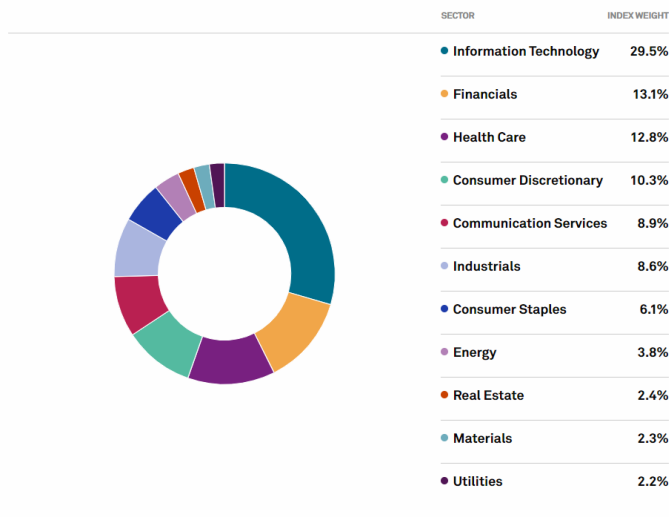


## Introduction:

The industrials sector is responsible for producing and manufacturing goods and products on a large scale. It encompasses various industries, such as manufacturing, construction, aerospace, and utilities. The industrial sector transforms raw materials into finished goods that consumers and businesses use. It is an important sector in the economy because it plays a vital role in economic growth and development by creating jobs, supplying the goods necessary for expansion, and ultimately contributing to GDP. The industrials sector is cyclical in nature and tends to do very well when the economy is in the early phase. On the other hand, the industrials sector tends to do very poorly when the economy is in a recession.

## Size and Composition:

### Sector Breakdown



The weightings for each sector of the index are rounded to the nearest tenth of a percent; therefore, the aggregate weights for the index may not equal 100%.  
Based on GICS® sectors  
As of Jan 31, 2024

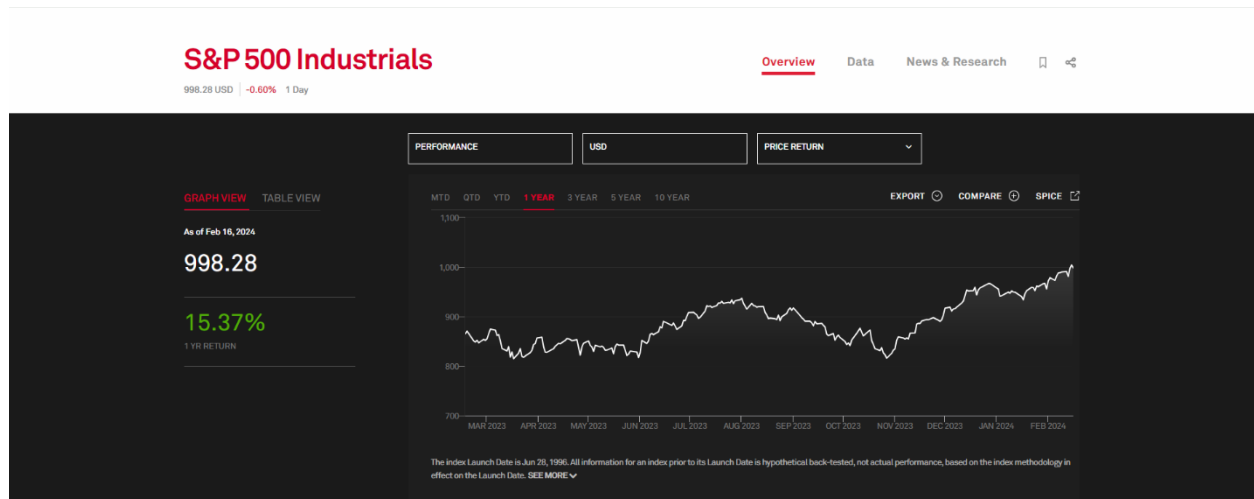
The sector breakdown above shows that the industrials sector makes up 8.6% of the S&P 500 Index. The industrials sector is in the middle of the pack in terms of weight, sitting at the 6<sup>th</sup> highest weighted in the S&P 500. As of January 31, 2024, the IMP class has weighted the industrials sector in the Wisman Fund at 8.12%. The market cap for the industrials sector as a whole is valued at \$3.62655923T.

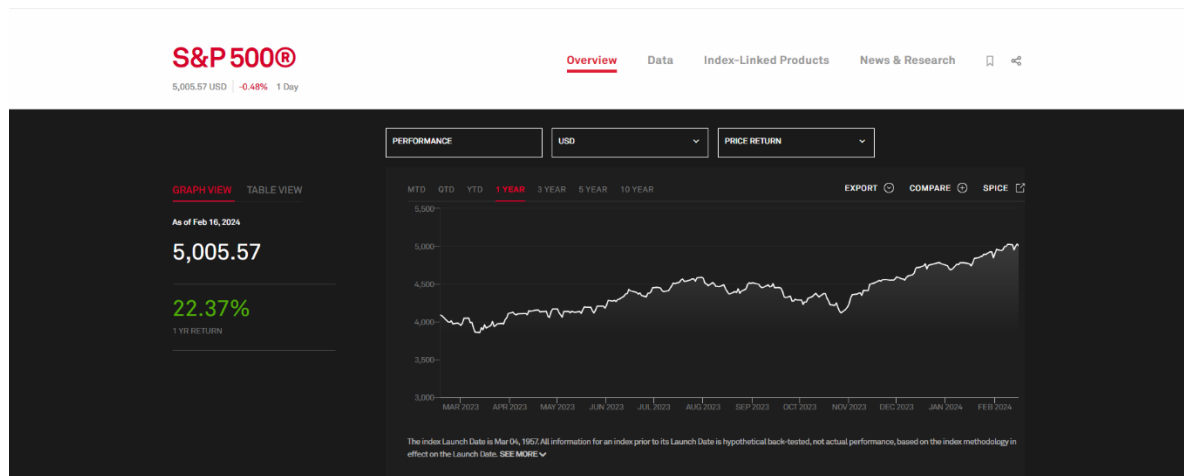
## Historical Performance:



This graph compares the industrials sector to the S&P 500; the purple line representing the S&P 500, and the lighter blue line representing the industrials sector. It can be seen that the industrials sector behaves cyclically in nature, and that it has been underperforming the S&P 500 index since 2019.

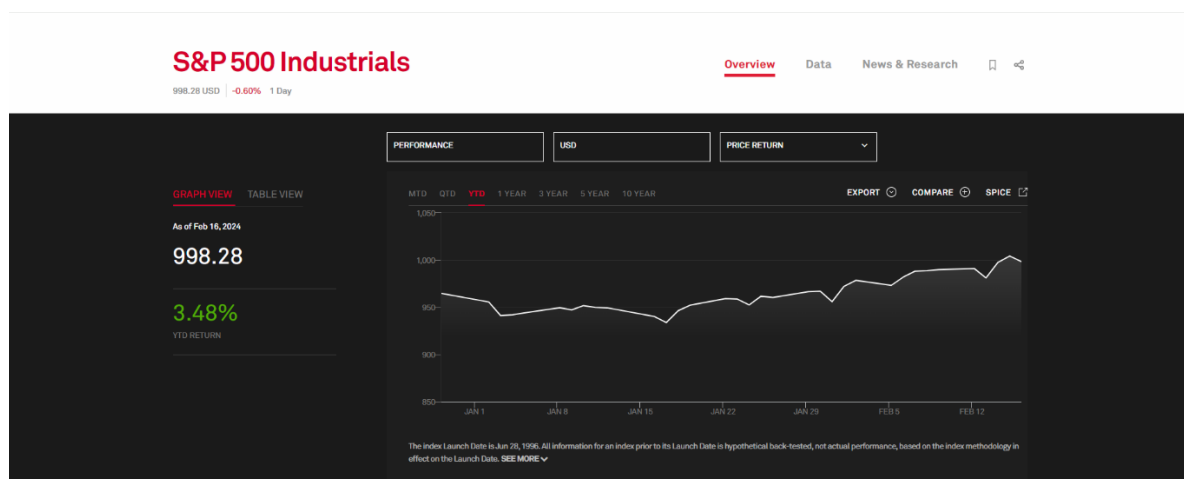
## 1-Year Performance:

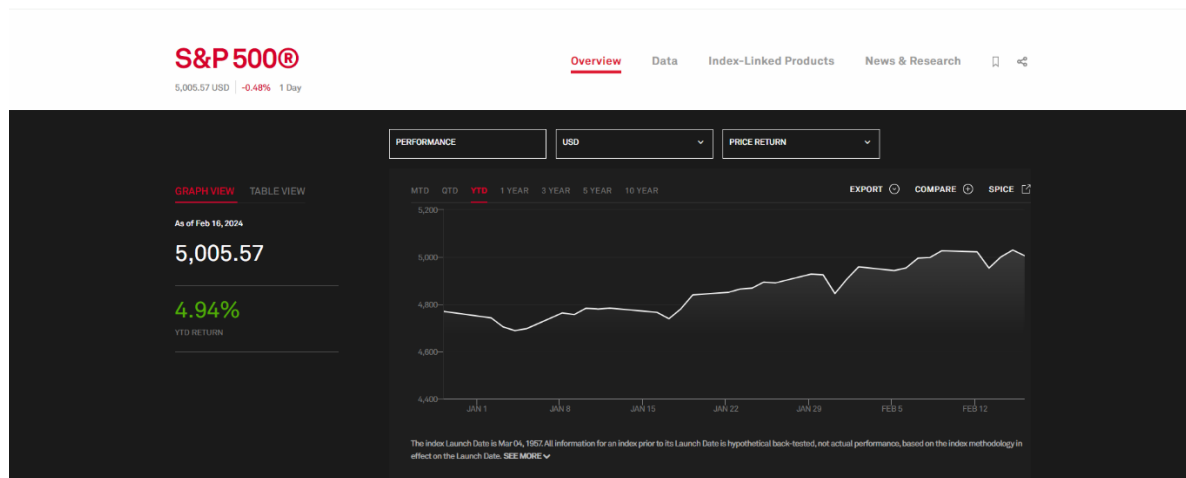




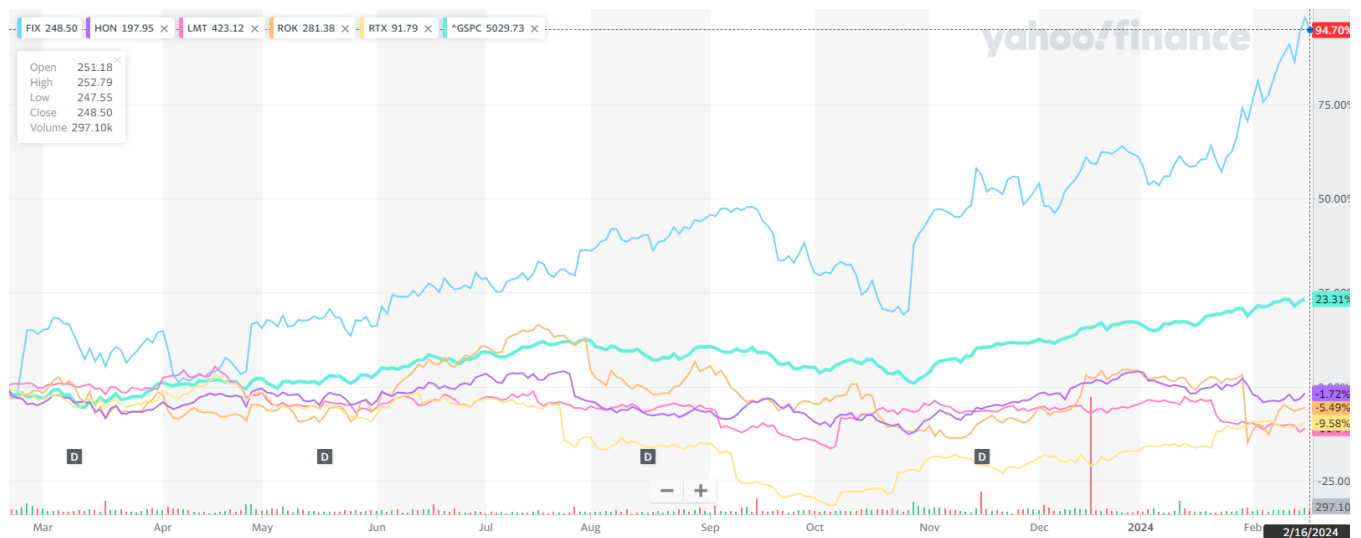
The industrials sector has provided a 1-Year return of 15.37 % according to S&P Global, which underperforms the S&P 500 1-year return of 22.37% as of February 16, 2024.

## YTD Performance:





The industrials sector has provided a YTD return of 3.48 % according to S&P Global, which underperforms the S&P 500 YTD return of 4.94% as of February 16, 2024.



The Wisman fund currently holds 5 securities in the industrials sector. The chart above displays the 1-year performance of each of those holdings against the S&P 500 Index according to yahoo finance as of February 16, 2024. Those 5 securities include, Comfort Systems (FIX), Honeywell International (HON), Lockheed Martin Corp (LMT), Rockwell Automation Inc (ROK), and RTX Corp (RTX). The top performer being FIX.

## Industrials Sector Subindustries

Industrials
Aerospace & Defense
Air Freight & Logistics
Building Products
Commercial Services & Supplies
Construction & Engineering
Electrical Equipment
Ground Transportation
Industrial Conglomerates
Machinery
Marine Transportation
Passenger Airlines
Professional Services
Trading Companies & Distributors
Transportation Infrastructure

## Industrials Sector Top 10 Holdings

Symbol	Company Name	Index Weight
CAT	Caterpillar Inc	4.50%
GE	General Electric Co	4.45%
UBER	Uber Technologies Inc.	4.42%
UNP	Union Pacific Corp	4.12%
RTX	RTX Corporation	3.59%
HON	Honeywell Intl Inc	3.56%
BA	Boeing Co	3.18%
ETN	Eaton Corp plc	3.04%
UPS	United Parcel Service Inc B	2.94%
ADP	Automatic Data Processing	2.85%

## Composition of Industrials Sector

The industrials sector holds 78 companies of which the top 10 listed above make up 36.65% of the industrials sector. The Wisman fund currently holds 2 out of the top 10 S&P 500 holdings in the industrials sector which include: RTX and HON.

## Industrials Sector Subindustries Defined

**Aerospace & Defense:** involve the development, production, and maintenance of aircraft, spacecraft, and military equipment.

**Air Freight & Logistics:** this refers to the business of transporting goods and cargo by air, including services such as shipping, logistics, and warehousing.

**Building Products:** encompass a wide range of materials and products used in construction, including everything from lumber and roofing materials to windows and doors.

**Commercial Services & Supplies:** includes companies that provide various services and supplies to businesses, such as office cleaning, equipment rental, and maintenance services.

**Construction and Engineering:** this industry involves the planning, design, and construction of infrastructure, buildings, and other engineering projects.

**Electrical Equipment:** companies in this sector manufacture and supply various electrical components and equipment, including wiring, switches, and electrical machinery.

**Ground Transportation:** refers to the movement of people and goods on land, including railroads, trucking, and public transportation.

## Industrials Sector Subindustries Defined (cont.)

**Industrial Conglomerates:** these are large companies that operate in multiple diverse industries or sectors, often through subsidiaries.

**Machinery:** the machinery sector includes companies that manufacture industrial machinery and equipment used in various industries, such as manufacturing and agriculture.

**Marine Transportation:** this industry deals with the transportation of goods and passengers by water, including shipping, cruise lines, and maritime services.

**Passenger Airlines:** passenger airlines are companies that provide air travel services for individuals and passengers, transporting people from one location to another.

**Professional Services:** this category covers a broad range of specialized services offered by professionals, such as legal, accounting, consulting, and advertising services.

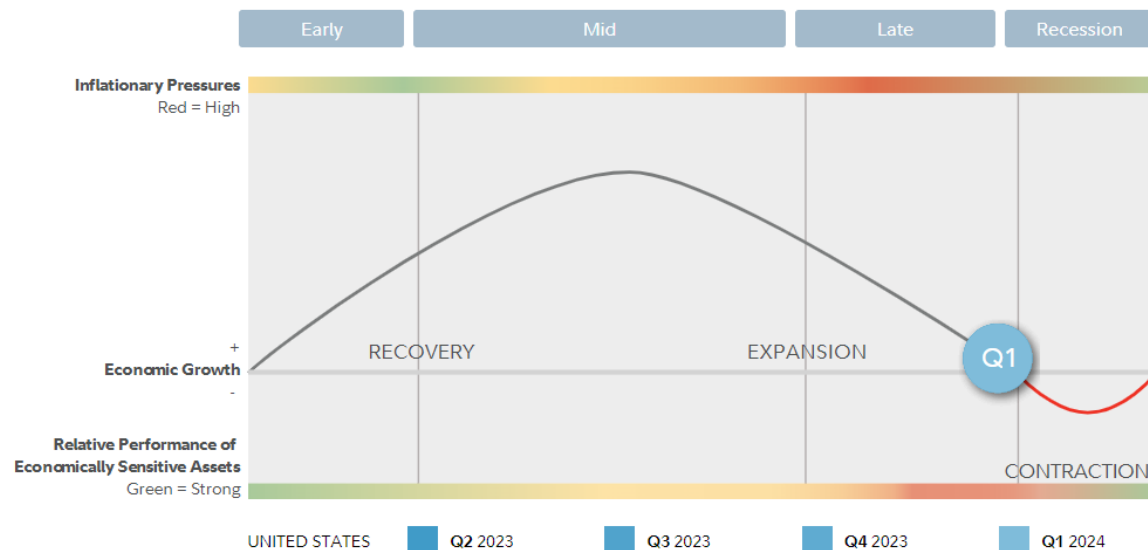
**Trading Companies & Distributors:** these companies engage in the buying and selling of various products and goods, often acting as intermediaries in the supply chain.

**Transportation Infrastructure:** this pertains to the development and maintenance of transportation-related infrastructure, including roads, bridges, and airports.

## Business Analysis:

### *Economic Cycle:*

As indicated by Fidelity, our economy is currently in a late growth expansion phase. During this phase growth is slowed, inflation rates rise, and unemployment rates tend to remain low.



## Business Cycle:

### Business cycle



Historical performance of sectors during business cycle phases.

Sector	Early	Mid	Late	Recession
Financials	+			-
Real Estate	++	-	+	--
Cons. Disc.	++		--	
Info Tech.	+	+	-	--
Industrials	++			--
Materials	+	--		-
Cons. Stap.	--	-	+	++
Health Care	--			++
Energy	--		++	--
Comm. Serv.		+		-
Utilities	--	-	+	++

The business cycle chart to the left displays the historical performance of each sector during each phase of the economic cycle. The industrials sector is seen to be cyclical in nature as the economy begins to grow in an early phase it tends to do very well. In contrast, when the economic cycle goes into the recession stage it can be seen that the industrials sector performs very poorly.

## Economic Analysis:

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2023

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5-2.7	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	2.5-2.7	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9-2.2	1.2-1.8	1.6-2.0	1.7-2.0	1.7-2.0	1.8-2.6	0.4-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.7-4.0	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7-3.9	3.9-4.4	3.9-4.3	3.8-4.3	3.8-4.3	3.7-4.0	3.7-4.5	3.7-4.7	3.7-4.5	3.5-4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7-2.9	2.2-2.5	2.0-2.2	2.0	2.0	2.7-3.2	2.1-2.7	2.0-2.5	2.0-2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2-3.4	2.3-2.7	2.0-2.3	2.0-2.2	2.0	3.1-3.8	2.1-3.5	2.0-2.9	2.0-2.7	2.0
Core PCE inflation <sup>4</sup>	3.2	2.4	2.2	2.0		3.2-3.3	2.4-2.7	2.0-2.2	2.0-2.1		3.2-3.7	2.3-3.0	2.0-2.6	2.0-2.3	
September projection	3.7	2.6	2.3	2.0		3.6-3.9	2.5-2.8	2.0-2.4	2.0-2.3		3.5-4.2	2.3-3.6	2.0-3.0	2.0-2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4-4.9	3.1-3.9	2.5-3.1	2.5-3.0	5.4	3.9-5.4	2.4-5.4	2.4-4.9	2.4-3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4-5.6	4.6-5.4	3.4-4.9	2.5-4.1	2.5-3.3	5.4-5.6	4.4-6.1	2.6-5.6	2.4-4.9	2.4-3.8

GDP Projections: The Fed projects that real GDP will drop significantly this year and the following years will be around the same with a slight increase. This indicates slower growth in the future, likely keeping the economy in the late phase of the economic cycle.

**Unemployment Rate:** The unemployment rate as of January 31, 2024, is 3.7%. The Fed projects that the unemployment rate will increase into the future. This keeps the labor market strong, but at the same time keeps it tighter, making it more difficult for the unemployed to get jobs.

**Core PCE Inflation:** The Core PCE inflation rate as of Dec 31, 2023, is 2.9%. The Fed projects that Personal Consumption Expenditure Inflation will go down in the next year and remain at or around that level after 2024. Decreasing PCE over the next few years will help the Fed reach their objective of a 2% inflation rate.

## Financial Analysis:

### *Financial Fundamentals:*

Financial Fundamental	S&P 500	Industrials Sector
Gross Margin	45.67%	30.72%
Operating Margin	10.97%	16.06%
Profit Margin	10.7%	9.99%
ROA	4.44%	8.3%
ROE	23.24%	28.16%
EPS Growth Rate	3.2%	5.81%

The table above shows financial fundamental metrics for the S&P 500 and the industrials sector as of December 31, 2023.

The S&P 500 outperforms the industrials sector in terms of gross margin and profit margin. However, the industrials sector outperforms the S&P 500 in ROA and ROE, and EPS growth rate. Though the S&P 500 brings in more money overall as expected, the industrials sector is more efficient in using their assets to generate a profit and generate more income per dollar of invested capital than the S&P 500.

### *Major Companies:*

Financial Fundamental	Caterpillar Inc (CAT)	Union Pacific Corp.(UNP)	Boeing Co (BA)
Gross Margin	34.69%	43.65%	9.93%
Operating Margin	19.33%	37.66%	-1.06%
Profit Margin	15.41%	26.45%	-2.86%
ROA	12.20%	9.62%	-1.62%
ROE	58.45%	47.34%	-
EPS Growth Rate	59.18%	-6.78%	-68%



The table above shows financial fundamentals for the major companies in the industrial sector as of December 31, 2023. CAT and UNP outperform the industrials sector and the S&P 500 in all categories (besides EPS growth rate for UNP and Gross Margin for CAT and UNP). BA is significantly underperforming both the industrials sector and the S&P 500.

*Valuation:*

Valuation	S&P 500	Industrials Sector
P/E	23.27	22.36
P/S	2.33	1.92
P/B	4.04	4.99
D/Y	1.49%	1.67%

The table above displays the valuation metrics for the S&P 500 and the industrials sector as of January 31, 2024

The industrials sector has a higher P/B ratio and D/Y than the S&P 500. This indicates that the industrials sector is undervalued, or that it is worth less with the companies it holds. There is more value in the P/E and P/S ratios for the S&P 500 compared to the industrials sector.

*Major Companies:*

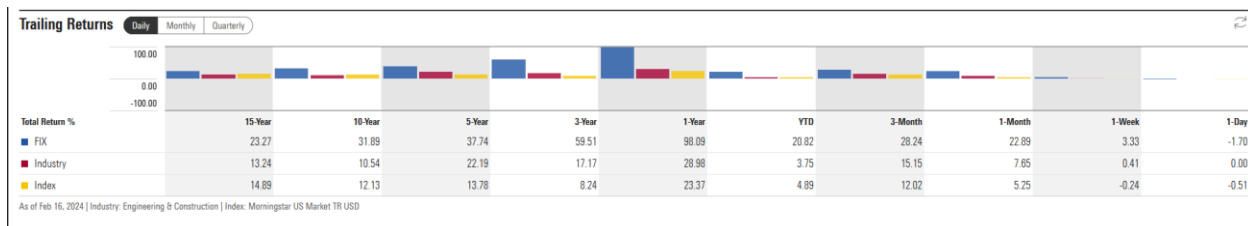
Valuation	Caterpillar Inc (CAT)	Union Pacific Corp.(UNP)	Boeing Co (BA)
P/E	16.76	23.57	-
P/S	2.30	6.22	2.08
P/B	7.21	10.69	-
D/Y	1.58%	2.11%	0.84%

The table above displays the valuation metrics for the major companies in the industrials sector as of January 31, 2024.

UNP has a higher P/E ratio, P/B ratio and D/Y than the industrials sector and the S&P 500. CAT lags behind the sector and the S&P 500 in P/E, but only the S&P 500 when it comes to P/S. CAT underperforms only the sector when looking at its D/Y. Once again BA is significantly underperforming the sector and the S&P 500 and thus some metrics aren't present because it doesn't look good having negative values in these metrics. There is some value in CAT and UNP, but BA is negating gains as a whole in both the industrials sector and the S&P 500.

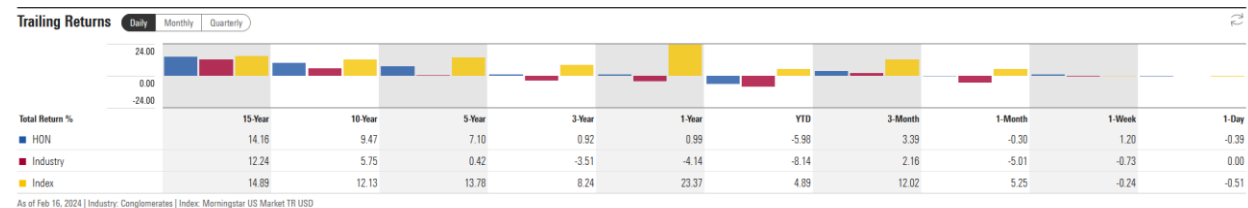
## Current Holdings Trailing Returns:

The following tables below are the trailing returns for the Wisman Fund's current industrials sector holdings for the past 15 years according to Morningstar. YTD returns are as of February 16, 2024.



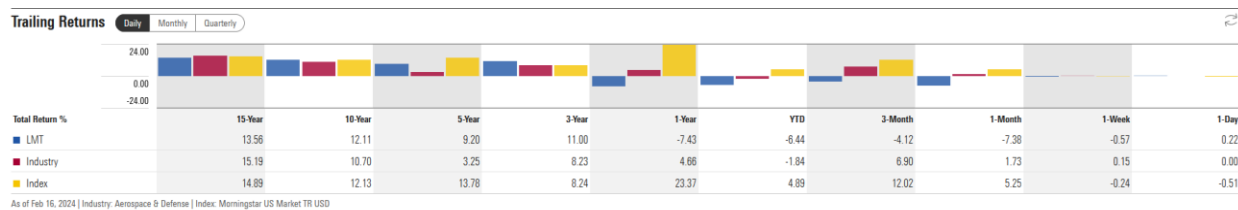
FIX YTD return → 20.82%

FIX has outperformed both the industry and the index from 1-week returns and on until 15-year returns. FIX's recent performance is likely due to the general need for HVAC services as well as their most recent acquisition of J & S Mechanical Contractors Inc. There is an impressive 98.09% 1-year return and that is something that makes FIX stand out in the industrials sector.



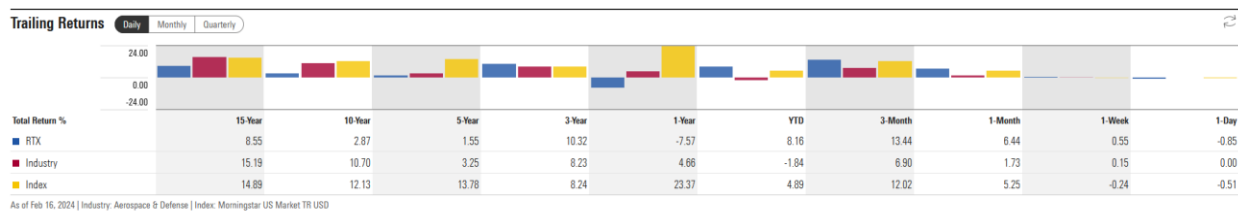
HON YTD return → -5.98%

HON has outperformed the industry but not the index over the past 15 years from 1-year returns on. HON's recent performance is likely due to their expansion into aerospace and the lack of return-on-investment capital thus far. Long-term holding of this security has provided a return that outperforms only the industry. That fact makes it a question as to whether or not this is a stock we would like to keep in the IMP portfolio moving forward.



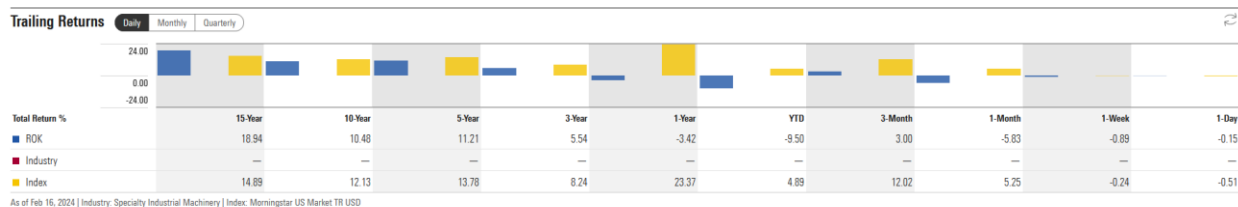
LMT YTD return → -6.44%

LMT has outperformed the only industry but slightly underperforms the index in 10-year returns. However, performance with an additional 5 years taken into consideration shows that LMT has underperformed both the industry and the index. LMT's recent performance is likely due to the fact that the U.S has experienced a decrease in conflicts which likely resulted in a decrease in spending on defense. There is no stand out returns for LMT, but it seems to do well with longer investment horizons.



RTX YTD return → 8.16%

RTX has underperformed both the industry and the index over the past 15 years except for the 3-year mark in which it outperforms both the industry and the index. RTX's recent performance is likely due to their plan to deliver thousands of the PW1000 GTF engines that power some powerful aircrafts such as the Airbus A320neo and the A220 aircraft. however over longer horizons it seems to be performing below average regardless. If performance continues to improve this may be a good stock to purchase as it is currently undervalued.



ROK YTD return → -9.50%

ROK has outperformed the index in 15-year returns, from 1-year returns until 10-year returns ROK underperforms the index. Following Rockwell's release of their earnings report from this

last quarter, their stock plummeted by about 17.5% the next trading day. It was reported that they had missed analysts EPS estimate by 27%. Long term performance of ROK looks good, but for the short term it doesn't appear to be a good stock for IMP.

**Recommendation:**

Based on the current market conditions and historical performance, we recommend the following actions regarding the Wisman Fund's allocation within the industrials sector:

*Underweight Industrials Sector:* Looking at overall conditions of the market and the phase of the economic cycle we are in (which is late growth expansion), it would be ideal to minimize losses in the event of a recession occurring. As seen in the business cycle analysis, the industrials sector performs very poorly in recessions. In order to minimize losses, we should underweight the sector by selling some of our security holdings and possibly some shares of companies that won't hold their ground should a recession hit the economy. We should buy any securities that are likely to contribute positively to our goal of beating our benchmark which is 80% of the S&P 500 Index and 20% of the U.S. Aggregate Bond Index. We should keep the weighting of the industrials sector at or around 8.12% to continue to minimize losses but still capture value should the industrials sector continue to perform well.

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