

[ETFSector.com](https://www.ETFSector.com)

Monthly Insights: May Outlook

Industrial Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Industrial Sector



The Industrial Select Sector SPDR Fund (XLI) delivered a solid April rebound. XLI closed March 31 at **\$161.73** and was trading near **\$169.37** on April 29, leaving the ETF up roughly **4.7% month-to-date on price**. The fund rallied from an early-April low near **\$161.14** to an intramonth high of **\$175.13** on April 17 before consolidating into month-end.

Technically, XLI's April action was constructive but not a full breakout. The ETF regained momentum after a volatile March, but it remained below its early-March high near \$179, suggesting the sector still needs confirmation from earnings, manufacturing data, and capital-spending trends. A sustained move above the \$175–179 range would signal renewed leadership. A break back below \$164–165 would suggest that the April rally was more of a relief move than a durable rotation.

The sector's composition helps explain the month's leadership. State Street data show XLI's largest industry weights are **Aerospace & Defense at 23.74%**, **Machinery at 21.10%**, **Electrical Equipment at 14.79%**, **Ground Transportation at 9.88%**, **Building Products at 5.66%**, and **Commercial Services & Supplies at 4.74%**. Top holdings include Caterpillar, GE Aerospace, GE Vernova, RTX, Boeing, Eaton, Union Pacific, Uber, Deere, and Honeywell.

The May outlook for Industrials is **market weight to modest overweight**, with a clear preference for higher-quality growth and policy-supported subsectors. Industrials have better earnings momentum than Healthcare or Consumer Staples, and they offer exposure to several durable themes: AI infrastructure, grid investment, defense spending, commercial aerospace recovery, public infrastructure, and reshoring.

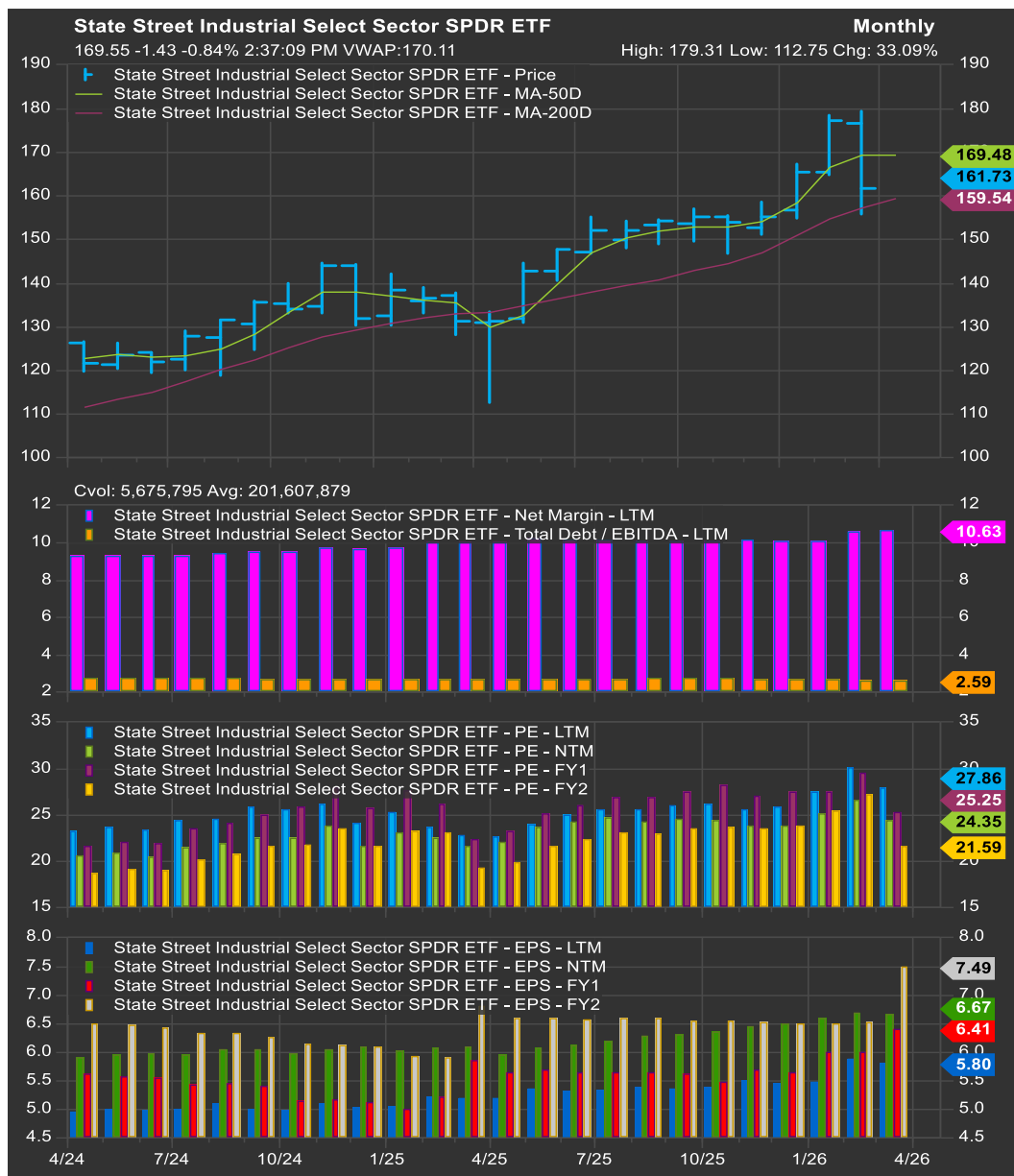
The best-positioned areas are **Electrical Equipment, Aerospace & Defense, Construction & Engineering, and select Machinery**. Electrical Equipment has the strongest secular growth profile because data centers and grid bottlenecks are driving real orders. Aerospace & Defense has both commercial and government-backed demand. Construction & Engineering benefits from power, infrastructure, data centers, and energy projects. Machinery is attractive where exposure is tied to power generation, mining, infrastructure, and energy, but more mixed where agriculture, China, or housing are larger drivers.

The more cautious areas are **Air Freight & Logistics, Airlines, housing-linked Building Products, and tariff-sensitive machinery**. These groups face fuel, margin, volume, and input-cost pressure. Ground Transportation is improving, but it needs more evidence of a sustained freight-cycle recovery before becoming a broad overweight.

Overall, Industrials deserve a **selective overweight within cyclical sector allocations**. The sector is not as defensive as Staples and not as commodity-tied as Energy or Materials, but it has one of the clearest links to business investment and AI infrastructure. The main upside catalysts are continued capital-goods strength, resilient hyperscaler capex, defense-budget progress, aerospace execution, and improving freight volumes. The main downside risks are a renewed rate shock, tariff-driven margin pressure, higher oil, weaker China demand, or any sign that AI infrastructure spending is being questioned.

We start May long the Industrial Sector with an OVERWEIGHT allocation of 4.93% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Industrial Sector



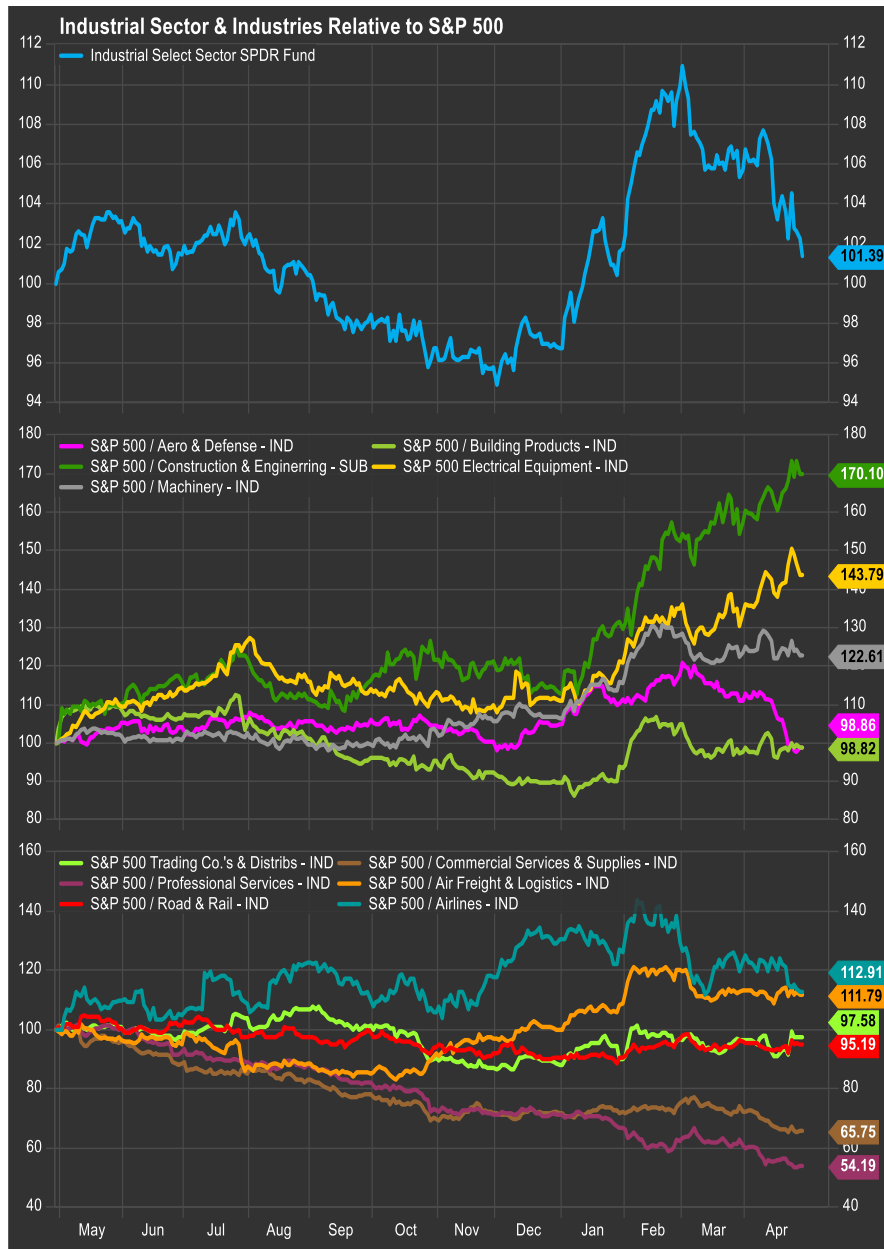
Industrials were one of the stronger earnings-revision stories in April. FactSet's April 24 Earnings Insight showed Industrials reporting the **fourth-highest year-over-year earnings growth rate** among the eleven S&P 500 sectors at **16.7%**. Importantly, that represented a sharp improvement from the **3.3%** expected at the end of March. FactSet noted that GE Vernova was the largest contributor to the sector's earnings-growth improvement, though the company's results included large pre-tax merger and acquisition gains. Excluding GE Vernova, Industrials earnings growth would fall to **6.1%**, which is still positive but much less explosive.

The revenue picture also improved. FactSet said the blended revenue growth rate for Industrials rose to **6.9% from 5.2%** since March 31, helped meaningfully by GE Aerospace's positive revenue surprise. At the industry level, eight of twelve Industrials industries were reporting year-over-year earnings growth, with double-digit growth in **Electrical Equipment, Passenger Airlines, Construction & Engineering, and Aerospace & Defense**.

Company results reinforced the dispersion. GE Aerospace reported orders of **\$17.3 billion**, up 93%, revenue of **\$8.9 billion**, up 34%, and profit of **\$2.4 billion**, up 23%, helped by services growth, spare parts demand, and equipment volume. GE Vernova reported orders of **\$18.3 billion**, up 71% organically, revenue of **\$9.3 billion**, up 16%, and a backlog increase tied to power and electrification demand, including data-center-related equipment orders. Boeing showed operational progress, with Q1 revenue up **14%** to **\$22.2 billion**, 143 commercial deliveries, and a record **\$695 billion** backlog, though free cash flow remained negative.

The fundamental takeaway is that Industrials have credible growth drivers, but not all of them are equal. Aerospace, defense, electrical equipment, power infrastructure, and construction-related names have stronger demand visibility. Freight, airlines, housing-linked building products, and tariff-exposed machinery are more mixed.

Industry/Sub-Industry Performance and Breadth: Industrial Sector



4/29/2026

| Industry / Group | Approx. XLI Weight | April Performance Trend | Fundamental Read | Macro / Policy Sensitivity |
|---|--------------------|---|--|---|
| Aerospace & Defense | 23.7% | Strong leadership pocket | Strong backlog and long-cycle demand, though supply-chain execution and program cost control remain critical. | Sensitive to defense budgets, Federal Aviation Administration (FAA) oversight, aircraft certification, geopolitical risk, supply chains, labor, and titanium/aluminum inputs. |
| Machinery | 21.1% | Constructive but uneven | High-quality machinery remains investable, but the group is cyclical and sensitive to order timing. Caterpillar's April 30 report is a key checkpoint. | Sensitive to capital expenditure, commodity prices, construction, tariffs, dealer inventories, China demand, and farmer income. |
| Electrical Equipment | 14.8% | Best structural growth theme inside Industrials | Strongest long-term growth profile in the sector, supported by power scarcity, grid bottlenecks, and hyperscaler demand. | Sensitive to data-center spending, utility capital expenditure, grid regulation, copper and steel costs, transformer supply, and energy policy. |
| Ground Transportation | 9.9% | Improving, but not clean leadership | Rails have good margin potential if volume improves, but freight demand is still uneven. | Sensitive to industrial production, fuel, labor, Surface Transportation Board regulation, rail mergers, and truck/rail substitution. |
| Building Products | 5.7% | Mixed | Better in commercial, infrastructure, and repair/remodel channels than in rate-sensitive housing. | Sensitive to mortgage rates, construction spending, lumber, tariffs, renovation demand, and building codes. |
| Commercial Services & Supplies | 4.7% | Stable but lower beta | Defensive quality within Industrials, but earnings upside is more modest than power, aerospace, or machinery. | Sensitive to labor costs, wage inflation, municipal budgets, corporate outsourcing, and fuel. |
| Industrial Conglomerates | 4.0% | Constructive where portfolios are tied to aerospace and automation | Quality varies by company; conglomerates need clean portfolio narratives and margin improvement. | Sensitive to global industrial production, foreign exchange, tariffs, restructuring execution, and end-market mix. |
| Professional Services | 3.9% | Steady | More stable than traditional cyclicals, but upside depends on corporate confidence and hiring. | Sensitive to business confidence, employment, wage costs, government contracts, and technology spending. |
| Air Freight & Logistics | 3.8% | Weakest major industry signal | Freight and parcel remain in transition; cost actions help, but volume recovery is incomplete. | Sensitive to fuel, e-commerce volumes, global trade, labor contracts, Amazon exposure, and freight-cycle recovery. |
| Construction & Engineering | 3.6% | Strong fundamental backdrop | One of the cleaner long-cycle growth areas, though labor and input costs are still challenges. | Sensitive to public infrastructure funding, permitting, data-center capex, energy projects, labor availability, and steel/concrete costs. |
| Trading Companies & Distributors | 3.1% | Stable to constructive | Attractive if industrial activity improves; margin depends on pricing discipline and inventory management. | Sensitive to manufacturing production, commodity prices, inventory cycles, and small-business demand. |
| Airlines | 1.7% | Mixed and fuel-sensitive | Demand can hold up, but margins are vulnerable when fuel prices rise sharply. | Sensitive to jet fuel, labor, aircraft availability, geopolitical disruption, consumer demand, and FAA constraints. |

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 |
|--------|------------------------------------|------------------|-----------|---------------------------------|----------------|-------------------------------|------------------------|-------------------------------|
| URI | United Rentals, Inc. | Bullish Reversal | 60,311.1 | 0.93 | 9.0 | 0.59 | 2.06 | 18.9 |
| GEV | GE Vernova Inc. | Uptrend | 292,617.3 | 2.00 | 47.2 | 0.14 | 1.20 | 15.5 |
| FX | Comfort Systems USA, Inc. | Uptrend | 60,520.4 | 1.80 | 40.6 | 0.13 | 1.84 | 13.6 |
| MAS | Masco Corporation | Consolidation | 14,996.9 | 0.80 | 9.8 | 1.22 | 1.77 | 12.8 |
| CMI | Cummins Inc. | Uptrend | 88,764.4 | 1.09 | 18.1 | 0.93 | 1.51 | 10.6 |
| JBHT | J.B. Hunt Transport Services, Inc. | Bullish Reversal | 23,696.4 | 1.51 | 22.6 | 0.51 | 1.21 | 10.1 |
| VRT | Vertiv Holdings Co. Class A | Uptrend | 117,164.7 | 2.04 | 41.4 | 0.05 | 1.53 | 9.3 |
| BA | Boeing Company | Consolidation | 181,877.1 | 7.68 | -1.1 | 0.01 | 1.25 | 8.9 |
| EME | EMCOR Group, Inc. | Uptrend | 38,466.3 | 1.40 | 12.0 | 0.12 | 1.58 | 5.8 |
| CAT | Caterpillar Inc. | Uptrend | 380,544.6 | 1.57 | 24.6 | 0.54 | 1.78 | 5.7 |
| ODFL | Old Dominion Freight Line, Inc. | Bullish Reversal | 46,192.9 | 1.95 | 26.5 | 0.38 | 1.23 | 5.6 |

Industrials have been one of the key conduits of the AI infrastructure trade and Electrical and C&E names continue to carry tailwinds.

Machinery names like CAT and CMI are also strong while transports have improved in the near-term as well

On the negative side of the ledger, Aero/Defense names have slumped in the near-term with the majority of large cap. names in retracement.

| 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 |
|--------|-------------------------------------|---------------|-----------|---------------------------------|----------------|-------------------------------|------------------------|-------------------------------|
| LMT | Lockheed Martin Corporation | Retracement | 118,115.4 | 0.79 | -16.4 | 1.95 | 0.25 | -29.0 |
| NOC | Northrop Grumman Corp. | Consolidation | 82,069.8 | 0.96 | -18.6 | 1.19 | 0.01 | -27.1 |
| GD | General Dynamics Corporation | Consolidation | 84,958.9 | 0.88 | -16.1 | 1.45 | 0.27 | -21.3 |
| RTX | RTX Corporation | Consolidation | 236,585.3 | 1.17 | -14.0 | 1.17 | 0.59 | -19.6 |
| LDOS | Leidos Holdings, Inc. | Retracement | 18,404.5 | 0.55 | -23.0 | 0.85 | 0.72 | -18.2 |
| AXON | Axon Enterprise Inc | Retracement | 32,737.3 | 2.23 | -29.7 | 0.00 | 1.82 | -17.7 |
| HII | Huntington Ingalls Industries, Inc. | Consolidation | 14,230.9 | 0.94 | -10.4 | 1.11 | 0.85 | -17.5 |
| LHX | L3Harris Technologies Inc | Consolidation | 60,679.9 | 1.26 | -9.4 | 1.10 | 0.78 | -17.4 |
| ALLE | Allegion Public Limited Company | Consolidation | 11,847.1 | 0.73 | -18.8 | 1.11 | 1.15 | -16.8 |
| HON | Honeywell International Inc. | Consolidation | 134,923.8 | 0.93 | -6.5 | 1.58 | 0.84 | -16.7 |
| VRSK | Verisk Analytics, Inc. | Downtrend | 23,142.6 | 1.06 | -21.1 | 0.79 | 0.63 | -15.5 |

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

The macro and policy backdrop for Industrials was more constructive than for defensive sectors such as Consumer Staples or Healthcare, but it was also more complicated. The sector benefited from improving business investment, a return to manufacturing expansion, AI infrastructure spending, defense-budget upside, and resilient aerospace demand. At the same time, tariffs, energy inflation, higher rates, and freight-cycle uncertainty created real headwinds.

Manufacturing cycle: improving demand, but input costs are rising

Manufacturing data improved into April. The Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) remained in expansion, while new orders expanded for a third straight month at **53.5** and production rose to **55.1**. That is supportive for machinery, electrical equipment, industrial distributors, rails, and factory-automation exposure. However, the ISM Prices Index jumped to **78.3**, its highest level since June 2022, which signals a renewed cost squeeze for manufacturers.

This is the core Industrials tension: demand is improving, but the cost environment is not benign. Companies with pricing power, backlog visibility, and high aftermarket content should be able to defend margins. Companies with fixed-price contracts, tariff exposure, or heavy raw-material intensity may struggle if input costs rise faster than revenue.

Capital spending and AI infrastructure: the strongest secular support

The best macro signal for Industrials was the rebound in capital-goods demand. Reuters reported that non-defense capital goods orders excluding aircraft, a key proxy for business investment, jumped **3.3% in March**, the largest increase since June 2020, while shipments rose **1.2%**. The strength was tied to artificial intelligence (AI) investment and data-center construction, with gains in machinery, electrical equipment, appliances, and components.

This directly supports the Industrials bull case. AI capex is no longer just a semiconductor theme. It is also a power, cooling, electrical equipment, construction, backup-generation, grid, building-products, and industrial-services theme. Reuters separately reported that Microsoft, Alphabet, Amazon, and Meta are expected to spend more than **\$600 billion** this year on data centers and AI infrastructure, making hyperscaler capital spending a major swing factor for the market and for AI-linked industrial suppliers.

GE Vernova's quarter captured this theme well. The company said Gas Power equipment backlog and slot reservation agreements grew from **83 gigawatts to 100 gigawatts**, with expectations for at least **110 gigawatts** by year-end 2026. It also noted that its Electrification segment booked **\$2.4 billion** of equipment orders for data centers in the quarter, more than all of last year. That is why Electrical Equipment deserves the strongest overweight inside Industrials.

Power infrastructure and grid investment

Data centers are forcing utilities and customers to accelerate power investment. Reuters reported that

Entergy raised its four-year capital-spending plan by about **33% to \$57 billion**, largely to support Meta data centers in Louisiana, including seven new gas-fired power plants totaling more than **5.2 gigawatts**. Entergy also said it has an additional **7 to 12 gigawatts** of potential data-center customers interested in connecting to its system.

For Industrials, this creates a multi-year demand tailwind for electrical equipment, transformers, turbines, switchgear, grid software, engineering services, construction firms, and power-generation suppliers. The risk is that grid constraints, permitting delays, public backlash over who pays for data-center power infrastructure, or a slowdown in hyperscaler spending could interrupt the cycle.

Defense policy: a major support for Aerospace & Defense

Defense policy became a more powerful Industrials catalyst in April. Reuters reported that the Pentagon detailed President Trump's proposed **\$1.5 trillion fiscal 2027 defense budget**, including more than **\$65 billion** for shipbuilding, **\$102 billion** for aircraft procurement and research and development, and **\$53.6 billion** for autonomous drone platforms and warzone logistics. The plan also prioritizes missile defense, drones, AI, data infrastructure, munitions, and the defense industrial base.

This is highly supportive for Aerospace & Defense, particularly shipbuilding, missile defense, munitions, drones, military electronics, propulsion, and aerospace systems. General Dynamics provided a timely example, raising its 2026 profit outlook after stronger marine and aerospace results, with marine systems revenue up **21%** on Virginia- and Columbia-class submarine production.

The risk is political execution. A proposed budget is not the same as appropriated spending. Large increases can face congressional resistance, and the timing of defense outlays can be slow. Still, the direction of policy clearly favors defense-industrial capacity, which supports an overweight stance on Aerospace & Defense.

Commercial aerospace: backlog is strong, but execution still matters

Commercial aerospace remains another core sector support. GE Aerospace's first-quarter results showed strong services and spare-parts demand, with orders up **93%**, revenue up **34%**, and services up **39%**. Boeing also showed progress: revenue rose **14%**, commercial deliveries increased to **143**, and total backlog reached a record **\$695 billion**, including more than **6,100 commercial airplanes**.

However, aerospace is not risk-free. Boeing still reported negative free cash flow, and production ramp-ups remain tied to quality control, supplier stability, labor availability, and Federal Aviation Administration (FAA) certification timelines. Airlines also face higher jet fuel costs, which can reduce appetite for capacity growth even when aircraft backlogs remain large. The best exposure remains aircraft engines, aftermarket services, defense aerospace, and suppliers with strong pricing power.

Economic & Policy Drivers: Industrial Sector (Cont'd)

Tariffs and trade policy: supportive for reshoring, painful for input costs

Trade policy is a major two-sided driver. U.S. Customs and Border Protection (CBP) guidance said the April 2 proclamation imposes **10–50% additional duties** on the full customs value of certain steel, aluminum, copper articles, and derivative products from all countries, effective April 6. This can support domestic producers and reshoring narratives, but it raises costs for machinery, building products, aerospace suppliers, electrical equipment, trucking equipment, and construction firms.

The policy backdrop may become even broader. The Department of Commerce has an active Section 232 investigation into imports of robotics and industrial machinery, including robots, computer numerical control (CNC) machining centers, turning and milling machines, grinding and deburring equipment, industrial stamping and pressing machines, automatic tool changers, and related equipment.

The investment implication is mixed. Tariffs can support U.S. manufacturing and reshoring beneficiaries, but they can also compress margins and disrupt supply chains. The winners are companies that can pass through costs, source domestically, or benefit from reshoring. The losers are companies with global supply chains, fixed-price contracts, or high metal intensity.

Construction, infrastructure and public spending

Construction remains an important support, but the signal is uneven. Census data showed January construction spending at a seasonally adjusted annual rate of **\$2.19 trillion**, 1.0% above January 2025. Public construction rose 0.6% from December, and highway construction increased **3.3%**. However, private nonresidential construction was slightly lower month-over-month, and the February and March construction-spending releases were delayed until May 7.

For Industrials, this argues for a selective approach. Infrastructure, highways, power, grid, energy, and data centers remain constructive. Housing-linked building products and do-it-yourself demand are less compelling because mortgage rates, tariffs, and affordability remain headwinds. Construction & Engineering should outperform Building Products where backlog is tied to public infrastructure and power-related projects rather than residential turnover.

Transportation and freight: improving rails, weaker parcel

Transportation remains mixed. The Association of American Railroads said March carloads rose **1.7% year-over-year**, the third straight gain, while intermodal increased **1.4%**, its second

consecutive increase. The group also noted that manufacturing had improved, with the Purchasing Managers' Index above 50 for three straight months. That supports rails and ground transportation as early freight-cycle beneficiaries.

Parcel and air freight are weaker. UPS reported Q1 consolidated revenue of **\$21.2 billion**, adjusted diluted earnings per share of **\$1.07**, and reaffirmed full-year guidance, but U.S. domestic revenue declined **2.3%** because of lower volume, and adjusted domestic operating margin fell to **4.0%** from **7.0%** a year earlier. That keeps Air Freight & Logistics in an underweight bucket until volume and margins clearly recover.

Rates, oil and the Fed

Higher-for-longer rates are not uniformly bad for Industrials, but they change leadership. Higher rates weigh on housing, building products, airlines, and highly leveraged business models. They also raise the cost of financing large capital projects. However, if rates stay high because nominal growth and capital spending remain firm, Industrials can still outperform.

Oil is also a two-sided driver. Higher oil supports Energy-related machinery and some upstream capital expenditure, but it hurts airlines, parcel companies, freight, logistics, chemicals, and consumer-sensitive end markets. For May, elevated fuel prices argue for caution on Airlines and Air Freight & Logistics, while supporting companies tied to energy infrastructure, power generation, and industrial services.

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.