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Monthly Insights: March 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 now surged into a clear leadership position. Tailwinds from onshoring, AI infrastructure, geopolitical tension and electrification remain evident.

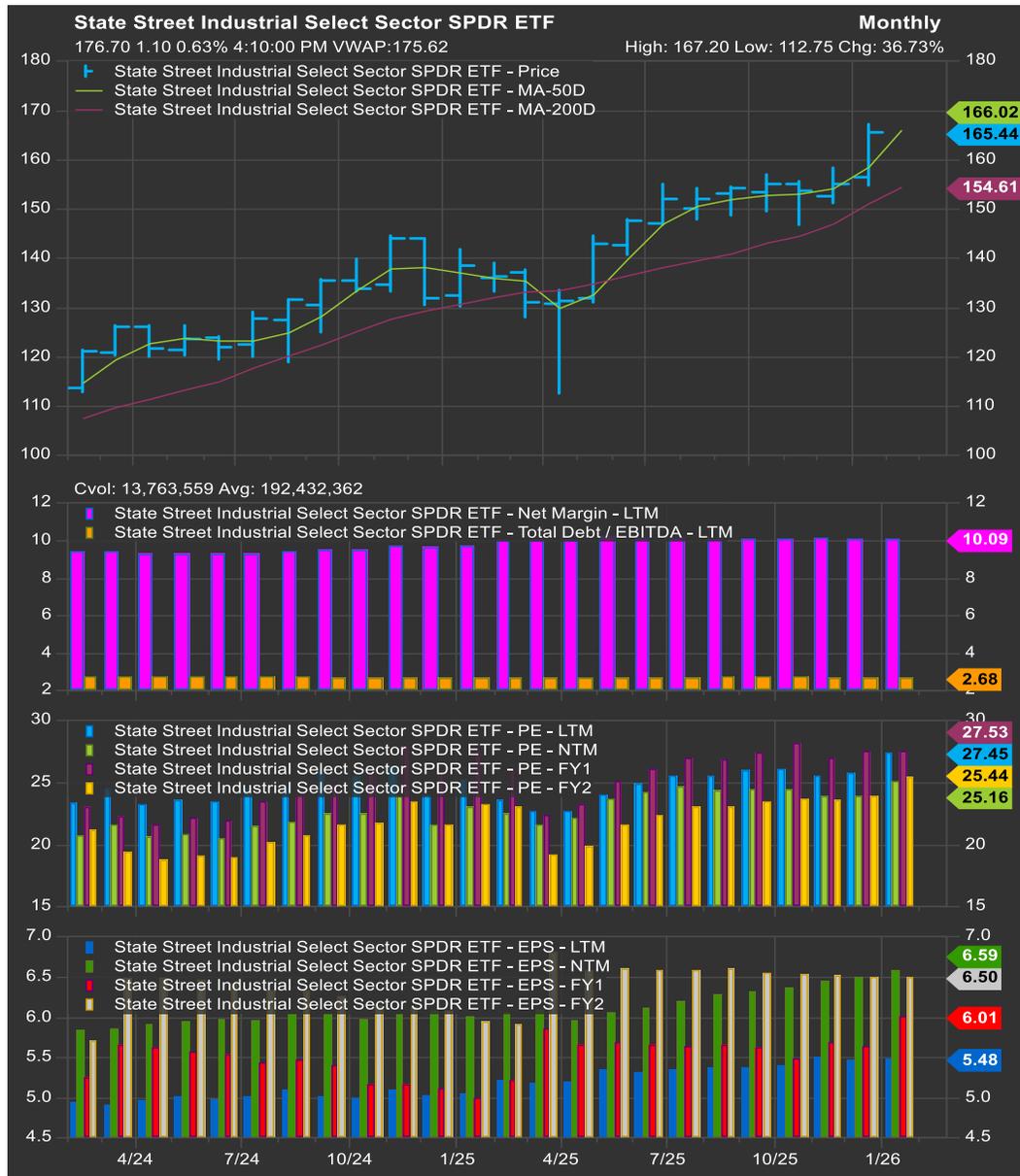
From a technical perspective, near-term rotation away from Mega Cap. Growth and towards economically sensitive cyclicals was a catalyst for better performance at the sector level.

Our macro-outlook suggests investor's shift to preferring real assets is likely to remain in place, and the industrial sector benefits from the current environment in several ways. Rising fuel prices and tariff constraints typically increase demand for transportation, particularly rails and marine modalities. Massive AI infrastructure demand along with increased demand for base and precious metals have boosted Machinery names. Defense names are also a tactical play with the Trump Administration adopting an aggressive posture on the world stage in 2026.

As investors continue to sell Growth and rotate towards commodities, natural resources and infrastructure, we are continuing to shift the Elev8 portfolio in that direction as well. Demand drivers for many industrial industries remain in place in the near-term.

We start march long the Industrial Sector with an **OVERWEIGHT allocation of 9.53% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Industrial Sector

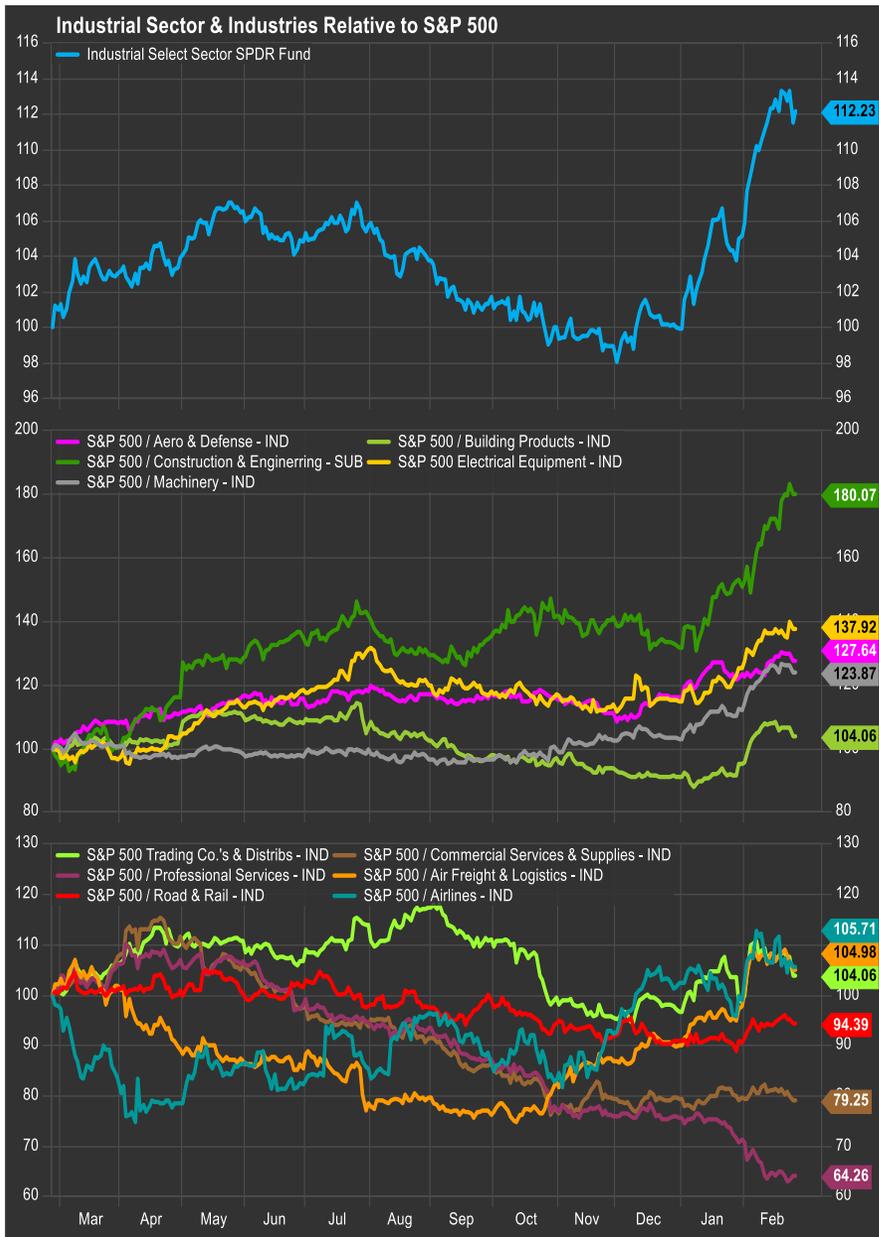


The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

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

Valuation (chart, panel 3) remains elevated vs. historical levels, but they aren't out of line with the way the rest of the index profiles. Consensus estimates continue to project sequential growth.

Industry/Sub-Industry Performance and Breadth: Industrial Sector



Industrial Industries (chart, left): Long-term leadership industries, A&D, Construction and Electrical continue to lead while transportation industries have also firmed.

Industrial services remain a laggard component of the sector

Industrial Sector Internals (chart, right): Breadth measures remain among the strongest within the S&P 500 at the sector level.

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.	Bullish Reversal	13,881.5	1.09	41.8	0.00	2.53	36.2
GEV	GE Vernova Inc.	Uptrend	236,110.5	2.26	42.3	0.14	1.30	32.6
FIX	Comfort Systems USA, Inc.	Uptrend	51,024.8	1.54	53.2	0.13	1.73	28.8
JCI	Johnson Controls International plc	Uptrend	88,437.4	1.15	25.4	0.72	1.55	26.7
FDX	FedEx Corporation	Bullish Reversal	89,955.6	0.73	37.8	0.99	1.18	25.2
CAT	Caterpillar Inc.	Uptrend	356,693.9	1.31	36.8	0.55	1.87	21.8
DE	Deere & Company	Bullish Reversal	169,044.7	1.29	21.6	0.77	1.00	20.7
HWM	Howmet Aerospace Inc.	Uptrend	104,100.1	2.21	27.0	0.13	1.86	20.3
PWR	Quanta Services, Inc.	Uptrend	84,201.3	1.70	25.0	0.05	1.63	19.5
TT	Trane Technologies plc	Bullish Reversal	101,817.1	1.22	9.4	0.57	1.32	18.6

Stock level participation is broadening out within the sectors as Machinery, C&E, Electrical and Aerospace names continue to lead while Transports have also begun to improve broadly.

Industrial services and building products names remain the weaker areas of the sector with things looking particularly bleak for professional services business lines like payroll and consulting

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	6,725.2	0.48	-30.5	0.38	0.39	-19.2
ADP	Automatic Data Processing, Inc.	Downtrend	86,266.6	0.74	-22.1	1.94	0.64	-17.5
BLDR	Builders FirstSource, Inc.	Retracement	11,351.4	0.66	-16.6	0.00	1.99	-16.7
AXON	Axon Enterprise Inc	Retracement	41,047.6	2.58	-15.1	0.00	1.64	-15.7
BR	Broadridge Financial Solutions, Inc.	Downtrend	20,701.9	0.71	-24.8	1.38	0.80	-15.1
PAYX	Paychex, Inc.	Downtrend	32,748.6	0.63	-22.9	3.08	0.62	-14.1
CPRT	Copart, Inc.	Downtrend	34,693.8	0.87	-16.7		0.55	-14.0
UBER	Uber Technologies, Inc.	Retracement	149,892.6	0.83	-18.0	0.00	1.65	-12.1
LDOS	Leidos Holdings, Inc.	Consolidation	21,472.9	0.55	-13.5	0.64	0.50	-11.7
EXPD	Expeditors International of Washington, Inc.	Consolidation	19,013.5	0.94	-4.6	0.71	0.90	-11.4

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.