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Monthly Insights: April Outlook

# Industrial Sector

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# Sector Price Action & Performance Review: Industrial Sector



The Industrials sector delivered a bifurcated and ultimately disappointing March, with the Industrial Select Sector SPDR (XLI) posting a YTD decline of approximately 6–9% through late March — underperforming the SPY's approximately 5–6% YTD loss by a meaningful margin that widened as the quarter progressed. The underperformance was not uniform across the sector's broad constituent base: defense and aerospace names held up relatively well XLP but posted gains on elevated geopolitical risk spending expectations, while transportation, machinery, and industrial conglomerate names bore the brunt of the tariff-driven growth slowdown repricing.

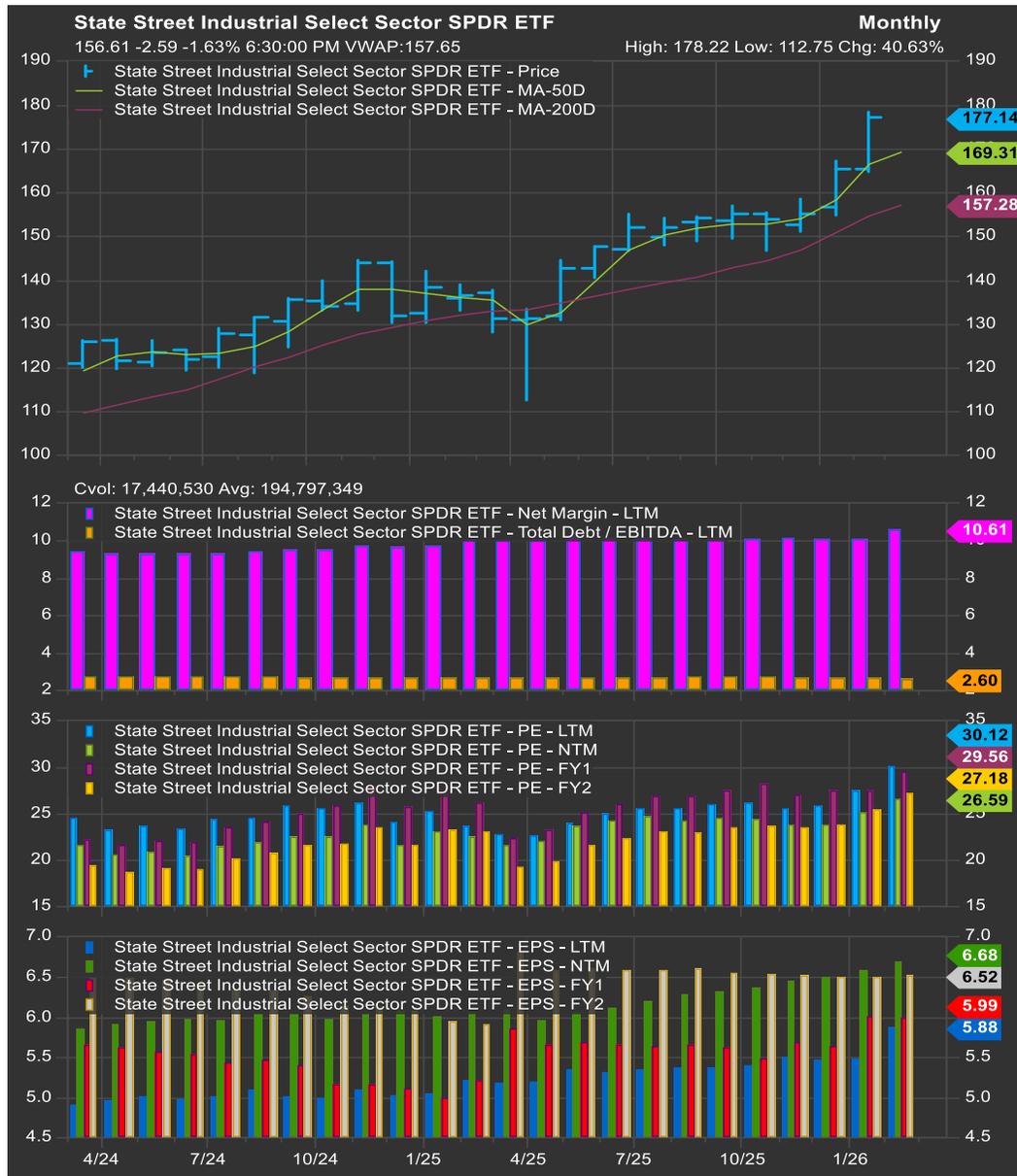
The sector's March narrative is defined by a fundamental tension that is unlikely to resolve quickly: Industrials are simultaneously a primary beneficiary of domestic manufacturing reshoring and defense spending tailwinds — two of the most powerful structural themes in the 2026 policy environment — and a primary casualty of the tariff-driven global trade disruption that is the single most important near-term macro headwind. This tension between structural opportunity and cyclical cost pressure produced a sector that neither cleanly benefited from defensive rotation nor clearly participated in the growth narrative, leaving it caught in the middle of a bifurcated market.

XLI's technical structure through March reflected its sector-level fundamental ambiguity — neither cleanly broken like XLY nor defensively extending like XLP but occupying an uncomfortable middle ground consistent with a sector under pressure without a clear directional resolution. The ETF broke below its 50-day moving average in mid-February and remained below it through the entirety of March, with multiple failed recovery attempts confirming the level as resistance rather than support.

Industrials enter April 2026 as a sector caught between two powerful and opposing forces — structural policy tailwinds that are among the most durable in the S&P 500, and cyclical tariff and trade headwinds that are the most acute in the near term. The sector's internal bifurcation is more pronounced than almost any other in the index: defense contractors, electrical equipment manufacturers, and infrastructure-exposed engineering services firms carry genuine multi-year earnings visibility that makes current valuations attractive for patient capital. Transportation, short-cycle machinery, and trade-dependent manufacturing names face a more difficult near-term earnings environment that requires either tariff resolution or PMI stabilization before the risk/reward clearly favors accumulation. For investors navigating the sector, the most important portfolio decision is not whether to own Industrials but which Industrials to own — the headline XLI return in April will obscure a performance dispersion that is likely to be among the widest of any sector in the index.

**We start April long the Industrial Sector with an **OVERWEIGHT** allocation of 5.86% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Industrial Sector

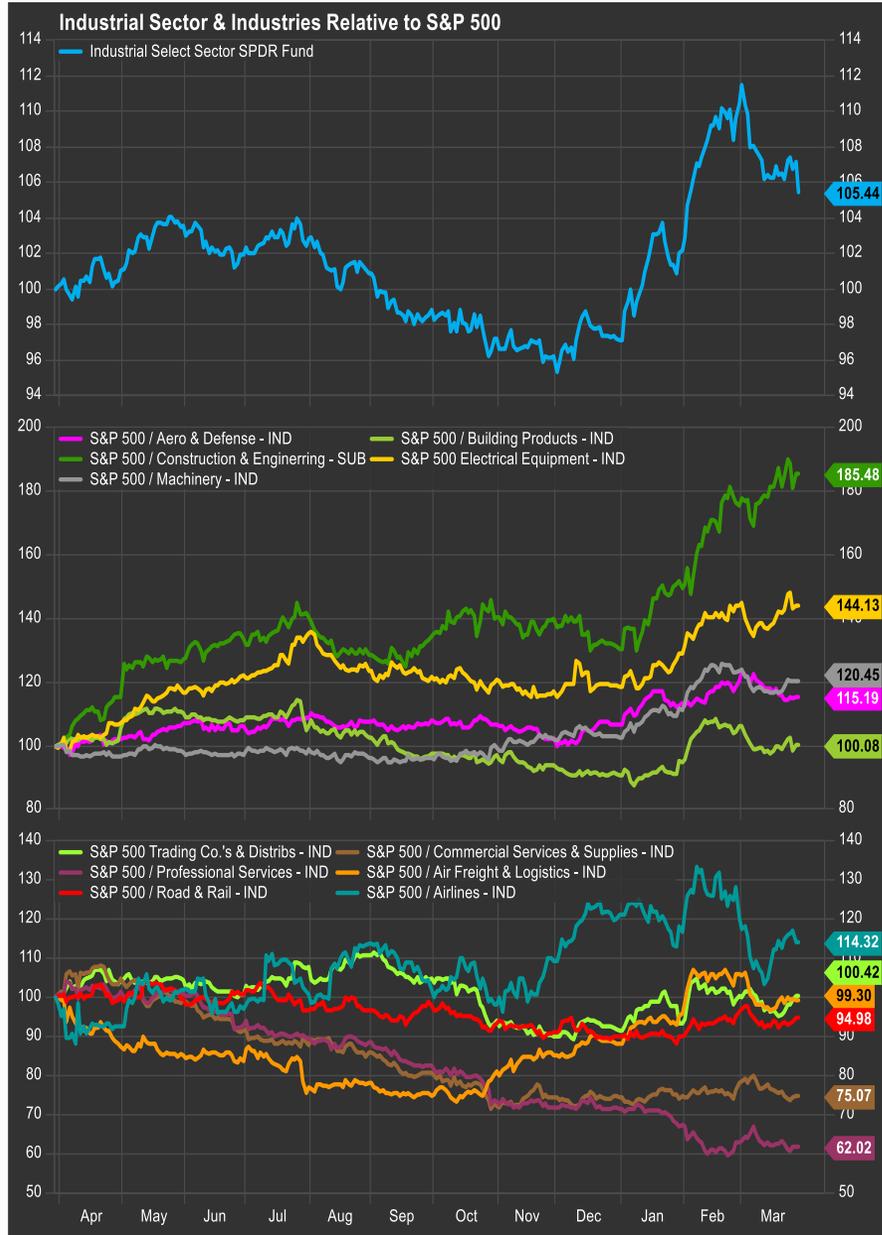


The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins remain firm and have expanded in the very near-term (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. And valuations remain below Discretionary and Technology sector levels

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



**Industrial Industries** (chart, left): AI infrastructure demand continues to prop up Electrical and C&E Industries.

**Industrial Sector Internals** (chart, right): Breadth measures have washed out on the short-term measure while the intermediate-term price structure remains constructive. We're expecting the buyer to step in at these oversold conditions

# 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
EME	EMCOR Group, Inc.	Uptrend	32,637.5	1.28	18.8	0.12	1.65	8.5
DAL	Delta Air Lines, Inc.	Consolidation	42,342.5	0.47	5.7	0.77	2.14	6.0
VRT	Vertiv Holdings Co. Class A	Uptrend	96,059.0	1.94	47.1	0.05	1.38	5.8
PAYX	Paychex, Inc.	Downtrend	32,848.1	0.80	-8.7	3.05	0.65	5.2
GEV	GE Vernova Inc.	Uptrend	229,951.8	2.63	28.8	0.15	1.15	5.0
PWR	Quanta Services, Inc.	Uptrend	82,287.7	2.06	26.7	0.05	1.61	5.0
FAST	Fastenal Company	Bullish Reversal	51,617.4	1.82	9.3	1.38	0.55	4.9
EXPD	Expeditors International of Washington, Inc	Bullish Reversal	18,853.4	1.17	5.8	0.71	0.95	4.7
GD	General Dynamics Corporation	Bullish Reversal	93,760.3	1.05	8.0	1.20	0.20	4.4
FX	Comfort Systems USA, Inc.	Uptrend	48,076.1	1.81	41.5	0.14	1.81	3.0

Electrical and C&E stocks continue to lead the sector.

Building Products, Services and select Machinery names were among those that corrected the hardest.

Airlines were on both sides.

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.	Consolidation	18,355.6	0.47	-1.8	1.42	1.37	-16.5
LII	Lennox International Inc.	Consolidation	15,239.1	0.91	-9.1	0.75	1.10	-15.9
BLDR	Builders FirstSource, Inc.	Retracement	8,896.0	0.64	-17.8	0.00	2.17	-15.6
AXON	Axon Enterprise Inc	Retracement	34,566.2	2.60	-20.5	0.00	1.62	-13.4
SWK	Stanley Black & Decker, Inc.	Consolidation	10,672.6	0.63	-3.8	3.18	1.34	-12.2
UPS	United Parcel Service, Inc. Class B	Bullish Reversal	70,517.5	0.67	2.6	4.48	0.89	-10.9
OTIS	Otis Worldwide Corporation	Retracement	29,523.3	0.87	-8.5	1.49	1.06	-10.6
CTAS	Cintas Corporation	Consolidation	66,062.9	1.58	-8.8	0.67	0.83	-10.3
EFX	Equifax Inc.	Downtrend	20,668.4	0.97	-16.3	0.77	1.55	-10.2
AOS	A. O. Smith Corporation	Consolidation	7,242.5	0.81	-3.1	1.46	0.87	-10.1

## 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

**Tariffs — Direct, Immediate, and Difficult to Hedge** No sector in the S&P 500 has a more complex and direct relationship with tariff policy than Industrials. The sector's exposure operates on two levels simultaneously, creating a uniquely difficult earnings environment:

On the **cost side**, industrial manufacturers source steel, aluminum, copper, rare earth elements, and fabricated components from globally distributed supply chains — many of which run directly through tariff-exposed geographies. Steel and aluminum tariffs — a feature of U.S. trade policy since 2018 and now escalating — raise input costs for machinery manufacturers, construction equipment companies, and transportation equipment producers. Unlike consumer goods companies that can raise shelf prices, industrial manufacturers frequently operate under long-term contracts with fixed pricing, meaning cost increases must be absorbed in margins before the next contract renewal cycle provides an opportunity for pass-through.

On the **demand side**, tariff-driven trade volume reduction directly reduces the business activity of transportation and logistics companies — freight volumes, rail car loadings, and air cargo tonnage all correlate strongly with global trade flows. Any scenario where tariffs reduce the volume of goods moving across borders is a direct revenue headwind for the sector's transportation constituents.

The ironic tension is that tariff policy is simultaneously intended to drive the domestic manufacturing investment that would be a multi-year positive for industrial capital equipment demand — but the near-term disruption arrives faster than the structural benefit.

**Manufacturing Activity and PMI** The ISM Manufacturing PMI has been hovering near the contraction/expansion boundary of 50 through Q1 2026, reflecting the crosscurrents of tariff uncertainty suppressing new orders while defense and infrastructure spending maintain baseline activity. New orders data — the forward-looking component of PMI — has been particularly weak, suggesting that manufacturers are deferring capital equipment purchases until the tariff environment clarifies. This deferral dynamic is a direct headwind for industrial machinery and equipment companies whose revenue is tied to capital expenditure cycles.

The distinction between **short-cycle** and **long-cycle** industrial businesses matters here. Short-cycle companies — those with order-to-delivery lead times of weeks to months — are feeling the PMI softness immediately in their revenue and order books. Long-cycle businesses — defense contractors, large infrastructure project companies, power generation equipment manufacturers

— operate on multi-year contract cycles that are insulated from quarter-to-quarter PMI volatility. This distinction maps directly onto the sector's performance bifurcation and is the most important analytical framework for navigating XLI in the current environment.

**Government Spending — A Structural and Growing Tailwind** Federal spending is one of the most powerful counter-cyclical forces supporting Industrials in 2026. Three spending streams are particularly relevant:

**Defense:** NATO's commitment to 2% of GDP defense spending has been a floor under defense contractor backlogs for two years, and the Trump administration's emphasis on defense modernization — drone warfare, hypersonic weapons, missile defense — is driving a new capital equipment cycle that benefits Lockheed Martin, RTX, Northrop Grumman, General Dynamics, and L3Harris

**Infrastructure:** The Infrastructure Investment and Jobs Act continues to deploy capital into roads, bridges, water systems, and broadband — creating sustained demand for construction equipment, engineering services, and industrial materials that is independent of the private sector capex cycle

**Reshoring investment:** CHIPS Act semiconductor facility construction and broader domestic manufacturing reshoring create demand for construction equipment, material handling systems, and factory automation — a multi-year capital cycle that is in its early innings

These government-driven demand streams are the structural argument for Industrials that offsets the cyclical tariff and PMI headwinds, and are the reason the sector's technical picture is less damaged than XLY or XLF despite operating in the same macro environment.

**Interest Rates and Capital Expenditure** Industrial capital equipment purchases are frequently financed — by the companies making them and by the end-customers commissioning them. The Fed's hold at **3.50–3.75%** prevents further tightening of financing conditions, but rates at current levels are not low enough to stimulate the incremental capital expenditure that would accelerate industrial revenue growth. A visible Fed pivot toward cuts — even of 50–75bps — would be a meaningful positive catalyst for industrial capex intentions, as lower financing costs reduce the hurdle rate for infrastructure and manufacturing investment.

# Economic & Policy Drivers: Industrial Sector

## **Sector-Specific Drivers**

**Aerospace and Defense — The Sector's Strongest Subsector** Defense is the Industrials sector's most compelling near-term fundamental story and the primary reason XLI has held up better than XLY despite comparable tariff exposure at the headline level. Defense contractor backlogs — which represent contracted future revenue not yet recognized — are at or near record levels across the major primes. Lockheed Martin's F-35 program, RTX's jet engine and missile businesses, Northrop's B-21 bomber and space systems, and General Dynamics' shipbuilding and land systems divisions all carry multi-year revenue visibility that is effectively impervious to the consumer confidence and tariff dynamics weighing on the rest of the sector. Geopolitical tensions — particularly the Iran escalation that paradoxically benefited Utilities as a haven — directly accelerate defense procurement timelines and support supplemental budget requests that expand backlogs further.

The risk to defense is political rather than fundamental: any significant shift in U.S. foreign policy commitments, allied defense spending retrenchment, or domestic budget negotiations that constrain discretionary defense appropriations would be a negative catalyst for a subsector whose valuation has moved to reflect elevated growth expectations.

**Commercial Aerospace** Boeing and the broader commercial aerospace supply chain occupy a complex position within Industrials. Boeing's ongoing recovery from its 737 MAX certification and manufacturing quality challenges has been a multi-year story that entered 2026 with some stabilization — production rates are recovering and the order backlog remains substantial. However, tariff-driven airline capacity uncertainty — if air traffic growth slows as trade volumes and business travel decline — could soften new aircraft order intake at the margin. The supply chain (Heico, TransDigm, Spirit AeroSystems) is more directly tied to production volume recovery and benefits as Boeing's output rate improves regardless of new order pace.

**Transportation and Logistics** Transportation names — Union Pacific, CSX, Norfolk Southern in rail; United Parcel Service, FedEx in express delivery — are the most directly exposed to the tariff-driven trade volume reduction dynamic. Rail car loadings of intermodal containers — the most direct indicator of import/export goods flow — have been softening alongside tariff escalation,

and express delivery volume is sensitive to both e-commerce trends and cross-border trade flows. These names were among the weakest performers within XLI through March and are most vulnerable to further deterioration if tariff escalation continues to reduce goods trade volumes.

**Industrial Machinery and Equipment** Caterpillar, Deere, Illinois Tool Works, Parker Hannifin, and Emerson Electric represent the industrial machinery core of XLI. These companies operate across construction, agriculture, manufacturing, and process industries — giving them broad economic sensitivity but also diversified end-market exposure that prevents any single headwind from being catastrophic. Caterpillar benefits from infrastructure spending but faces construction equipment demand softness in residential and commercial building. Deere's agricultural equipment business is sensitive to farm income — itself affected by tariff-driven agricultural export disruption. Illinois Tool Works and Parker Hannifin are bellwethers for industrial activity broadly and are watched closely for order book signals.

**Building Products and Construction Services** The residential construction market remains constrained by high mortgage rates suppressing new home demand, but infrastructure and commercial construction — driven by reshoring facility investment and federal infrastructure spending — has maintained activity. Building products companies with exposure to infrastructure (rather than residential) are better positioned. Engineering and construction services firms — Fluor, Jacobs, AECOM — are beneficiaries of the multi-year government infrastructure deployment cycle and carry project backlogs that provide revenue visibility through the near-term uncertainty.

**Electrical Equipment and Automation** The power grid upgrade cycle — driven by the same AI data center and electrification demand that is supporting Utilities — creates a meaningful tailwind for electrical equipment manufacturers within Industrials. Eaton, Emerson, and Hubbell are direct beneficiaries of the trillion-dollar grid investment cycle, supplying transformers, switchgear, power distribution equipment, and industrial automation systems. This subsector sits at the intersection of the Industrials and Utilities structural themes and has shown relative resilience within XLI through the broader sector weakness.

# 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.