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Industrials Sector Overview:

The industrials sector is 9.4% of the S&P 500. The sector is highly cyclical, performing best in early and maturing expansion. Currently, the sector is outperforming the S&P 500. By looking at a further breakdown of the sector, it can be shown that the airlines sector is the only subsector of the industrials sector that is performing under the S&P 500.

Top Performers of the Industrials Sector:

Boeing is the top industrial player, with a market value double that of the next top player, Honeywell International.

Key Drivers & Risks of the Industrials Sector:

- Low Inventory Levels
 - Since the products of this industry tend to be large and hard to store, having low inventory levels saves storage costs.
 - The Industrials Sector overall tends to have poor, inefficient systems for ordering new products. This can lead to high service costs. Keeping inventory levels low will lower the amount of employees needed to manage new orders.
 - Another reason low inventory levels are crucial is because there is a chance that the products will have to adapt frequently to accommodate the current needs of consumers.
- Technological Advances
 - Companies in the sector have been leaders in implementing new technology to increase productivity and decrease costs. Advances in technology improve supply chains and allows the companies to have more accurate predictive analytics.
- Trade Tariffs
 - Since Trump took office, there has been high levels of uncertainty regarding trade. A trade tariff was imposed in March of 2018, resulting in a 25% tax on steel imports and 10% tax on aluminum imports. More recently, Trump has entered a trade war with China, which would add more restrictions on imports from China. Aluminum and steel are both major components for companies in the industrials and materials sectors, so these trade tariffs impact the two sectors greatly.
- Government Spending
 - Government policy and spending is a major driver of both the Industrials sector and the materials sector. The government shutdown caused delays in licenses and tax exemptions that are needed for the companies in the sectors to run efficiently.

Risks of the Industrials Sector:

- Since we are assuming that the United States is at the tipping point between late expansion and maturing expansion, the industrials sector is bound to see a decline due to its cyclical pattern.

Materials Sector Overview:

The materials sector makes up 2.6% of the S&P 500. The materials sector consists of companies that make basic products that can be raw materials for other industries to manufacture consumer goods. There are five major subsectors: chemicals, metals & mining, containers & packaging, construction materials and paper & forest products. The chemicals industry can be divided into smaller subsectors: fertilizers, industrial gases, as well as commodity chemicals (basic chemicals). Metals & mining can be classified as basic and precious metals. Examples of basic metals are aluminum, steel and silver. Examples of precious metals are platinum and gems.

Top Performers of the Materials Sector:

Although the chemicals sub-sector has underperformed in comparison to the S&P 500, Ecolab is outperforming the S&P 500 by 12%.

Key Drivers & Risks for the Materials Sector:

- Cost of Transportation
 - Fuel price is the major impactor for cost of transportation for materials. Fuel price has an inverse relationship with the overall performance of the materials sector. When the fuel price is high, the materials sector does poor.
- Mergers & Acquisitions
 - The materials sector has the highest number of mergers and acquisitions in comparison to the other sectors in the S&P 500. By acquiring other companies, the companies can increase their market value and continue to be competitive in the market.

Risks of the Materials Sector:

- The currency exchange rate will change due to the macro environment of the United States, which will affect the profitability of the sector due to the high amount of exporting the sector does.

Portfolio Update:

Delta Airlines (DAL) | Recommendation: Hold

- Delta stock is extremely cyclical. Although airlines have been performing under the S&P 500 for years, we are suggesting that we hold it until it has reached the peak of its cycle to get the most out of the sell.

General Dynamics (GD) | Recommendation: Sell

- General dynamics is forecasted to have increase in start-up costs for 2019, which will decrease their profit margin. They also have seen a decline in performance consistently over the last year. Since the Aerospace and Defense sector is performing so well right now, GD simply cannot compete.

Mastech Digital (MMH) | Recommendation: Hold

- Their sales have been growing between 4% and 20% each year since 2013, and their EPS has grown 200%.
- The debt they used to acquire the company in 2017 has reported revenue beating estimates.

Berry Global (BERY) | Recommendation: Hold

- Their sales have been growing constantly and beating the industry average.
- There is a possible takeover of RPC, which is a British package company. This action will increase the market share of Berry Global.