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Monthly Insights: February Outlook

# Industrial Sector

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# Sector Price Action & Performance Review: Industrial Sector



After making multi-month lows in November, the Industrial sector has been on a heater, braking out to new highs on price and effecting a clear bullish reversal into January complete with a nice pullback into our monthly rebalance date.

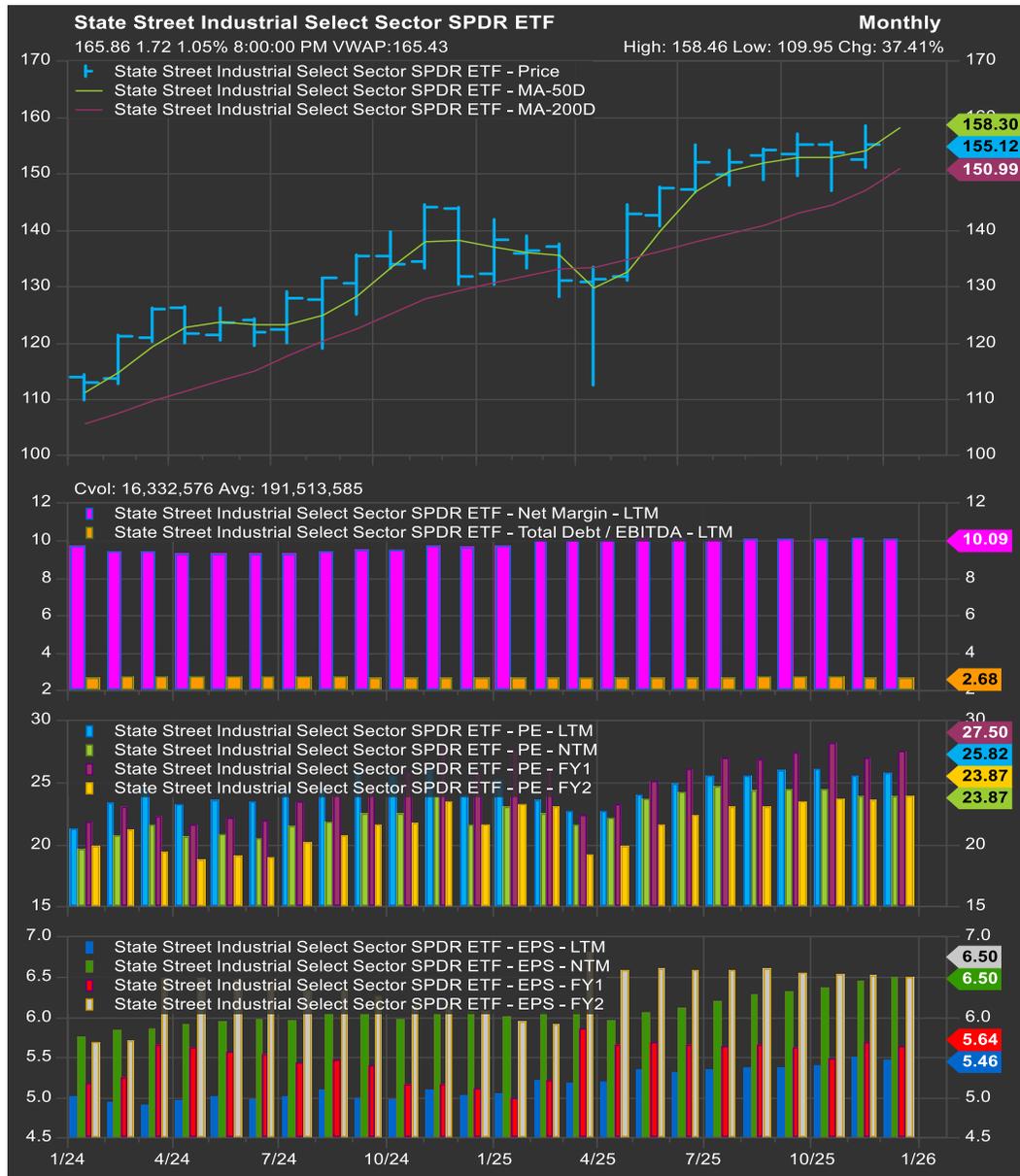
From a technical perspective, near-term rotation away from Mega Cap. Growth and towards economically sensitive cyclicals was a catalyst for better performance at the sector level.

Our macro-outlook suggests the sector will continue to be supported by structural trends in electrification, reshoring, AI infrastructure and defense spending. The emergence of mining and commodities exposures as near-term momentum plays is another potential tailwind for the Industrial sector.

We think investors should keep a close eye on transportation stocks as they are a key economic bellwether entering 2026. Air Freight names have already started to perk up with some truckers also firming. Rails have been softer, but we are seeing activity pickup with the boom in base and precious metal mining.

**We start February long the Industrial Sector with an **OVERWEIGHT** allocation of 3.13% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Industrial Sector

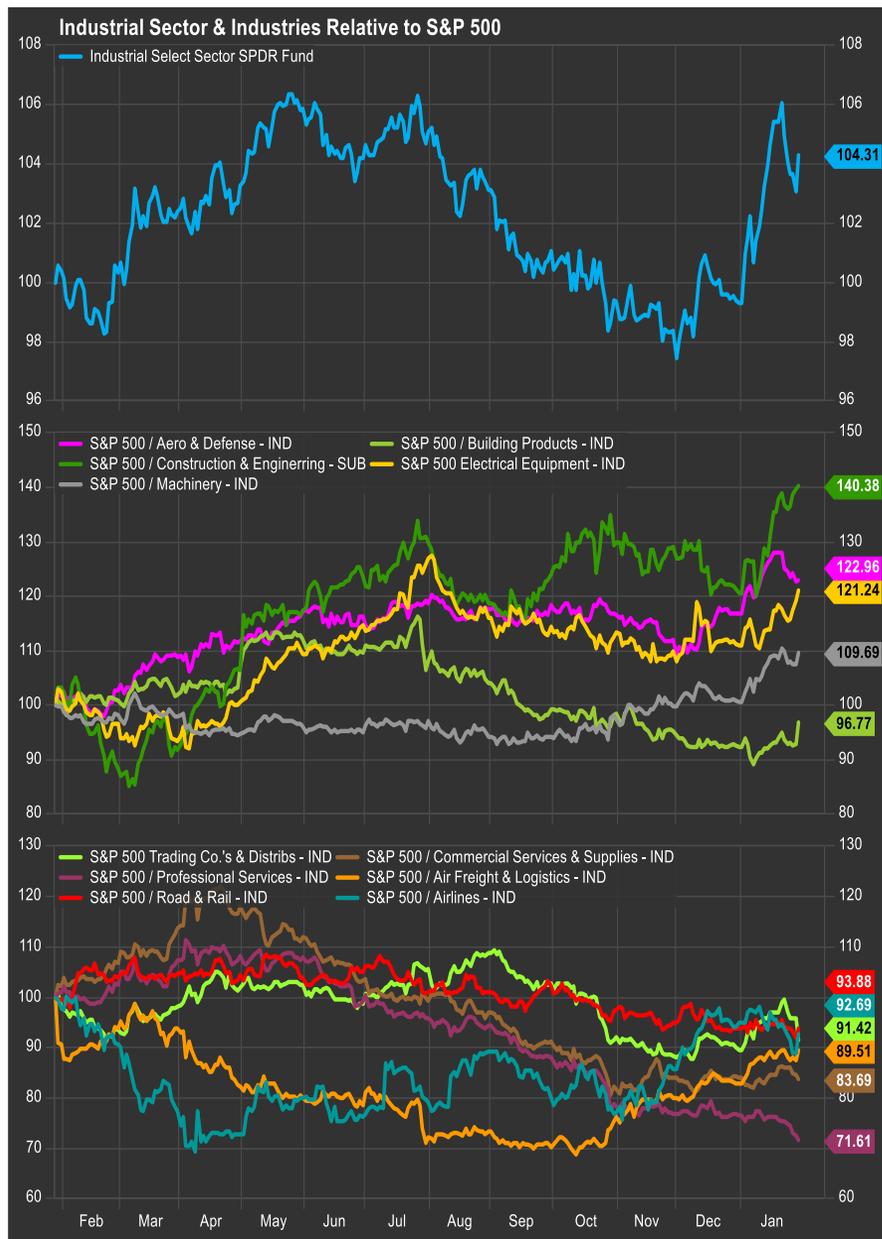


The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

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, but there are structural tailwinds from onshoring, electrification and AI that have been boosting demand and adding a Growth quality to the sector that hasn't been there in previous cycles.

# Industry/Sub-Industry Performance and Breadth: Industrial Sector



**Industrial Industries** (chart, left): Long-term leadership industries, A&D, Construction and Electrical were back on the buyer's front burner while industrial services remain punk.

Machinery and Air Freight industries continued in their bullish reversal

**Industrial Sector Internals** (chart, right): Breadth measures firmed again in January with sector internals among the strongest in the large cap. space.

# 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
GNRC	Generac Holdings Inc.	Consolidation	10,221.0	0.86	2.4	0.0	2.62	23.1
LMT	Lockheed Martin Corporation	Bullish Reversal	138,207.0	0.81	24.8	1.5	0.06	22.9
LHX	L3Harris Technologies Inc	Bullish Reversal	67,395.1	1.15	23.3	1.0	0.73	20.6
FIX	Comfort Systems USA, Inc.	Uptrend	41,234.7	1.51	26.8	0.1	1.63	20.5
HII	Huntington Ingalls Industries, Inc.	Uptrend	16,692.9	0.96	37.5	0.8	0.57	20.4
NOC	Northrop Grumman Corp.	Bullish Reversal	97,802.5	0.97	15.4	0.9	-0.31	18.6
EME	EMCOR Group, Inc.	Uptrend	32,560.4	1.04	3.3	0.1	1.37	15.3
BLDR	Builders FirstSource, Inc.	Retracement	12,947.9	0.71	-2.9	0.0	2.13	11.8
DE	Deere & Company	Consolidation	142,316.8	1.17	7.7	0.9	0.94	11.6
CHRW	C.H. Robinson Worldwide, Inc.	Bullish Reversal	21,770.3	1.21	39.5	0.9	0.85	11.2

Defense contractors and Construction stocks dominated, but there were some laggards that showed significant improvement as well including BLDR, DE and GNRC

On the downside, Airlines have rolled over, and professional services stocks (payroll, consulting etc.) have become some of the weakest in the US market.

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
PAYC	Paycom Software, Inc.	Downtrend	7,858.0	0.56	-29.8	0.4	0.42	-13.7
BR	Broadridge Financial Solutions, Inc.	Downtrend	23,916.3	0.83	-14.9	1.3	0.88	-11.0
PAYX	Paychex, Inc.	Downtrend	36,776.2	0.71	-19.4	2.8	0.59	-10.1
UAL	United Airlines Holdings, Inc.	Consolidation	33,963.4	0.31	2.5	0.0	1.73	-8.8
EFX	Equifax Inc.	Downtrend	25,131.2	0.93	-12.2	0.6	1.69	-8.3
DAL	Delta Air Lines, Inc.	Consolidation	42,984.5	0.36	5.6	0.8	2.18	-7.9
GE	GE Aerospace	Uptrend	308,512.0	1.57	-6.2	0.4	1.27	-7.9
AXON	Axon Enterprise Inc	Support	43,389.7	2.85	-23.4	0.0	1.70	-6.6
FTV	Fortive Corp.	Consolidation	16,769.9	0.74	-0.1	0.4	1.28	-6.0
JCI	Johnson Controls International plc	Uptrend	71,344.0	0.97	-1.0	0.9	1.55	-5.1

## 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

Industrials are emerging as one of the **cleanest beneficiaries of the current macro and policy mix**, with multiple tailwinds reinforcing one another rather than offsetting. Growth remains resilient, financial conditions have eased materially, and the policy environment continues to favor **real-economy investment over financial engineering**.

The “run-it-hot” fiscal posture, combined with infrastructure spending, defense outlays, grid modernization, and AI-driven capital expenditure, is translating into **visible demand rather than aspirational forecasts**. Unlike consumer-sensitive sectors, Industrials benefit from **multi-year order books, contractual revenue, and government-backed spending**, reducing dependence on near-term confidence swings.

Lower real rates and a softer dollar further support the sector by improving export competitiveness and easing funding costs for large-scale projects. Importantly, Industrials appear to be **absorbing tariff and geopolitical noise far better than feared**, as pricing power, localization of supply chains, and backlog strength mitigate policy risk.

## **Subsector Performance and Fundamental Drivers**

Sector internals remain **constructively aligned**, with strength broad-based rather than concentrated in a single theme.

Capital Goods and Machinery continue to see **order momentum tied to automation, electrification, and reshoring**, with demand visibility extending well into 2026. AI-related infrastructure—factories, power equipment, logistics systems—has become a durable incremental growth driver rather than a speculative overlay.

Aerospace & Defense stands out as a structural winner. Commercial aerospace demand remains robust as fleet renewal accelerates, while defense spending is rising across NATO and allied governments. Backlogs are historically high, and production normalization is steadily improving margin trajectories.

Transportation and Logistics are transitioning from cyclical trough conditions to **operational leverage**. While volumes are not booming, cost discipline, network optimization, and pricing rationalization are driving margin recovery earlier than expected.

Electrical Equipment and Multi-Industrials benefit directly from grid investment, data center buildouts, and energy transition capex. These areas are seeing **less demand volatility than traditional cyclicals**, reflecting their role as enablers of broader economic and technological shifts.

## **Sector Positioning and Relative Performance Outlook**

Industrials are increasingly positioned as a **core leadership sector rather than a tactical trade**. Relative to other cyclical groups, Industrials combine **earnings durability, backlog visibility, and policy alignment**, a rare combination at this stage of the cycle.

Compared with the other ten GICS sectors, Industrials offer one of the **cleanest upside asymmetries**: strong participation if growth remains firm, and better downside protection than consumer- or rate-sensitive cyclicals if conditions soften. Importantly, valuation multiples remain **reasonable relative to earnings momentum**, particularly when adjusted for backlog strength and free-cash-flow conversion.

If the market continues to reward sectors tied to **capex, productivity, and physical infrastructure**, Industrials are well positioned to **outperform on both an absolute and relative basis** into February.

## **Subsector Lens**

**Aerospace & Defense: Overweight** — multi-year backlog visibility, improving execution, and rising global defense budgets support sustained outperformance.

**Capital Goods & Machinery: Overweight** — automation, reshoring, and AI-adjacent investment drive durable demand.

**Electrical Equipment & Multi-Industrials: Constructive** — grid, power, and data-center exposure provides secular growth with limited cyclicity.

**Transportation & Logistics: Selective bullish** — margin recovery and cost discipline matter more than volume growth at this stage.

**Commercial Services: Neutral-to-positive** — steady demand, though less upside than asset-heavy industrial peers.

## **Bottom Line**

Industrials are **one of the strongest fundamental expressions of the current macro regime**. Policy alignment, visible demand, and improving operational leverage make the sector **well positioned to lead rather than lag**. Compared with other cyclical sectors, Industrials offer **superior earnings visibility with less reliance on sentiment**, making XLI and high-quality industrial stocks attractive core holdings into February.

# 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.