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Monthly Insights: July Outlook

Industrial Sector

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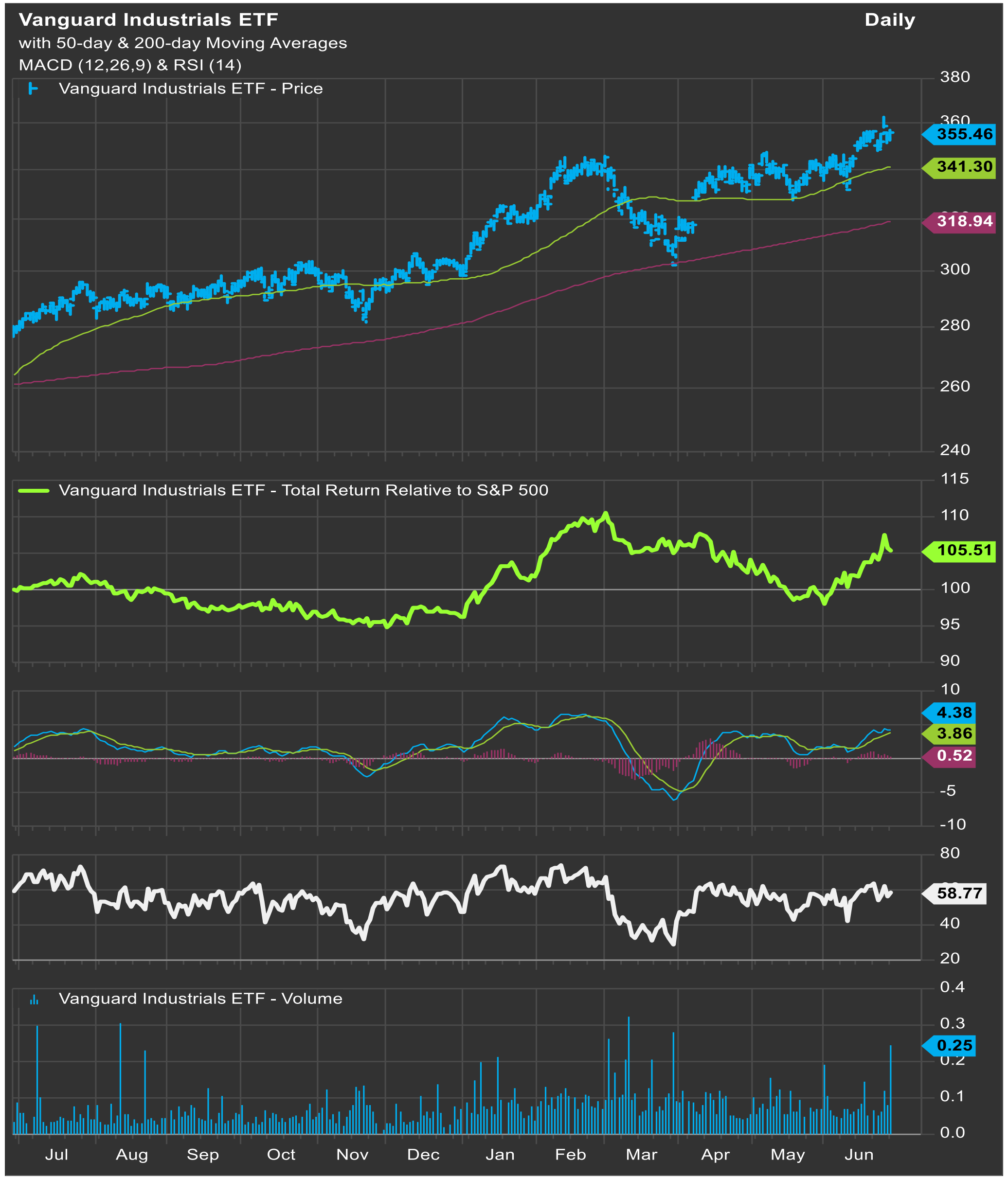
Sector Price Action & Performance Review: Industrial Sector



Industrials enter July as one of the cleaner **broadening trades** in the S&P 500. VIS gained **3.0%** over the past month versus a **2.9%** decline for the S&P 500 proxy, and the sector has outperformed over six months with a **16.2%** gain. The message is not that every Industrial group is working; it is that the sector has more ways to win than the mega-cap AI trade. The best-performing industries were tied to lower fuel costs, capital spending, infrastructure, power demand, machinery orders and building-product recovery.

The strongest stock-level performance came from **Passenger Airlines**, **Building Products** and **Machinery**. Southwest and United were the top two Industrials performers as falling oil and jet-fuel relief improved the margin narrative. Reuters noted that airlines could use lower fuel bills to rebuild margins rather than immediately cut fares, which fits the sharp rebound in airline equities.

The Machinery signal is also important. Stanley Black & Decker, Ingersoll Rand, Deere, Parker-Hannifin and Caterpillar were all strong 1-month excess return performers. This lines up with the macro data: ISM said May new orders expanded to **56.8**, production rose to **54.3**, and machinery was among the large manufacturing industries reporting stronger new orders, production and employment.

The weaker industry groups were **Professional Services**, **Construction & Engineering** and select **Aerospace & Defense** names. Construction & Engineering is the most interesting: Quanta and EMCOR remain in uptrends, but both were among the bottom 10 Industrials performers over the past month. That looks more like consolidation after a major AI/power-infrastructure run than fundamental breakdown. The caution is valuation: Construction & Engineering has the highest average valuation multiple in the Industrial stock file, and its dividend support is minimal.

July Outlook

The July outlook for Industrials is **constructive but valuation-sensitive**. The model's score is only modestly positive, but the industry-level evidence is compelling. Industrials have outperformed the S&P 500 over one month and six months, and the sector has multiple leadership channels: machinery, electrical equipment, aerospace supply chains, building products, logistics and airline margin recovery.

The best July opportunities are in **Machinery, Building Products and Electrical Equipment**. Machinery has the best macro confirmation from ISM and core capital goods. Building Products has strong stock-level performance and exposure to HVAC, building efficiency and thermal management. Electrical Equipment remains a long-cycle beneficiary of grid investment, power-demand growth, data centers and electrification.

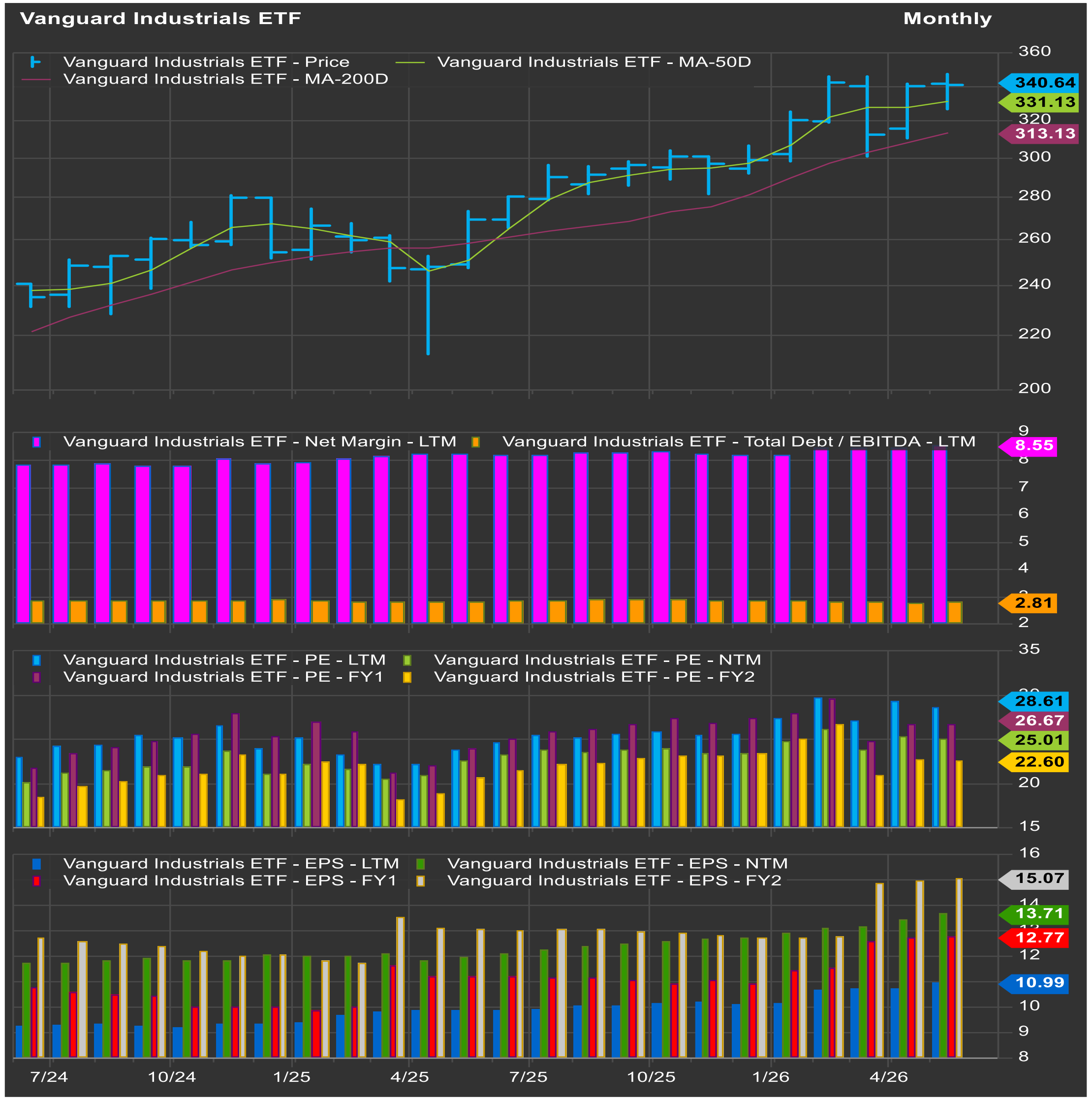
Upside case: manufacturing new orders stay firm, core capital goods remain strong, oil stays lower, aerospace deliveries improve and Q2 earnings confirm order/backlog strength. In that scenario, VIS can continue to outperform and the sector can broaden beyond Technology-led AI.

Downside case: rates rise again, input-price pressure stays elevated, commodity volatility returns, or Q2 earnings show margin compression despite solid revenues. In that scenario, the most expensive Industrial groups — Construction & Engineering, Electrical Equipment and high-multiple Aerospace & Defense — would be most vulnerable.

Bottom line: Industrials remain one of the better July broadening exposures. The sector is not cheap, and the model score is not a top-tier signal, but industry-level price action and macro data support staying constructive. Favor Machinery, Building Products, Electrical Equipment and select commercial aerospace; be more selective in defense contractors, Professional Services and overextended power-construction winners.

We start July long the Industrial Sector with an OVERWEIGHT allocation of 3.23% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Industrial Sector



The fundamental picture is solid but valuation-sensitive. FactSet's June 26 Earnings Insight shows Industrials expected to post **10.0%** year-over-year Q2 earnings growth, down from **11.7%** at the start of the quarter, and **7.8%** revenue growth, up from **6.2%** at the start of the quarter. That combination says revenues are still improving, but margin and cost assumptions are not uniformly getting better.

Valuation is the main constraint. FactSet shows Industrials with the highest forward 12-month P/E ratio among all S&P 500 sectors at **26.0x**, above its five-year average of **20.9x** and ten-year average of **19.8x**. FactSet also notes that Industrials have the smallest bottom-up target-price upside of any S&P 500 sector at **10.2%**, which is a warning that good fundamentals are already well recognized in prices.

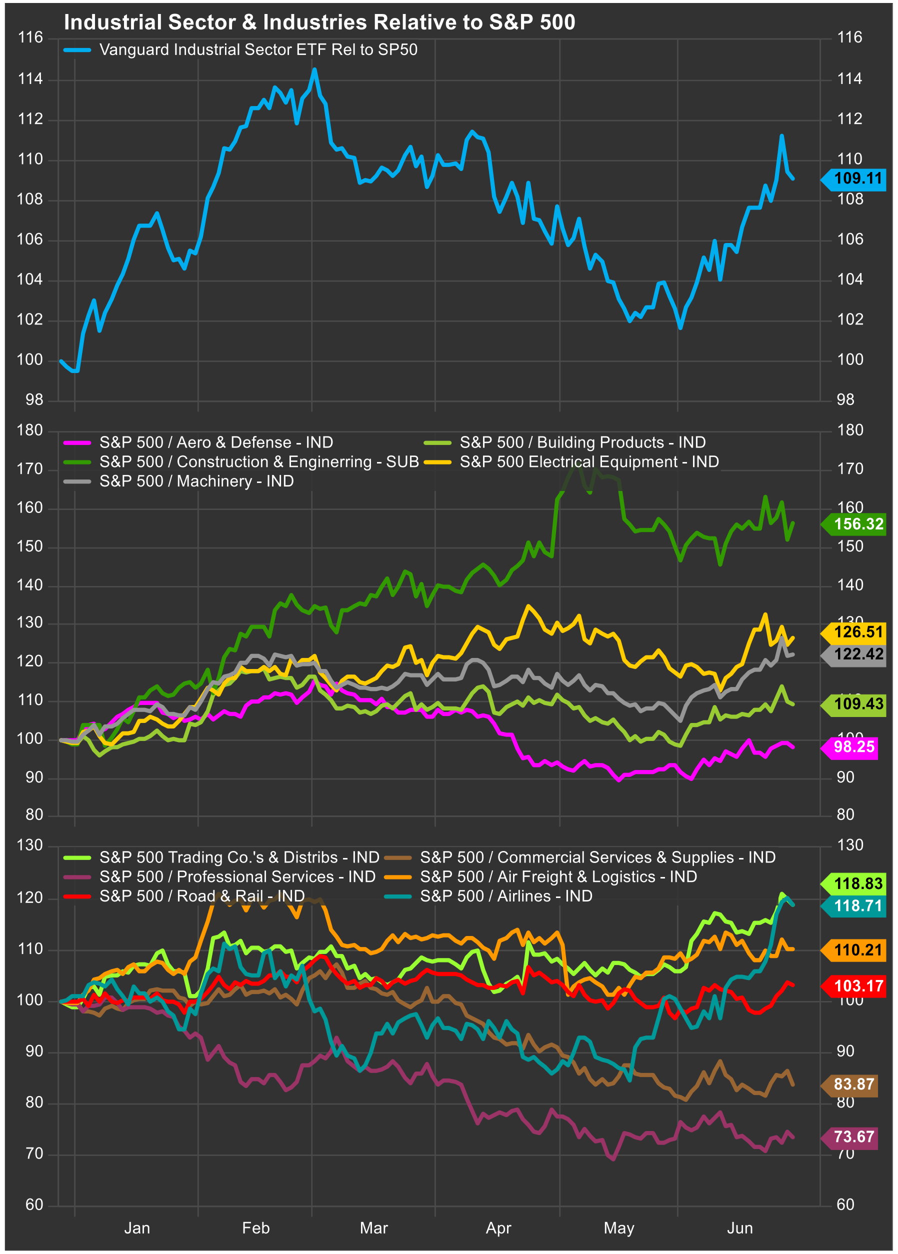
The macro data support the Industrial growth story. Durable goods orders fell **4.5%** in May because transportation equipment dropped sharply, but excluding transportation, durable goods orders rose **1.3%**. Shipments of manufactured durable goods rose **1.0%**, and unfilled durable orders increased for the twenty-second time in twenty-three months. That matters for Industrial companies because backlogs and shipments support revenue visibility, even when volatile aircraft orders distort the headline.

The stronger signal is core capital spending. Reuters reported that non-defense capital goods orders excluding aircraft rose **1.6%** in May, above expectations, with gains in fabricated metal products, primary metals, machinery, electrical equipment and computers. That supports Machinery, Electrical Equipment, Trading Companies & Distributors and automation-linked Industrials.

The cost side is still a risk. ISM's Prices Index remained high at **82.1**, and Reuters noted that shortages persisted in aluminum, electrical components, electronic components, resins, semiconductors and steel products. This means Industrials are benefiting from demand, but input inflation and supply constraints still matter for margins.

Ticker	Exposure	Price	1D	1W	1M	3M	6M	RSI
VOO	S&P 500	$670.26	-0.5%	-2.6%	-2.9%	+13.0%	+6.0%	43.2
VIS	Industrials	$352.47	-1.6%	-0.3%	+3.0%	+13.3%	+16.2%	59.3

Industry/Sub-Industry Performance Model Scores: Industrial Sector



6/29/2026

Indicator	Latest Reading	June Message	Investment Interpretation
Industrials model score	**0.13**	Modestly positive	Sector ranks 6th; constructive but not a top quant signal.
Industrials model rank	**6 / 11**	Middle of the pack	Model likes the sector less than Technology, Utilities, Financials, Materials and Staples.
Model profile	**Momentum / Trend**	Trend still intact	The model is not calling Industrials oversold; it is measuring relative trend persistence.
VIS 1M return	**+3.0%**	Outperformed	Industrials outperformed the S&P 500 proxy by roughly 590 bp over one month.
VIS 3M return	**+13.3%**	Strong trend	Intermediate trend remains constructive.
VIS 6M return	**+16.2%**	Leadership intact	Industrials remain one of the better 6-month broadening exposures.
VIS RSI	**59.3**	Healthy, not stretched	Momentum is positive without being aggressively overbought.
10Y Treasury yield	**4.37%**	Rate pressure eased	Helps cyclicals, equipment, construction and rate-sensitive industrial demand.
WTI crude	**$69.23/bbl**	Energy costs fell	Lower fuel helps airlines, transportation and input-cost-sensitive industrials.
ISM Manufacturing New Orders	**56.8**	Demand improving	Supports machinery, electrical equipment, transportation equipment and industrial distributors.

Top 10 Stock Level Performers: Industrial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
LUV	Southwest Airlines	Industrials	Passenger Airlines	Bullish Reversal	+23.0%	0.71	22.8	1.07	1.43
UAL	United Airlines	Industrials	Passenger Airlines	Bullish Reversal	+21.0%	0.57	27.9	0.00	1.56
SWK	Stanley Black & Decker	Industrials	Machinery	Bullish Reversal	+19.9%	0.79	19.2	2.55	1.40
BLDR	Builders FirstSource	Industrials	Building Products	Support	+18.9%	0.85	-1.0	0.00	1.85
CARR	Carrier Global	Industrials	Building Products	Bullish Reversal	+18.0%	1.22	21.9	0.92	1.38
GE	GE Aerospace	Industrials	Aerospace & Defense	Uptrend	+17.7%	2.28	14.8	0.34	1.10
IR	Ingersoll Rand	Industrials	Machinery	Consolidation	+17.3%	1.10	-2.8	0.05	1.15
DE	Deere	Industrials	Machinery	Bullish Reversal	+16.4%	1.44	6.3	0.77	0.80
PH	Parker-Hannifin	Industrials	Machinery	Uptrend	+16.3%	1.42	2.2	0.53	1.23
LII	Lennox International	Industrials	Building Products	Consolidation	+16.1%	1.10	12.9	0.65	1.27

The top table is a broadening signal. The winners are not all defense or all AI infrastructure; they include airlines, building products, machinery, aerospace and HVAC. That diversity makes the Industrial advance healthier than a single-industry rally.

Passenger Airlines are the cleanest reversal group. Southwest and United both have bullish reversal patterns, positive momentum scores above **20**, valuation multiples below the index and beta above **1.4**. That combination tells us the group is still cyclical and volatile, but investors were willing to buy it aggressively as fuel pressure eased and the summer travel/margin narrative improved.

Machinery and Building Products look more durable. Stanley Black & Decker combines a below-index valuation multiple, strong dividend-yield multiple and bullish reversal pattern. Carrier, Deere, Parker-Hannifin and Lennox show that investors are still rewarding companies tied to HVAC, agriculture, industrial equipment, automation, buildings and physical infrastructure. GE Aerospace is the highest-quality momentum name in the table, with an uptrend pattern and strong 1-month excess return, but its valuation multiple at **2.28x** the index shows that expectations are already high.

Bottom 10 Stock Level Performers: Industrial Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
LDOS	Leidos	Industrials	Professional Services	Downtrend	-19.7%	0.40	-41.3	1.18	0.33
FDXF	FedEx Freight Holding	Industrials	Ground Transportation	Consolidation	-14.2%	1.62	—	0.00	—
ROL	Rollins	Industrials	Commercial Services & Supplies	Retracement	-9.8%	1.65	-26.4	1.27	0.63
HII	Huntington Ingalls	Industrials	Aerospace & Defense	Retracement	-9.1%	0.75	-28.7	1.43	0.46
NOC	Northrop Grumman	Industrials	Aerospace & Defense	Retracement	-7.5%	0.86	-27.1	1.36	-0.32
CPRT	Copart	Industrials	Commercial Services & Supplies	Downtrend	-5.5%	0.91	-18.3	—	0.67
BR	Broadridge Financial Solutions	Industrials	Professional Services	Support	-4.6%	0.66	-24.3	2.01	0.65
LHX	L3Harris Technologies	Industrials	Aerospace & Defense	Retracement	-4.4%	1.15	-18.2	1.22	0.43
EME	EMCOR	Industrials	Construction & Engineering	Uptrend	-3.3%	1.28	-0.3	0.13	1.47
PWR	Quanta Services	Industrials	Construction & Engineering	Uptrend	-3.1%	2.26	14.2	0.04	1.74

The bottom table is not as bearish as it looks because several laggards are still structurally attractive. EMCOR and Quanta are both in uptrends, and Quanta still has a positive momentum score. Their underperformance looks like a valuation and positioning reset after a strong run in power, grid and data-center infrastructure, not a collapse in the fundamental story.

The bigger concern is in Professional Services and select defense contractors. Leidos is in a downtrend with a **-41.3** momentum score, while Broadridge is at support but still has negative momentum. Huntington Ingalls, Northrop Grumman and L3Harris are all in retracement patterns despite the supportive defense-budget backdrop. That tells us investors are distinguishing between long-term policy support and near-term stock-specific momentum.

The defense names are especially nuanced. The White House FY2027 budget proposes **$1.5T** in national defense resources, a large increase from the 2026 level, and the Department of War described the budget as supporting defense-industrial-base expansion. That policy backdrop is constructive, but the stock table shows that large-cap defense contractors still need better price confirmation before they can be treated as leadership.

Economic & Policy Drivers: Industrial Sector

Machinery

Machinery has the best alignment between macro data and stock-level performance. ISM reported that machinery was one of the large manufacturing industries with stronger new orders, production and employment in May. Core capital goods orders also rebounded strongly, and Reuters specifically noted gains in machinery orders. That supports the rebound in Stanley Black & Decker, Deere, Parker-Hannifin, Caterpillar, Ingersoll Rand and other machinery names.

The risk is input inflation. ISM's Prices Index remained elevated, and machinery was one of the large industries reporting price increases. That means demand is improving, but margins remain dependent on pricing power, backlog conversion and supply-chain normalization.

Building Products

Building Products were one of the strongest industries in the Industrial stock file. Builders FirstSource, Carrier, Lennox, Masco and Trane all outperformed. The group benefits from lower long yields, building efficiency demand, HVAC replacement, residential repair/remodel activity and data-center-related thermal management.

Carrier's strength is particularly consistent with the AI infrastructure theme. The broader market is increasingly connecting data centers, cooling, electrification and building systems to the Industrial sector. Reuters has highlighted AI-driven data-center expansion as a driver of record U.S. power demand, which supports the long-cycle demand case for HVAC, electrical systems, thermal management and building-efficiency suppliers.

Electrical Equipment

Electrical Equipment remains one of the highest-quality long-term industries inside Industrials, but the stocks are not uniformly cheap. The industry's average valuation multiple is **1.51x** the index, and dividend-yield support is limited. Hubbell was a strong 1-month performer, while the broader group benefits from grid investment, electrification, data-center demand and reshoring.

The policy and demand backdrop remain constructive. EIA expects U.S. power consumption to rise from **4,195B kWh in 2025** to **4,271B kWh in 2026** and **4,397B kWh in 2027**, driven by data centers and electrification. That directly supports electrical equipment, grid components and power infrastructure suppliers.

Aerospace & Defense

Aerospace & Defense is bifurcated. GE Aerospace remains one of the best Industrial charts, supported by commercial aerospace demand and improving aircraft production. Boeing delivered **60 jets in May**, up **33%** from a year earlier, and its 737 MAX deliveries reached the highest monthly level since production restarted after the 2024 strike. That is supportive for the commercial aerospace supply chain.

Defense policy is supportive but not enough by itself. The proposed FY2027 defense budget and defense-industrial-base language are clear positives for long-term backlog and procurement visibility. However, several major defense stocks are in retracement patterns, which suggests investors are either waiting for budget conversion into awards or taking profits after prior geopolitical rallies.

Passenger Airlines

Passenger Airlines had the strongest industry-level performance in the stock file. The move was driven by lower fuel prices, margin recovery potential and still-tight capacity. Reuters reported that lower fuel prices could save airlines billions, while carriers may keep fares firm because prior price increases had not fully offset the fuel shock.

The risk is that airlines remain exposed to geopolitics and fuel volatility. Earlier in June, IATA cut its 2026 global airline profit forecast sharply due to fuel costs and Middle East disruptions. The June rally was therefore a relief trade, not a low-risk compounder trade.

Construction & Engineering

Construction & Engineering remains a strategic winner but a tactical watchlist group. Quanta and EMCOR are still in uptrends, and the AI/data-center/grid buildout should support long-term demand. But the industry was the weakest Industrial group on average over one month, and its average valuation multiple is the highest in the sector. This is a "buy the pullback selectively" group rather than a broad chase.

Reuters has noted that data-center expansion is pushing power demand beyond existing grid capacity, and industrial gas-turbine and infrastructure suppliers are increasingly being framed as AI energy-demand plays. That reinforces the long-cycle thesis for Construction & Engineering, but the stock file shows near-term valuation digestion.

What Shaped the Industrials Narrative in June

June was a favorable month for Industrial breadth. The sector did not need mega-cap Technology leadership to work. Instead, investors rewarded lower fuel costs, improving manufacturing demand, capital spending, power infrastructure, aerospace supply chains and selective building-product recovery.

The most important macro confirmation came from manufacturing new orders and core capital goods. ISM showed new orders and production expanding, while Census/Reuters data showed core capital goods orders rebounding more than expected. That is why Machinery, Electrical Equipment and distributors should remain at the center of the July Industrials thesis.

The main caution is valuation. FactSet shows Industrials as the most expensive S&P 500 sector on forward P/E and the sector with the smallest bottom-up upside to analyst target prices. That does not mean the sector should be avoided; it means the sector needs earnings confirmation and should be implemented selectively.

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

ETFInsight V8 Sector Model Workbook, June 26, 2026 — Vanguard sector ETF returns, RSI readings, sector selection scores, macro indicator readings, rates, credit, commodities, volatility and breadth data.

FactSet Earnings Insight, June 26, 2026 — S&P 500 and Industrials earnings-growth expectations, revenue-growth expectations, sector valuation, target-price upside and sector-level revision framework.

ISM Manufacturing PMI, May 2026 — manufacturing activity, new orders, production, employment, backlogs, supplier deliveries, prices and industry-level commentary for machinery, transportation equipment and electrical equipment.

U.S. Census Bureau Monthly Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders, May 2026 — durable goods orders, shipments, unfilled orders, transportation equipment, capital goods and manufacturing backlog data.

Reuters: U.S. core capital goods orders rebound sharply in May, June 25, 2026 — business equipment spending, machinery orders, electrical equipment orders, fabricated metals and AI-related capital spending read-through.

Reuters: U.S. power use to beat record highs in 2026 and 2027 as AI use surges, June 9, 2026 — data-center-driven electricity demand, commercial power demand and grid/power infrastructure implications.

Reuters: Boeing jet deliveries jump to 60 in May, June 9, 2026 — commercial aerospace deliveries, 737 production cadence, order backlog and aerospace supply-chain context.

White House FY2027 Budget of the U.S. Government, April 2026 — defense budget proposal, national defense resources and defense-industrial-base policy backdrop.

Department of War FY2027 Defense Budget Release, April 21, 2026 — defense budget request, defense industrial base investment and military procurement policy framework.

Reuters: Airline ticket prices may stay high as carriers bank fuel relief from Iran deal, June 22, 2026 — airline fuel-cost relief, fare discipline, capacity constraints and margin recovery context.

Reuters: Global airlines slash 2026 profit forecast on fuel shock from Iran war, June 7, 2026 — airline fuel-risk, geopolitical disruption and margin vulnerability.

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.