

[ETFSector.com](https://www.ETFSector.com)

Monthly Insights: October Outlook

Industrial Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Industrial Sector



The S&P 500 Industrial sector moved sideways in September while the S&P 500 Index continued to print new highs. There is some evidence that investors are starting to accumulate favored exposures in the near-term, supporting the XLI chart above the \$150 level.

From a technical perspective, momentum oscillators are showing a neutral reading while sector breadth has deteriorated over the past 2 months. Fed easing may eventually benefit the sector by lowering finance costs and increasing access to credit, but at present consumer and Growth facing stocks are benefitting more than the many economically sensitive cyclicals in the Industrial sector.

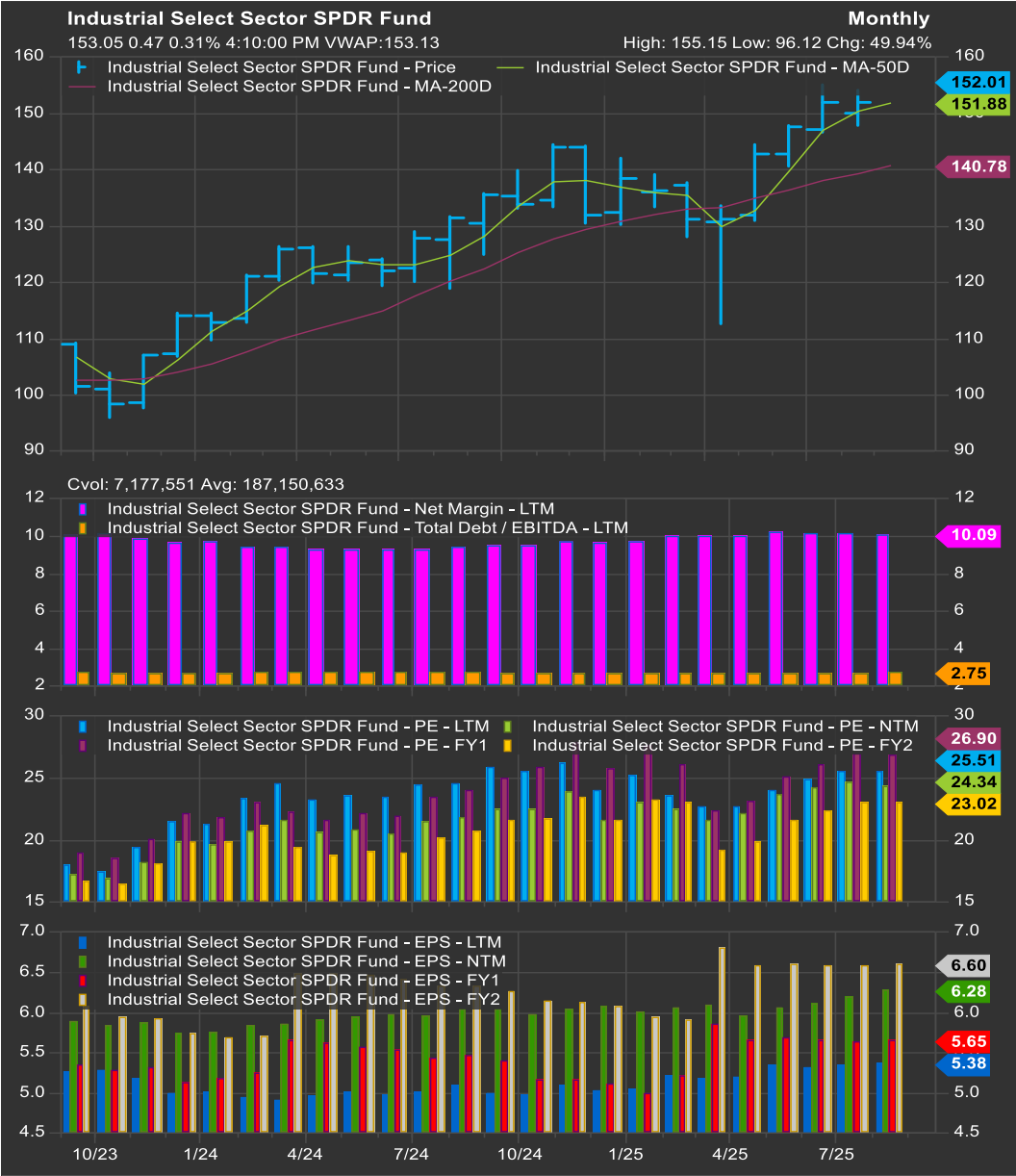
At the Industry level, AI has been a tailwind to several industries within the sector, notably Machinery, Electrical Equipment and Construction & Engineering, but we've seen profit taking in those areas during the near-term. Transports and Industrial Services continue to be lackluster with the upshot being that the sector has retraced YTD gains and is now lagging the S&P 500 over the past 12 months.

Government shutdown risks and implementation of tariffs have been near-term headwinds from a policy perspective while weakening economic data has been a headwind as well. Unlike more purely Growth exposures, Industrials are getting dinged by the slowing economy and are directly affected by tariff related cost pressures.

With the sector now closer to oversold conditions than overbought, we are getting more constructive on the potential for accumulation.

We start October with an **OVERWEIGHT** allocation of **1.08%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Industrial Sector



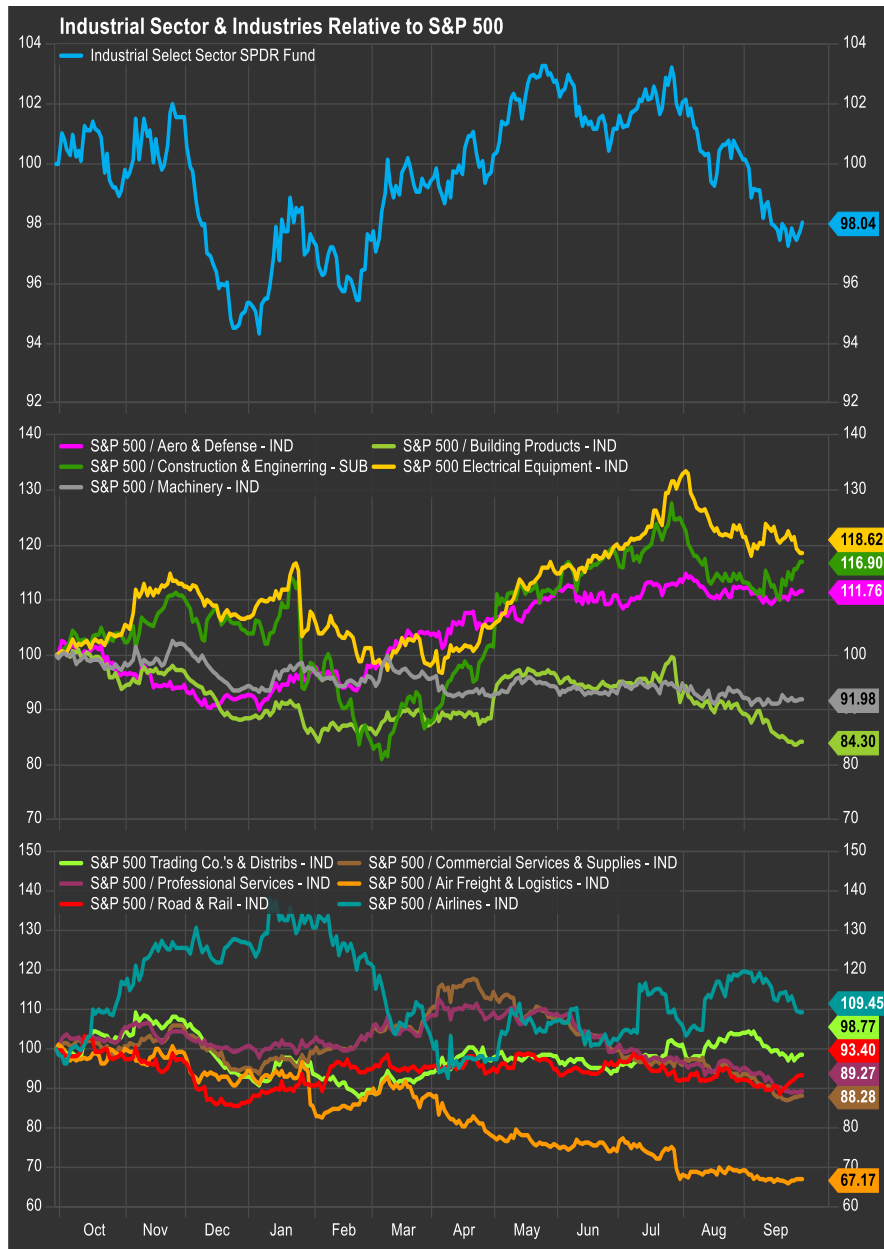
The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

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

Valuation (chart, panel 3) remains elevated

Consensus 2-year forward earnings projections have remained firm in 2025 (panel 4), however the multiple is somewhat rich at >23x for 10% consensus earnings growth

Industry/Sub-Industry Performance and Breadth: Industrial Sector



Industrial Industries (chart, left): Leading industries continued to pull back in September vs. the S&P 500

Airlines are a near-term pocket of strength along with Trading Co.'s (which do well when trade is disrupted)

We'd expect investors to step in and accumulate some leading names after their recent pullbacks with Electrical stocks perking up already

Industrial Sector Internals (chart, right): **Shorter-term breadth** measures remained weak through September while the **longer-term breadth measure** is also rolling over in the near-term

9/30/2025

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
HWM	Howmet Aerospace Inc.	Uptrend	77,863.8	1.87	6.4	0.2	1.50	7.3
LMT	Lockheed Martin Corporation	Consolidation	113,800.2	0.72	-0.4	1.8	0.41	5.3
CAT	Caterpillar Inc.	Bullish Reversal	218,198.8	0.92	12.8	0.8	1.70	4.8
NSC	Norfolk Southern Corporation	Bullish Reversal	66,743.2	0.88	8.0	1.2	1.34	4.8
GE	GE Aerospace	Uptrend	312,808.4	1.79	11.0	0.3	1.48	4.6
UNP	Union Pacific Corporation	Consolidation	139,483.0	0.75	-5.1	1.5	0.91	4.1
LHX	L3Harris Technologies Inc	Bullish Reversal	54,923.5	0.99	11.5	1.1	0.86	4.1
PWR	Quanta Services, Inc.	Uptrend	59,733.4	1.37	8.0	0.1	1.40	2.8
OTIS	Otis Worldwide Corporation	Retracement	35,471.9	0.83	-12.8	1.2	1.03	2.5
CSX	CSX Corporation	Consolidation	63,404.1	0.73	-1.8	1.0	1.26	2.3

September saw continued weakness for industrials led lower by Building Products names (BLDR, CARR)...more broadly, there was some retracement in leading machinery, C&E and Aero/Defense names with AXON posting an earnings miss and TDG (not shown) continuing to retrace gains vs. the S&P 500

Some M&A within the Transport IG may lead to firming of performance in the near-term and we have taken off our tactical underweight position for 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
BLDR	Builders FirstSource, Inc.	Retracement	13,066.6	0.70	-13.8	0.0	1.48	-18.0
CARR	Carrier Global Corp.	Support	50,074.2	0.75	-23.2	1.0	1.32	-13.4
GNRC	Generac Holdings Inc.	Bullish Reversal	9,873.4	0.79	3.9	0.0	1.68	-12.3
AXON	Axon Enterprise Inc	Uptrend	55,647.1	3.73	-11.6	0.0	1.68	-11.6
CPRT	Copart, Inc.	Retracement	43,386.4	1.04	-18.2	0.0	0.90	-10.3
BR	Broadridge Financial Solutions, Inc.	Retracement	27,642.5	0.99	-11.5	1.1	1.04	-10.1
DAL	Delta Air Lines, Inc.	Bullish Reversal	37,348.6	0.34	3.2	0.8	2.01	-10.0
PAYX	Paychex, Inc.	Support	46,105.5	0.92	-18.8	2.2	0.73	-9.9
ODFL	Old Dominion Freight Line, Inc.	Downtrend	29,127.2	1.04	-21.5	0.5	1.39	-9.5
DOV	Dover Corporation	Retracement	23,037.2	0.66	-15.5	0.8	1.19	-9.5

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

Industrial bellwethers navigated a cross-current in September. On the positive side, “hard” activity data surprised: August **durable goods orders** rose **+2.9% m/m** (core non-defense ex-aircraft **+0.6% m/m**), final **Q2 GDP** was revised up to **3.8% SAAR** on stronger consumption, and **new/existing home sales** beat expectations—supportive for transportation, building products, and select machinery. Offsetting that, survey indicators softened (flash PMIs broadly in line but with weaker components; **Richmond Fed** at **-17**), and Treasury yields firmed mid-month before easing, complicating capital-intensive ordering cycles.

Policy risk rose meaningfully. The White House rolled out **targeted tariffs** (25% on heavy trucks; 30–50% on furniture/housing goods; threats toward branded drugs) and opened **Section 232 probes** into **robotics and industrial machinery**—a direct watch-item for capital goods supply chains. Trade headlines extended to semiconductors (press reports about a potential 1:1 U.S.-manufactured-to-imported chip ratio), which would ripple through factory automation, test & measurement, logistics, and power infrastructure if pursued. Meanwhile, geopolitics remained supportive for **aerospace & defense** as media reports indicated the U.S. urged missile suppliers to **double/quadruple** production rates; defense-industrial activity and order visibility improved accordingly. Government-shutdown risk rose into month-end, but markets largely discounted lasting macro damage (bigger concern: data release delays and contracting cadence near fiscal year end).

Demand & End-Market Backdrop

Transportation & logistics. Rail outlook brightened at the margin (e.g., a CSX upgrade citing improving operations and potential consolidation upside), while **trucking** and **airlines** were choppy—airlines faced operational hiccups and higher oil during the week of the rally; tariff signals favored **heavy-duty truck OEMs**.

Aerospace & defense. **BA** was reported to **regain some control over safety checks** as the FAA prepared to relax certain constraints; broader A&D sentiment improved on stepped-up munitions demand.

Construction-linked machinery. Better **home-sales prints** and resilient consumer spend supported near-term utilization for equipment tied to residential channels; order books benefited from durable goods strength, though PMIs counsel caution.

Industrial tech & automation. Mixed signals: AI-driven data-center and factory-power upgrades remained constructive for electrification and controls vendors, but Section 232 probes into robotics/machinery and tariff chatter tempered capex visibility for import-reliant segments.

Margins, Input Costs, Capex, Utilization

Margins: Input costs were volatile. **Oil** posted its strongest weekly gain since mid-June before easing; diesel/freight costs and a firmer **USD** at times pressured exporters. Still, shipment strength (e.g., steel spreads at select mills) and price discipline helped some sub-segments.

Capex: Spending remained **selective and ROI-driven**—debottlenecking, reliability, and energy-efficiency upgrades led; greenfield commitments were more cautious given policy uncertainty and survey softness.

Utilization: Capacity usage was **uneven**—elevated in defense supply chains and certain building-linked lines, softer in segments tied to global goods demand and import competition.

Risks & Watch-Items for October 2025

Policy & trade: Progress (or escalation) in **Section 232** probes on robotics/machinery; details/timing on **heavy-truck and housing-goods tariffs**; any semiconductor localization mandates.

Macro data: **ISM Manufacturing/Services, payrolls, and PCE**—confirmation that hard-data resilience persists despite softer surveys.

Defense cadence: Follow-through on missile and munitions **rate-ups**; supply-chain bottlenecks (guidance for suppliers, hiring, and tooling lead times).

Energy costs: **OPEC+** decision path into November; distillate/freight dynamics for transportation names.

FX & exports: A firm **USD** vs. order books for global platforms and engineered products.

Program & regulatory milestones: **BA** production/inspection flow, FAA/DoD updates; rail service metrics and possible deal headlines; any shutdown-related procurement delays.

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.