ETFSector.com

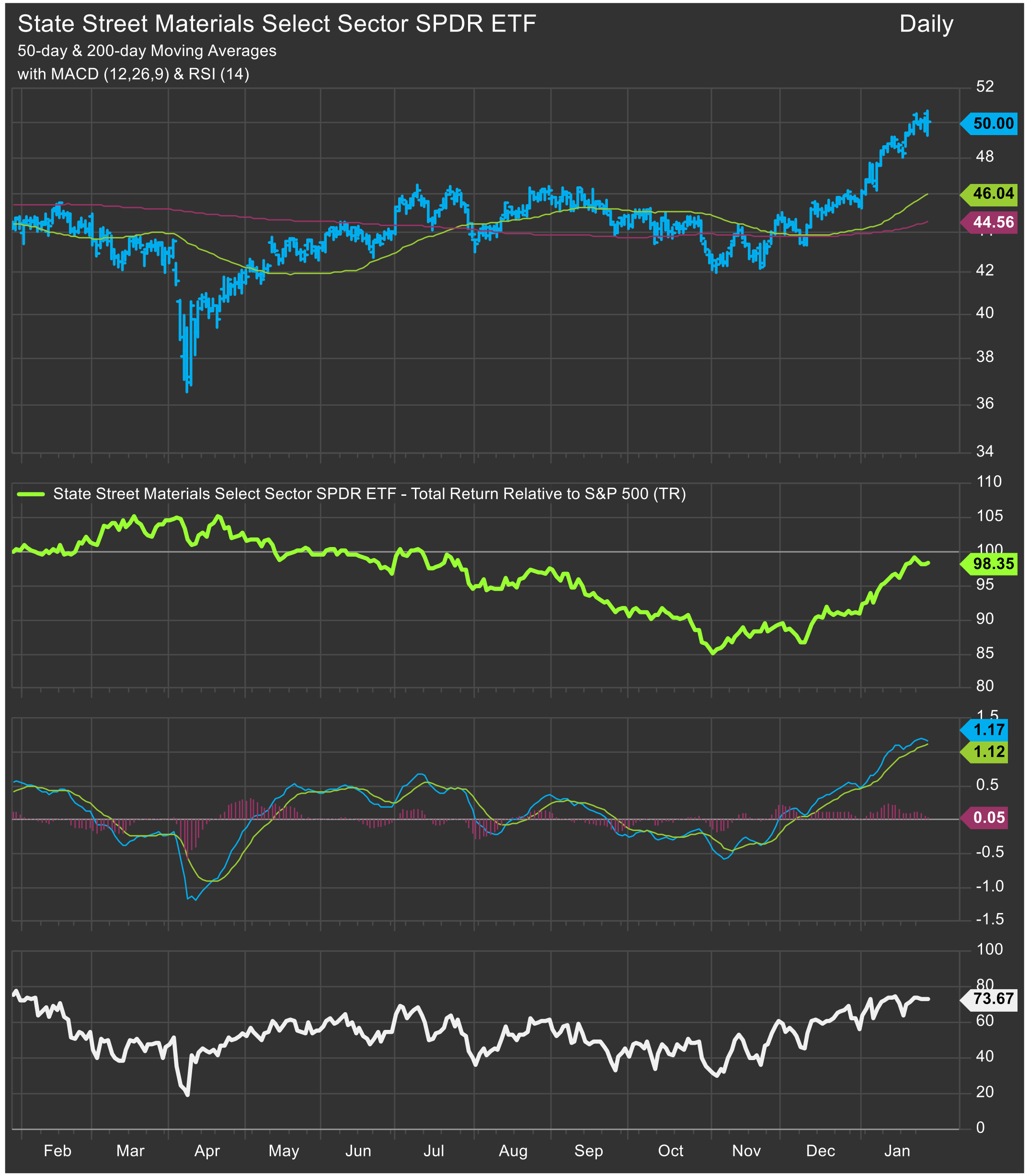
Monthly Insights: February Outlook

Materials Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Materials



The Materials Sector surged in January, breaking out in both absolute and relative terms and establish an intermediate-term bullish reversal pattern.

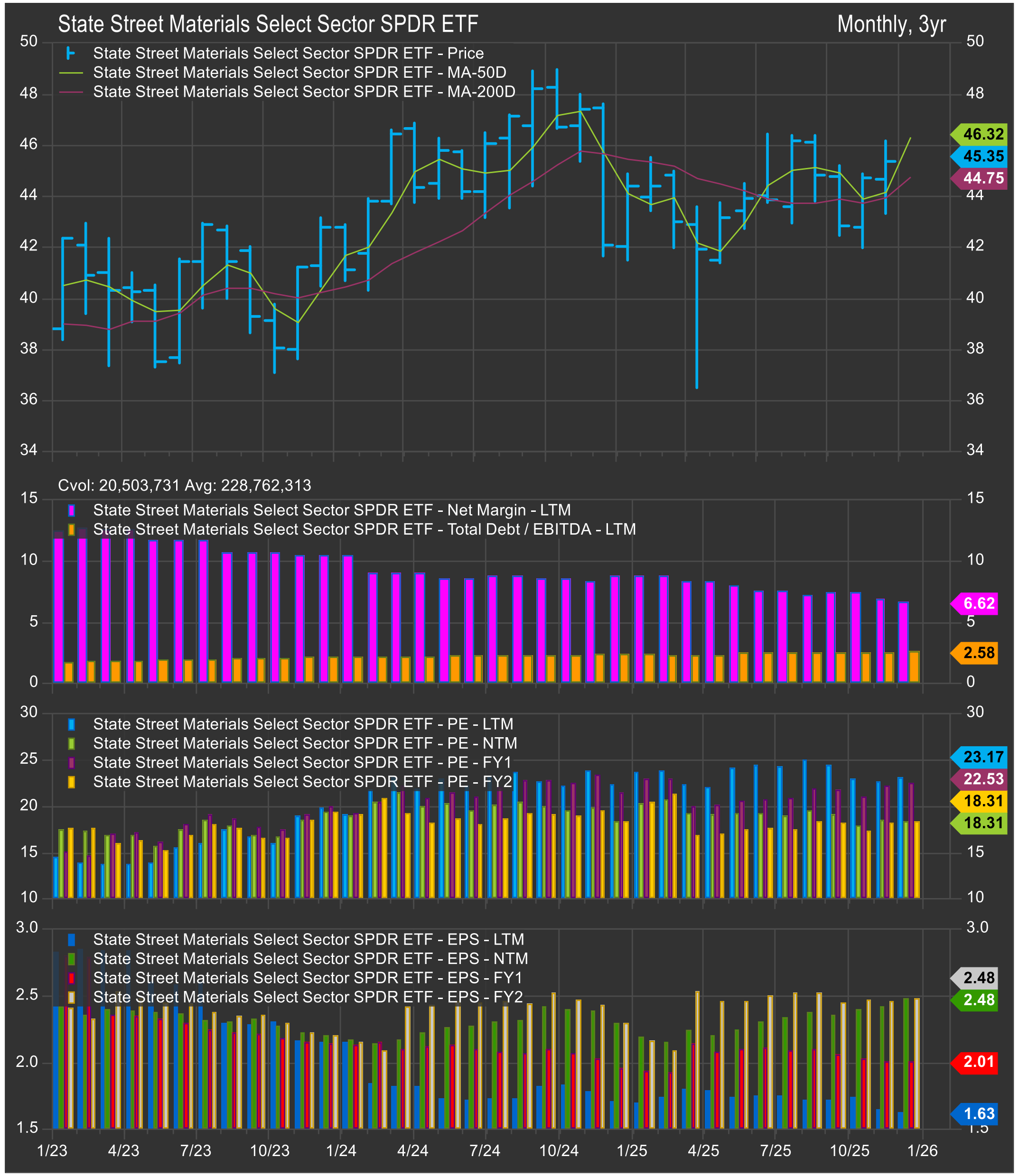
Fundamentally the sector remains weak, with margins contracting and valuations historically high. However, the macro backdrop is very supportive with rising equities, rising rates, rising commodities prices and falling USD the backdrop at present.

Base and precious metal miners are a strong momentum trade, but Chemicals and C&P names improved in January as well and sector breadth has confirmed the bullish reversal at the index level.

Trade policy as a political cudgel is what we're seeing and investors are interpreting it as a call to increase exposure to physical/real assets in the near-term. Given that the Materials sector was structurally oversold less than 3-months ago, we think there's more potential upside while these macro conditions remain in force.

We start February with an overweight allocation of +3.31% in the Materials Sector in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Materials Sector



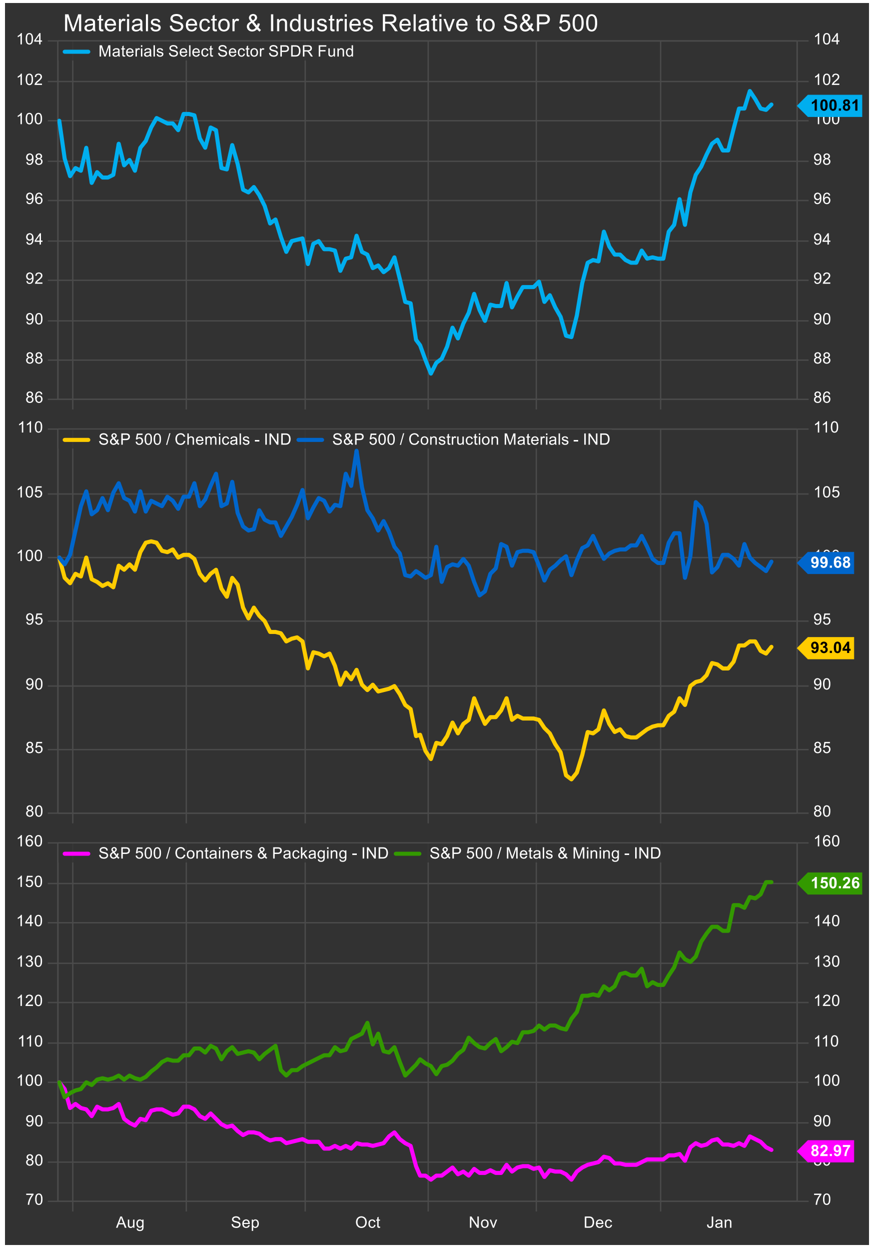
The chart (left) shows S&P 500 Materials Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to contract (chart, panel 2) which hasn't stopped investors from piling in to the sector in the near-term.

Valuation multiples (chart, panel 3) are expanding as buyer interest for the sector has emerged(panel 4)

The sector remains in a weak fundamental position, but the macro backdrop is very supportive based on our historical analysis of sector performance when interest rates, equities and commodities prices are rising against the backdrop of a weakening USD.

Industry/Sub-Industry Performance and Breadth: Materials



Materials Industries (chart, left): Metals & Mining continues to be the strongest industry within the S&P 500. Chemicals stocks have begun a bullish reversal in January while C&P and Construction materials stocks remain in lackluster trends.

Materials Sector Internals (chart, right): With laggard industries reverting higher in the near-term, the Materials sector hit above the 90% level on the short-term series. We interpret this as a sign that Materials stocks are in the midst of a leadership turn and investors should be long.

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	143,992.1	0.59	59.5	0.5	0.54	24.0
ALB	Albemarle Corporation	Bullish Reversal	21,695.2	1.56	79.2	0.6	1.84	22.1
CF	CF Industries Holdings, Inc.	Consolidation	14,532.2	0.51	7.9	1.4	0.73	19.5
FCX	Freeport-McMoRan, Inc.	Bullish Reversal	91,368.3	0.94	39.8	0.6	1.25	19.5
DOW	Dow, Inc.	Consolidation	19,745.1		10.6	3.4	0.88	18.5
LYB	LyondellBasell Industries NV	Consolidation	16,244.9	0.62	3.4	7.3	0.91	15.9
MOS	Mosaic Company	Consolidation	8,931.9	0.48	-4.3	2.1	0.85	15.0
SW	Smurfit Westrock PLC	Consolidation	22,145.9	0.58	-2.5	2.8	1.40	8.7
PPG	PPG Industries, Inc.	Consolidation	25,572.6	0.57	4.6	1.7	0.99	8.5
CTVA	Corteva Inc	Bullish Reversal	49,362.2	0.79	7.5	0.6	0.84	7.5
DD	DuPont de Nemours, Inc.	Bullish Reversal	18,698.9	0.83	23.6	1.5	0.92	7.4
SHW	Sherwin-Williams Company	Consolidation	86,663.6	1.13	-0.4	0.6	1.45	6.6
IFF	International Flavors & Fragrances Inc.	Consolidation	18,479.9	0.65	4.5	1.5	0.95	6.2
BALL	Ball Corporation	Bullish Reversal	15,077.0	0.56	5.9	0.9	1.21	6.1
LIN	Linde plc	Consolidation	210,827.4	1.01	-0.5	0.9	0.58	5.5
AMCR	Amcor PLC	Consolidation	20,401.3	0.42	1.5	3.9	0.76	5.4
ECL	Ecolab Inc.	Consolidation	79,719.5	1.32	2.3	0.6	1.02	5.1
NUE	Nucor Corporation	Bullish Reversal	39,633.7	0.58	9.7	0.8	1.88	3.7
PKG	Packaging Corporation of America	Consolidation	19,579.9	0.80	2.9	1.5	1.02	3.4
APD	Air Products and Chemicals, Inc.	Consolidation	56,959.0	0.78	-3.5	1.9	0.84	3.4
IP	International Paper Company	Consolidation	21,908.3	0.80	-11.9	3.3	1.32	3.2
VMC	Vulcan Materials Company	Consolidation	39,603.6	1.21	1.1	0.4	0.96	1.1
AVY	Avery Dennison Corporation	Consolidation	14,289.6	0.71	0.7	1.3	0.89	0.5
MLM	Martin Marietta Materials, Inc.	Bullish Reversal	39,213.5	1.19	2.7	0.3	0.96	0.0
STLD	Steel Dynamics, Inc.	Bullish Reversal	25,465.6	0.51	8.2	0.8	1.31	-1.1
CRH	CRH public limited company	Uptrend	81,948.2	0.80	1.7	0.8	1.59	-5.8

Mining concerns continue to lead the sector, but we're now seeing a halo effect on the rest of the sector as investors are recognizing the potential for sustained commodities reflation against a backdrop of a market that was totally under-owning the sector a year ago.

We're starting to see some Chemical names in bullish reversal like CTVA, ALB and DD.

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 Materials sector is increasingly behaving like a **strategic inflation-and-capex hedge**, not a pure cyclical trade. The current macro regime—defined by elevated fiscal spending, infrastructure investment, energy transition priorities, and national-security-driven supply chain policy—continues to favor **real assets and upstream production**.

While headline growth expectations have moderated, **nominal demand remains firm**, and that matters more for Materials than real GDP alone. Government policy is explicitly supportive: infrastructure programs, defense manufacturing, grid modernization, and clean-energy buildouts all require **steel, copper, aluminum, aggregates, specialty chemicals, and construction materials**. These drivers are multi-year and largely **decoupled from consumer sentiment**.

The weaker dollar is an additional tailwind, improving export competitiveness and boosting translated earnings for globally exposed Materials producers. At the same time, commodity inflation—particularly in metals—has re-accelerated, reinforcing pricing power across much of the sector.

Crucially, the feared macro negatives (China slowdown, rate volatility, tariffs) are **no longer overwhelming the tape**. Instead, the market is rewarding sectors tied to **physical scarcity, replacement cost, and policy-backed demand**—all central to Materials.

Subsector Performance and Fundamental Drivers

Performance leadership within Materials has broadened meaningfully, a constructive signal for durability.

Metals & Mining are benefiting from renewed momentum in copper, aluminum, and precious metals. Copper's move reflects grid expansion, EV penetration, and AI-driven power demand, while gold's strength highlights persistent demand for monetary hedges in a world of fiscal dominance and currency volatility. Importantly, balance sheets across the group are far healthier than in prior cycles, allowing price upside to flow through to free cash flow.

Construction Materials continue to see stable demand tied to infrastructure, public works, and energy projects. While residential construction is uneven, non-residential and public-sector activity is filling the gap. Pricing discipline remains intact, and cost pressures have eased enough to support margin expansion.

Chemicals are transitioning out of a trough. Destocking headwinds are fading, input costs have stabilized, and demand tied to industrial production, autos, and electronics is improving. Specialty chemicals, in particular, benefit from differentiated products and contractual pricing that insulate margins.

Packaging and Containers are quietly improving as volumes stabilize and pricing resets roll through contracts. This group often inflects earlier than broader cyclicals, reinforcing the case that Materials is moving from recovery to expansion.

Sector Positioning and Relative Performance Outlook

Materials are increasingly competitive as a **relative-return sector**, not just a macro hedge. Compared with other cyclical areas, XLB offers **direct exposure to inflation-sensitive cash flows** without the same labor intensity or consumer reliance.

Valuations remain reasonable relative to replacement cost and normalized earnings power, especially given improving free-cash-flow yields. Unlike Technology or Consumer sectors, expectations are **not stretched**, which lowers the bar for upside surprises.

Against the broader S&P 500, Materials should continue to benefit if markets remain focused on **capex, infrastructure, and energy security**, rather than pure multiple expansion. If growth holds and inflation proves sticky, Materials are likely to **outperform most defensive sectors and several growth-heavy cyclicals** into February.

Subsector Leans

Metals & Mining: Overweight — copper and precious metals strength supported by structural demand, supply constraints, and fiscal dominance themes.

Construction Materials: Overweight — infrastructure, energy, and public works spending offset housing volatility.

Specialty Chemicals: Constructive — destocking pressures fading, pricing discipline intact, margin recovery underway.

Commodity Chemicals: Selective — improving cycle, but exposure should favor low-cost producers with balance-sheet flexibility.

Packaging & Containers: Positive bias — early-cycle improvement and operating leverage as volumes normalize.

Bottom Line

The Materials sector is **reasserting itself as a late-cycle leader**, not a laggard. Policy support, real-asset scarcity, and improving fundamentals argue for **continued relative strength** versus many of the other ten GICS sectors. With reasonable valuations, rising cash generation, and strong linkage to infrastructure, energy, and defense spending, **XLB and high-quality Materials stocks are well positioned to outperform into February**, particularly in a market increasingly focused on tangible growth and inflation resilience.

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.