TRIVARIATE RESEARCH

US Equities
March 24, 2026

VIDEO - What Are the Risks To Industrials Right Now?

[What Are the Risks To Industrials Right Now?](#)

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

Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

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.

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

Important Disclosures

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.