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Monthly Insights: January Outlook

Materials Sector

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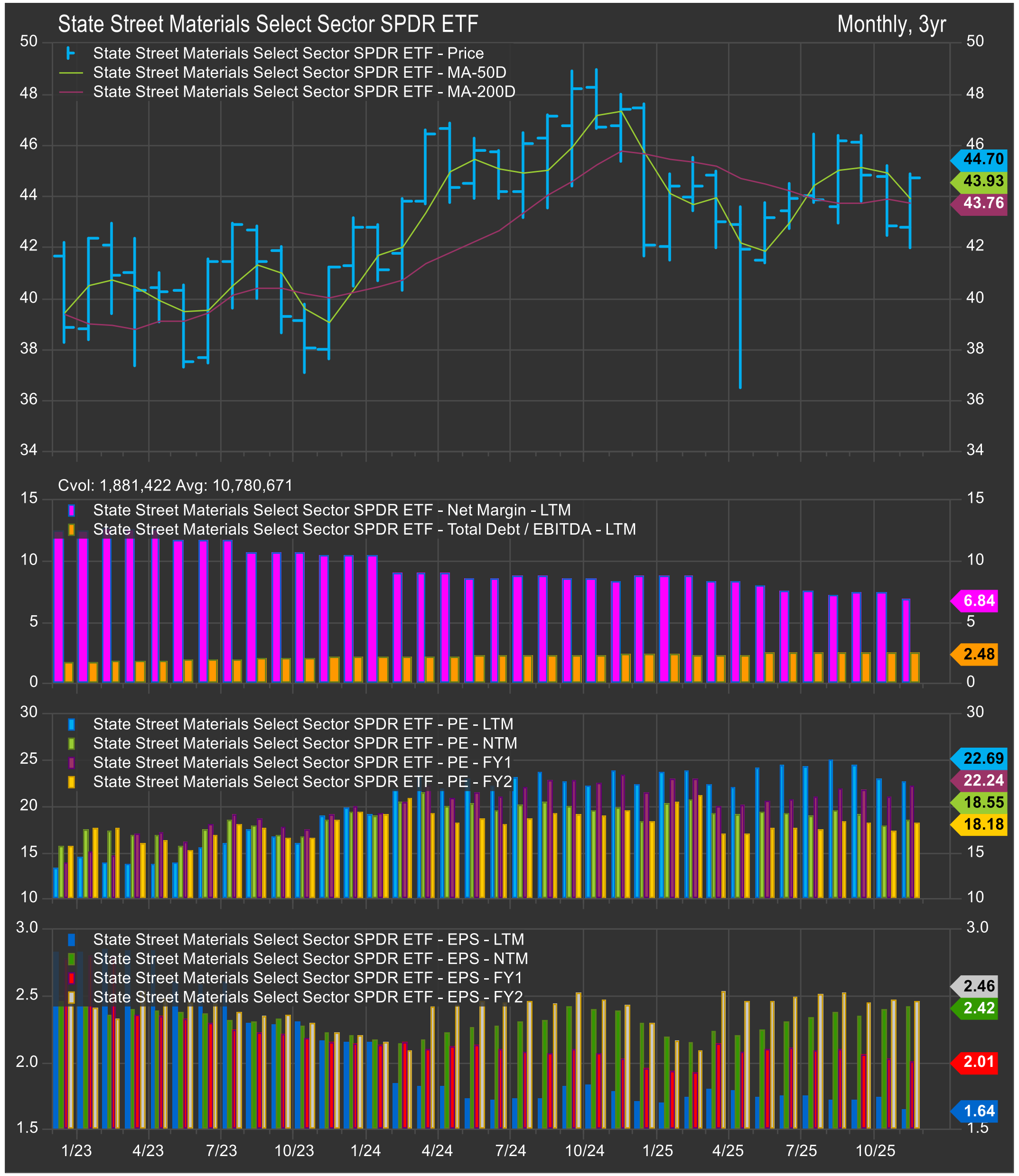
Sector Price Action & Performance Review: Materials

The Materials Sector ended November on a positive note with a rally to the previous month's highs with outperformance of 4% vs. the S&P 500. Our MACD study shows a recent tactical buy signal, and the Bloomberg Commodities Index has also firmed which historically has been a macro level tailwind to the sector.

Fundamentally the sector remains weak, but consensus expectations are also weak which is a potential contrarian bull setup. We think structurally short positioning in commodities sectors (Energy/Materials) makes both candidates for inflows if investor expectations on Fed policy go sideways. We also see a mismatch in performance and fundamental measures of demand where supply of input components is tighter than the price action would suggest. The setup is ripe for upside surprise despite some vulnerability in the economic cycle due to uncertainty on the trajectory of data and potential inflation.

We start January with a market weight position in the Materials Sector with an allocation of -0.61% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Materials Sector



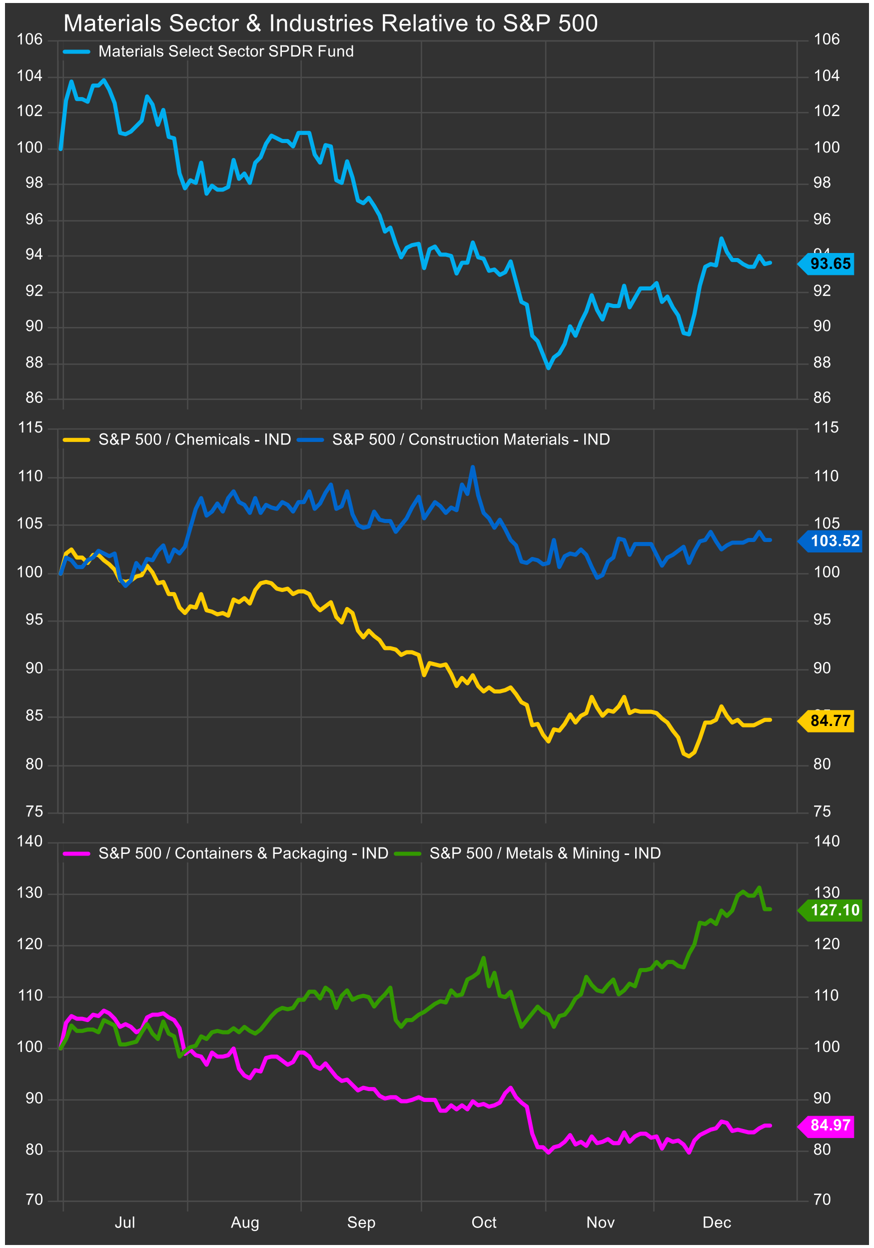
The chart (left) shows S&P 500 Materials Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to contract (chart, panel 2)

Valuation multiples (chart, panel 3) have begun to contract as NTM earnings projections have firmed (panel 4)

The sector remains in a weak fundamental position, but we view is as a potential rotation candidate as expectations for Fed easing in January become more elevated.

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): The Sector traded to fresh relative highs in December and has established a multi-month bullish reversal

Chemicals stocks are key moving forward as their performance has stabilized but they aren't showing any signs of leadership.

Metals & Mining stocks remain the strength of the sector while C&P stocks are starting to improve but remain in a negative trend over longer timeframes

Materials Sector Internals (chart, right): Internal trends continued to improve in December as a higher probability of Fed easing was priced in for the sector in the back half of November suggesting potential for continued near-term upside. With price near resistance at $46 we are at a pivot point on the chart.

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
FCX	Freeport-McMoRan, Inc.	Bullish Reversal	73,921.7	0.93	24.4	0.8	1.26	18.8
ALB	Albemarle Corporation	Bullish Reversal	17,016.7	4.04	57.0	0.7	2.00	10.6
NEM	Newmont Corporation	Uptrend	108,919.0	0.49	22.8	0.7	0.55	9.1
SW	Smurfit Westrock PLC	Downtrend	20,198.2	0.51	-7.5	3.0	1.22	7.4
BALL	Ball Corporation	Consolidation	14,246.2	0.54	0.4	1.0	1.24	6.8
AVY	Avery Dennison Corporation	Consolidation	14,118.0	0.70	5.4	1.3	0.91	5.6
CRH	CRH public limited company	Uptrend	85,220.5	0.84	10.8	0.8	1.49	5.2
LIN	Linde plc	Consolidation	199,172.4	0.96	-10.0	0.9	0.58	3.4
PPG	PPG Industries, Inc.	Downtrend	23,393.7	0.52	-4.5	1.8	0.99	3.3
NUE	Nucor Corporation	Bullish Reversal	37,871.5	0.58	12.8	0.9	1.88	2.8
STLD	Steel Dynamics, Inc.	Bullish Reversal	25,246.5	0.53	15.1	0.8	1.28	2.1
PKG	Packaging Corporation of America	Consolidation	18,784.5	0.74	-3.0	1.6	1.02	2.0
DD	DuPont de Nemours, Inc.	Bullish Reversal	17,131.9	0.78	18.5	1.6	0.88	1.9
MLM	Martin Marietta Materials, Inc.	Bullish Reversal	38,431.9	1.18	0.5	0.3	1.00	1.5
IP	International Paper Company	Retracement	21,047.6	0.73	-13.5	3.0	1.28	0.0
CTVA	Corteva Inc	Consolidation	45,713.3	0.74	-6.3	0.7	0.94	-0.4
AMCR	Amcor PLC	Downtrend	19,471.8	0.40	-3.4	4.1	0.71	-1.8
MOS	Mosaic Company	Support	7,636.8	0.38	-26.2	2.4	0.97	-1.8
CF	CF Industries Holdings, Inc.	Consolidation	12,111.4	0.43	-14.8	1.7	0.97	-2.3
VMC	Vulcan Materials Company	Consolidation	38,584.9	1.19	-4.7	0.5	0.92	-2.7
IFF	International Flavors & Fragrances Inc.	Consolidation	17,353.1	0.61	-1.0	1.6	0.83	-2.8
DOW	Dow, Inc.	Downtrend	16,596.4		-5.9	5.8	0.77	-3.0
ECL	Ecolab Inc.	Consolidation	75,204.7	1.26	-7.0	0.7	0.96	-4.2
APD	Air Products and Chemicals, Inc.	Downtrend	55,169.4	0.75	-12.4	2.0	0.73	-6.0
SHW	Sherwin-Williams Company	Downtrend	80,622.4	1.04	-10.0	0.6	1.36	-6.3
LYB	LyondellBasell Industries NV	Downtrend	13,985.4	0.51	-16.3	8.3	0.79	-9.7

Base and precious metal miners continued to show strength in December with STLD, NUE, NEM and FCX pacing sector gains. Fertilizer stocks and Chemicals remain laggards.

Containers & Packaging stocks benefitted from Fed policy, but the charts there remain challenged

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

Economic & Policy Drivers: Materials Sector

The S&P 500 Materials sector delivered **uneven performance in 2025**, marked by sharp dispersion across sub-industries. Precious metals and select industrial metals outperformed late in the year, while chemicals, construction materials, and packaging lagged amid soft global manufacturing demand. December market updates repeatedly highlighted **weak cyclical momentum outside of gold- and copper-linked names**, reflecting both macro headwinds and structural shifts in end markets.

Commodity Pricing and Demand

Materials performance tracked diverging commodity trends. **Gold prices surged to repeated record highs late in 2025**, driven by falling real yields, dollar softness, and safe-haven demand amid geopolitical uncertainty. Industrial metals such as copper benefited episodically from AI-related power and infrastructure narratives, but **broader demand from China and Europe remained subdued**, limiting sustained upside.

Chemicals and basic materials faced persistent pressure from **sluggish global PMIs**, excess capacity, and price competition. December commentary consistently cited **margin compression across commodity chemicals**, driven by elevated inventories and weak pricing power.

Supply Dynamics and Inventories

Supply conditions were generally unfavorable. Several December reports flagged **oversupply signals across chemicals and steel**, while capacity additions from prior years continued to weigh on utilization rates. In contrast, **mining supply discipline** and limited new project approvals helped support precious and select industrial metals pricing.

China remained central to the supply-demand balance. Ongoing weakness in Chinese industrial profits and property investment, frequently referenced in December updates, constrained incremental demand for bulk materials despite targeted stimulus efforts.

Construction and Infrastructure Trends

U.S. construction-related materials experienced **mixed conditions**. Public infrastructure spending provided a partial offset, but **residential and commercial construction softened**, particularly in interest-rate-sensitive segments. December housing and builder commentary suggested downside risk to 2026 volumes for aggregates, cement, and building products tied to private construction.

Electrification, AI, and Energy Transition

Electrification and AI-driven power demand emerged as a **key structural support**. December reporting increasingly emphasized rising demand for **copper, aluminum, specialty alloys, and battery materials** tied to data centers, grid expansion, and energy storage. However, markets differentiated between upstream exposure (favored) and downstream processors facing cost pressures and slower volume growth.

Policy and Regulation

Policy developments shaped Materials sector outcomes more through **macro channels** than direct regulation in 2025.

Monetary Policy: A higher-for-longer stance from the **Federal Reserve**, reinforced by strong late-2025 data, supported gold but weighed on construction-linked materials by keeping financing costs elevated.

Trade and Tariffs: December headlines confirmed **delayed but pending tariffs on Chinese semiconductors and industrial goods**, adding uncertainty for globally integrated materials supply chains. While immediate impacts were limited, tariff risk contributed to cautious capex and inventory behavior.

Environmental and Permitting Regulation: Ongoing environmental scrutiny continued to **slow mine approvals and chemical capacity expansions**, particularly in North America. This constrained long-term supply growth for critical minerals, indirectly supporting pricing power for incumbent producers.

Industrial Policy: AI and clean-energy policy priorities favored materials tied to **power generation, transmission, and electrification**, reinforcing relative strength in copper, uranium-linked materials, and select specialty metals.

Macro and Policy Outlook for 2026

Looking into 2026, the Materials sector faces a **bifurcated outlook**. Slower global growth and cautious central bank easing limit upside for bulk materials and chemicals. However, **structural demand from AI infrastructure, grid investment, and defense spending** provides a durable tailwind for select metals and mining exposures. Continued dollar volatility and geopolitical risk also underpin precious metals demand.

Investment Implications

Precious metals remain supported by macro uncertainty, real-rate dynamics, and central-bank demand.

Industrial metals offer selective upside tied to electrification and AI-related infrastructure, not broad-cycle recovery.

Chemicals and construction materials face margin pressure amid oversupply and slower end-market growth.

Policy favors constrained supply over rapid expansion, benefiting incumbents but limiting 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.