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Monthly Insights: December Outlook

Industrial Sector

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Sector Price Action & Performance Review: Industrial Sector



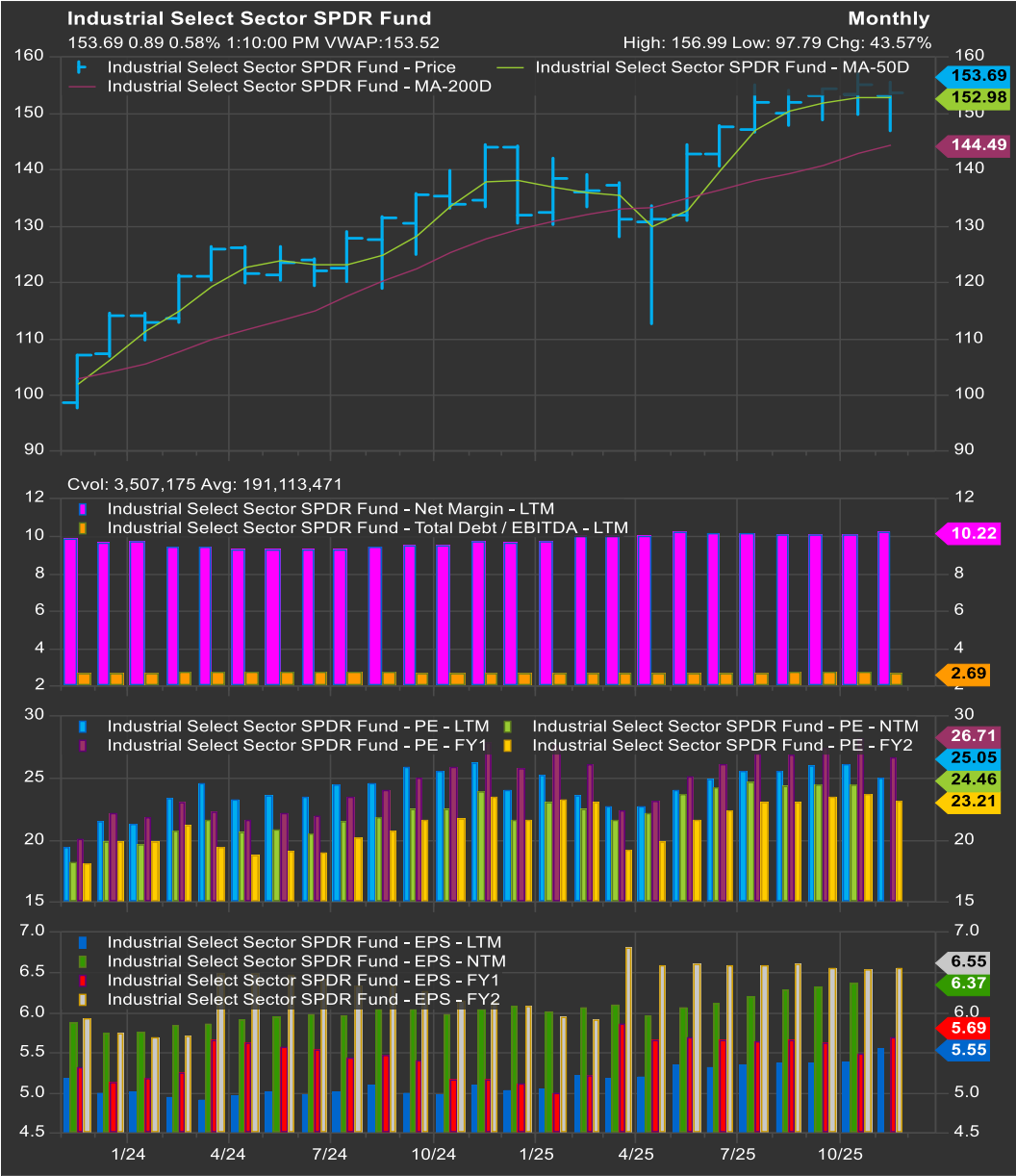
The S&P 500 Industrial sector continued to lag in November despite some pockets of strength in Machinery and Air Freight industries to close out the month. From a technical perspective the sector moved to multi-month lows in absolute terms while also making a new relative-low vs. the S&P 500.

The late month rally for equities was catalyzed by increased expectations of a Fed. rate cut. While this should ease financial conditions our analysis interprets these developments as signs of economic weakness which are unlikely to be a tailwind to cyclical value stocks. We think the macro setup of slowing economic growth and expectations of an accommodative Fed are likely to support well capitalized Growth stocks which benefit from lower cost of capital and have balance sheets that can support share buybacks. Industrial stocks by contrast remain vulnerable to high labor costs and, with commodities prices firming in the near-term, the potential for rising input costs as well.

We continue to be concerned that rising costs will make it difficult for Value oriented exposures to outperform given tightening margins, structurally higher interest rates and a more challenging backdrop for global trade.

We start December out of the Industrial Sector with an **UNDERWEIGHT allocation of **-8.16%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Industrial Sector

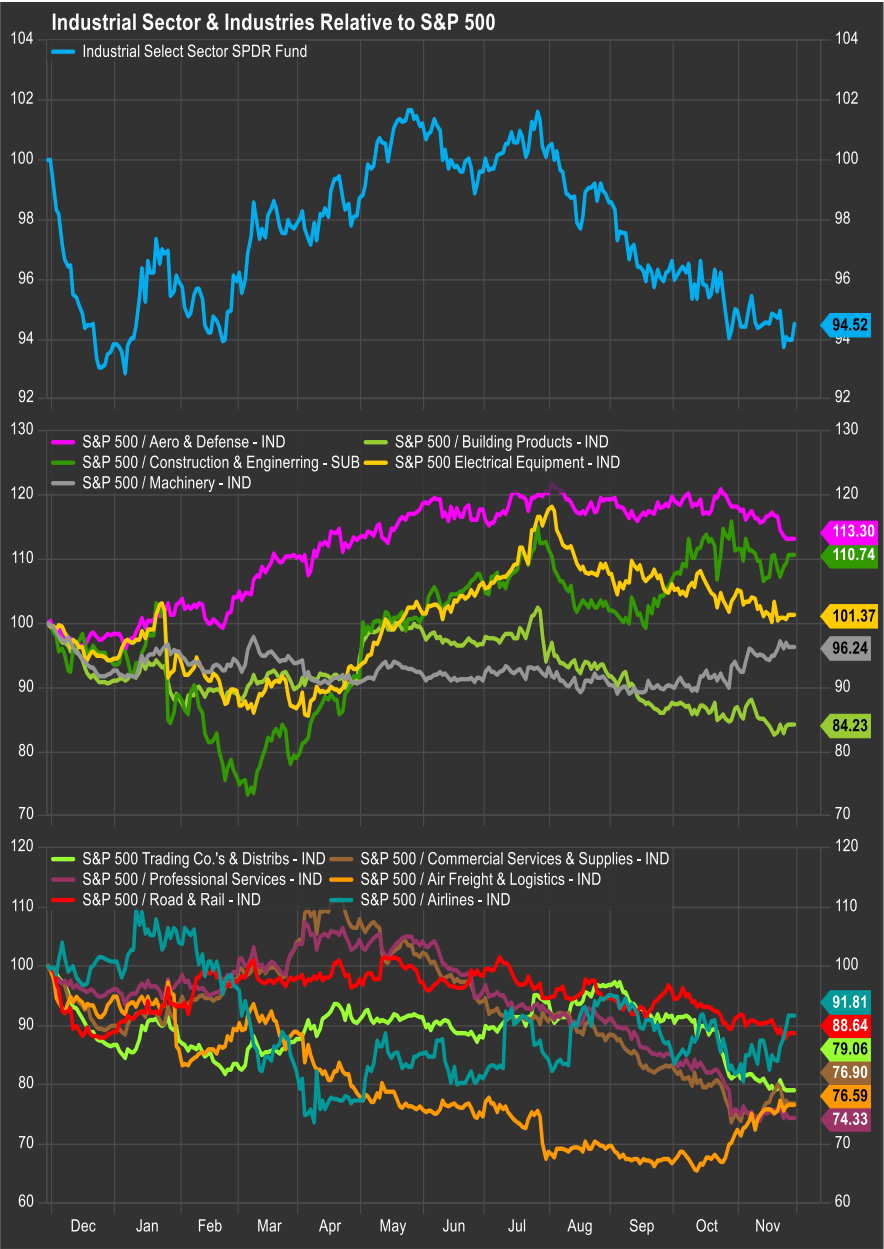


The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins remain firm for the sector in aggregate (chart, panel 2)

Valuation (chart, panel 3) remains elevated despite some near-term contraction in the multiple. FY1 earnings projections (panel 4) have ticked higher in the near-term.

Industry/Sub-Industry Performance and Breadth: Industrial Sector



Industrial Industries (chart, left): Leading industries over the longer-term continued to give back gains in the near-term as Aero/Defense, C&E and Electrical Equipment stocks underperformed.

Machinery and Air Freight industries showed bullish reversal along with Airlines (though to a lesser extent) while Building Products stocks moved to YTD lows along with Road & Rail and Industrial Services

Industrial Sector Internals (chart, right): Breadth measures firmed into month-end though overall the internal trends remain weak for the sector

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
CHRW	C.H. Robinson Worldwide, Inc.	Bullish Reversal	18,847.6	1.09	27.2	1.0	0.90	24.4
EXPD	Expeditors International of Washington, Inc.	Bullish Reversal	19,749.3	1.00	17.5	0.8	1.15	23.9
CMI	Cummins Inc.	Bullish Reversal	68,619.2	0.78	22.9	1.0	1.34	19.4
FDX	FedEx Corporation	Bullish Reversal	65,083.6	0.57	13.0	1.4	1.30	12.3
PH	Parker-Hannifin Corporation	Uptrend	108,708.6	1.10	10.0	0.5	1.37	12.3
ROL	Rollins, Inc.	Consolidation	29,804.7	1.98	3.3	0.7	0.72	10.5
ROK	Rockwell Automation, Inc.	Bullish Reversal	44,234.7	1.30	9.2	0.9	1.44	10.2
UPS	United Parcel Service, Inc. Class B	Consolidation	70,699.2	0.54	2.8	4.5	1.09	9.9
CAT	Caterpillar Inc.	Bullish Reversal	268,493.9	1.06	26.4	0.7	1.61	9.6
LUV	Southwest Airlines Co.	Consolidation	18,131.5	0.58	1.8	1.4	1.66	9.5

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
AXON	Axon Enterprise Inc	Retracement	42,072.7	2.87	-35.3	0.0	1.77	-28.0
GNRC	Generac Holdings Inc.	Consolidation	8,733.4	0.74	-18.8	0.0	2.20	-21.1
PAYC	Paycom Software, Inc.	Support	9,049.2	0.65	-33.8	0.4	0.43	-18.7
EME	EMCOR Group, Inc.	Uptrend	27,339.4	0.89	-6.7	0.1	1.31	-18.3
BA	Boeing Company	Retracement	142,077.0	6.60	-22.2	0.0	1.21	-15.4
J	Jacobs Solutions Inc.	Support	16,133.3	0.76	-13.4	0.6	0.59	-14.8
CPRT	Copart, Inc.	Downtrend	37,510.7	0.91	-24.8	0.0	0.76	-11.5
UBER	Uber Technologies, Inc.	Consolidation	177,987.0	0.94	-14.8	0.0	1.82	-10.4
PAYX	Paychex, Inc.	Downtrend	40,095.8	0.79	-23.8	2.6	0.64	-9.2
ETN	Eaton Corp. Plc	Consolidation	132,712.4	1.01	-8.9	0.8	1.12	-9.0

Air Freight names rallied sharply in November while previous leading industries like Aero/Defense and Electrical saw retracement of recent outperformance

Professional Services names also underperformed led lower by payroll firms PAYC and PAYX.

Overall, the picture was one of inconsistent performance as AI linked industries retrenched while select Transports firmd.

Ironically, despite some top line softness from equities, Industrial services stocks remained weak in November...those stocks were big outperformers during the Q1 2025 equity correction.

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

Macro Drivers: Fed Expectations Support Sentiment — But the Data Don't Support Industrials

Markets repriced December rate-cut odds from ~**30% to 80%+**, but several key readings deteriorated:

Chicago PMI collapsed to 36.3, far below the 42.5 expected.

Consumer confidence plunged to 88.7, the weakest since April.

Retail sales control group fell, its first monthly decline since April.

Durable goods orders rose just +0.5%, a deceleration from prior months.

These indicators point toward **slowing industrial activity**, not stabilization. Historically, Industrials **underperform during the first leg of a rate-cutting cycle** as investors rotate toward balance-sheet strength and defensives.

Global Signals Continue to Weaken

While Asian markets posted strong sessions (e.g., Japan **+2%** on Nov. 27), most gains stemmed from policy interventions:

Japan approved **\$135B in stimulus**, signaling economic strain.

China's better trading sessions remained disconnected from domestic fundamentals.

Large-Cap Earnings: More Red Flags Than Green Shoots

November earnings and pre-announcements pointed to pressure across large-cap names:

Deere (DE) signaled the **bottom of the ag cycle** with ongoing margin compression.

HP (HPQ) delivered a better Q4 but cut FY26 guidance and flagged rising component costs.

Nutanix (NTNX) cited weaker revenue timing and reduced FY26 expectations.

Workday (WDAY) highlighted slowing enterprise spending and competitive pressure.

Even where results were better (e.g., ADKS or DELL), they reflected **non-industrial drivers**, such as AI infrastructure spending, not broad-based industrial activity.

Sector Dynamics: Narrow Participation, Late-Cycle Profile

Throughout November, large-cap Industrials exhibited:

Underperformance vs. the S&P 500, even on strong market days.

Weaker breadth, with strength concentrated in lower-quality, high-beta pockets.

Softness in Aerospace & Defense, an unusual sign given geopolitical tension.

Muted reaction to strong macro sessions, implying limited investor conviction.

This combination resembles late-cycle market behavior where investors seek tactical rallies but avoid committing to cyclical heavyweights.

December Outlook: Risks Tilt Bearish

Industrial Demand Likely to Soften Further

Slumping confidence, weak PMIs, and slipping retail sales hint at slowing production, freight, and equipment purchases. Large-cap industrials are **highly sensitive to these trends**, and none improved meaningfully in November.

The Market Bounce Is Running Ahead of Fundamental Reality

The sector's three-to-four-day lift rode the S&P's momentum but lacked the **leadership, breadth, or earnings support** typical of a sustainable trend.

rising probabilities of a December Fed cut,

equity volatility declining, and

broad recovery across most sectors.

If Industrials can't outperform in this backdrop, they are unlikely to lead in a more challenging one.

Fed Cuts Would Signal Weakening Growth, Not Improving Conditions

A December cut — now priced above **80%** — underscores the Fed's concern about growth deterioration. Historically, early-cycle cuts compress Industrials' relative valuations rather than expand them.

Conclusion: Large-Cap Industrials Enter December on Weak Footing

November offered a bounce — but the Industrials sector underperformed. Headwinds include:

decelerating macro data,

weakening global demand,

fading commodity tailwinds,

shallow participation across subsectors, and

cautious or weaker forward guidance.

The December setup remains **bearish** for large-cap Industrials.

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.