

MOOREINSIGHTS

Sector Spotlight: Industrials

Although it may not be flashy, the industrials sector is one of the broadest and most influential parts of the economy. Investments in this sector can play a pivotal role in a diverse portfolio. Here's what you need to know about the industrials sector from an investment perspective.

Understanding Industrials

The industrials sector, or industrial goods sector, consists of companies that supply capital goods and services to a vast array of industries. This includes machinery, construction equipment, materials such as plastics and chemicals, and crucial services like waste disposal. It is a massive economic sector that affects growth in multiple areas.

Some of the most significant industries of the industrials sector include:

- Construction
- Waste management
- Aerospace and defense
- Transportation
- Tools and industrial machinery
- Metal manufacturing
- Manufactured housing

Even though consumers don't directly interact with the industrials sector, it has a significant influence on the economy because it underpins nearly every other industry. A wide range of companies rely on industrial goods to grow and thrive. Positive performance in the industrials sector tends to signal broader economic growth, and vice versa.

Cycles of Growth and Deceleration

Because the industrial goods sector is so broad, there is almost always at least one subsector experiencing growth. However, that doesn't make this sector immune to economic downturns. Recessions can lead to slower growth as fewer companies expand their manufacturing or production capabilities.

Growth in the industrials sector tends to follow the CapEx cycle. CapEx, or capital expenditure, is the spending a company uses to expand its physical assets, i.e. industrial equipment. Periods of increased capital expenditure in the industrials sector typically signal long-term growth, followed by a period of deceleration until the next spike in investment.

For example, if you look at an overview of the American railroad industry throughout the 20th century, you'll see rapid growth after periods of significant investment in the industry.

The State of Industrials Today

COVID-19 seriously impacted the industrials sector. Supply and labor shortages caused disruptions in the production of capital goods, and a decrease in demand also hurt major companies, leading many into a phase of accelerating decline.

However, economic recovery efforts since the pandemic have generally benefited industrials. The sector saw a lot of volatility and bullish growth in the past few years and finally [stabilized in 2024](#). Some investors are looking forward to ongoing stable growth in 2025, particularly in the aerospace and defense subsector.

Monitoring the Industrials Sector

Investors and analysts pay close attention to the industrials sector as a metric of overall economic performance. Monitoring statistics in each subsector can provide valuable insights for stocks held in that sector as well as the sectors that rely on it.

For example, analyzing wage and hiring statistics in the construction sector can help investors predict the next growth cycle. That in turn provides insights into related industries, such as real estate.

Key factors that impact growth in the industrials sector include changes in business lending standards and shifts in corporate credit markets (corporations borrowing funds from investors). Long-term factors can also make an impact. Shifts toward offshore or onshore manufacturing will impact industries in the industrials sector. A surge in AI spending is a more recent example that has accelerated CapEx spending in big tech.

One free resource for monitoring these statistics is the [Bureau of Labor Statistics](#). The [U.S. Census Bureau](#) also publishes monthly data on employment, business openings and closures, and orders of capital goods – all broken down by subsector.

Ways to Invest

There are several ways to invest in the industrials sector, including:

- **Individual companies:** Some major players in industrials include Caterpillar (CAT), Honeywell (HON), Union Pacific (UNP), and Boeing (BA).
- **ETFs & mutual funds:** Exchange-traded funds and mutual funds allow you to invest in the industrial goods sector as a whole or in a specific subsector.

[The MSCI USA Industrials Index](#) is the most commonly used benchmark to track the performance of stocks in the industrials sector. This index consists of 95 constituents, with a median market cap of \$33.91 billion. XLI, or the Industrials Sector ETF, is another benchmark fund that includes multiple industrials sectors.

Final Thoughts

The industrials sector is one of the largest and most economically significant sectors for investors to pay attention to. It has a wide range of subsectors and impacts nearly every global industry, from agriculture to tourism and beyond. Analyzing key statistics in the industrials sector can provide a picture of broader economic performance.

Regardless of whether you invest in industrials, it's important to stay up to date with the growth and decline cycles in this sector.



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