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Monthly Insights: October Outlook

Materials Sector

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Sector Price Action & Performance Review: Materials



The Materials Sector couldn't build on its brief August pivot trading to new 52-wk lows vs. the S&P 500 in September. Headwinds to Chemicals and Packaging Industries persist as tariffs have bitten the sector two-fold by dampening demand and raising costs.

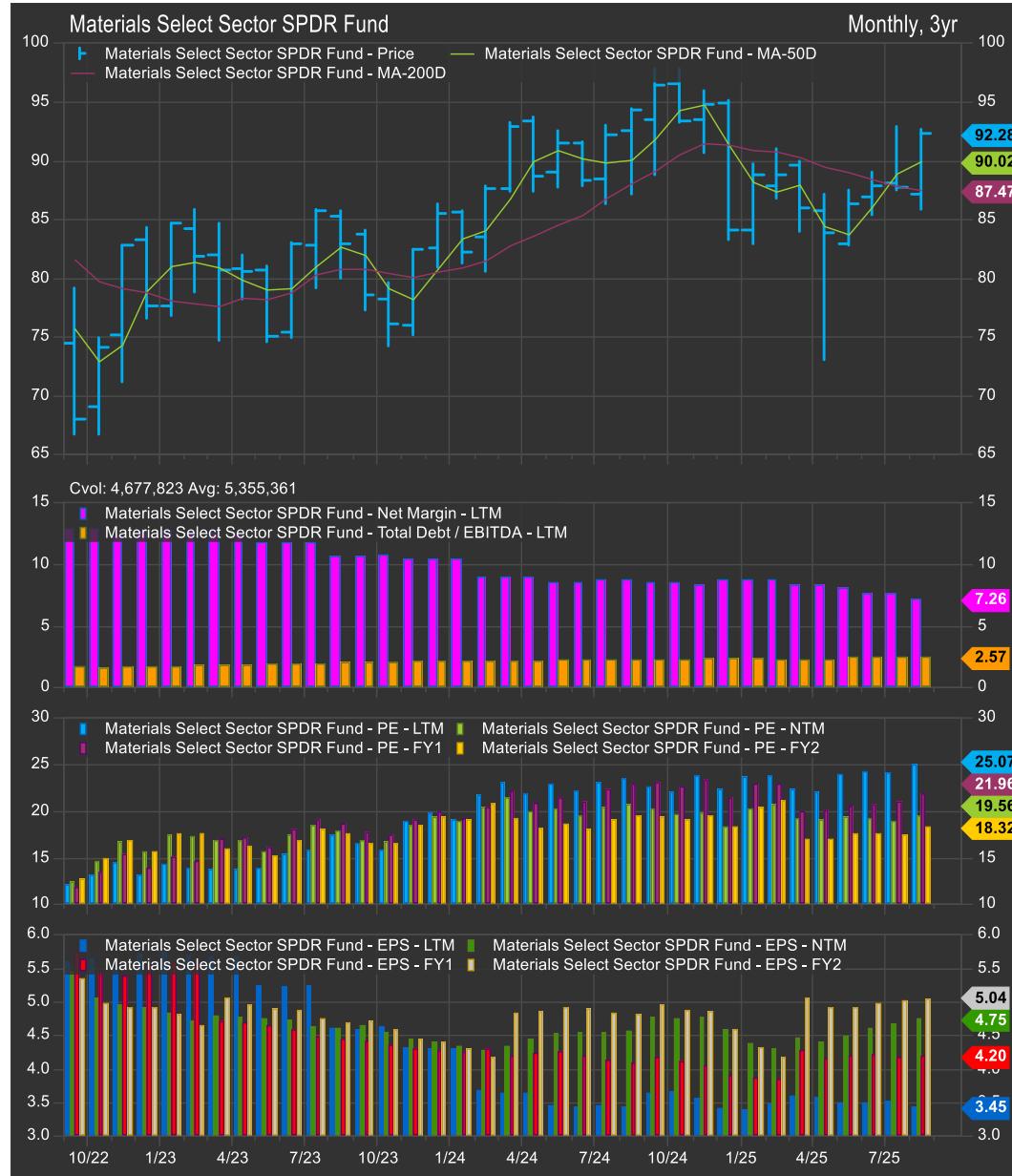
From a technical perspective the sector is showing an oversold condition in the near-term, but the longer-term downtrend vs. the S&P 500 is a bad setup and represents widely understood pessimism about the sector and its prospects.

From a fundamental perspective we continue to see margin and volume pressures negatively effecting results in the Chemicals and Packaging industries. Freeport also reported a disruption at one of its major facilities which led to a negative re-rate when it reported, but even without bearish exogenous events, base metal miners generally reported weak results.

Trade policy and tariff implementation continues to effect the sector in a negative way as policy has raised costs while also depressing demand. Legacy operating companies within the Energy, Materials, Staples and Healthcare sectors seem particularly vulnerable in the current backdrop. These sectors operate in tight margin businesses with lots of competition. Given the enthusiasm around AI and the headwind from tariffs, the sector remains challenged as the calendar flips to October.

We start October out of the Materials Sector with an **UNDERWEIGHT allocation of **-1.77%** 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. We continue to view the Materials sector as structurally challenged given an inflationary backdrop despite sagging industrial production and manufacturing numbers.

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): The Chemicals Industry couldn't build on August strength moving to fresh YTD lows vs. the S&P 500 along with Containers & Packaging stocks. Weakness in base metal miners spurred a pull back though NEM and other precious metal miners remain strong in the near-term.

Construction Materials have been steady but have failed to regain upside momentum

Materials Sector Internals (chart, right): Internal trends rolled to the downside in September with less than 30% of Materials stocks above their respective 50-day moving averages. Weak economic growth and cost uncertainty around tariffs continue to be a stiff headwind against the sector.

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	Uptrend	93,642.8	0.60	37.6	0.7	0.46	14.9
STLD	Steel Dynamics, Inc.	Consolidation	20,554.2	0.49	-0.7	1.0	1.53	3.8
CF	CF Industries Holdings, Inc.	Consolidation	14,922.6	0.50	-2.0	1.5	0.94	3.2
MOS	Mosaic Company	Bullish Reversal	11,209.8	0.44	-0.6	1.6	0.96	2.4
ALB	Albemarle Corporation	Bullish Reversal	10,367.9	#N/A	15.5	1.2	1.60	2.0
VMC	Vulcan Materials Company	Bullish Reversal	39,543.4	1.27	5.2	0.4	0.88	0.5
MLM	Martin Marietta Materials, Inc.	Bullish Reversal	37,012.2	1.16	3.1	0.3	0.96	-1.9
PKG	Packaging Corporation of America	Consolidation	19,430.9	0.77	1.2	1.4	1.23	-2.0
LIN	Linde plc	Consolidation	222,455.4	1.09	-6.9	0.8	0.71	-3.6
DD	DuPont de Nemours, Inc.	Consolidation	31,897.8	0.66	-2.6	1.4	1.11	-3.6

NEM remains a leading stock in the sector, but construction materials stocks firmed as well along with some specialty chemicals co.'s

Base metal miners (with the exception of STLD), commodity chemicals and packaging names were laggards, with FCX reporting a big mine disruption as a hit to its earnings and a headwind to its downstream customers

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
FCX	Freeport-McMoRan, Inc.	Support	51,328.9	0.81	-24.8	1.1	1.41	-21.7
LYB	LyondellBasell Industries NV	Downtrend	15,905.5	0.52	-24.0	7.4	0.88	-13.8
APD	Air Products and Chemicals, Inc.	Consolidation	59,372.9	0.83	-15.5	1.8	0.95	-11.9
IFF	International Flavors & Fragrances Inc.	Downtrend	15,561.8	0.55	-24.7	1.8	1.09	-11.8
SW	Smurfit Westrock PLC	Support	21,997.1	0.51	-12.7	2.7	1.30	-11.5
CTVA	Corteva Inc	Retracement	46,239.9	0.78	-12.8	0.7	1.04	-10.5
NUE	Nucor Corporation	Consolidation	31,705.7	0.55	-5.3	1.1	2.07	-10.1
IP	International Paper Company	Support	23,928.1	0.67	-15.2	2.7	1.52	-9.7
EMN	Eastman Chemical Company	Downtrend	7,201.1	0.38	-24.3	3.5	1.48	-9.1
PPG	PPG Industries, Inc.	Downtrend	23,393.8	0.50	-15.4	1.8	1.12	-9.1

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

September brought a mixed backdrop for the Materials complex. Manufacturing signals were uneven, with flash PMIs broadly in line but showing softer composition (declines in output, new orders, and employment), while the Richmond Fed manufacturing index slipped to -17. At the same time, August durable goods orders surprised to the upside at +2.9% m/m, supported by core orders at +0.6%, and new/existing home sales beat estimates, boosting construction-linked demand.

Policy risk rose with fresh tariffs. President Trump announced 25% tariffs on heavy trucks, 30–50% on furniture and housing products, and threatened 100% tariffs on branded drugs absent U.S. manufacturing. Reports also suggested the White House may push foreign chipmakers to manufacture in the U.S. at parity with imports, a potential negative for capital equipment and intermediates. The U.S. also opened Section 232 probes into medical devices, robotics, and industrial machinery. These steps added uncertainty for chemical inputs and metals tied to global trade flows.

Energy and currency dynamics were also relevant. Oil posted its strongest weekly gain since mid-June before easing on talk of an OPEC+ production hike in November, raising feedstock and freight cost concerns. The dollar finished September stronger, a mild headwind for globally priced metals, while Treasury yields backed up before easing late month.

Commodity & Demand Backdrop

Metals were volatile. Copper was rattled by Freeport-McMoRan's Grasberg mine disruption, with the company flagging "insignificant" Q4 sales and a potential 35% production decline in 2026 before recovery in 2027. This tightened near-term balances but clouded company-level earnings visibility. Aluminum and steel sentiment benefited intermittently from housing strength and tariff-driven reshoring narratives.

In steel, results highlighted dispersion. Steel Dynamics guided Q3 EPS slightly above expectations, citing strong shipments and metal spread expansion, while Nucor warned

Q3 EPS would fall ~18% below consensus on weaker volumes, mill margin compression, higher product costs, and softer scrap profitability.

Chemicals: Margins, Input Costs, Capex, Utilization

Chemical producers faced margin and volume pressure. H.B. Fuller trimmed guidance on subdued end markets and elusive volume growth, while Tronox was downgraded on lower-for-longer TiO₂ pigment pricing after soft paint demand. Huntsman also drew a downgrade tied to durables weakness and rising U.S. imports of Chinese MDI, which are pressuring spreads. Broader commentary suggested U.S. producers have limited pricing power in commodity segments.

Input costs were a headwind. Higher crude and freight costs, compounded by tariff frictions, squeezed margins where price pass-through was limited. Energy-linked volatility raised concerns for feedstock availability and costs into Q4.

Capex trends skewed selective and disciplined. Announcements leaned toward debottlenecking and productivity rather than greenfield capacity, consistent with a cautious stance in an uncertain demand and policy environment. Capacity utilization was uneven: construction-linked chains ran tighter with housing demand improving, while commodity intermediates tied to consumer durables and paint products showed below-normal utilization rates.

Risks & Watch-Items for October 2025

Policy: Follow-through on Section 232 probes; enforcement or expansion of tariffs on intermediate chemicals and metals.

Macro: ISM prints, September payrolls, CPI/PPI, and trade data—key for demand visibility.

China: Balance between rising domestic AI-linked capex and intensifying export competition in MDI, TiO₂, and other intermediates.

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.