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TRIVARIATE RESEARCH

WHAT ARE THE RISKS TO INDUSTRIALS RIGHT NOW?

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RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Background: The Industrials are off to a monster start in 2026. 14 of the top 20 stocks in Industrials by market cap. are up year-to-date, with eight generating double digit returns already this year, despite a plethora of macro risks. It is the best start to a year for the sector in more than a quarter century. That being said, Industrials are not a “group call.” In fact, it is the most diversified sector in the market, with 15 sub-industries comprised of at least 10 stocks. There are 52 mega-/large-cap. Industrials stocks, the second most of any sector after Technology – a few more weeks of the recent price action and Industrials analysts will be walking around with more peacock feathers than Tech. analysts!

Macro: While many investors we talk to value the PMI as a reliable indicator, the truth is it has at best ZERO predictive value for subsequent Industrials stock performance. Yes, the PMI improved the last couple of months, but as is typically the case, the stocks often lead the improvement in economic data. For instance, the Industrial Semiconductors (TXN, ADI, MCHP) were up double digits in December. The T-statistic between ISM and 12-month forward Industrial sector relative performance shows little long-term significance. With higher oil prices, the general consensus is that the risk of stagflation is rising, delaying any incremental interest rate cuts. At the beginning of this year, two rate cuts were expected. Earlier this month, the Fed remained on pause, concerned about higher Oil prices. The truth is, an incrementally dovish Fed isn't really on average good for Industrials stocks on a relative basis. We evaluated the last seven prior cycles, and they underperformed 4 out of 7 times.

High expectations: The biggest risk is in low-quality stocks with elevated revenue growth expectations. The last time this cohort spiked on revenue growth expectations for Mega/Large Caps (2021), subsequent 12-month equal-weight returns were down 22%.

Recent trends: The best relative revision trends are in Electrical Equipment and Aerospace & Defense; the worst are in Cargo Ground Transportation and Building Products. This momentum is crucial in an environment where the impacts of higher Oil are so strong.

INVESTMENT CONCLUSIONS

Valuation is extreme: Industrials have never been more expensive on P/E, EV/Sales, and FCF yield. The penalty for missing estimates is even harsher in Industrials than the broader market, so **it is imperative for the sector to post upwards earnings revisions for the recent outperformance to continue.** But that will be challenging, given Q3 2026 year-over-year EPS expectations are for 16% EPS growth. Within Industrials, growth stocks are quite expensive vs. value stocks, at a 15-year high, despite recent outperformance by Value.

Inventory levels: Building Products inventory-to-sales is still in the 94th percentile vs. its own history, and most inventory-relevant industries have inventory well above their own long-term averages. Recently, Construction & Engineering and Building Products are among the sub-industries with rising inventory-to-sales on a year-over-year basis, vs. Electrical Equipment which has declined.

Factor efficacy: Trailing 12 Quarter EPS Growth is the single best signal for picking winners in the sector (0.80 Sharpe since 2020) and EPS revisions are the third best signal. Interestingly, forecasted gross margins are the worst signal – where lower is better. This is surprising, as **forecasted gross margin level has been extremely effective in the other parts of the market.**

Alpha generation: Looking at change and level of company-specific risk (CSR), change and level of pairwise correlation, change and level of valuation dispersion, and the % of stocks beating or lagging by 20% or more over the last 12 months, we rank the 15 sub-industries on each of these seven metrics. Electrical Components, Construction Machinery, Building Products, and A&D are more PM / CRO “calls.” On a relative basis HR, Data Processing, and Research and Consulting are analyst areas.

Stock Ideas (Slide 26): Long ideas are in the top quartile of both 12-Quarter trailing EPS growth and 1-Month change in forward EPS expectations and have at least 50% CSR. These include HWM, PWR, MTZ, BR, and CRS. Short ideas are in the bottom quartile of both 12-Quarter trailing EPS growth and 1-Month change in forward EPS expectations and include DE, UPS, WSO, CNH, and OC.

INDUSTRIALS ARE OFF TO THEIR BEST START IN A QUARTER CENTURY

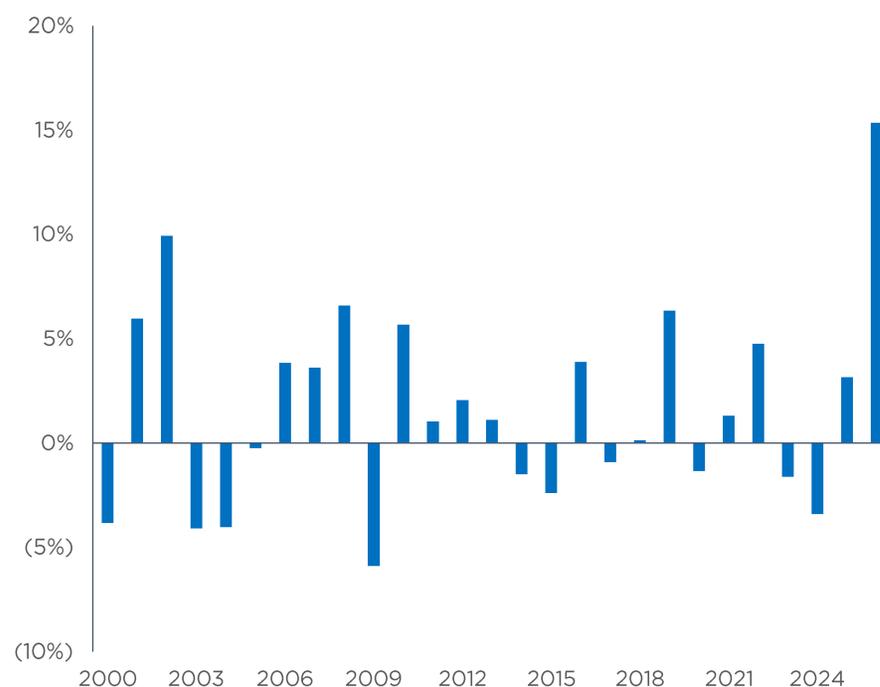
The Industrials are off to a monster start in 2026. 14 of the top 20 stocks in Industrials by market cap. are up year-to-date (left), with 8 generating double digit returns and 4 generating at least 20% returns already this year, despite a plethora of macro risks. It is the best start to a year in more than a quarter century (right).

**Top 20 Industrials by Market Cap. As of Beginning of 2026
YTD Performance Through March 20th, 2026**

Ticker	Sub-Industry	Market Cap (US \$Bn.)	YTD Return
GE	Aerospace & Defense	324.9	(6.8%)
CAT	Construction Machinery & Heavy Transport	268.1	19.1%
RTX	Aerospace & Defense	245.9	8.4%
GEV	Heavy Electrical Equipment	177.3	30.4%
UBER	Passenger Ground Transportation	169.8	(9.6%)
BA	Aerospace & Defense	165.0	(10.1%)
UNP	Rail Transportation	137.2	2.1%
DE	Agricultural & Farm Machinery	125.9	20.2%
HON	Industrial Conglomerates	123.9	14.1%
ETN	Electrical Components & Equipment	123.7	12.4%
LMT	Aerospace & Defense	111.9	30.4%
PH	Industrial Machinery & Supplies & Components	110.9	1.9%
ADP	Human Resource & Employment Services	104.0	(18.2%)
GD	Aerospace & Defense	90.8	3.1%
WM	Environmental & Facilities Services	88.5	5.7%
TT	Building Products	86.3	5.7%
MMM	Industrial Conglomerates	85.0	(11.4%)
UPS	Air Freight & Logistics	84.2	(2.0%)
HWM	Aerospace & Defense	82.4	12.8%
NOC	Aerospace & Defense	81.4	24.4%

Source: Trivariate Research

**Top 20 Industrials by Market Cap.
Equal Weight Market Relative Return (Excess vs. S&P 500)
in January and February by Year**



Source: Trivariate Research

THE ISM IS NOT TYPICALLY CORRELATED TO INDUSTRIALS' RETURNS

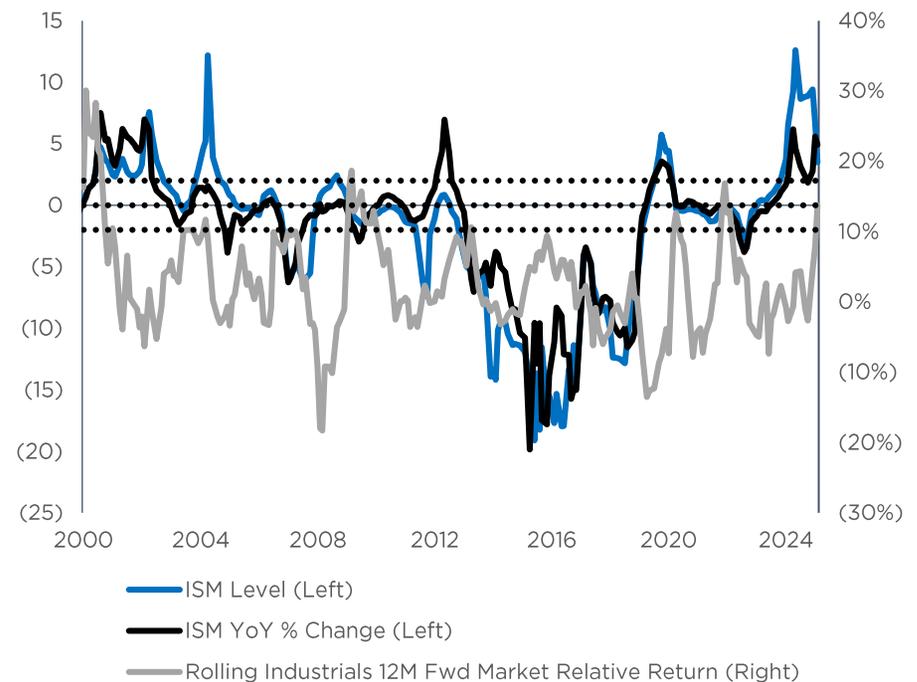
While many investors we talk to value the PMI as a reliable indicator, the truth is it often has ZERO predictive value for subsequent stock returns. Yes, the PMI improved the last couple of months (left), but as is typically the case, the stocks often lead the improvement in economic data. For instance, the Industrial Semiconductors (TXN, ADI, MCHP) were up double digits in December and January before the ISM improved, as was ODFL, an indicator that “more stuff will be moved around.” On the right, we show the rolling T-statistic between ISM and 12-month forward Industrial sector relative performance. Recently, ISM level and change have been statistically significantly correlated, but clearly that is not typical.

ISM Manufacturing PMI Index
Through End-February, 2026



Source: Trivariate Research

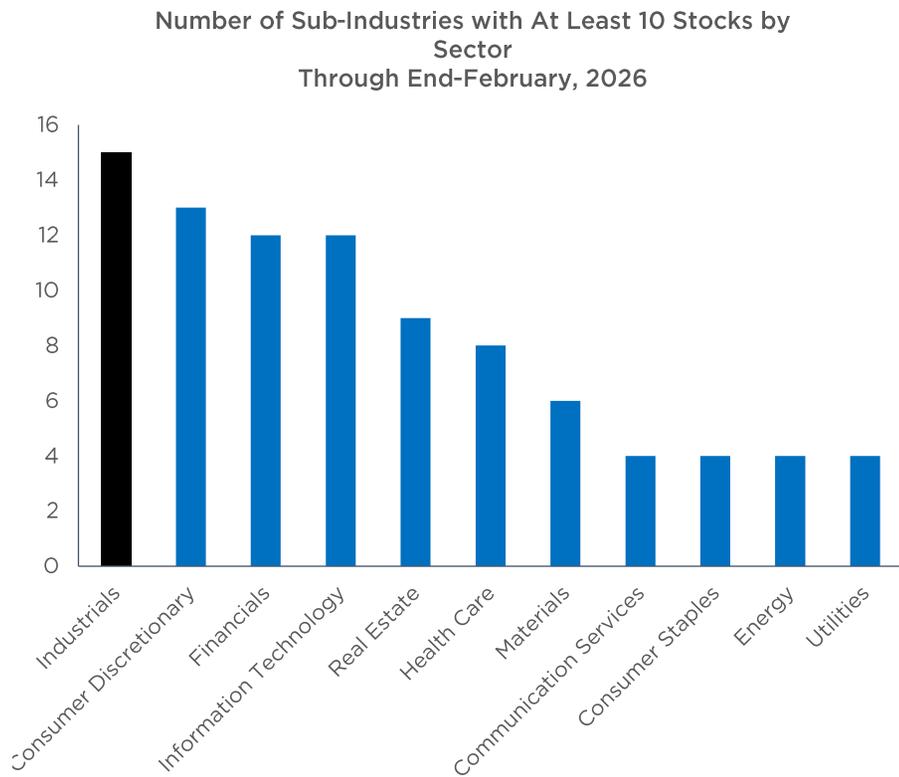
2Y Rolling Newey-West T-Stat: ISM Predicting 12M Forward
Industrials Market Relative Return
Through End-February, 2026



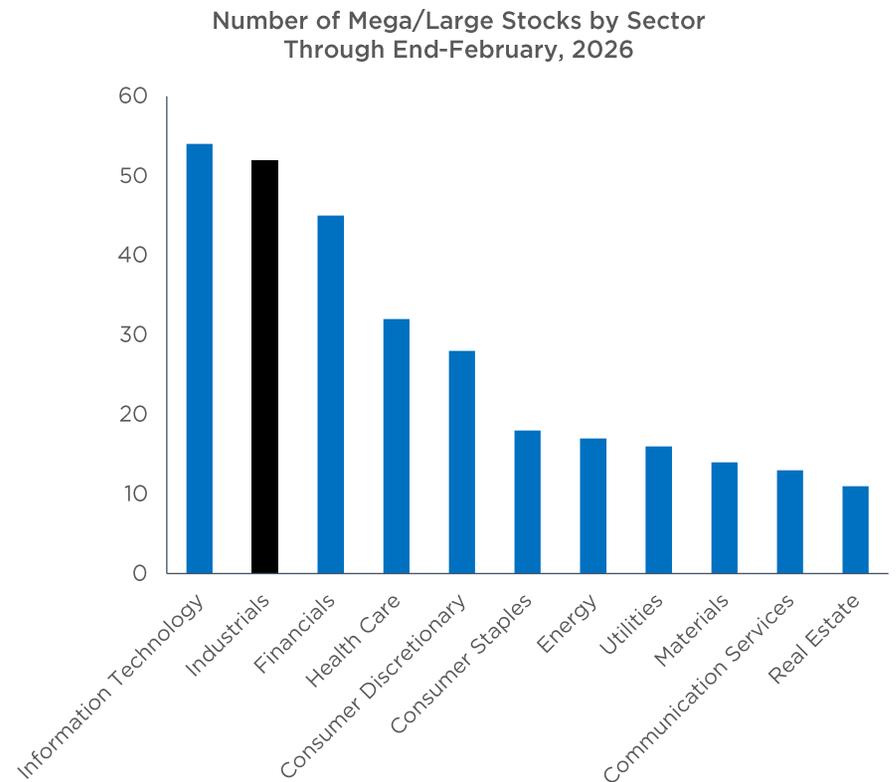
Source: Trivariate Research

INDUSTRIALS IS THE MOST DIVERSIFIED SECTOR OF ALL

Industrials are not really a group call. In fact, it is the most diversified sector in the market, with 15 sub-industries with at least 10 stocks (left). There are 52 mega-/large-cap. Industrials stocks as of the end of February (right), the second most of any sector after Technology – a few more weeks of the recent price action and Industrials analysts will be walking around with more peacock feathers than Tech. analysts!



Source: Trivariate Research



Source: Trivariate Research

NINE SUB-INDUSTRIES HAVE MORE THAN \$200 BIL. OF MARKET CAP.

The Industrials landscape is quite diverse, with 9 sub-industries with more than \$200 billion in market cap. at the end of February. Today, Aerospace and Defense is the largest, followed by two Machinery categories, and then Electrical Components & Equipment.

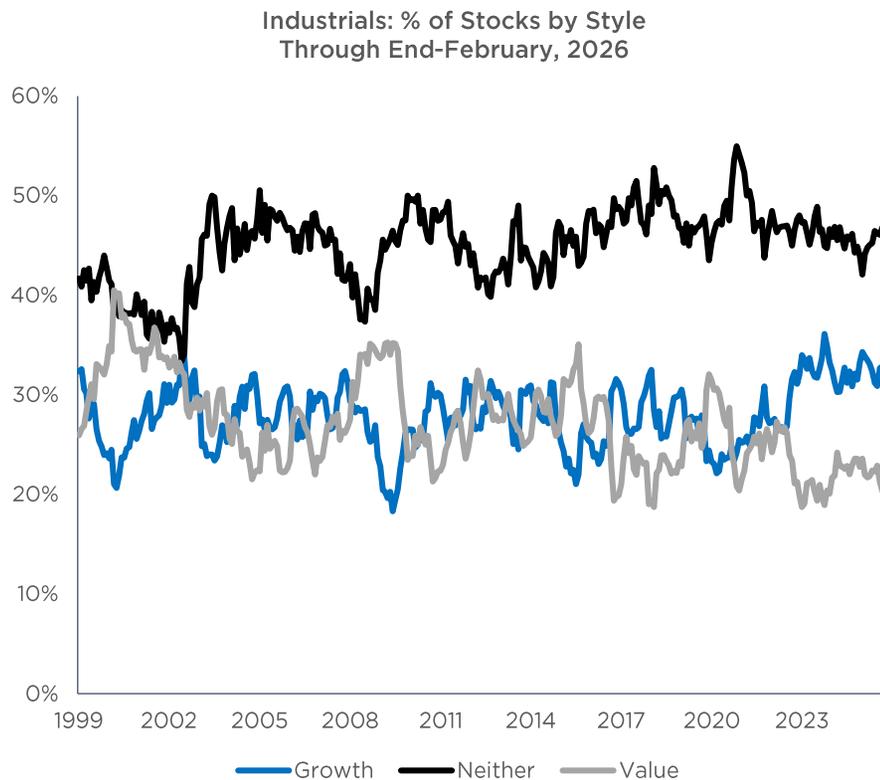
Industrials Sub-Industries

Sub-Industry	# Stocks	# Mega Caps	# Large Caps	# Mid Caps	# Small Caps	# Micro Caps	Total Market Cap. (\$Bn.)	Top 3 Tickers by Market Cap.
Aerospace & Defense	52	2	10	15	14	11	1822.0	GE, RTX, BA
Industrial Machinery & Supplies & Components	64	0	3	26	16	19	648.0	PH, ITW, OTIS
Construction Machinery & Heavy Transportation Equipment	21	1	3	4	6	7	546.0	CAT, CMI, PCAR
Electrical Components & Equipment	35	0	5	7	16	7	537.4	ETN, VRT, EMR
Building Products	32	0	3	13	11	5	404.6	TT, JCI, CARR
Trading Companies & Distributors	32	0	4	7	14	7	339.7	FAST, GWW, URI
Construction & Engineering	30	0	2	11	10	7	312.7	PWR, FIX, EME
Environmental & Facilities Services	13	0	3	4	4	2	302.0	WM, RSG, WCN
Research & Consulting Services	29	0	0	11	14	4	206.0	VRSK, EFX, LDOS
Human Resource & Employment Services	17	0	1	1	8	7	157.5	ADP, PAYX, PAYC
Diversified Support Services	10	0	2	1	3	4	149.5	CTAS, CPRT, RBA
Cargo Ground Transportation	18	0	1	6	6	5	137.6	ODFL, XPO, JBHT
Passenger Airlines	14	0	1	4	5	4	125.1	DAL, UAL, LUV
Data Processing & Outsourced Services	11	0	0	2	6	3	66.2	BR, SSNC, G
Marine Transportation	15	0	0	1	7	7	27.8	KEX, MATX, ZIM

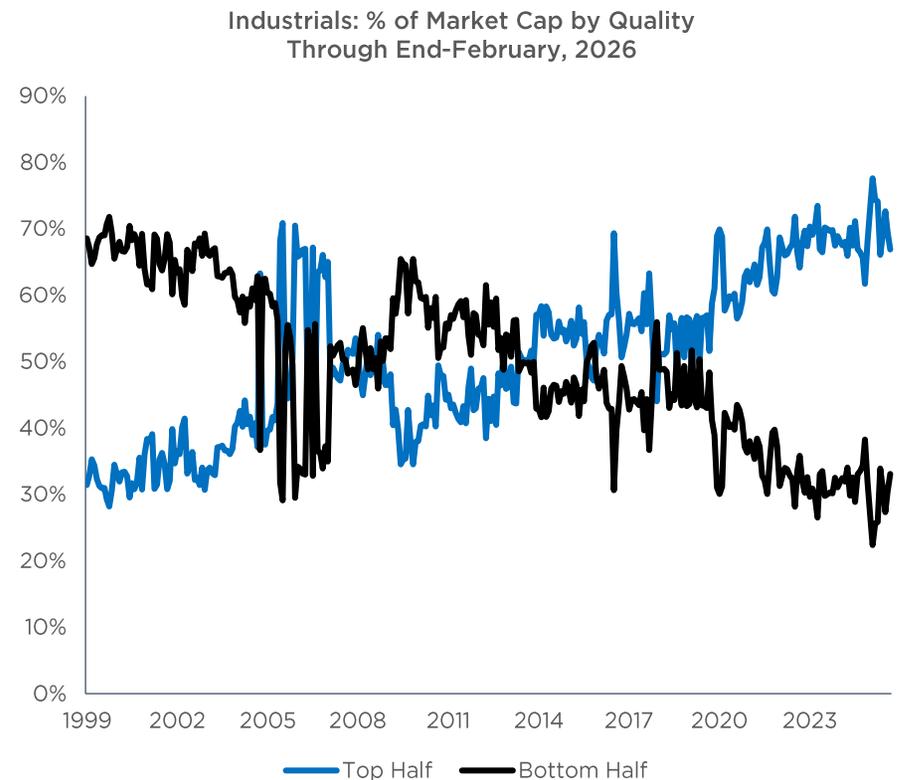
Source: Trivariate Research

INDUSTRIALS ARE INCREASINGLY LESS VALUE, MORE HIGH-QUALITY

We show the constitution of the Industrials sector by style (left) and substance (right). We systematically tag each stock into one of three style categories: growth, value, and a middle ground we call “Neither.” Industrials have a high percentage of “Neither” with many not cheap enough to be value and not growing fast enough to be growth. However, today, 20% of Industrials are value, hovering near the lowest percentage in 25 years. At the same time, Industrials have become increasingly higher quality, with only 30% in the top-half of quality in 1999 but nearly 70% today.



Source: Trivariate Research

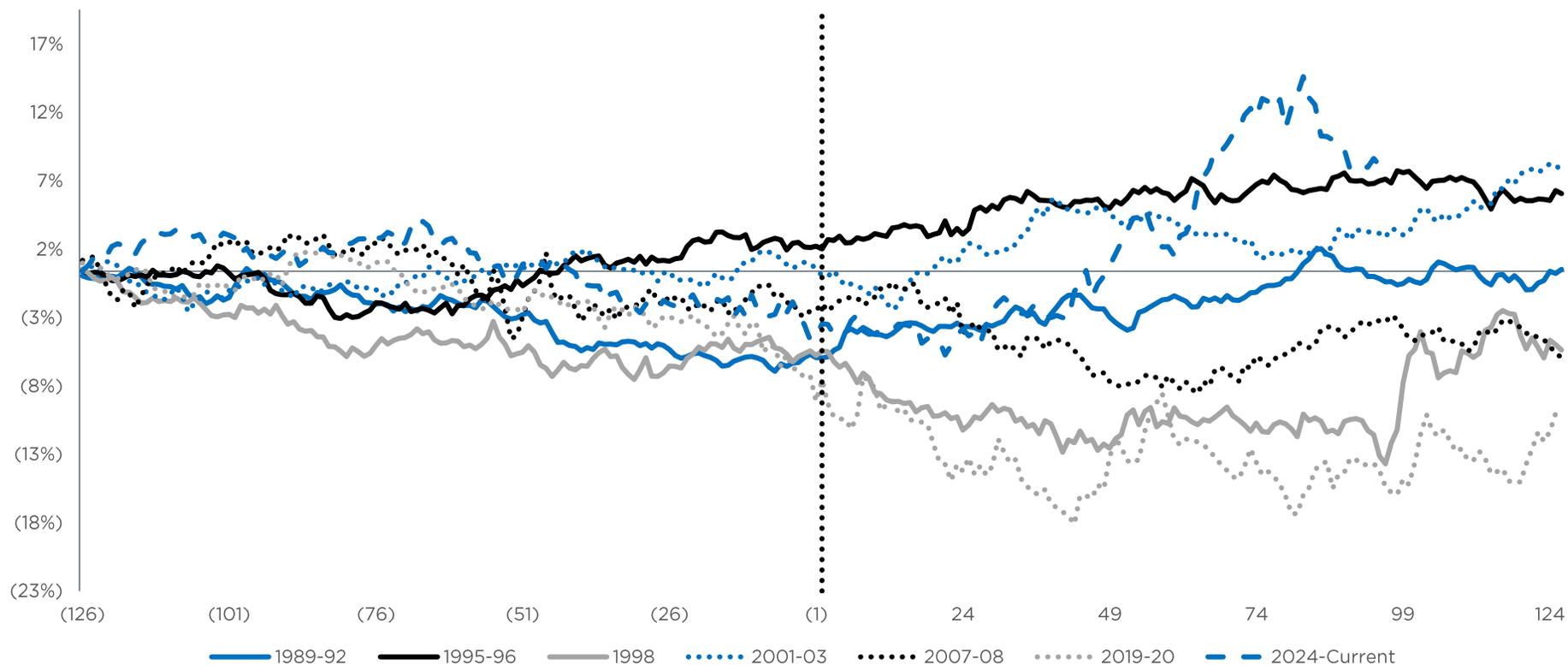


Source: Trivariate Research

INDUSTRIALS DON'T USUALLY DO WELL WHEN THE FED CUTS

With higher oil prices, the general consensus is that the risk of stagflation is rising, delaying any incremental interest rate cuts. At the beginning of this year, two rate cuts were expected. Earlier this week, the Fed remained on pause, concerned about higher Oil prices. The truth is, an incrementally dovish Fed isn't really good on average for Industrials stocks on a relative basis. We evaluated the last six cycles, and they underperformed more often than not both prior to and after the final cut.

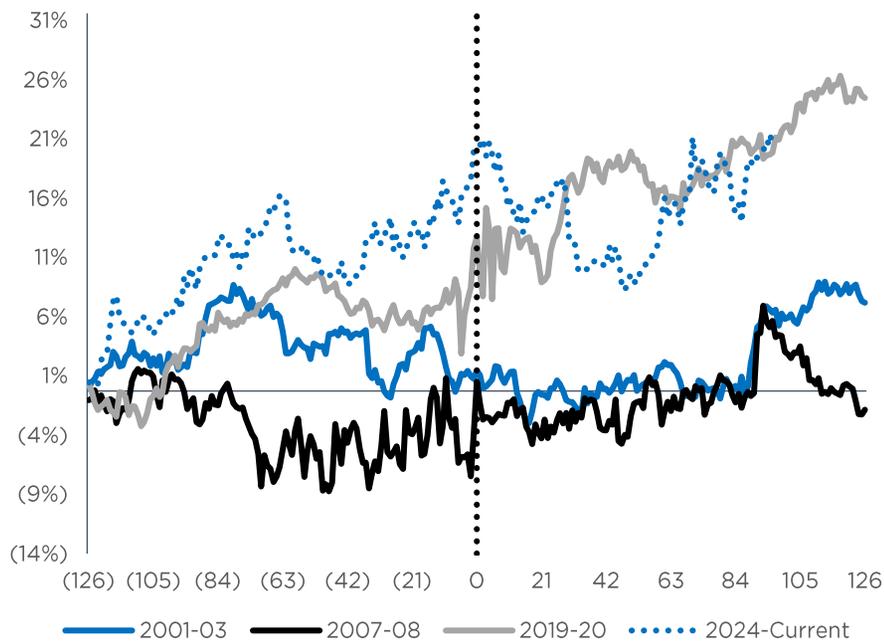
Industrials Market Relative Returns 6-months Before to 6-months After Final Fed Rate Cut of Cycle Since 1989 Through March 20th, 2026



ELECTRICAL EQUIPMENT AND MACHINERY HAVE DONE BETTER

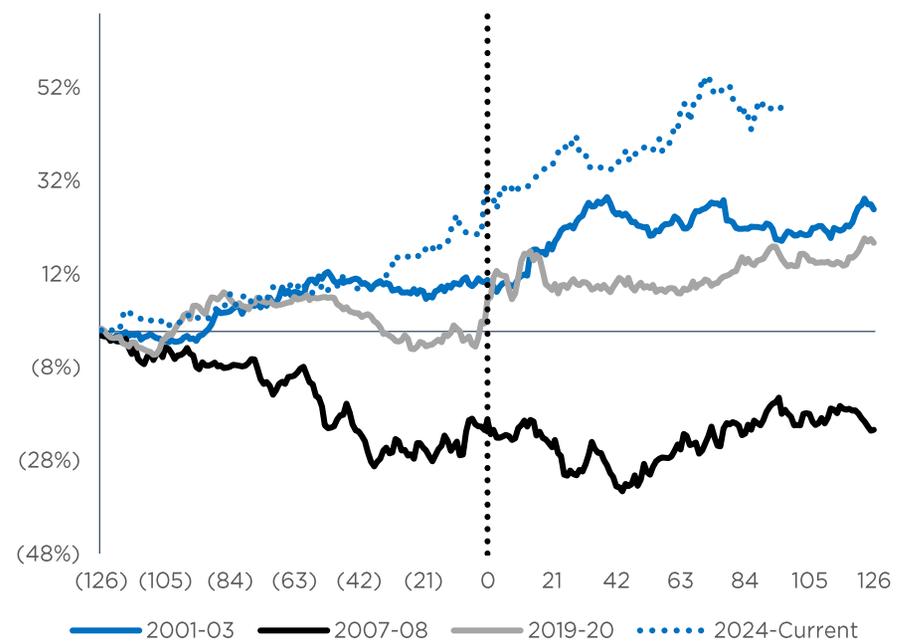
It seems like Electrical Equipment (left) and Construction and Machinery (right) have done better following Fed stimulus in the previous few cycles, so perhaps those are the relatively better ways to play the interest rate cycle. However, many of these stocks, like ETN among the Electrical Equipment stocks and CAT among Machinery have already massively outperformed.

Electrical Components & Equipment
 Top 900 Cap-Weighted Sector Relative Returns
 ±6M Around Final Rate Cut
 Through March 20th, 2026



Source: Trivariate Research

Construction Machinery & Heavy Transportation Equipment
 Top 900 Cap-Weighted Sector Relative Returns
 ±6M Around Final Rate Cut
 Through End-February, 2026

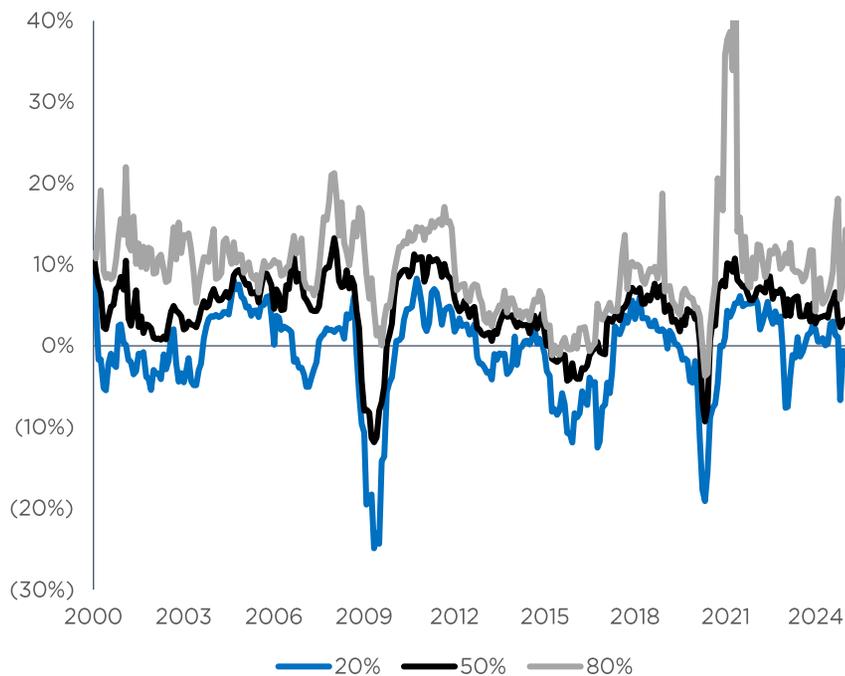


Source: Trivariate Research

REVENUE EXPECTATIONS ARE HIGH FOR TOP 20% OF LOW QUALITY

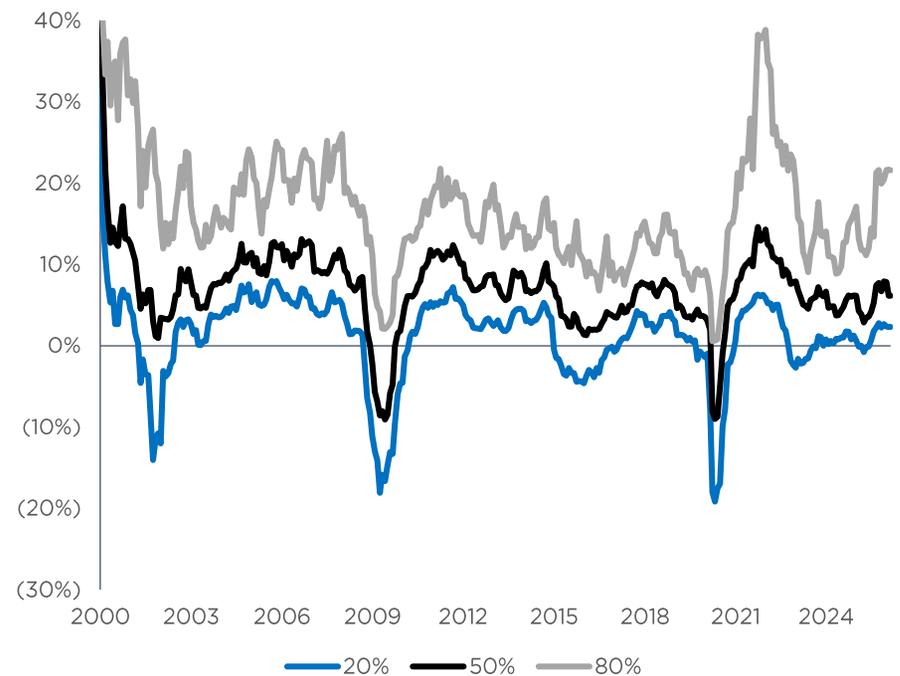
The performance from here for Industrials will likely come down to the growth and estimate achievability of the stocks. We looked at the 20th, median, and 80th percentile of forecasted revenue growth, for the sector overall and various intra-Industrials segments. The one standout was that the fastest growing group of bottom-half quality mega-/large cap. Industrials stocks is forecasted to have all-time revenue growth outside of the COVID peak (left). Last time this happened - during COVID - the group included names like LUV, DAL, and BA (check ticker), among others, and massively underperformed over the next year. Today, this group includes BE, RCLB, VRT and AXON. The expectations are high, but not quite as pronounced for bottom-half quality SMID cap. Industrials (right).

Mega/Large Cap. Bottom Half Quality Industrials
Select Percentiles of Forecast Revenue Growth
Through March 20th, 2026



Source: Trivariate Research

SMID Cap. Bottom Half Quality Industrials
Select Percentiles of Forecast Revenue Growth
Through March 20th, 2026



Source: Trivariate Research

CONSTRUCTION & MACHINERY HAVE HIGH REVENUE EXPECTATIONS

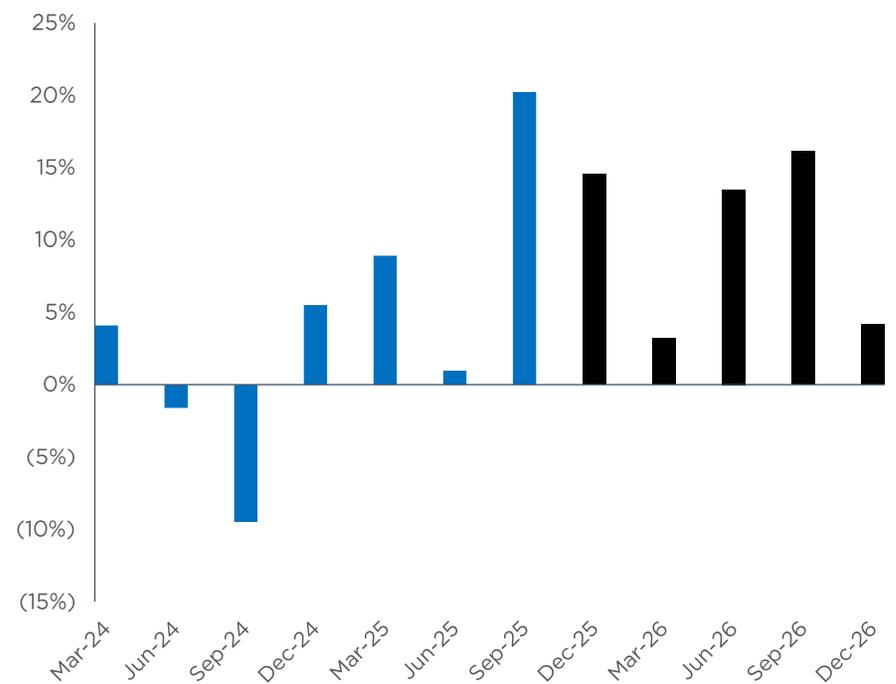
By sub-industry, the broad onshoring / reshoring theme continues to elevate revenue growth expectations of Construction and Machinery, and Aerospace is also forecasted to grow above its long-term median. Interestingly, Industrial Machinery & Supplies has average expectations (left). The median stock's forecasted revenue growth is highest vs. history in Construction Machinery and Engineering, while it is lowest in Cargo Ground Transportation and Data Processing & Outsourced Services. Our bias is that the high forecasted revenue growth groups could be too optimistic, but the groups with low expectations are probably "right". Additionally, bottom-up consensus estimates embed strong EPS growth in 2026 for large cap. Industrials broadly, and Q3 2026 estimates appear quite high given the massive Q3 2025 comparisons (right).

**Median Forecast Revenue Growth
Top 900 Current vs. Historical Median By Sub-Industry
As of March 20th, 2026**

Sub-Industry	Historical Median	Current	Difference	%tile vs. Own History
Construction Machinery	4.5%	9.6%	5.1%	79.5%
Construction & Engineering	8.7%	12.6%	3.9%	73.3%
Aerospace & Defense	6.7%	8.4%	1.7%	70.2%
Passenger Airlines	7.6%	11.6%	4.0%	67.7%
Electrical Components & Equipment	7.2%	7.9%	0.8%	54.7%
Environmental & Facilities Services	4.7%	4.9%	0.1%	52.2%
HR & Employment Services	6.9%	6.7%	(0.2%)	47.8%
Machinery & Supplies & Components	5.5%	5.4%	(0.1%)	47.8%
Building Products	5.6%	5.4%	(0.3%)	44.4%
Trading Companies & Distributors	7.8%	6.2%	(1.6%)	37.3%
Marine Transportation	7.5%	2.4%	(5.1%)	13.7%
Research & Consulting Services	8.2%	5.7%	(2.5%)	12.1%
Diversified Support Services	7.0%	3.8%	(3.2%)	7.5%
Data Processing & Services	6.7%	7.0%	0.4%	6.5%
Cargo Ground Transportation	3.9%	3.7%	(0.2%)	4.7%

Source: Trivariate Research

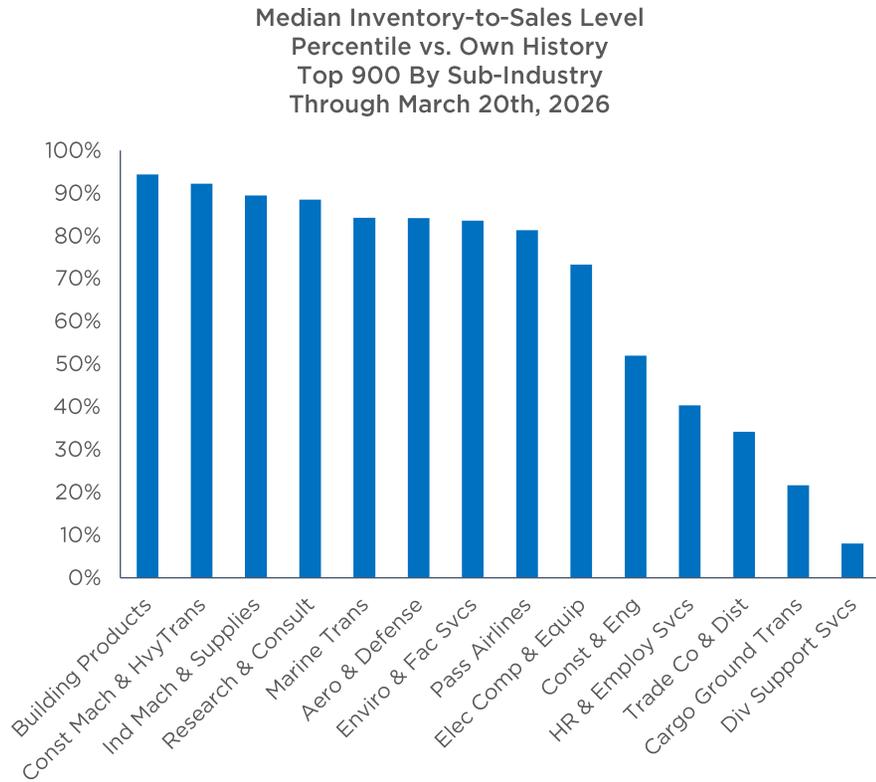
**Year-Over-Year Quarterly S&P 500 Industrials EPS Growth
(Black Bars are Forecasted)
As of March 20th, 2026**



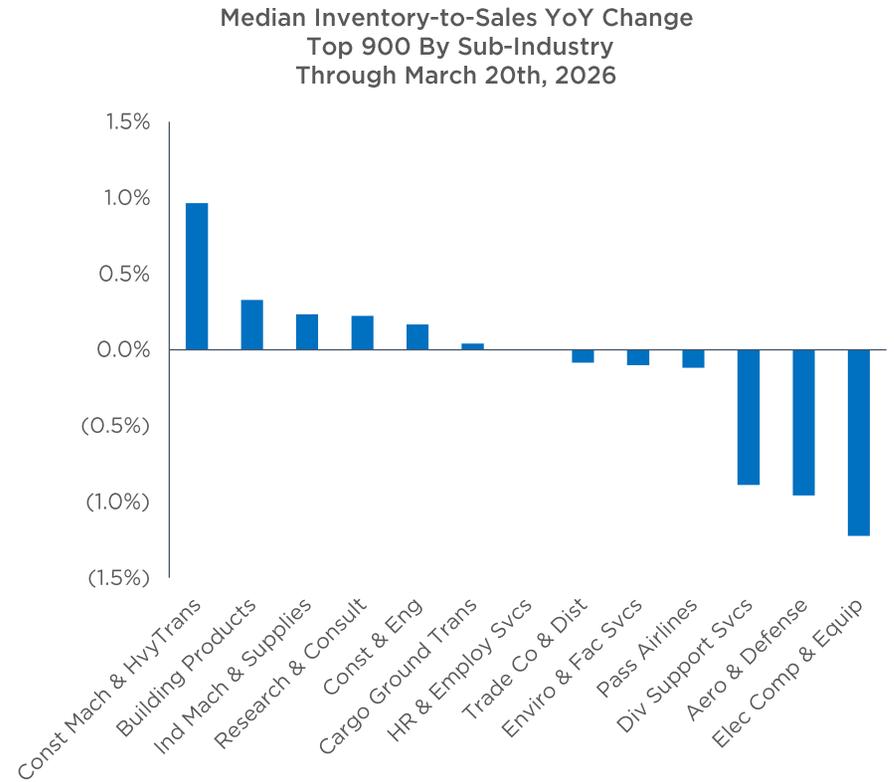
Source: Trivariate Research

IN GENERAL, INVENTORY-TO-SALES LEVELS REMAIN QUITE ELEVATED

It is both our view and that of the general consensus that COVID changed the periodicity and amplitude of many of the cycles within the Industrials sector. Both supply shutdowns during the initial phases of the virus and massive demand caused huge shortages, followed by massive inventory builds. The last few years have seen an inventory burn-off that has varied by asset life and segment. Building Products inventory-to-sales is still in the 94th percentile vs. its own history, and most inventory-relevant industries have inventory well above their own long-term averages (left). Recently, Construction & Engineering and Building Products are among the sub-industries with rising inventory-to-sales on a year-over-year basis (right), vs. Electrical Equipment which has declined.



Source: Trivariate Research



Source: Trivariate Research

VALUE INDUSTRIALS HAVE BETTER MOMENTUM AND ARE CHEAPER

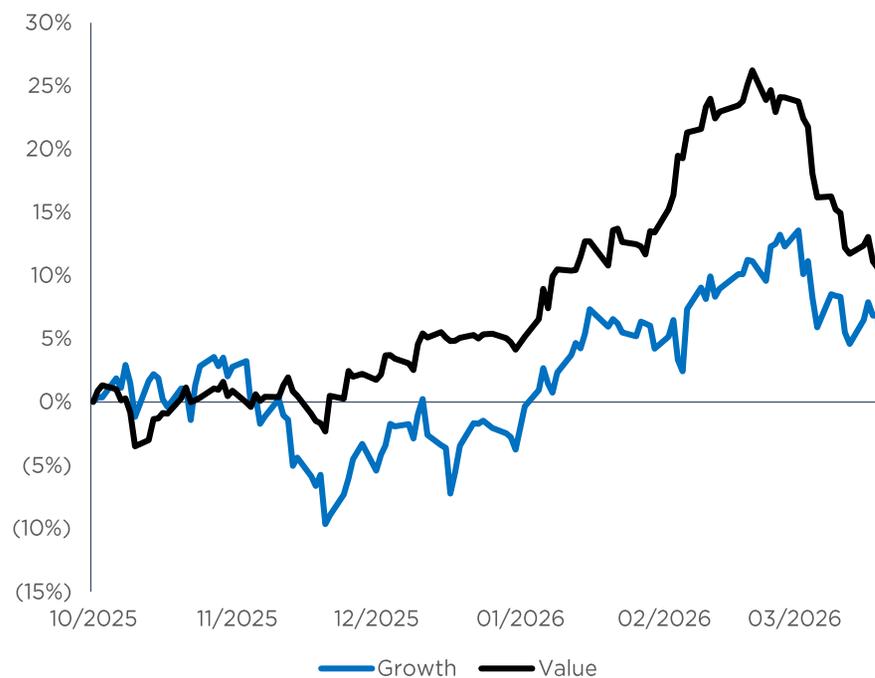
As we mentioned earlier, more than ½ of the companies in Industrials are “Neither” growth nor value. But among the growth and value stocks, growth looks quite expensive vs. history on price-to-forward earnings (left), despite the outperformance from value Industrials since late October (right). This is because of relative margin expansion for more of the value stocks from a lower level.

Industrials ex. Micro Cap.
Growth vs. Value Median Price-to-Forward Earnings Ratio
Through March 20th, 2026



Source: Trivariate Research

Industrials ex. Micro Cap.
Growth vs. Value Cap-Weighted Performance
Through March 20th, 2026



Source: Trivariate Research

LARGE-CAP INDUSTRIALS HAVE NEVER BEEN MORE EXPENSIVE...

At the sector level, there is no doubt that Industrials are now expensive. The price-to-forward earnings of the median Industrial stock in the top 500 by market cap. is at an all-time high, even as the market excluding Industrials has seen some modest multiple erosion of late.

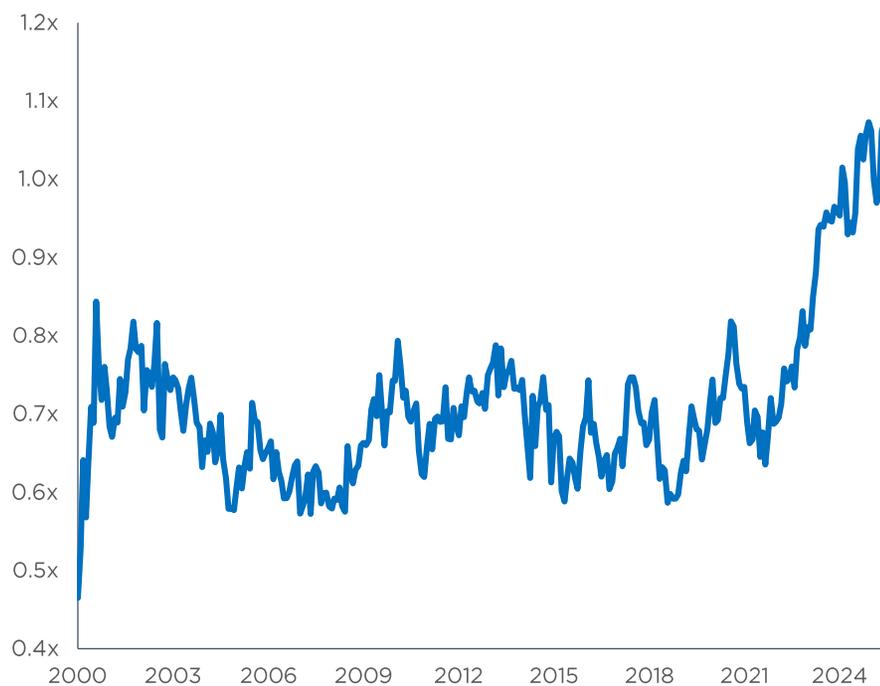
Median PEF: Top 500 Industrials vs. Top 500 ex-Industrials
Through March 20th, 2026



...ON EARNINGS, AND ON EV-TO-FORECASTED SALES AND FCF YIELD

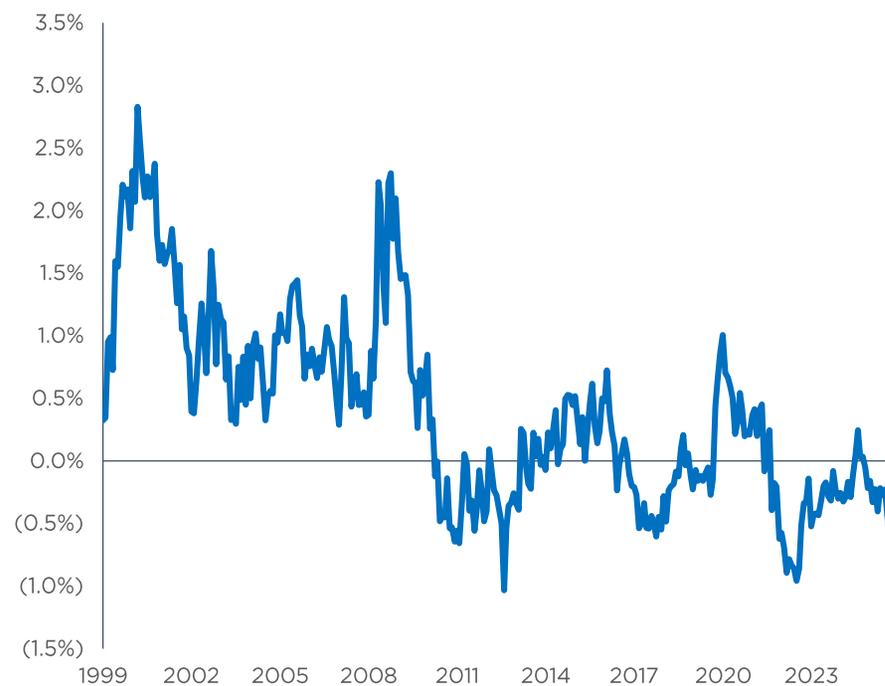
The extreme valuation of Industrials is also true on Enterprise Value-to-Forecasted sales (left) and on free cash flow yield (right), which is now 60bps worse than the market ex-Industrials.

Median EV-to-Forecast Sales Ratio
Top 500 Industrials vs. Top 500 ex-Industrials
Through March 20th, 2026



Source: Trivariate Research

Median Relative FCF Yield
Top 500 Industrials vs. Top 500 ex-Industrials
Through March 20th, 2026

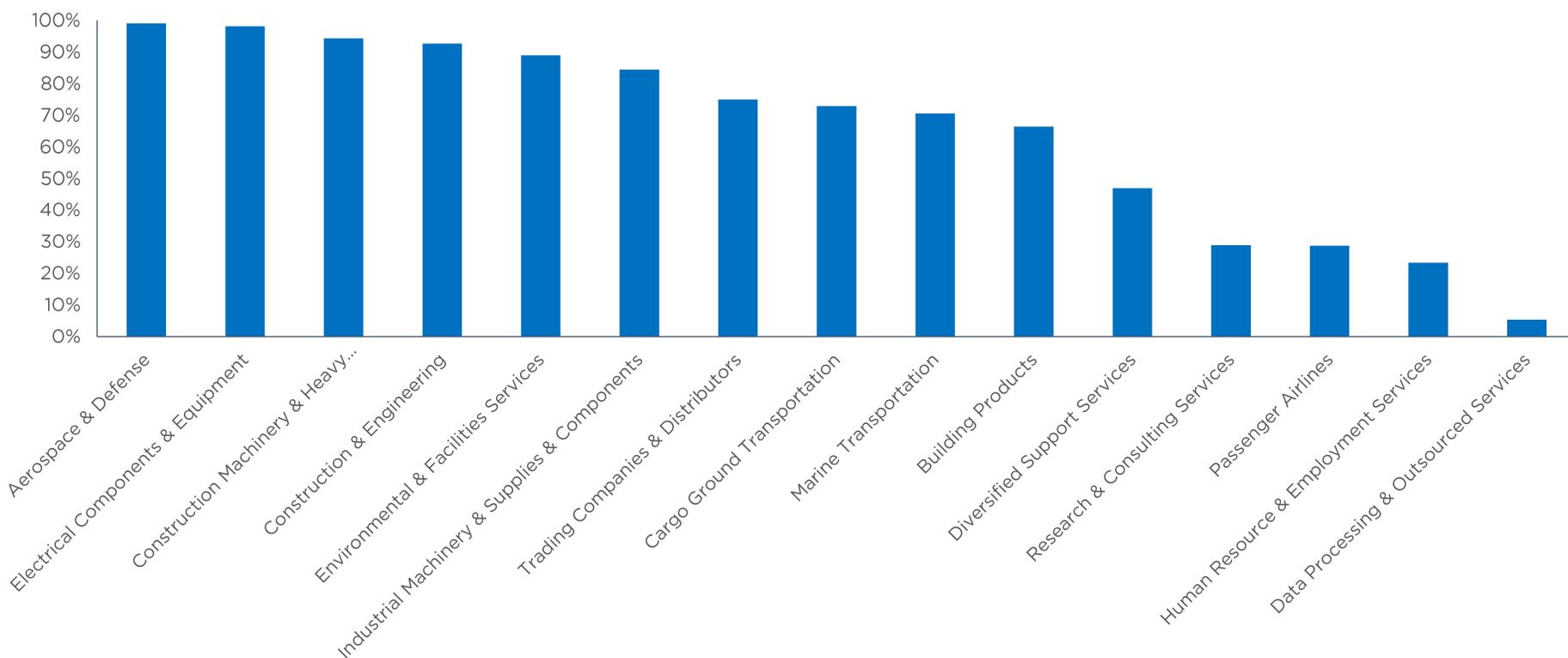


Source: Trivariate Research

SELECT SUB-INDUSTRIES ARE QUITE EXPENSIVE VS. HISTORY

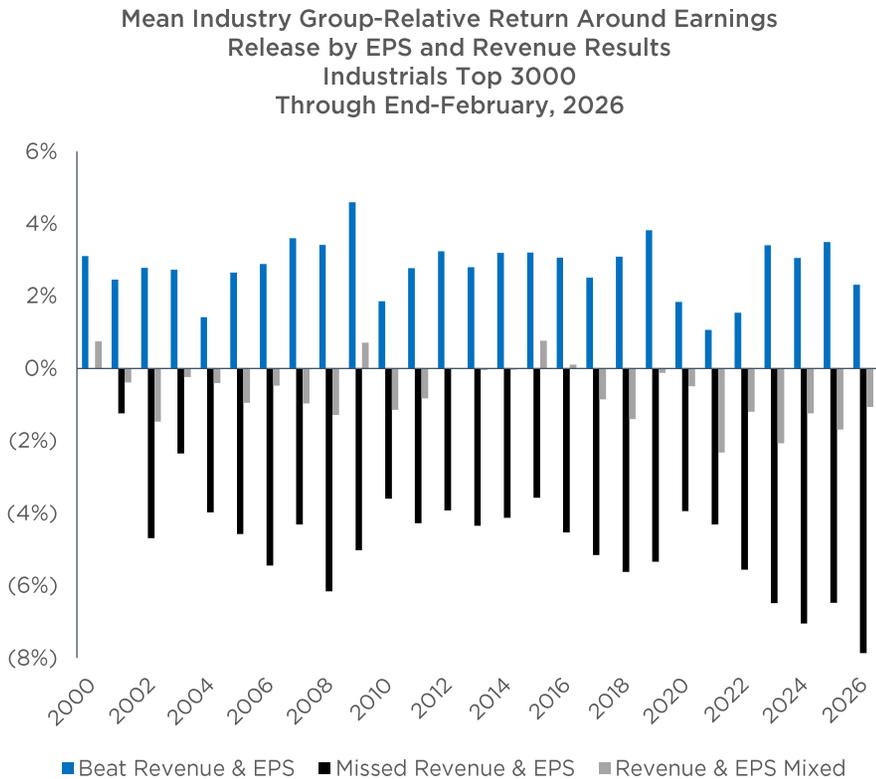
The only sub-industries where valuation looks cheaper than average vs. their own histories have extremely challenged fundamentals. Six industries have only been more expensive on price-to-forward earnings 15% of the time or less in the last quarter century, including Aerospace & Defense (99th percentile), Electrical Equipment (98th percentile), Construction Machinery, Construction & Engineering, Environmental Services, and Machinery Supplies & Components. Only Research & Consulting Services, Airlines, Employment Services, and Data Processing are cheap vs. their own histories.

Median Price-to-Forward Earnings
Top 900 Industrials By Sub-Industry Percentile vs. Own History
Through End-February, 2026

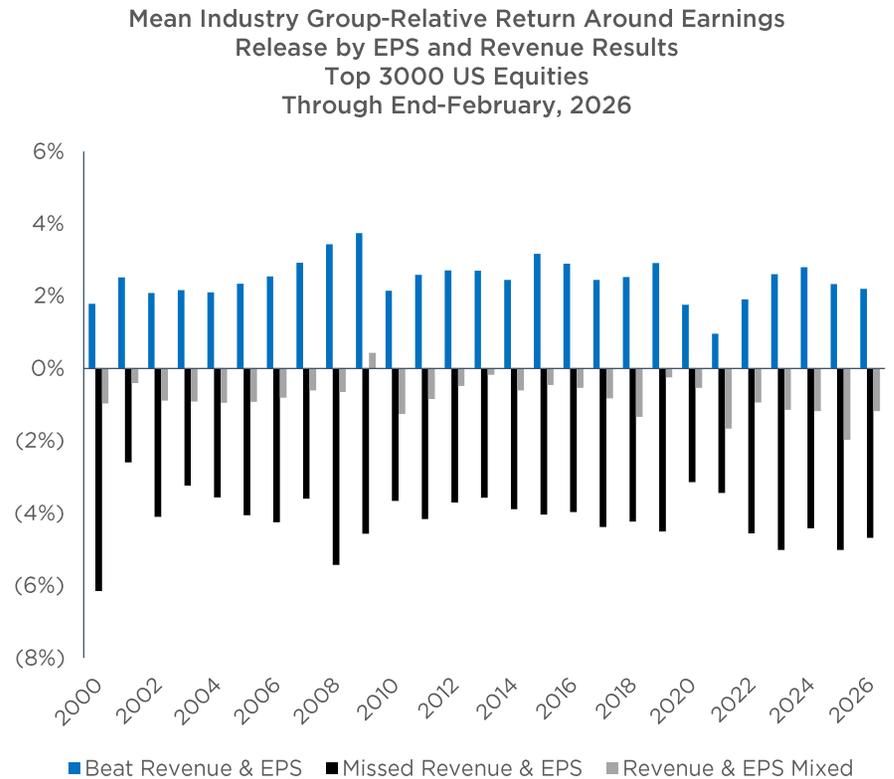


THE PENALTY FOR MISSING IN INDUSTRIALS IS EXTREME

With high valuations, it is important to note that a market-wide phenomena is even more pronounced in Industrials – and that is that the penalty for missing is harsher than the reward for beating estimates. On the left, we show that the penalty for an Industrials stock missing both revenue and earnings has not been worse than it is today in more than 25 years. And while the penalty for missing is still harsh in the broader market (right), it is clear that the asymmetric punishment for missing estimates is more extreme in Industrials than it is market-wide.



Source: Trivariate Research



Source: Trivariate Research

INDUSTRIALS THAT HAVE MISSED ON REVENUE AND EPS

Since February 17th, 22 Industrials have reported and missed on both revenue and EPS estimates. The average 1-day return following the report for these companies is -8.5%, with only five of the companies managing positive returns on the day after their reports.

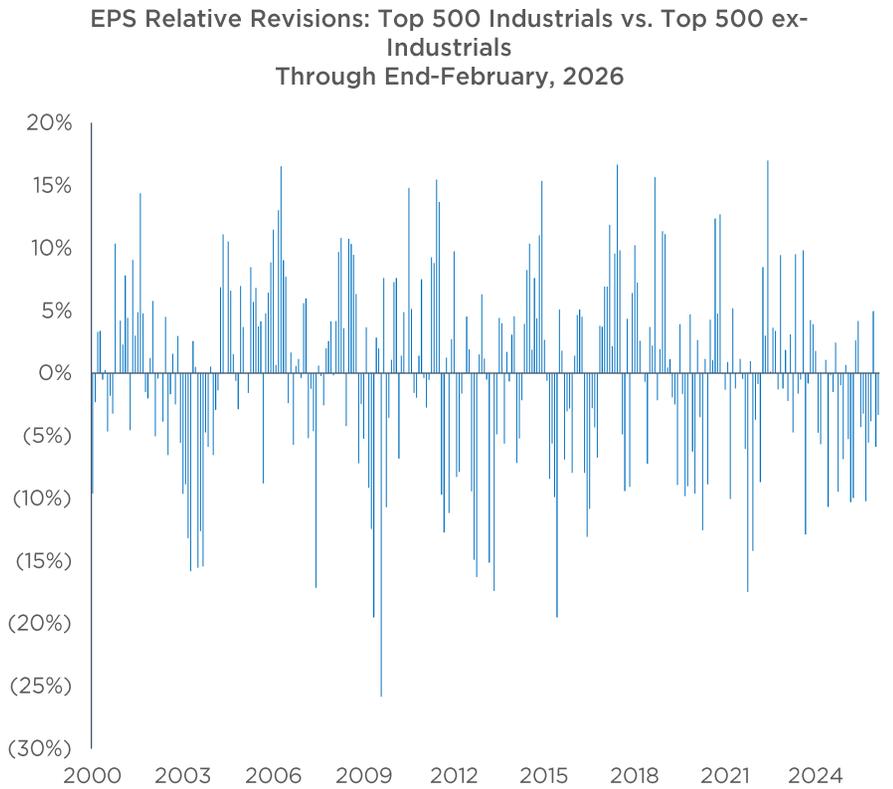
Most Recent Industrials Stocks to Miss on Both Revenue and EPS
As of March 20th, 2026

Ticker	Company	Sub-Industry	Earnings Date	Market Cap (\$Bn.)	1-Day Reaction
TIC	TIC Solutions, Inc.	Research & Consulting Services	2026-03-12	2.1	(12.1%)
VOYG	Voyager Technologies, Inc.	Aerospace & Defense	2026-03-09	1.6	5.1%
AVAV	AeroVironment, Inc.	Aerospace & Defense	2026-03-06	12.5	4.8%
DSGR	Distribution Solutions Group, Inc.	Trading Companies & Distributors	2026-03-05	1.4	(20.5%)
ALG	Alamo Group Inc.	Agricultural & Farm Machinery	2026-03-02	2.6	(12.1%)
GTLS	Chart Industries, Inc.	Industrial Machinery & Supplies & Components	2026-02-27	9.8	0.4%
DCI	Donaldson Company, Inc.	Industrial Machinery & Supplies & Components	2026-02-26	11.8	(9.8%)
SMR	NuScale Power Corporation	Heavy Electrical Equipment	2026-02-26	4.9	(0.9%)
EOSE	Eos Energy Enterprises, Inc.	Electrical Components & Equipment	2026-02-26	4.7	(47.9%)
OC	Owens Corning	Building Products	2026-02-25	9.8	(3.2%)
CBZ	CBIZ, Inc.	Research & Consulting Services	2026-02-25	2.1	9.9%
AWI	Armstrong World Industries, Inc.	Building Products	2026-02-24	7.9	(11.8%)
TNC	Tennant Company	Industrial Machinery & Supplies & Components	2026-02-24	1.4	(25.0%)
UFPI	UFP Industries, Inc.	Building Products	2026-02-23	6.0	(0.6%)
CPRT	Copart, Inc.	Diversified Support Services	2026-02-19	39.3	(2.2%)
CAR	Avis Budget Group, Inc.	Passenger Ground Transportation	2026-02-18	4.0	(20.4%)
WSO	Watsco, Inc.	Trading Companies & Distributors	2026-02-17	14.7	0.6%
ALLE	Allegion plc	Building Products	2026-02-17	14.2	(9.2%)
BLDR	Builders FirstSource, Inc.	Building Products	2026-02-17	12.7	(0.5%)
VMI	Valmont Industries, Inc.	Construction & Engineering	2026-02-17	8.8	(4.0%)
FELE	Franklin Electric Co., Inc.	Industrial Machinery & Supplies & Components	2026-02-17	4.4	(16.3%)
HLMN	Hillman Solutions Corp.	Industrial Machinery & Supplies & Components	2026-02-17	1.8	(11.7%)

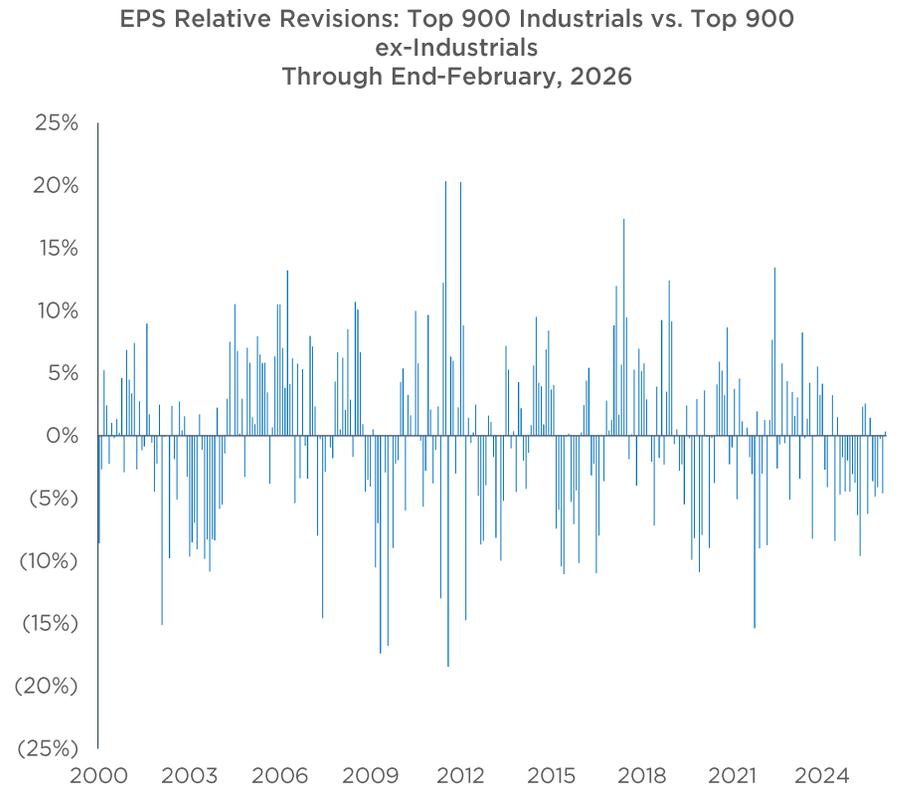
Source: Trivariate Research

RELATIVE REVISION TRENDS FOR INDUSTRIALS HAVE BEEN POOR

With this backdrop of harsh penalties, we should note that among the Top 500 stocks, Industrials have had quite poor relative revisions over the last two years, with only 6 months in the last 24 seeing better relative revisions (left). Expanding the universe to the top 900 by market cap. does not change this, as still only 6 of the last 24 months have seen positive relative revisions (right).



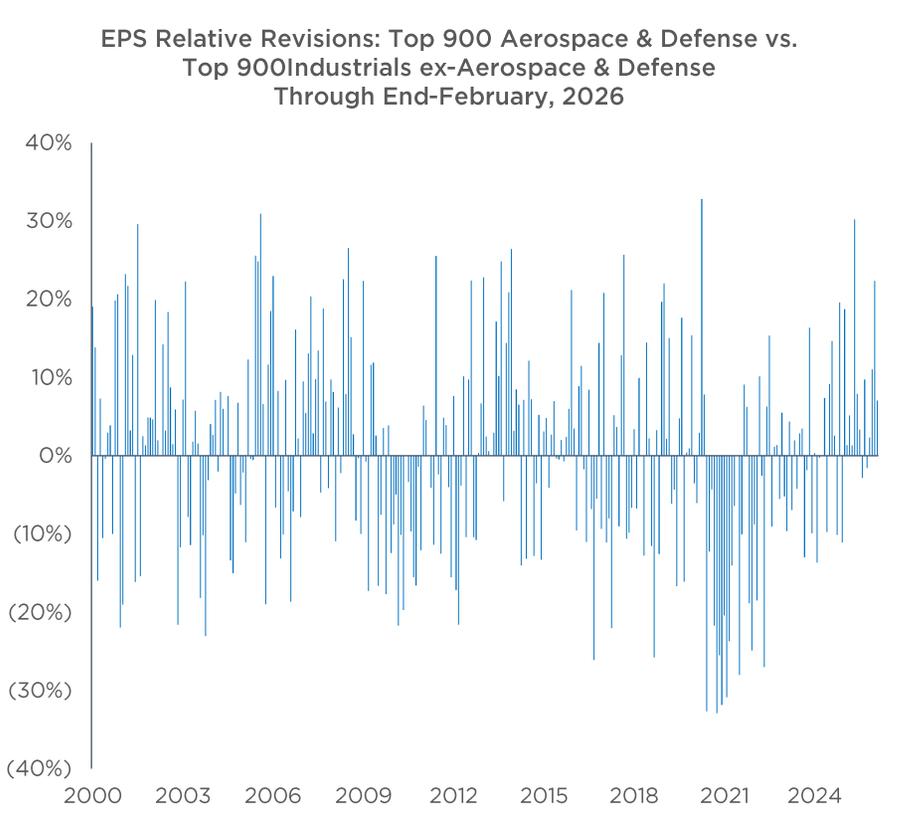
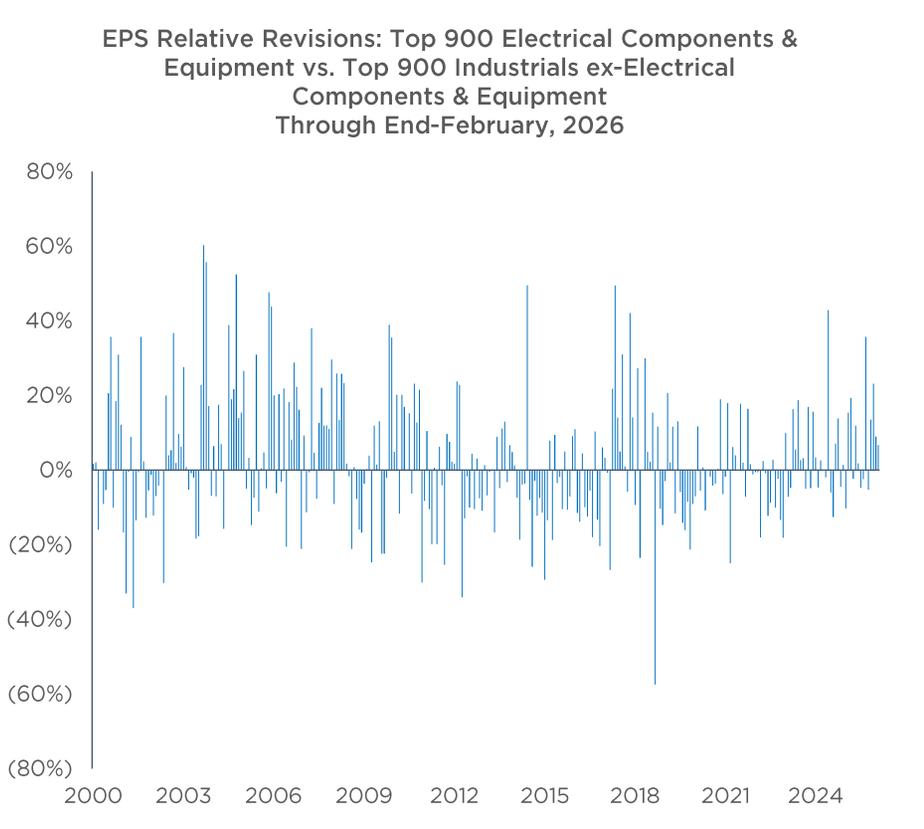
Source: Trivariate Research



Source: Trivariate Research

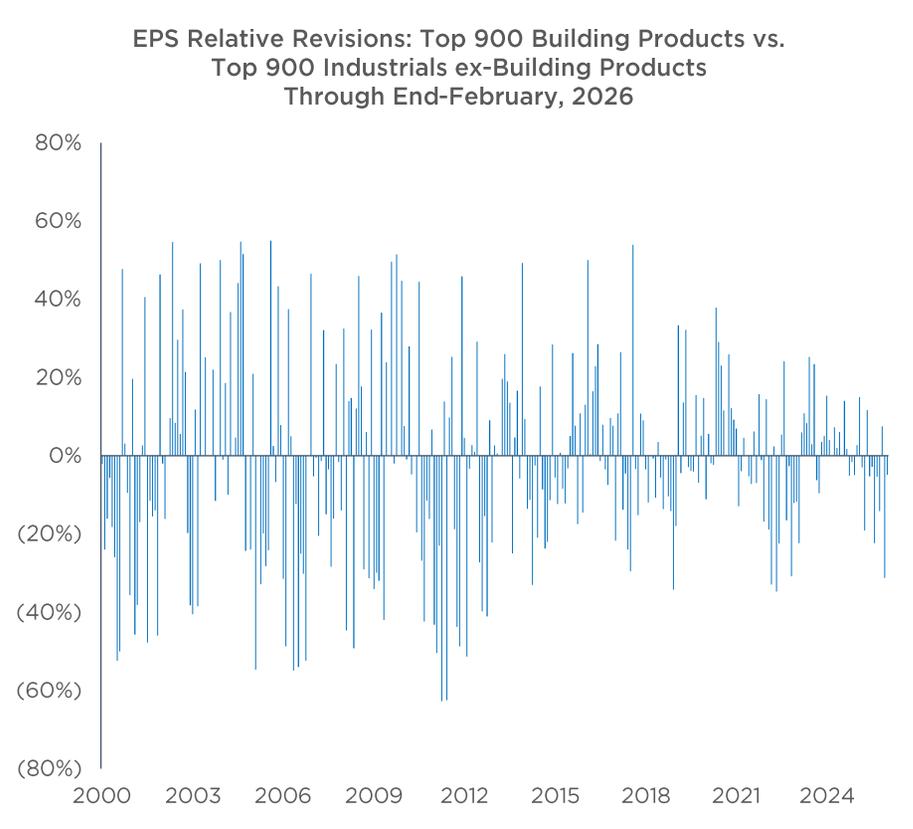
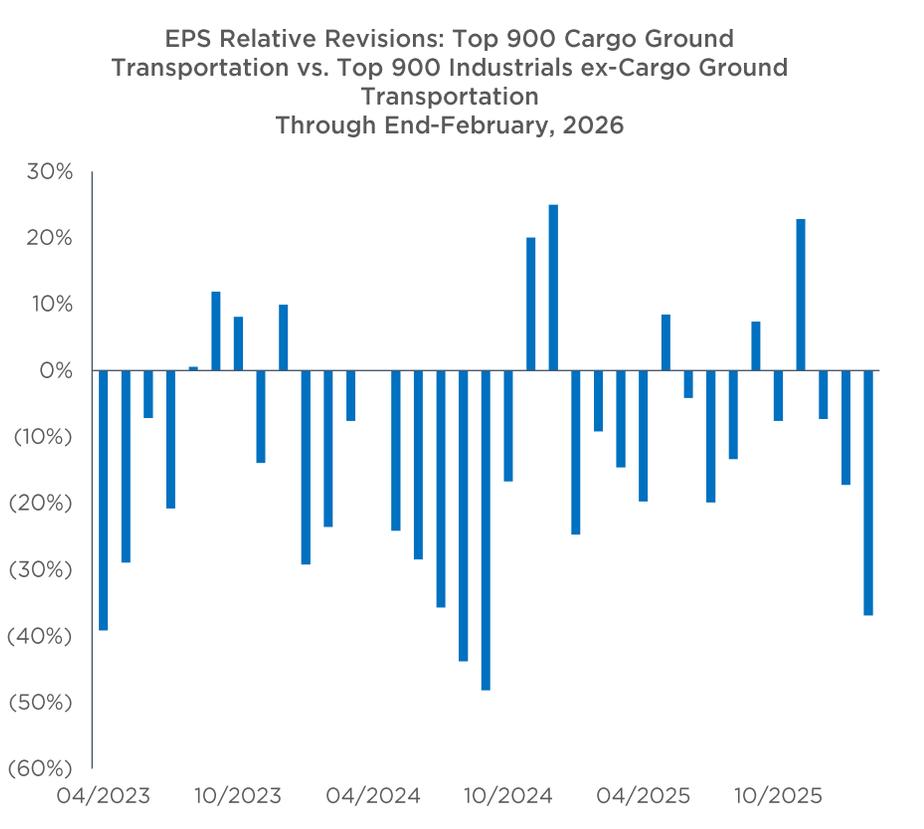
RELATIVE TRENDS HAVE BEEN BEST IN ELECTRICAL AND A&D

The sub-industries where relative revision trends have been best are in Electrical Components & Equipment (left), and in Aerospace & Defense (right).



TRENDS HAVE BEEN WORST IN CARGO AND BUILDING PRODUCTS

Relative revisions have been worst in Cargo Ground Transportation (left) and Building Products (right).



TRAILING EPS WORKS BETTER THAN FORECASTED GROSS MARGINS

We tracked 250 factors in our library, and looked at what worked over the long-term, and over the last five years for picking winners from losers within the Industrials sector- combining so many disparate sub-industries can make quantitative work challenging. Trailing 12 quarter EPS growth has worked well since 2020, after adding limited value the previous 20 years. Forecasted gross margin, a favorite signal of ours broadly, has failed miserably the last five years.

Best and Worst Performing Signals in Top 500 Industrials Since 2020 vs. Since 1999
Long Q1, Short Q5 Spreads
As of End-February, 2026

Signal	Since 2020 Sharpe Ratio	Since 1999 Sharpe Ratio	Difference In Sharpe Ratio	Since 2020 Annualized Mean Return	Since 1999 Annualized Mean Return	Difference In Annualized Mean Return
EPS Growth (Trailing 12Q)	0.80	0.10	0.71	10.7%	1.5%	9.21%
Forecast Net Margin Expansion	0.31	(0.31)	0.62	2.9%	(3.1%)	6.00%
1M % Change in Forward EPS	0.44	(0.18)	0.61	4.8%	(2.1%)	6.99%
Dividend Coverage	0.64	0.11	0.53	8.9%	1.5%	7.45%
Indicated Dividend Growth	0.25	(0.24)	0.49	3.1%	(2.6%)	5.74%
Revenue Growth	0.34	(0.14)	0.47	5.7%	(2.0%)	7.73%
Beta	0.66	0.24	0.41	14.8%	4.9%	9.93%
EPS Growth	0.56	0.17	0.40	7.1%	2.2%	4.87%
Indicated Dividend Coverage	0.57	0.17	0.40	5.8%	2.0%	3.82%
252d Momentum	0.31	(0.05)	0.36	5.8%	(1.0%)	6.79%
Short Interest	0.44	0.67	(0.22)	4.8%	6.8%	(2.03%)
Total Yield	(0.17)	0.09	(0.26)	(2.3%)	1.3%	(3.66%)
Net Margin	(0.13)	0.18	(0.32)	(2.0%)	2.6%	(4.54%)
Avg Incremental Gross Margin (12Q)	(0.40)	(0.07)	(0.34)	(5.4%)	(0.8%)	(4.60%)
Accruals	(0.51)	(0.16)	(0.35)	(5.8%)	(1.9%)	(3.92%)
Indicated Annual Dividend Yield	(0.24)	0.14	(0.38)	(4.1%)	2.1%	(6.16%)
R&D-to-Sales	(0.30)	0.08	(0.39)	(4.4%)	1.2%	(5.63%)
Free Cash Flow Yield	0.01	0.47	(0.46)	0.1%	5.3%	(5.17%)
Price-to-Earnings	(0.16)	0.32	(0.49)	(2.2%)	4.3%	(6.54%)
Forecast Gross Margin	(0.69)	(0.02)	(0.67)	(10.2%)	(0.3%)	(9.94%)

Source: Trivariate Research

BUILDING PRODUCTS AND MACHINERY ARE THE MOST MACRO

While Industrials are considered a “macro” sector, we track the company-specific risk (CSR), # of stocks with correlation to each other of more than 0.6 and the pairwise correlation (PWC) of each of the sub-industries. The most macro parts of Industrials are Building Products, Industrial Machinery & Supplies & Components, and Construction Machinery. Marine, Environmental, and Support Services are less macro.

Company-Specific Risk (CSR), Replicability, and Pairwise Correlation (PWC)
By Industrials Sub-Industry
As of End-February, 2026

Sub-Industry	CSR	CSR %tile vs. Own History	3-Month Change in CSR	Mean Replicability (# of stocks with >0.6 correlation)	Median PWC (126-Day)
Marine Transportation	78.2%	91.0%	(3.5%)	4.0	37.8%
Environmental & Facilities Services	74.9%	100.0%	7.3%	2.3	28.1%
Diversified Support Services	68.6%	98.7%	(1.1%)	2.0	21.5%
Research & Consulting Services	68.0%	82.6%	(1.9%)	8.6	24.1%
Data Processing & Services	65.8%	94.8%	2.7%	21.3	22.8%
Passenger Airlines	63.2%	70.4%	10.1%	93.0	54.1%
HR & Employment Services	60.6%	82.5%	1.1%	9.0	37.5%
Aerospace & Defense	60.5%	68.7%	(8.1%)	6.9	34.0%
Trading Companies & Distributors	59.5%	80.8%	1.3%	35.3	30.5%
Cargo Ground Transportation	55.7%	34.9%	5.1%	40.1	59.2%
Construction & Engineering	55.6%	57.9%	(4.3%)	20.2	39.4%
Electrical Components & Equipment	54.6%	66.6%	(1.5%)	57.1	35.1%
Construction Machinery	52.2%	62.8%	1.6%	97.1	39.4%
Machinery & Supplies & Components	51.4%	86.9%	2.5%	122.5	33.1%
Building Products	51.0%	50.8%	4.1%	40.1	40.0%

Source: Trivariate Research

WHERE SHOULD INDUSTRIALS PMS AND ANALYSTS SPEND THEIR TIME?

Looking at change and level of CSR, change and level of PWC, change and level of valuation dispersion, and the % of stocks beating or lagging by 20% or more over the last 12 months, we attempt to point Industrials PMs into areas that are more or less macro. We rank the 15 sub-industries on each of these seven metrics. Electrical Components, Construction Machinery, Building Products, and A&D are more PM / CRO “calls.” On a relative basis HR, Data Processing, and Research and Consulting are where analysts should spend their time.

Available Alpha Rankings
By Industrials Sub-Industry
As of End-February, 2026

Sub-Industry	CSR Level	CSR Change	PWC Level	PWC Change	Valuation Dispersion Level	Valuation Dispersion Change	% Beating or Lagging	Mean Rank	3 Largest Tickers
HR & Employment Services	7	9	8	4	15	2	1	6.57	ADP, PAYX, PAYC
Data Processing & Services	5	12	1	6	14	4	6	6.86	BR, SSNC, G
Research & Consulting Services	4	15	2	11	8	5	5	7.14	VRSK, EFX, LDOS
Diversified Support Services	3	8	3	9	12	6	12	7.57	CTAS, CPRT, RBA
Cargo Ground Transportation	10	1	15	1	4	9	14	7.71	ODFL, XPO, JBHT
Machinery & Supplies & Components	14	3	11	2	7	8	10	7.86	PH, ITW, IR
Environmental & Facilities Services	2	4	4	13	5	15	13	8.00	WM, RSG, WCN
Marine Transportation	1	13	7	8	11	14	2	8.00	KEX, MATX, ZIM
Trading Companies & Distributors	9	2	6	10	3	12	15	8.14	GWW, URI, FAST
Passenger Airlines	6	5	14	5	6	10	11	8.14	DAL, UAL, LUV
Construction & Engineering	11	11	10	12	9	1	3	8.14	PWR, FIX, EME
Aerospace & Defense	8	14	5	15	1	11	4	8.29	GE, RTX, BA
Building Products	15	6	12	3	10	7	9	8.86	TT, JCI, CARR
Construction Machinery	13	7	13	7	13	3	7	9.00	CAT, CMI, PCAR
Electrical Components & Equipment	12	10	9	14	2	13	8	9.71	ETN, VRT, EMR

Source: Trivariate Research

LONG / SHORT INDUSTRIAL IDEAS

We looked for long ideas that are in the top quartile of both 12-Quarter trailing EPS growth and 1-Month change in forward EPS expectations that have at least 50% Company-Specific Risk (left). Short ideas include companies in the bottom quartile of both 12-Quarter trailing EPS growth and 1-Month change in forward EPS expectations (right). We also show each company's CSR and correlation to our AI Semiconductors basket.

**Long Ideas: Stocks in Top Quartile of 12Q Trailing EPS Growth and 1M Change in Forward EPS with at least 50% CSR
As of March 20th, 2026**

Ticker	Sub-Industry	Market Cap. (\$Bn.)	CSR	Correlation to AI Semis
HWM	Aerospace & Defense	92.70	59.8%	47.2%
PWR	Construction & Engineering	83.10	51.5%	70.2%
MTZ	Construction & Engineering	23.40	51.3%	68.0%
BR	Data Processing & Outsourced Services	20.36	65.8%	(20.5%)
CRS	Aerospace & Defense	18.05	76.0%	33.3%
TRU	Research & Consulting Services	13.59	50.9%	7.6%
AGX	Construction & Engineering	6.57	53.8%	51.3%
FSS	Construction Machinery & Heavy Transportation Equipment	6.43	58.9%	44.0%
PCTY	Human Resource & Employment Services	6.06	51.5%	(5.7%)
CAAP	Airport Services	3.97	72.0%	31.1%
EPAC	Industrial Machinery & Supplies & Components	1.90	60.1%	31.3%
HCSG	Diversified Support Services	1.33	67.0%	13.7%

Source: Trivariate Research

**Short Ideas: Stocks in Bottom Quartile of 12Q Trailing EPS Growth and 1M Change in Forward EPS
As of March 20th, 2026**

Ticker	Sub-Industry	Market Cap. (\$Bn.)	CSR	Correlation to AI Semis
DE	Agricultural & Farm Machinery	151.19	70.2%	3.4%
UPS	Air Freight & Logistics	81.45	57.4%	10.9%
WSO	Trading Companies & Distributors	14.13	56.8%	24.4%
CNH	Agricultural & Farm Machinery	12.35	63.0%	21.4%
OC	Building Products	8.04	42.9%	15.9%
AAL	Passenger Airlines	6.89	61.6%	31.7%
MIDD	Industrial Machinery & Supplies & Components	6.41	52.2%	18.1%
CWST	Environmental & Facilities Services	4.94	75.3%	3.4%
TREX	Building Products	3.74	51.0%	7.4%
HRI	Trading Companies & Distributors	3.35	55.4%	24.3%
ALG	Agricultural & Farm Machinery	1.94	56.5%	16.6%
CNXC	Data Processing & Outsourced Services	1.93	66.0%	11.8%
ALGT	Passenger Airlines	1.41	59.1%	31.0%
CCEC	Marine Transportation	1.17	90.2%	28.5%
ROCK	Building Products	1.15	63.6%	23.6%

Source: Trivariate Research

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