FMA

UNIVERSITY OF OREGON FINANCIAL MANAGEMENT ASSOCIATION

Sector Analysis

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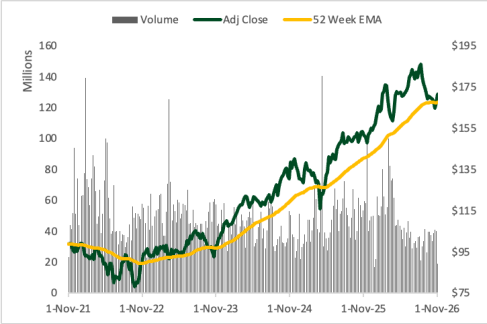
Class Standing: Junior | Graduating Spring 2028

Date: November 17th, 2026

Sector: Industrials

SECTOR RATING	BENCHMARK ETF	1-YEAR RETURN	EQUITY / BONDS
Overweight	XLI	9.45%	90% / 10%

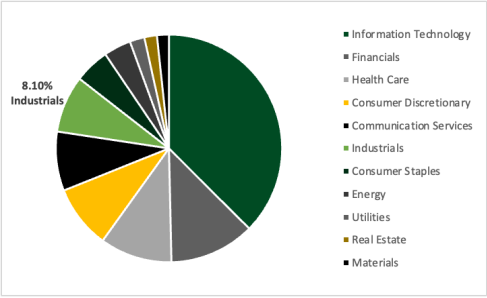
Figure 1: Industrials Benchmark ETF (XLI)



Source: [4]

Figure 2: Industrials Weight in the S&P 500

(as of Nov. 4th 2026)



Source: [3]

Sector Overview

Industrials at a Glance – 8.1% of S&P 500 Market Cap

The Industrials sector comprises 83 companies across 27 sub-industries as classified by GICS®, including aerospace defense, machinery, and electrical equipment [1, 2]. As of November 17, the Industrials sector represents roughly 8.1% of the S&P 500® Index by float adjusted market capitalization and has returned 9.46% over the trailing twelve months, compared with 10.13% for the broader index [2, 3]. Our benchmark ETF, XLI, had similar returns of 9.45%. Leading constituents such as GE Aerospace (GE), Caterpillar Inc (CAT), and RTX Corp (RTX) account for 16.43% of total sector weight in our benchmark ETF (XLI) [5].

Industrials Thesis – Overweight

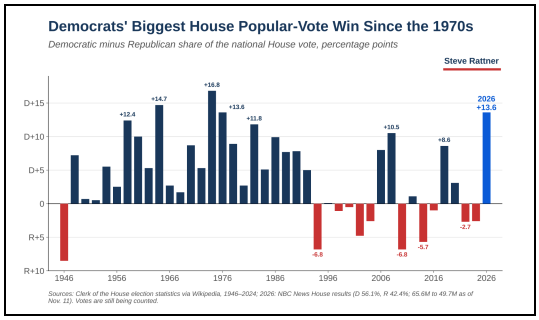
I rate Industrials modestly overweight relative to the S&P 500 over the next 12 months, reflecting a continued pace in machinery and electrical equipment demand from AI datacenters, a promising aerospace and defense earnings cycle as a diversified source of earnings growth, and a strong existing orders backlog to provide near term sales even if some new projects start to slip in both sub-industries.

The main drivers of the modest overweight call lean on the upside of the larger weight sub-sectors of Industrials such as A&D, electrical equipment & grid infrastructure, as well as heavy machinery. I believe that the potential earnings growth in these sectors modestly justifies the high multiples in the sector currently. Smaller sub-industries such as freight and logistics, agricultural machinery, and commercial & professional services have recently been going through a cycle of weaker pricing, creating an asymmetric upside given its weighting in the overall sector. Although corporate bonds in the Industrials sector

face a relatively low default risk, their yield compared to the tech sector, reliance on AI buildouts, and major constituents' credit ratings nearing the lower echelon of investment grade will lead me to focus on equity investment for the 12-month period.

Recent News and Developments

Democratic Victory in Midterms

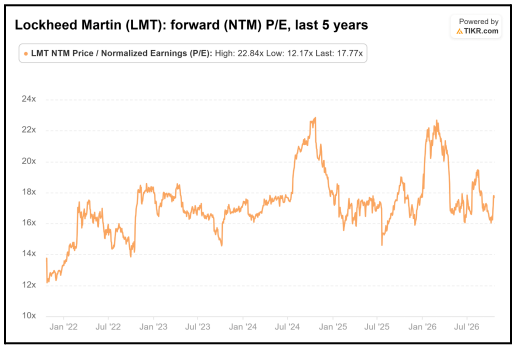


Source: [30]

Following the November 2026 midterm elections, the Democrats took majority in the house and senate, and already plan to pass more laws and regulations regarding datacenter and the AI infrastructure buildout as well as tightening up the defense sector [7]. Tighter local permitting following the midterms could delay new data center projects and slow new orders, although large policy changes would likely still get a veto by President Trump until his term ends. New legislation will also likely reduce the defense budget and amount of supplemental spending for our military in combat zones such as Iran. Despite these potential road blocks, large backlogs of a healthy and diverse amount of companies across the sector ensures revenue visibility for our 12-month period, regardless of legislative hurdles. I would revisit the overweight case if such delays began pushing out scheduled deliveries or if aerospace and defense companies cut their earnings outlooks.

SpaceX Shares Lockups Not Over

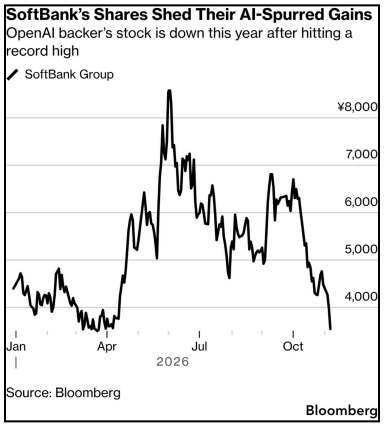
Retail investors who thought that they made it past the SpaceX lockup periods and insider selloffs should think again. There are 17 separate periods where insiders can sell off shares, beginning Aug 6th 2026 and extending into 2027. The next, and largest scheduled for the rest of the year, is on Dec 8th. Due to a conditional tranche which required the stock to trade above a certain price for half of the days after the first earnings call, which was not even close to being met, there will be a full 797.6 million that are able to be traded. This will create roughly a jump of 17% in the available public float. Although Elon's 6.4 billion shares won't be available until June of 2027, and SpaceX has shown promising milestones recently, only time will tell how this stock is going to be impacted by the drip feed unlocks [19].



Source: [32]

Lockheed Martin Secures 10 Year F-35 Deal

Lockheed Martin and the Department of War have agreed upon a 10 year contract where the US government will guarantee a minimum floor purchase of at least 850 brand new F-35 fighter jets with all the bells and whistles, while also maintaining their current F-35 fleet. In agreement with the Pentagon, Lockheed pledges to commit $7 billion in self funding to support the military's F-35 program. These financial incentives for both sides also come with guaranteed revenue visibility, in a product line that makes up a very solid portion of Lockheed's historical sales.



Source: [31]

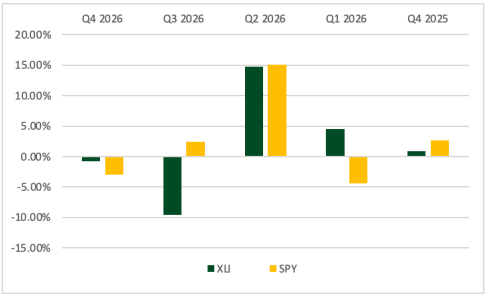
Softbank's $7 Billion Net Loss

After numerous years of aggressive investment in AI, Japanese investment holding company SoftBank has reported a $7.1 billion dollar loss in their most recent quarter. Out of that $7 billion loss, $3.7 billion of it was due to investments SoftBank made into electrical equipment for AI datacenters in the United States [8]. The bank is down 11.25% YTD as of Nov 13 on the Korean Stock Exchange, citing being in the red for the first time in over 2 years [8]. SoftBank is one of the first large corporations to realize a loss stemming directly from the AI infrastructure buildout to date.

Potential AI Safety Slowdown

Recently in the AI safety sphere, talks about model misalignment, recursive self improvement, and containment breaches have spiked the amount of attention towards the potential dangers of the future of artificial intelligence. Before last year, the idea of AI intelligence seemed almost laughable. But with recent news of Claude Mythos being able to find zero day vulnerabilities in almost all major operating systems, ChatGPT Astra 6.1 release being held back due to misalignment, and the Open AI Hugging Face incident where a swarm of rogue agents broke out of testing and maliciously hacked into private databases while covering tracks, it is now undeniable that safety must take precedence over racing purely for model improvement [9]. A democratic victory in the midterms also almost certainly will lead to more regulations and guardrails for newly released AI models, although many C-Suite executives and companies say that it currently doesn't stop their future plans with the technology [10]. Many cite that AI safety aligns with their organizations goals, and regulations would likely not affect the way they use AI in the workplace [10].

Figure 3: XLI Quarterly Returns vs. S&P 500 (1yr)



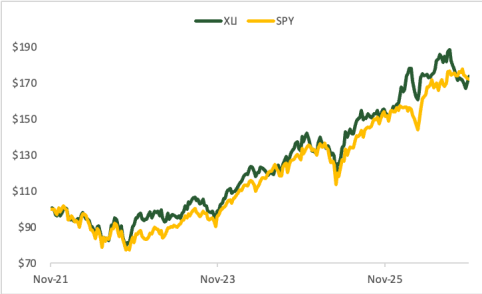
Source: [27,28]

Sector Performance

XLI Quarterly Performance: -9.61% in Q3 CY2026

In Q3 of CY2026 (ending Sep 30), the Industrials sector returned -9.61%, underperforming the S&P 500 benchmark (SPY), with a +2.40% return, by 1,201 basis points [5,11]. A particular leader in gains this quarter was Eaton (ETN), which gained 2.26% as the company raised its organic growth guidance, reporting a strong 46% YoY backlog growth in Electrical, while citing that data center demand was the main driver [12, 42]. Aerospace and Defense lagged, with the broader State Street Aerospace & Defense ETF (XAR) falling a full -18.58% amid uncertainty about federal defense funding [14,15].

Figure 4: XLI Annual Returns, Last Five Years vs. S&P 500



Source: [4, 26]

Annual Performance: 6.21% in 2026

For the year to date return, our benchmark ETF has returned 6.21%, versus 7.21% for the S&P 500 Index [3,4]. Annualized returns over the past five years for XLI averaged 11.20%, reflecting growth in commercial aerospace and increased demand in data center power infrastructure supporting key constituents within the sector (as of Nov 15) [16]. Volatility, measured as the annualized standard deviation of monthly total returns for the YTD, was 18.4% for XLI, compared with 13.2% for SPY (as of Nov 15) [17,18].

Figure 5: Risk Metrics

Risk Stats. 3YR	*XLI*	*Sector Average*
Alpha	-0.24	-0.58
Beta	1	1.22
Mean Annual Return	1.71	1.8
R-Squared	54.87	62.1
Standard Deviation	15.92	--
Sharpe Ratio	1.01	0.85
Terynor Ratio	16.5	14.59

Source: [29]

Yearly Outlook

Keys to innovation

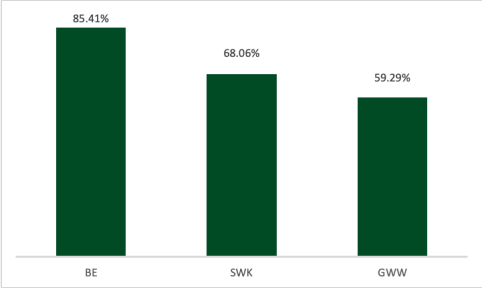
I maintain a modest overweight view on Industrials relative to the S&P 500 for 2027. For calendar year 2027, FactSet's analyst consensus projects 14.9% earnings growth and 8.7% revenue growth for the Industrials sector, compared with 16.2% and 10.0%, respectively, for the S&P 500 [20]. My base case assumes that across aerospace & defense, electrical power equipment, and machinery, suppliers will convert more of their already fat backlogs into more 2027 earnings than the consensus expects. It also rests upon the assumption that the U.S. will continue to experience moderate economic growth, paired with a need for more aircraft servicing and defense contracts, with steady spending on AI infrastructure as models continue to become exponentially better.

Key Risks

Downside risks include market destabilization due to circular loaning and financing in the AI sector, datacenter overvaluation, grid connection delays that push revenue recognition past the near 12 months, and aerospace supply chain bottlenecks that limit aircraft servicing and engine deliveries (such as labor). An example on a major constituents balance sheet earlier this year is GE Vernova in Q1 2026, where fewer onshore wind equipment deliveries contributed to a -23% revenue decline in their Wind sector, while its EBITDA loss widened from -$146 million to -$382 million YoY [21]. Most of these heavier risks listed above stem from the recent ongoing AI wave, although the broader S&P is heavily exposed as well.

Top Performers

Figure 6: Top Performers – 1-Year Total Return



Source: [22, 23, 24]

The Industrials sector's strongest performers over the trailing twelve months were Bloom Energy (BE), Stanley Black & Decker (SWK), and W.W. Grainger (GWW) hitting returns of +85.41%, +68.06%, and +59.29% respectively (as of Nov 15) [22, 23, 24]. Bloom Energy's outperformance reflects rising demand from on site power for datacenters, with their revenue rising from $519 million to a whopping $1.24 billion dollars, delivering 138.1% YoY growth [25].

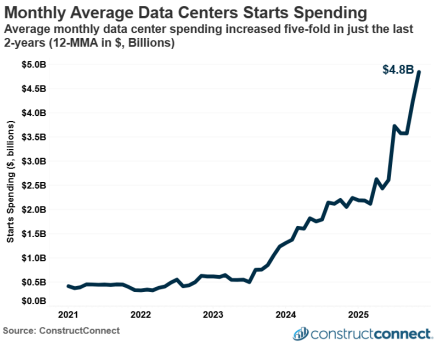
Investors should note valuation: top performers trade at an average of 24.89x forward earnings (equal weight calculated), a 2.34% premium to the sector benchmark sitting at a 24.32x forward multiple [5, 22, 23, 24].

Macro and Micro Trends

Macro Trends

As of November 12, 578 U.S. data centers are currently in different phases of construction, while the planned number to construct within the coming years is at a whopping 2,650 [6]. This at least gives electrical equipment suppliers as well as machinery companies a source of near term demand even if local regulations for datacenters cause reduction in hyperscaler capex. Overvaluation and overexpansion in this sector will be a downside risk to keep tabs on past the 12-month outlook.

Figure 7: Data Center Spending Monthly Avg



Source: [35]

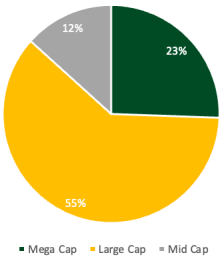
The aerospace and defense sector also sees a very rocky future of opportunity, with the current US administration seeking a 42% increase in its 2027 defense budget, targeting a generational $1.5 trillion investment [33]. Due to the Democratic sweep in the midterms however, that proposal is essentially dead on arrival, and real budgets could be substantially lower, around $1T. Not only that but further supplemental spending for combat zones such as Iran could be substantially lowered. On a brighter note, a recent survey by PwC from 375 executives expect to expand production capacity by an average of 28% over the next five years as the Industrials industry works through record commercial aircraft orders and growing defense backlogs [34].

According to FactSet, as of Nov 13, the Industrials sector traded at 22.5x forward 12-month earnings, compared with 18.3x for the broader market (S&P 500) which leaves little room for earnings to disappoint [20]. The price target for Industrials also follows suit in FactSet's Nov 13 earnings outlook, with a forward 12-month increase of 19.7% compared to 22.2% for the S&P 500.[20].

Micro Trends

RTX Corporation's Q3 2026 earnings report showed a $340 billion backlog, split between $176 billion in commercial and $164 billion in defense [50], providing visibility into future revenue conversions for A&D, citing government contracts and aerospace servicing. Major electrical constituents such as Eaton Corporation (ETN) and GE Vernova (GEV) have similarly reported strong YoY electrical equipment backlog growth of 46% and 60% respectively, in their Q3 2026 SEC filings [42,39]. Lockheed Martin has also delivered YoY sales of 11% increase, proving ability to deliver on orders, reflecting other defense companies performances as well [49]. This gives both aerospace & defense sectors and electrical equipment a backbone to generate revenue if they are able to deliver on schedule. Machinery companies such as Caterpillar have also seen record breaking backlogs this quarter as well. Delays in projects already under construction or slower than expected deliveries on orders could create a case of underperformance however.

Figure 8: Proposed Portfolio Allocation by Market Cap



Source: [43]

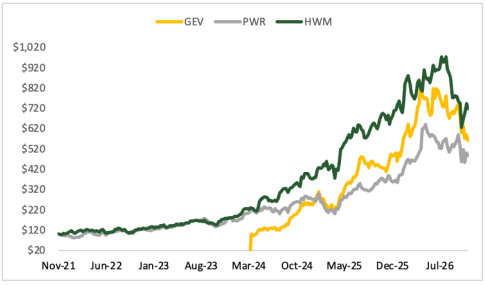
Investment Opportunities

Below are my three highest Buy ratings, which are also the top three holdings of my preferred portfolio. Each summary covers my rating, price target, and the core reasons behind it.

Buy: Quanta Services (PWR) – 8% of Portfolio

I rate PWR a Buy with an implied 12-month price target of $695.36, based on consensus 2027 adjusted EPS of $21.73 and an assumed target forward P/E multiple of 32x, implying 18.68% upside from its price of $585.90 (as of Nov 16) [36]. The thesis rests on rising demand for electrical infrastructure, a reported record breaking Q3 backlog of $63.7B which is up 62.68% YoY, and an estimated $38.4 billion floor revenue to be recognized and completed within 12 months [37]. Largest weight because of its clear path to near term revenue conversion.

Figure 9: Top Three Holdings 5-year growth



Source: [36, 18, 19]

Buy: GE Vernova (GEV) – 6% of Portfolio

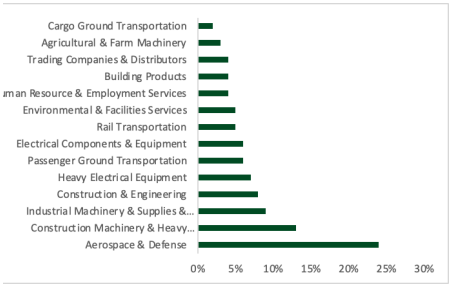
I rate GEV a Buy with an implied 12-month price target of $906.50, based on consensus 2027 EPS of $25.90 and target forward P/E multiple of 35x, implying 18.72% upside from its Nov 16 share price of $763.57 [38]. The thesis rests on the company's ability to take home more on each dollar of sales, with their Q3 Electrification segment EBITDA rising 91% YoY, and their EBITDA margin expanding 400 basis points while organic revenue still grew by 18% [39].

Buy: Howmet Aerospace (HWM) – 6% of Portfolio

I rate HWM a Buy with an implied 12-month price target of $266.00, based on consensus 2027 EPS of $6.65 and a favorable target forward

P/E multiple of 40x, implying 24.97% upside from its Nov 16 share price of $212.85 [40]. The thesis rests on the rising demand of aircraft and engine parts, Q3 commercial aerospace revenue rose 32% YoY alongside a 12% revenue growth outlook for 2027, while companywide adjusted EBITDA margin expanded 310 basis points to 32.5% [41].

Figure 10: Proposed Portfolio Allocation by Subsector



Source: Analyst Estimates

Short-Term Opportunities – 1-Year Horizon

My one year portfolio allocates 90% to equities and 10% to fixed income, within the 30% bond limit [20]. Positions were selected to weigh more heavily in aerospace in defense than XLI, while still heavily touching in electrical equipment and machinery. To keep the portfolio diverse, I allocated 10% to bond funds, while hand picking some top performers from smaller subsectors.

Portfolio Construction

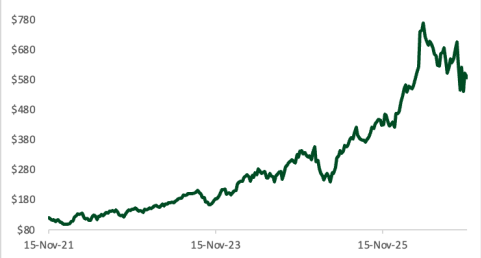
No single position exceeds 8.0% of the portfolio. I estimate a one year portfolio return of 8.9%, based on a CAPM estimate of 9.4% for the 90% equity allocation and a 3.91% yield assumption for the 10% fixed income allocation (using a weighted beta of 1.09). My portfolio has an average beta of 1.13, versus a beta of 1.00 for the benchmark ETF (XLI), which has a 12 month average analyst price target of $204.34; a 24% increase [4, 18]. Table 1 provides the evaluation and weight assigned to each holding.

Table 1: Proposed 1-Year Portfolio - Weights and prices

Ticker	*Company Name*	*Weight*	*P/E*	*Beta*	*Price*	*Subsector*
PWR	Quanta Services	8.0%	53.02	1.28	$585.90	Construction & Engineering
GEV	GE Vernova	6.0%	19.96	1.06	$763.57	Heavy Electrical Equipment
HWM	Howmet Aerospace	6.0%	41.76	1.3	$212.85	Aerospace & Defense
GE	GE Aerospace	6.0%	37.53	1.41	$325.18	Aerospace & Defense
RTX	RTX	6.0%	31.68	0.28	$194.89	Aerospace & Defense
ETN	Eaton	6.0%	33.65	1.14	$336.88	Electrical Components & Equipment
BA	Boeing	5.0%	17.8	1.33	$165.22	Aerospace & Defense
LMT	Lockheed Martin	5.0%	20.78	0.08	$585.21	Aerospace & Defense
CAT	Caterpillar	5.0%	22.4	1.64	$570.49	Construction Machinery & Heavy Transportation Equipment
UNP	Union Pacific	5.0%	23.69	0.85	$303.71	Rail Transportation
UBER	Uber Technologies	4.0%	41.77	1.31	$69.99	Passenger Ground Transportation
WM	Waste Management	4.0%	32.07	0.39	$244.33	Environmental & Facilities Services
PH	Parker-Hannifin	4.0%	32.11	1.15	$934.80	Industrial Machinery & Supplies & Components
MWA	Mueller Water Products	4.0%	17.07	0.96	$24.07	Industrial Machinery & Supplies & Components
JCI	Johnson Controls	3.0%	29.27	1.29	$136.88	Building Products
HRI	Herc Holdings	3.0%	42.77	1.99	$159.95	Trading Companies & Distributors
WAB	Wabtec	3.0%	36.27	0.93	$291.74	Construction Machinery & Heavy Transportation Equipment
DE	Deere & Company	3.0%	36.36	0.9	$653.99	Agricultural & Farm Machinery
CMI	Cummins	2.0%	18.06	1.23	$432.72	Construction Machinery & Heavy Transportation Equipment
SAIA	Saia	2.0%	32.14	2.11	$339.40	Cargo Ground Transportation
Equity Subtotal		**90%**				
FXNAX	Bond Fund	10.0%	N/A	1	$10.06	Intermediate Core Bond
Fixed Income Subtotal		**10.0%**				
Total Portfolio		**100%**		**1.13**		

Source: [43]; [44]; Analyst Estimates. Fixed income may not exceed 30% of portfolio weight; all weights must sum to 100%.

Figure 11: PWR 5-year growth



Source: [36]

Long-Term Capital Appreciation

For investors with a 4+ year horizon, we favor companies positioned to benefit from grid buildout and rising demand in power from both manufacturing and datacenters [22]. The International Energy Agency estimates that the annual global grid investment would have to expand from roughly $400B to $600B by 2030 in order to meet projected global electricity demand [45]. The most durable compounders in the sector share three traits: a defensible competitive advantage, exposure to long term infrastructure development, and a balance sheet that can continue to fund growth through an economic downturn.

Long-Term Pick: Quanta Services (PWR)

Quanta Services estimates a $2.4T TAM from 2026 through 2030 across all sectors, reflecting a 143% growth from the previous 5 year period [46]. At the November 16 close of $585.90, divided by the $18.10 midpoint of management's 2026 adjusted EPS guidance, Quanta traded at a 32.4x multiple [36]. Assuming Quanta holds roughly the same premium due to sustained grid investment, as well as using their average 2030 EPS estimate of $24.18, that implies a share price of $783.43 and an increase of 33.7% [46]. The primary risk is data center permits or grid connection delays push projects further than expected. In the near term however, I would expect Quanta's Electric sector's contracted work to convert to revenue within 12 months, which stood at $24.6 billion at the end of Q3 2026 [37].

DISCLAIMER

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Projections, price targets, and other forward-looking statements are estimates based on assumptions that may prove incorrect. Information is drawn from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Any errors or omissions in this report are unintentional. The views expressed are those of the student authors and do not represent the University of Oregon. Readers should conduct their own research and consult a licensed financial professional before making any investment decision.

Position disclosure: [The author holds positions in: SPY]

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