improved in August, but remain among the weakest at the sector level...near-term strength looks counter-trend and at present we would recommend fading rallies

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
NEM	Newmont Corporation	Bullish Reversal	79,516.8	0.54	28.8	0.8	0.51	8.5
SHW	Sherwin-Williams Company	Consolidation	91,605.1	1.21	-3.1	0.6	1.36	6.7
VMC	Vulcan Materials Company	Consolidation	38,467.9	1.25	2.1	0.4	0.85	4.5
MLM	Martin Marietta Materials, Inc.	Bullish Reversal	37,187.1	1.19	4.0	0.3	0.94	3.7
ALB	Albemarle Corporation	Bullish Reversal	10,318.4		21.3	1.3	1.40	3.1
ECL	Ecolab Inc.	Consolidation	79,522.8	1.38	-2.6	0.6	0.97	1.6
NUE	Nucor Corporation	Bullish Reversal	34,506.1	0.61	14.8	1.0	1.99	1.5
DD	DuPont de Nemours, Inc.	Consolidation	32,588.7	0.67	-0.8	1.4	1.14	1.1
CTVA	Corteva Inc	Bullish Reversal	50,952.9	0.88	0.4	0.6	0.94	0.6
LIN	Linde plc	Consolidation	226,347.3	1.12	-4.2	0.8	0.74	0.5

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
IFF	International Flavors & Fragrances Inc.	Downtrend	17,114.9	0.61	-21.4	1.6	1.12	-14.4
AMCR	Amcor PLC	Support	19,618.6	0.42	-17.9	4.1	0.88	-14.2
IP	International Paper Company	Retracement	25,538.5	0.74	-13.5	2.5	1.48	-13.8
EMN	Eastman Chemical Company	Downtrend	7,903.9	0.41	-24.6	3.2	1.45	-13.7
BALL	Ball Corporation	Consolidation	14,236.1	0.54	-11.6	1.0	1.43	-12.9
LYB	LyondellBasell Industries NV	Downtrend	18,102.4	0.58	-13.8	6.4	0.89	-11.5
MOS	Mosaic Company	Bullish Reversal	10,629.0	0.42	-6.6	1.7	0.89	-10.8
CF	CF Industries Holdings, Inc.	Retracement	13,986.4	0.46	-10.3	1.6	0.83	-8.5
SW	Smurfit Westrock PLC	Consolidation	23,840.2	0.57	-9.3	2.5	1.32	-7.2
DOW	Dow, Inc.	Downtrend	17,536.8		-21.2	5.5	0.90	-4.6

NEM remains a leading stock in the sector, but construction and home related names like MLM, VMC and SHW have perked up with the Fed signaling a dovish intervention

Containers & Packaging names came under renewed pressure in August as tariff implementation has already begun to dent container demand, Chemicals names also remain under pressure due to import costs

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueuation

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

August Recap: Macro & Policy Drivers

Tariffs & Trade Policy

Ongoing tariff uncertainty weighed on materials broadly, especially in **steel, aluminum, copper wire, and chemicals**.

Reports mid-month noted **US copper wire producers raising prices** despite exemptions, while **steel/aluminum tariffs expanded to 407 new product categories**.

Trump also disclosed a new **furniture tariff investigation**, an indirect drag on chemicals, packaging, and lumber.

Global Macro & Policy Context

30-year JGB yields hitting record highs fueled global liquidity concerns, spilling into commodity-sensitive sectors.

Fed Chair Powell's **Jackson Hole dovish tilt** (noting downside employment risks and tariffs as short-lived) gave a lift to cyclicals, including Materials, by the final week of August.

Consumer & Financial Backdrop

Housing and Construction Demand

Housing starts up 5.2% in July, though permits fell for the 7th time in 8 months — a mixed signal for demand in **building materials, lumber, and chemicals**.

Existing home sales surprised higher late in the month (+2% m/m), reinforcing some stabilization in housing-linked demand.

Financial Conditions

Market priced in **~50 bp of Fed easing by year-end**, helping cap financing costs for capital-intensive materials producers.

Tariff-driven input cost inflation remains a headwind, with PMIs flagging **sharp increases in manufacturing input prices**, second highest since 2022.

Earnings & Company-Specific Trends

Chemicals & Packaging

IP announced sale of global cellulose fibers business for \$1.5B and broader restructuring in North America packaging. Stock also rallied on strength in containerboard.

COTY weakness tied to rising raw material costs and tariff-driven margin pressures.

Metals & Mining

Copper and aluminum flagged as **August outperformers**, supported by global infrastructure themes and US onshoring.

Precious metals miners benefited from **gold resilience** as dollar swings continued.

Building Materials

TOL beat on closings and homebuilding margins, though ASP light.

Furniture tariff probe pressured housing-linked retail and chemicals, but **ETD** and other US-sourced producers seen as beneficiaries.

September Outlook

Tariffs: Risk remains elevated — focus on downstream costs in chemicals, packaging, and building materials from tariff expansions and reciprocal measures abroad.

Housing & Construction: Housing data remain mixed, but stabilization in sales could support demand for lumber, cement, and chemicals.

Metals: Copper and aluminum strength may continue if infrastructure and EV-related demand remains firm.

Financial Conditions: Fed easing expectations (70–90% probability of a September cut) supportive of capital-intensive industries, though offset by higher input costs from tariffs.

M&A & Restructuring: IP's portfolio shifts highlight ongoing trend of balance-sheet discipline across the sector.

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.