

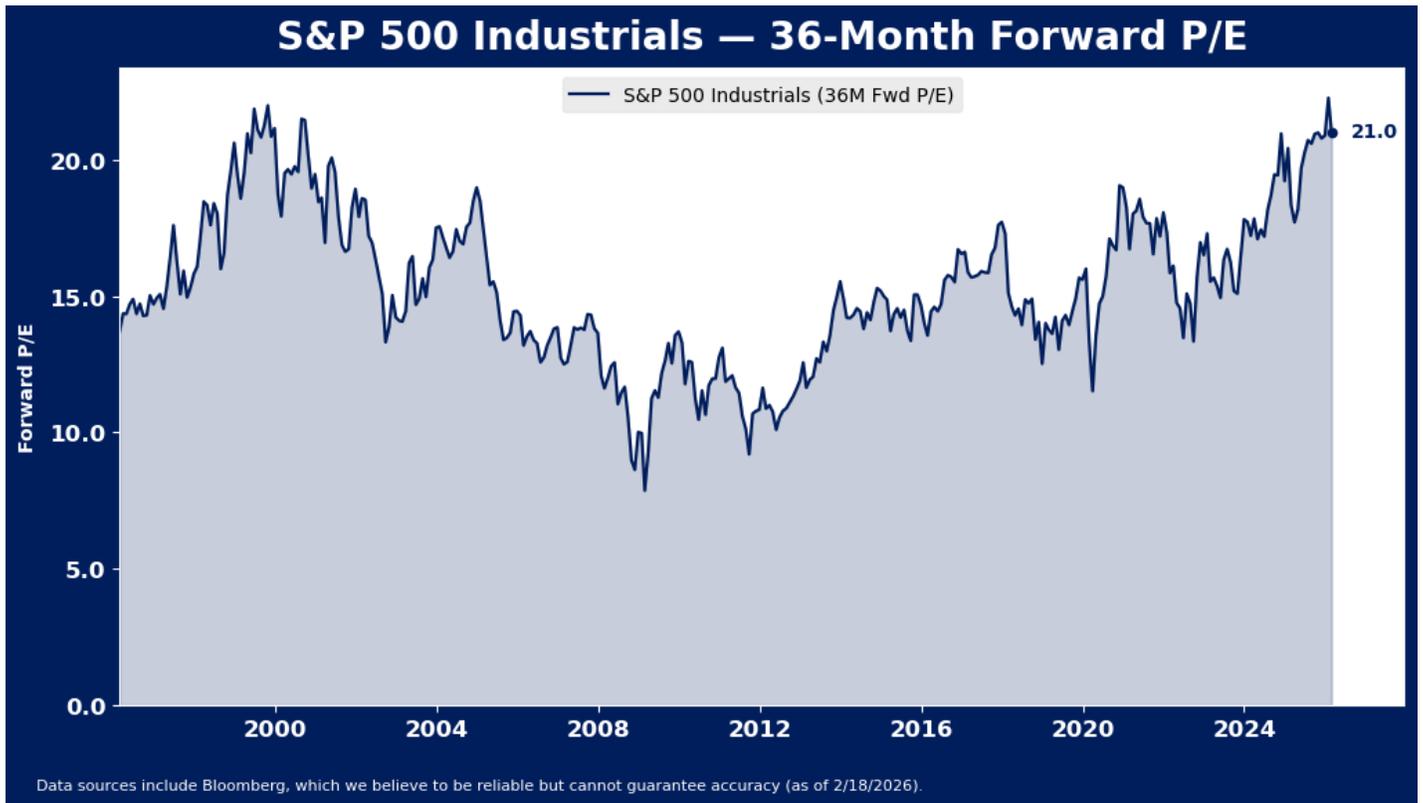
Market Sense – Industrials are Partying Like its 1999

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Recent data on durable goods orders and industrial production suggest an industrial recovery may be emerging for the economy, but industrials stocks may be expecting more of a full industrial renaissance. Large cap U.S. industrials have reached a new all-time high valuation relative to the S&P 500 index and now command a P/E greater than the S&P 500 technology sector.

S&P 500 Industrials' forward P/E, at 26.5X, matches sector P/E in 2021, when earnings were impaired by the pandemic, and at 1.24X the index, is higher than at any point in the last 30 years. EV/Forward EBITDA, Price-to-Sales and Price-to-Book ratios for the sector are also at levels beyond records of the last 30 years. Forward P/E ratios for two-thirds of the stocks in the sector, and every industry within industrials except for the airlines and professional services industries, are now above 20X.

The only other times industrials' relative P/E ratio spiked to near the current record were instances in which the Fed funds rate had dropped to 1% or lower. This time, the global defense spending boom, hyperscaler capex commitments, tax reform and easy monetary policy are sparking an extraordinary amount of stock market optimism in the outlook for an industrial profits acceleration in the years ahead. As a result, the group price-to-forward 3-year earnings multiple has topped 22X for the first time since 1999.



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