

Introduction

The industrials sector is comprised of companies that manufacture and distribute capital goods, provide commercial services and supplies, and provide transportation services. There are fourteen different industries within the industrials sector. The industries involved with capital goods include aerospace & defense, building products, construction & engineering, electrical equipment, industrial conglomerates, machinery, and trading companies & distributors. The industries involved with commercial services and supplies are commercial services & supplies and professional services. The industries involved with transportation services include air freight & logistics, airlines, marine, road & rail, and transportation infrastructure.

Size and Composition

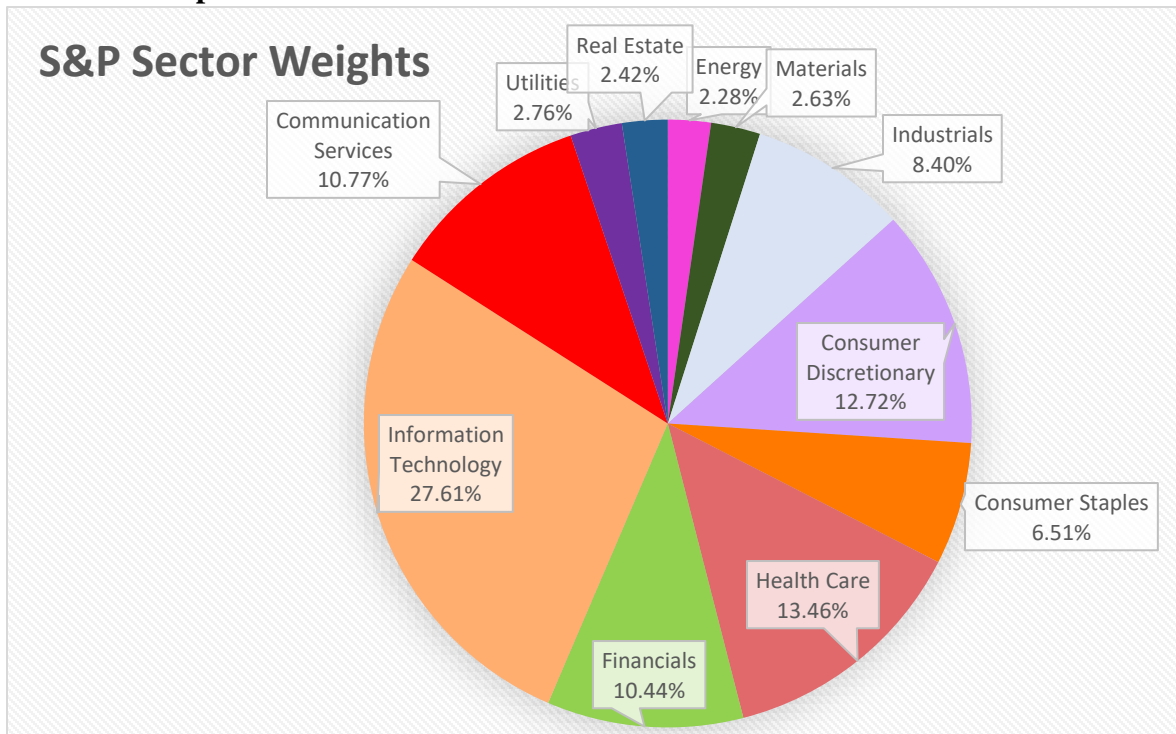


Figure 1

The chart above, figure 1, shows the 11 sectors of the S&P 500 index. The industrials sector makes up 8.40% of the total S&P 500 index. As of December 31st, 2020, the weight of the industrials sector is 6.6% for the IMP portfolio.

The graph pictured to the right, figure 2, compares the industrials sector to the S&P 500 index over the last 12 months. The S&P 500 index had a return of 14.92% while the industrials sector had a return of 8.97%. The S&P 500 index outperformed the sector by approximately 6%.

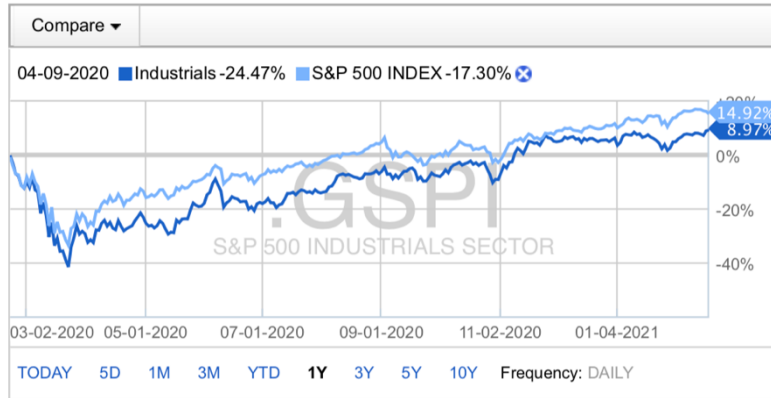


Figure 2

Industry ▲	Last % Change 04:58 PM ET 02/19/2021	% CHANGE			
		YTD	1 - Year 02/19/2021	3 - Year	5 - Year
Industrials	+1.60%	+2.51%	+8.41%	+18.32%	+71.98%
Aerospace & Defense	+1.70%	+0.85%	-21.70%	-14.53%	+62.67%
Air Freight & Logistics	-0.76%	-3.55%	+49.43%	+28.71%	+72.68%
Airlines	+3.45%	+14.16%	-21.83%	-23.91%	-4.96%
Building Products	+1.87%	+6.28%	+29.27%	+42.04%	+77.95%
Commercial Services & Supplies	-0.94%	-5.57%	+0.68%	+52.70%	+120.66%
Construction & Engineering	+0.71%	+4.86%	+35.74%	+49.24%	+125.58%
Electrical Equipment	+1.66%	+3.78%	+21.43%	+35.69%	+100.37%
Industrial Conglomerates	+0.29%	+0.22%	+5.60%	-0.97%	-5.86%
Machinery	+3.81%	+7.13%	+31.04%	+38.47%	+150.26%
Marine	--	--	--	--	--
Professional Services	+0.03%	-0.75%	+13.86%	+58.22%	+73.24%
Road & Rail	+1.68%	+3.25%	+19.26%	+65.88%	+198.68%
Trading Companies & Distributors	+1.92%	+3.12%	+39.11%	+63.32%	+152.84%
Transportation Infrastructure	--	--	--	--	--
S&P 500 © Index	-0.19%	+4.01%	+15.92%	+42.99%	+103.70%

Figure 3

percentage change over different intervals of time and the YTD. It also shows the S&P 500 index percentage changes for the same time intervals. The industrials sector as a whole underperformed the S&P 500 index. Within the different industries in the sector, about half underperformed the S&P 500 index and the other half outperformed the S&P 500 index.

There are fourteen different industries within the industrials sector. The industries involved with manufacturing capital goods include aerospace & defense, building products, construction & engineering, electrical equipment, industrial conglomerates, machinery, and trading companies & distributors. The industries involved with commercial services and supplies are commercial services & supplies and professional services. The industries involved with transportation services include air freight & logistics, airlines, marine, road & rail, and transportation infrastructure. The breakdown of these industries are shown to the right in figure 3. Figure 3 shows the

Figure 4, pictured to the left, shows the top ten constituents within the industrials sector. These ten companies make up 41.2% of all of the companies in this sector. The top company, Honeywell International Inc, makes up 5.4% of the industrial sector and is one of the stocks in the Wisman Fund. Honeywell International Inc is within the industrial conglomerates industry, which underperformed the S&P 500 index by about 10% over the past year. Two other constituents that are on the top ten list, 3M Co and Lockheed Martin Corporation, are also stocks in the IMP portfolio.

Top 10 Constituents

HONEYWELL INTERNATIONAL INC	5.4%
UNION PACIFIC CORP	5.2%
UNITED PARCEL SERVICE-CL B	4.4%
BOEING CO	4.0%
RAYTHEON TECHNOLOGIES CORPOR	4.0%
3M CO	4.0%
CATERPILLAR INC	3.9%
GENERAL ELECTRIC CO	3.7%
DEERE & CO	3.6%
LOCKHEED MARTIN CORP	3.1%
TOTAL	41.2%

Figure 4

Business Analysis

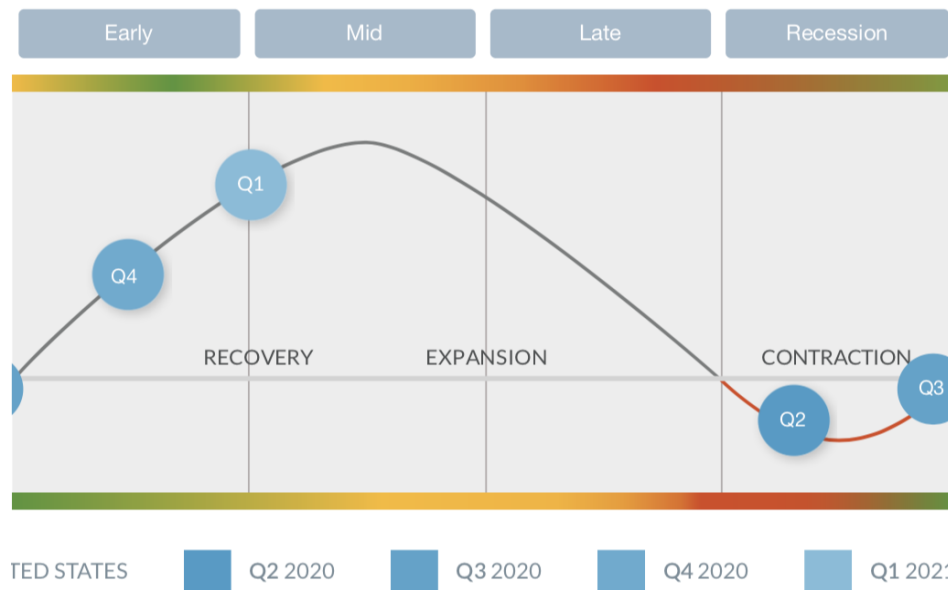


Figure 5

The business cycle is often used to analyze companies and sectors. The business cycle has four stages, which consist of early, mid, late, and recession phases. The figure to the left, figure 5, shows this business cycle. Currently, the economy is in the recovery phase, Q1.

At the end of 2020, the economy was recovering from a recent recession and in the early phase. The recession began in early 2020 due to COVID-19 having a massive impact on the economy.

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			
Real Estate	++			--
Consumer Discretionary	++	-	--	
Technology	+	+	--	--
Industrials	++			--
Materials	+	--	++	
Consumer Staples			++	++
Health Care	--		++	++
Energy	--		++	
Communication Services		+		-
Utilities	--	-	+	++

Figure 6

Figure 6, shown above, each sector throughout the different phases of the business cycle. Industrials usually underperform the broader market while in a recession because of the economic and interest rate sensitivity. After COVID-19 sent the economy into a recession, the industrials sector performed very poorly. When the economy is in the early phase, the sector usually outperforms the market. As the economy is currently moving through the early phase into the mid phase, the industrials sector is recovering and performing very well. Some industries within the industrial sector are more sensitive to the economy. For example, companies within the capital goods and transportation industries usually anticipate the economic recovery and their stocks begin to rise while still in the recession phase.

Economic Analysis

COVID-19 is one of the biggest variables currently affecting the United States economy. The pandemic had a major impact on all sectors, including the industrial sector. Specifically, manufacturing industries were significantly affected. The main reason industries within manufacturing were affected is because jobs within this field are mainly on-site and are very hard to perform remotely. Obviously, it would be very difficult to build a new power plant or factory from the comfort of one's own home. Another reason the manufacturing industries were largely affected by COVID-19 is due to a reduced need for industrial products through the world. Additionally, the airlines industry, specifically, entered a major crisis when the pandemic struck. There were many bans and restrictions on travelling that were put into place to try and isolate the disease. This led to a huge drop in the demand for airline services. In April of 2020, the revenue of passenger air transportation was down 90% year-on-year and still down 75% in August of 2020. This industry has been very slow to recovery and is 40% below the pre-crisis level of flights. It has been suggested that airlines will remain affected by the pandemic and there may be a permanent drop in airline travel from pre-crisis numbers.

Financial Analysis

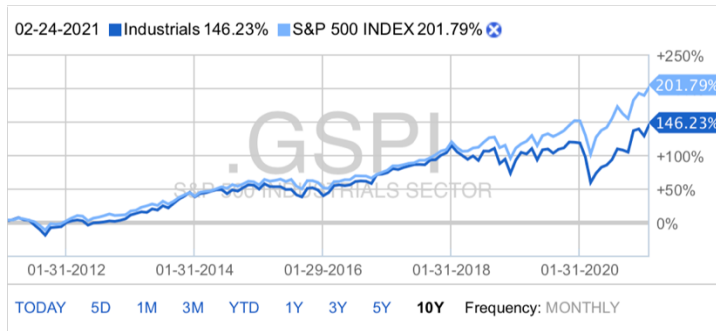


Figure 7

S&P 500 index currently outperforms the industrials sector by approximately 55%. The S&P 500 index has a return of 201.79% compared to the industrials sector's return of 146.23%.

The chart pictured to the right, figure 8, shows the industrial sector's overall key ratios for the past 12 months. Return on equity and return on investment are two ratios used to measure the profitability of a company. The industrial sector's ROE is 9.34% TTM, which is relatively low compared to other industries. For example, the consumer staples sector has a ROE of 48.69% TTM. The industrial sector's ROI is 5.31% TTM, which is slightly higher than majority of the other sectors.

P/E (Last Year GAAP Actual)	156.12
P/E (This Year's Estimate)	148.95
Enterprise Value	\$64.85B
EPS (TTM)	\$3.28
EPS Growth (TTM vs. Prior TTM)	23.17%
Revenue Growth (TTM vs. Prior TTM)	-4.62%
Return on Equity (TTM)	9.34%
Return on Investment (TTM)	5.31%
Total Debt/Equity (TTM)	45.07
Dividend Yield	1.91%

Figure 8

Measuring growth rates is a key part of the financial analysis. The growth rates used to analyze sector performance is EPS growth and revenue growth. The earnings per share growth rate is 23.17% TTM. The industrials sector has a negative revenue growth of -4.62% TTM. The total debt-to-equity ratio is a key ratio used to evaluate how much leverage a company is using. Usually, a higher leverage ratio signifies a company with higher risk to shareholders. The debt-to-equity ratio for the industrials sector is 45.07 TTM, which is significantly low compared to other industries. This means that this sector has a lower risk to shareholders.

Valuation Analysis

Industrials

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
43.35	24.29	4.59	1.68%	1.97	30.29

Figure 9

S&P 500 Index

P/E (TRAILING)	P/E (PROJECTED)	P/B	INDICATED DIV YIELD	P/SALES	P/CASH FLOW
34.24	27.53	3.7	1.52%	2.46	24.63

Figure 10

The charts above show financial ratios for the industrials sector, figure 9, and for the S&P 500 index, figure 10. The P/E ratio for last year for the industrials sector was 43.35 which is higher than the S&P 500 index P/E ratio of 34.24. However, S&P 500 has a higher projected P/E than the sector. The S&P 500 has a projected P/E of 27.53, compared to the industrial sector's projected P/E of 24.29. The price-earnings ratio represents a company's share price in comparison to its earnings per share. The price-to-book ratio is a comparison between a company's market capitalization to its book value. Book value simply means the tangible net asset value of a company. Investors often use this ratio to recognize potential investments. The P/B ratio for the S&P 5000 index is 3.7 compared to a P/B ratio of 4.59 for the industrials sector. The sector has a high stock price compared to its book value. The dividend yield is relatively the same between the two. The S&P 500 index has a dividend yield of 1.52%, compared to a dividend yield of 1.68% for the industrials sector. The price per sales ratio represents how much investors are willing to pay per dollar of sales for a stock. Usually, a low ratio could be interpreted as a stock being undervalued, vice versa. The P/Sales ratio is 1.97 for the industrials sector, compared to a P/Sales ratio of 2.46 for the S&P 500. The sector has a lower price compared to its sales than the S&P 500. The price-to-cash flow (P/CF) is 30.29 for the industrials sector. The P/CF is 24.63 for the S&P 500. The sector has a higher P/CF than the S&P 500 which means the sector has a higher stock price compared to cash flow.

Recommendation

The economy is currently between the early and mid-phase of the business cycle. Usually, during this phase of the business cycle, the industrials sector performs very well. However, it is unsure how the sector will perform due to the uncertainties in the economy. The economy is still recovering from the recession that took place in 2020. Industries within this sector were largely impacted by the pandemic and are struggling to recover. There has been a vaccine released for COVID-19, however, there is still no clear answer on if this will have a positive impact on the sector. The airline industry specifically plummeted with many travel bans put into place. Even with the airline industry lifting some of these bans, this industry is still struggling and is nowhere near the pre-crisis level of revenue. Also, industries within the manufacturing and capital goods portion of the industrials sector were hit hard. The new vaccine should help these industries recover and allow for on-site construction and a higher need for industrial machinery and tools. Additionally, over the past year, the industrials sector has underperformed the S&P 500 index by around 15%. With this in mind, I believe The IMP fund should underweight the sector relative to the S&P 500 index.

As of December 31st, 2020, the S&P 500 industrial sector weight was 8%, while the IMP industrial sector's weight was 6.4%. The target weight set at the beginning of the fall 2020 semester was 6.0%. We are currently overweighting the target weight but still underweight

compared to the S&P 500. We should maintain a similar weight to the current weight but consider raising it to 6.5-7%.

Sources:

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