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Monthly Insights: January Outlook

# Industrial Sector

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# Sector Price Action & Performance Review: Industrial Sector



After making multi-month lows in November, the Industrial sector whip-sawed to new YTD highs in December. Dovish policy, better than feared earnings results and a rebound in Aero/Defense and Transportation industry groups supported the turnaround for the sector.

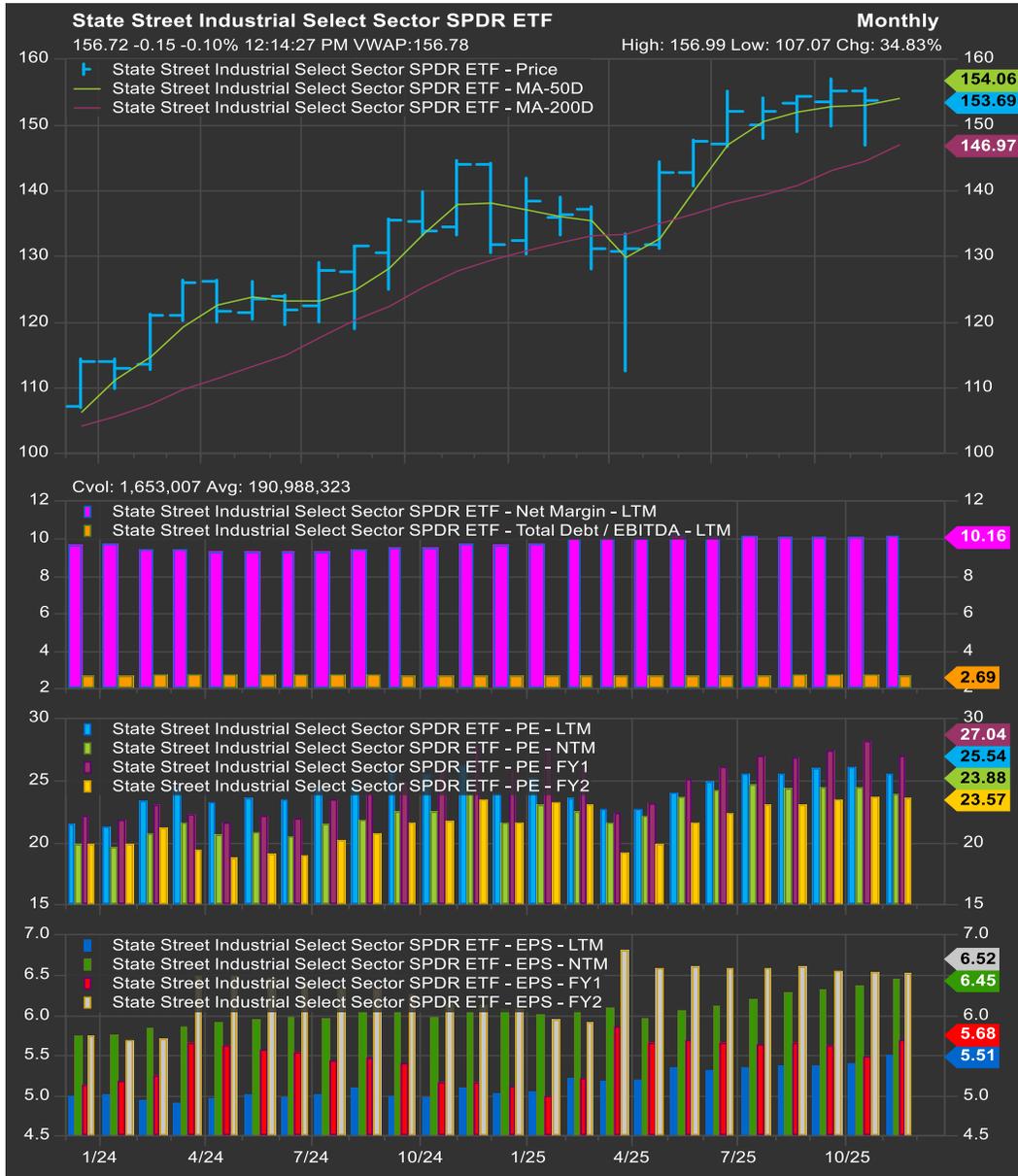
From a technical perspective, near-term rotation away from Mega Cap. Growth and towards economically sensitive cyclicals was a catalyst for better performance at the sector level.

Our macro-outlook suggests the sector will continue to be supported by structural trends in electrification, reshoring, AI infrastructure and defense spending. We think marginal upside will likely be dictated by the level of interest rates as lower rates would be conducive to continuation of strong cap-ex impulses in AI and Reshoring themes.

We think investors should keep a close eye on transportation stocks as they are a key economic bellwether entering 2026 after lackluster performance in 2025. The AI hype train is likely dependent on signs of strength from the real economy as investors want more than potential and are looking for execution and results.

**We start January long the Industrial Sector with an **OVERWEIGHT** allocation of 1.52% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Industrial Sector

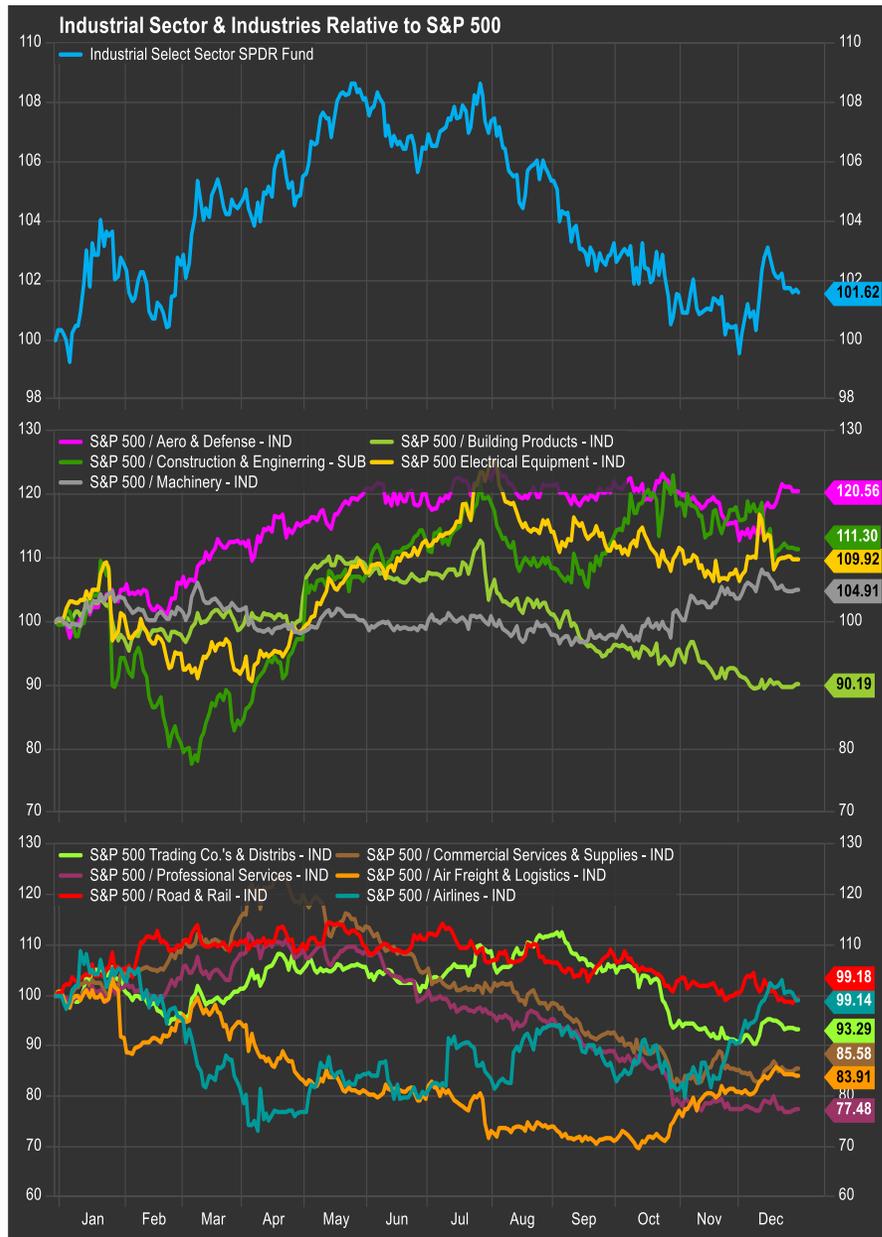


The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

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. NTM 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
LUV	Southwest Airlines Co.	Bullish Reversal	21,265.4	0.58	19.7	1.2	1.57	17.7
ODFL	Old Dominion Freight Line, Inc.	Bullish Reversal	33,363.7	1.25	6.9	0.5	1.45	17.2
BA	Boeing Company	Consolidation	170,122.2	4.07	0.0	0.0	1.07	14.0
JBHT	J.B. Hunt Transport Services, Inc.	Bullish Reversal	18,810.4	1.12	30.1	0.6	1.26	12.6
GEV	GE Vernova Inc.	Uptrend	180,010.3	2.08	9.0	0.1	1.32	9.7
HII	Huntington Ingalls Industries, Inc.	Bullish Reversal	13,566.9	0.80	19.6	1.0	0.56	9.3
UAL	United Airlines Holdings, Inc.	Bullish Reversal	36,080.6	0.34	12.7	0.0	1.85	8.4
DAL	Delta Air Lines, Inc.	Bullish Reversal	45,400.5	0.39	16.5	0.6	2.11	7.5
GWW	W.W. Grainger, Inc.	Consolidation	48,800.4	0.94	2.0	0.6	0.89	7.3
LMT	Lockheed Martin Corporation	Consolidation	113,123.4	0.67	-0.8	1.8	0.07	6.7

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
GNRC	Generac Holdings Inc.	Retacement	8,126.6	0.68	-16.2	0.0	2.38	-9.6
BLDR	Builders FirstSource, Inc.	Retacement	11,439.6	0.64	-16.2	0.0	1.86	-8.8
PWR	Quanta Services, Inc.	Uptrend	64,273.4	1.39	-1.7	0.1	1.50	-8.2
ETN	Eaton Corp. Plc	Retacement	124,851.2	0.94	-14.7	0.8	1.14	-8.0
UBER	Uber Technologies, Inc.	Consolidation	169,343.2	0.93	-18.1	0.0	1.86	-7.8
TT	Trane Technologies plc	Consolidation	87,407.3	1.07	-10.7	0.6	1.25	-7.2
MMM	3M Company	Bullish Reversal	85,909.7	0.75	-2.4	1.2	0.93	-6.9
TDG	TransDigm Group Incorporated	Support	74,113.0	1.30	-6.0	0.0	0.77	-4.2
LDOS	Leidos Holdings, Inc.	Bullish Reversal	23,715.9	0.61	-1.6	0.6	0.41	-3.6
FX	Comfort Systems USA, Inc.	Uptrend	33,532.0	1.24	19.3	0.1	1.66	-3.6

Airlines, Ground Transport stocks and Select Aero/Defense names led the sector in December while Building Products, Electrical and Professional Services stocks populated the laggard list.

Transports will be a key bellwether group to watch in early 2026 for signs of improving economic through-put.

## 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

# Economic & Policy Drivers: Industrial Sector

The S&P 500 Industrials sector delivered **moderate but uneven performance in 2025**, with returns driven more by subsector and theme exposure than by broad cyclical acceleration. Aerospace & defense, electrical equipment, select capital goods, and transportation services tied to secular investment themes outperformed, while freight, logistics, and rate-sensitive industrial cyclicals lagged.

## **Growth and Demand Backdrop**

U.S. economic resilience was a stabilizing force for Industrials, even as **global manufacturing activity remained soft**. December macro updates consistently highlighted **mixed PMI readings**, with U.S. services strength offsetting weak manufacturing trends in Europe and China. This limited volume growth for traditional industrial end markets but supported companies with exposure to long-cycle infrastructure, defense, and power investment.

## **Capital Spending and Order Trends**

Industrial capex proved **selective rather than broad-based**. Corporate investment favored:

### **Automation and productivity-enhancing equipment**

Conversely, transportation equipment, rail, and freight-linked Industrials faced **demand normalization** following post-pandemic excesses. December earnings commentary frequently cited **cautious customer ordering behavior** and extended replacement cycles in non-strategic industrial equipment.

### **Aerospace, Defense, and Government Spending**

Aerospace & defense emerged as one of the **strongest industrial subsectors in 2025**, supported by elevated global defense budgets and geopolitical uncertainty. December headlines repeatedly referenced rising defense procurement, naval expansion initiatives, and long-dated contract backlogs, providing **earnings visibility and margin stability** largely absent in other industrial segments.

### **Transportation, Freight, and Logistics**

Freight and logistics remained a **notable drag**. Despite some stabilization late in the year, December updates continued to flag **soft freight volumes, pricing pressure, and excess capacity**, particularly in trucking and intermodal. Rail volumes showed incremental improvement but did not signal a full-cycle recovery.

## **Policy and Regulation**

Policy influences on Industrials were **incremental but directionally supportive** in 2025.

**Monetary Policy:** A restrictive stance from the **Federal Reserve** weighed on rate-sensitive capital goods and construction-linked Industrials by keeping financing costs elevated. However, expectations for gradual easing in 2026 improved sentiment toward long-cycle equipment providers late in the year.

**Fiscal and Industrial Policy:** U.S. industrial policy continued to favor **domestic manufacturing, infrastructure, and defense**, supporting backlog growth for electrical equipment, machinery, and aerospace suppliers. AI-driven power demand increasingly influenced capital allocation decisions across the sector.

**Trade and Geopolitics:** Trade uncertainty and tariff risks—particularly involving China—encouraged **reshoring, supplier diversification, and inventory reconfiguration**, benefiting U.S.-focused industrial manufacturers while pressuring globally exposed logistics providers.

**Regulatory Environment:** Environmental and safety regulations increased compliance costs in transportation and heavy industry but also reinforced demand for **efficiency upgrades, automation, and emissions-reduction technologies**.

## **Macro and Policy Outlook for 2026**

Entering 2026, the Industrials sector faces a **two-speed outlook**. Broad cyclical acceleration remains uncertain amid slower global growth, but **structural demand drivers**—including electrification, AI infrastructure, defense spending, and reshoring—are likely to sustain earnings growth for select subsectors. Any easing in financial conditions would disproportionately benefit capital goods and construction-linked Industrials.

## **Investment Implications**

**Aerospace & defense remain core leadership areas** due to strong backlogs and geopolitical support.

**Electrification, grid, and automation exposures offer secular growth**, less dependent on economic cycles.

**Freight, logistics, and transport equipment face ongoing margin pressure** until capacity tightens.

**Policy favors long-cycle, strategic investment**, not broad industrial volume growth.

# 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.