

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

Monthly Insights: June Outlook

Industrial Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Industrial Sector



The S&P 500 Industrials sector should be an **overweight** heading into June. Within the broader U.S. large-cap sector framework, Industrials are the highest-conviction complement to Technology because they capture the **physical infrastructure layer** behind the current bull market: data centers, grid investment, power equipment, aerospace recovery, defense spending, automation, reshoring, logistics and public/nonresidential construction.

Using VIS as the reference ETF, the sector's technical setup is materially more attractive than Technology's. In the 5/28 return and flow data you provided, VIS is up only **0.60% over one month** and down **1.75% over three months**, but still up **17.59% over six months**. Its **52.6 RSI** is neutral, which means the sector is not technically stretched even though the intermediate trend remains constructive. Flows are supportive but not crowded, with approximately **\$16 million of one-month inflows**, **\$514 million of YTD inflows** and **\$776 million of one-year inflows**. That combination — positive long-term trend, neutral RSI and improving investor sponsorship — supports adding exposure before a broader market rotation into Industrials becomes more consensus.

The first major event shaping the Industrials narrative was the Q1 earnings season. The broader S&P 500 earnings backdrop was strong, but Industrials had a particularly important revision story. FactSet reported that the blended earnings-growth rate for the Industrials sector improved to **20.9% from 3.1%** since the end of Q1, helped significantly by GE Vernova's positive EPS surprise. FactSet also noted that the sector's blended revenue-growth rate improved to **8.1% from 5.8%**, with Caterpillar and GE Aerospace among the contributors to positive revenue revisions. This was important because it changed the market's perception of Industrials from "late-cycle cyclicals" to "earnings revision beneficiaries tied to power, aerospace and capital spending."

The second narrative was the broadening of AI from semiconductors into physical infrastructure. The market continues to reward AI compute, but investors are increasingly focused on the bottlenecks required to build and power that compute: turbines, switchgear, transformers, substations, electrical components, cooling, construction labor, engineering, backup generation, rail/logistics and grid interconnection. EIA's May outlook forecast U.S. electricity demand rising **1.3% in 2026** to almost **4,250 billion kWh**, followed by another **3.1% increase in 2027**, with growth led by the commercial sector, which includes data centers. That supports the Industrials subgroups tied to electrical equipment, heavy electrical equipment, construction and engineering, environmental services and power infrastructure.

The third narrative was manufacturing resilience, but with a clear inflation warning. ISM manufacturing remained in expansion at **52.7** in April, while new orders rose to **54.1** and four of the six largest manufacturing industries reported increased new orders, including Transportation Equipment, Computer & Electronic Products and Machinery. That is supportive for Industrials demand. However, the ISM Prices Index surged to **84.6**, reflecting tariff, steel, aluminum, petroleum and supply-chain pressures. Industrials can work in this environment, but only if companies have pricing power, backlog protection, service revenue or exposure to secular capex rather than low-margin commodity manufacturing.

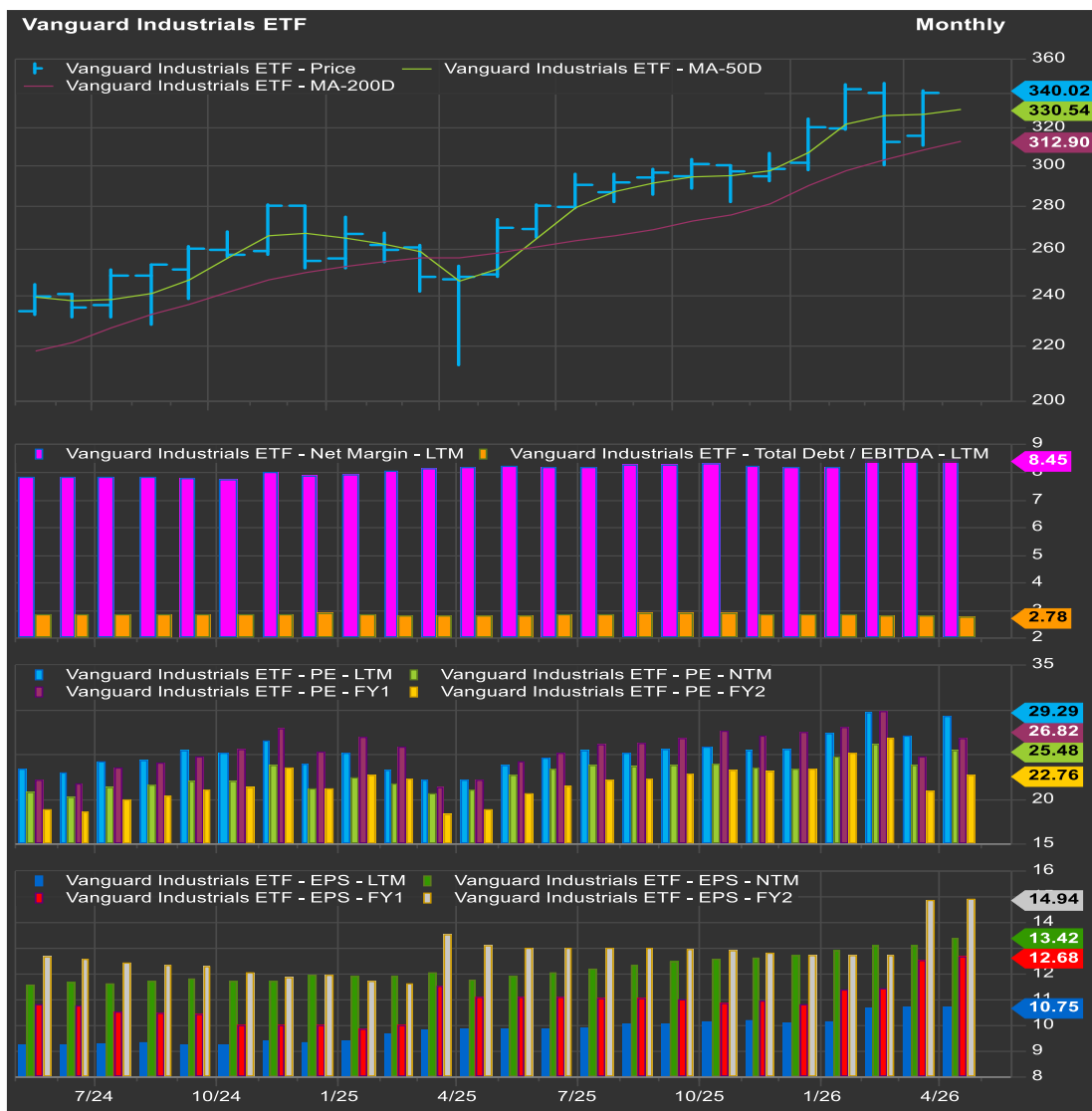
The June outlook for Industrials is **constructive**, and the sector should be an **overweight**. The best case is that the market continues to broaden from AI semiconductors and software into the physical infrastructure required to support AI: power generation, grid equipment, data-center construction, cooling, electrical systems and engineering. Industrials are one of the clearest ways to express that broadening without adding more exposure to already-extended mega-cap Technology.

The preferred exposures are Electrical Components & Equipment, Heavy Electrical Equipment, Aerospace & Defense, Construction & Engineering, high-quality Machinery and select industrial services. These groups have the strongest combination of backlog visibility, pricing power, policy support and secular demand. The areas requiring more caution are Building Products tied to weak housing turnover, Rail Transportation if freight volumes soften, and globally exposed Machinery if the dollar strengthens or China demand disappoints.

Bottom line: Industrials are one of the most compelling June sector overweights. Technology remains the cleanest earnings-growth engine, but Industrials offer the best broadening expression of the same market leadership theme. In a bull market increasingly driven by AI infrastructure, power scarcity, defense spending and domestic capex, VIS provides a diversified and less technically stretched way to own the physical buildout

We start June long the Industrial Sector with an OVERWEIGHT allocation of 5.93% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Industrial Sector



Ticker	Price	1D	1W	1M
VIS	\$336.09	+0.83%	+1.00%	+0.60%

The VIS portfolio structure is well aligned with the June sector thesis. Vanguard's Industrials ETF held **386 stocks** as of March 31, with a **28.6x P/E**, **5.6x P/B**, **20.2% return on equity** and **15.3% earnings-growth rate**. Those metrics are not cheap, but they are reasonable for a sector with improving earnings revisions, rising infrastructure exposure and a higher-quality mix than legacy Industrials indices.

The subindustry mix is the most important part of the fundamental case. Aerospace & Defense is the largest sleeve at **23.6%**, followed by Industrial Machinery & Supplies at **9.3%**, Construction Machinery & Heavy Transportation Equipment at **8.6%**, Electrical Components & Equipment at **8.2%**, Building Products at **5.9%**, Construction & Engineering at **4.7%**, Trading Companies & Distributors at **4.6%**, Rail Transportation at **4.4%**, Heavy Electrical Equipment at **4.2%** and Environmental & Facilities Services at **3.9%**. This is a high-quality mix for the current market because the strongest pockets are linked to secular demand rather than purely short-cycle industrial production.

The top holdings reinforce the point. Caterpillar gives exposure to construction, mining, infrastructure and energy equipment. GE and GE Vernova connect the portfolio to aerospace engines, gas turbines, grid equipment and power infrastructure. RTX, Lockheed Martin and Boeing add defense and aerospace production. Deere provides agricultural and machinery exposure. Honeywell, Eaton and other electrical/equipment names capture automation, electrification and industrial productivity. The top ten holdings are only **30.5%** of VIS assets, which means the sector offers meaningful breadth and is less dependent on one or two mega-cap stocks than Technology or Communication Services.

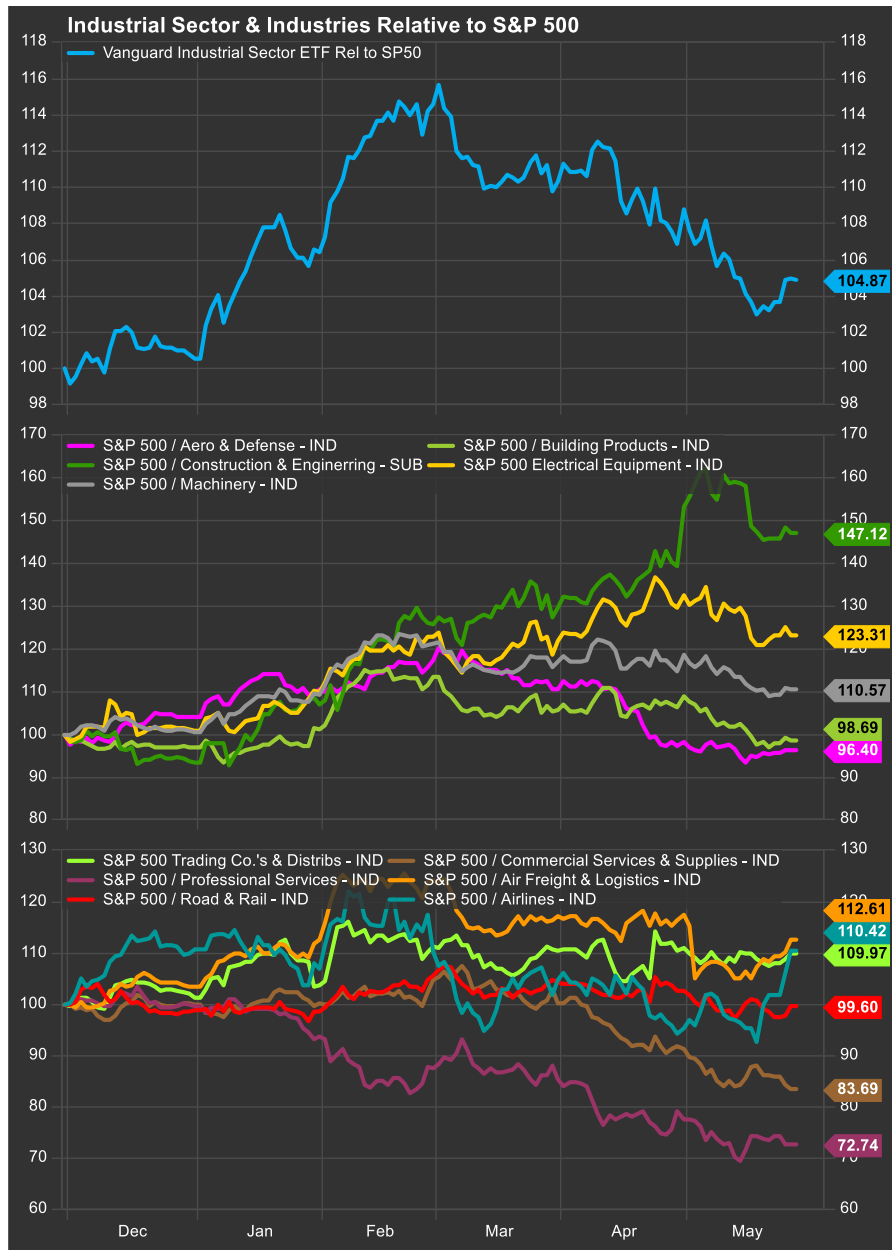
The strongest internal opportunity is **electrification and power equipment**. Data centers and AI workloads are straining the grid, and the market is increasingly recognizing power availability as one of the key constraints on AI growth. This benefits electrical components, heavy electrical equipment, engineering and construction contractors, and selected industrial conglomerates with power exposure. The key beneficiaries are companies with backlog visibility, pricing power and scarcity value in grid equipment.

The second-best internal opportunity is **Aerospace & Defense**. Commercial aerospace benefits from production normalization, large backlogs and aftermarket demand. Defense benefits from geopolitics, munitions replenishment, shipbuilding, aircraft modernization, missile defense, space and autonomous systems. This is a multi-year demand story, but it remains operationally constrained by supply chains, labor availability and production discipline. The sector's upside depends not just on orders, but on converting orders into deliveries and margins.

The third internal opportunity is **construction and engineering tied to nonresidential capex**. Dodge Construction Network reported that total construction starts rose **9.0% in April** to a seasonally adjusted annual rate of **\$1.33 trillion**, with nonresidential building starts up **18.6%**. Census data also showed March construction spending at a seasonally adjusted annual rate of **\$2.185 trillion**, up **0.6% from February** and **1.6% from March 2025**. The issue is mix: data centers, infrastructure, energy, manufacturing and public projects are better than housing-linked building products.

3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
-1.75%	+17.59%	52.6	\$16.1M	\$514.4M	\$775.9M

Industry/Sub-Industry Performance and Breadth: Industrial Sector



5/28/2026

Top 10/Bottom 10 Stock Level Performers: Industrial Sector

Symbol	Name	GICS Sector 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.	Industrials	Bullish Reversal	16,514.4	1.36	29.6	0.00	2.60	22.4
UAL	United Airlines Holdings, Inc.	Industrials	Consolidation	36,553.0	0.47	3.4	0.00	1.41	17.6
DAL	Delta Air Lines, Inc.	Industrials	Bullish Reversal	53,742.1	0.59	15.6	0.64	1.69	15.3
PWR	Quanta Services, Inc.	Industrials	Uptrend	110,087.1	2.33	23.1	0.04	1.82	10.2
LUV	Southwest Airlines Co.	Industrials	Consolidation	21,349.6	0.60	-4.5	1.40	1.38	9.4
ROK	Rockwell Automation, Inc.	Industrials	Bullish Reversal	50,749.8	1.55	4.7	0.85	1.68	7.5
GE	GE Aerospace	Industrials	Uptrend	330,957.0	1.88	-7.2	0.40	1.07	6.5
ADP	Automatic Data Processing, Inc.	Industrials	Support	87,002.2	0.85	-6.9	2.15	0.68	5.4
HON	Honeywell International Inc.	Industrials	Consolidation	146,722.4	1.01	-3.1	1.46	0.60	4.9
CAT	Caterpillar Inc.	Industrials	Uptrend	419,147.4	1.61	17.6	0.50	1.88	4.8

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

Power generation has seen near-term inflows with names like PWR and GNRC benefitting

Machinery names have cracked and Aero/Defense names have also seen near-term selling.

Symbol	Name	GICS Sector 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
PNR	Pentair plc	Industrials	Retracement	11,708.3	0.62	-34.6	1.10	1.23	-26.4
IR	Ingersoll Rand Inc.	Industrials	Retracement	27,769.3	0.92	-27.7	0.05	1.25	-20.5
BLDR	Builders FirstSource, Inc.	Industrials	Support	8,332.7	0.73	-31.6	0.00	1.85	-18.8
HUBB	Hubbell Incorporated	Industrials	Consolidation	25,588.6	1.12	-12.3	0.87	1.28	-17.7
PH	Parker-Hannifin Corporation	Industrials	Uptrend	108,015.7	1.20	-19.6	0.61	1.34	-16.8
ALLE	Allegion Public Limited Company	Industrials	Downtrend	11,276.5	0.68	-25.2	1.17	0.85	-16.5
PCAR	PACCAR Inc	Industrials	Consolidation	59,080.9	0.87	-15.5	2.04	1.24	-16.4
HII	Huntington Ingalls Industries, Inc.	Industrials	Consolidation	12,513.1	0.82	-25.9	1.27	0.60	-16.3
XYL	Xylem Inc.	Industrials	Downtrend	26,170.1	0.91	-23.6	1.04	1.17	-15.8
AOS	A. O. Smith Corporation	Industrials	Downtrend	6,495.1	0.70	-26.4	1.82	0.74	-14.7

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 setup is favorable for Industrials because it is driven by **nominal growth plus capital spending**, not by a purely consumer-led expansion. The sector benefits when business investment, public infrastructure, defense, grid demand and data-center construction remain strong even if the consumer slows. That is the current backdrop. Core capital goods orders were soft in April, but shipments continued to rise, aircraft orders surged, and the composition of orders showed strength in categories directly relevant to industrial capex.

Inflation is a two-sided force. Industrials with pricing power, backlog escalators and service revenue can benefit from nominal growth, but companies with fixed-price contracts or high exposure to steel, aluminum, copper, energy and labor can see margins compressed. The ISM Prices Index at **84.6** is therefore one of the most important data points for June. It supports the case for owning high-quality Industrials, but it argues against broad exposure to lower-margin manufacturers.

Policy is unusually supportive. Defense spending, grid modernization, transmission, permitting reform, reshoring, domestic manufacturing incentives and infrastructure remain structural positives. The FY2027 defense request and congressional focus on industrial-base capacity are particularly important because they can extend visibility for aerospace, defense electronics, shipbuilding, munitions and related suppliers. At the same time, tariffs are a real margin risk. They may support domestic production and reshoring economics, but they raise input costs and can disrupt supply chains.

Rates remain the main macro constraint. The Fed has acknowledged that inflation remains elevated partly because of higher global energy prices and Middle East uncertainty, which limits the scope for an easy monetary-policy pivot. Industrials can withstand a higher-rate backdrop better than classic defensives if earnings and capex remain strong, but higher rates can still pressure construction, equipment financing, working capital and project economics.

Other Important dynamics

April durable-goods report. Headline durable goods orders rose **7.9%**, driven by a **165.9% surge in nondefense aircraft orders**, while core capital goods orders fell **1.1%** after strong prior gains. The details were more constructive than the headline core order decline suggests: Reuters reported that orders rose for electrical equipment, appliances, machinery, primary metals and fabricated metal products, and that AI-related investment continues to support manufacturing resilience. For Industrials, this is a mixed but positive read: generic equipment demand cooled in April, but the strongest categories overlap with the AI infrastructure and physical-capex thesis.

Aerospace also became a more visible support. Boeing-related data were a major driver of the April durable-goods surge, and Reuters separately reported that Boeing planned to increase 737 production from **42 to 47 aircraft per month** after consultation with the FAA, with a target of **52 per month** early next year. Reuters also reported a new China commitment to purchase **200 Boeing aircraft**, described by Boeing's CEO as an initial tranche with more potential to follow. For Industrials, the aerospace recovery matters because Aerospace & Defense is the largest VIS subindustry and because higher aircraft production supports suppliers across engines, avionics, components, fasteners, materials and aftermarket services.

Defense policy was another important May catalyst. The Administration's FY2027 defense request proposed a historically large defense topline, and official budget materials emphasized rebuilding and expanding the defense industrial base through investments in new capabilities. Congressional activity also reinforced this theme, with the House Armed Services Committee advancing a defense policy bill focused on industrial-base challenges and multiyear procurement for critical munitions, the F-35 and Arleigh Burke destroyers. For Industrials, this supports defense primes, aerospace suppliers, shipbuilding, munitions, electronics, engineering and industrial services.

Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- **Reuters: U.S. core capital goods orders, April 2026** — capital spending, machinery, electrical equipment, primary metals and fabricated-products demand.
- **Reuters: Boeing increasing 737 production** — commercial aerospace production and supplier-chain recovery narrative.
- **U.S. Department of War: FY2027 defense budget release** — defense-budget, industrial-base and national-security capex framework.
- **Dodge Construction Network: April construction starts** — nonresidential construction, infrastructure and project-spending backdrop.
- **EIA Short-Term Energy Outlook** — electricity-demand growth and data-center-driven load growth relevant to electrical equipment, grid and power infrastructure.
- **ISM Manufacturing PMI, April 2026** — manufacturing activity, new orders and input-cost pressure.

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.