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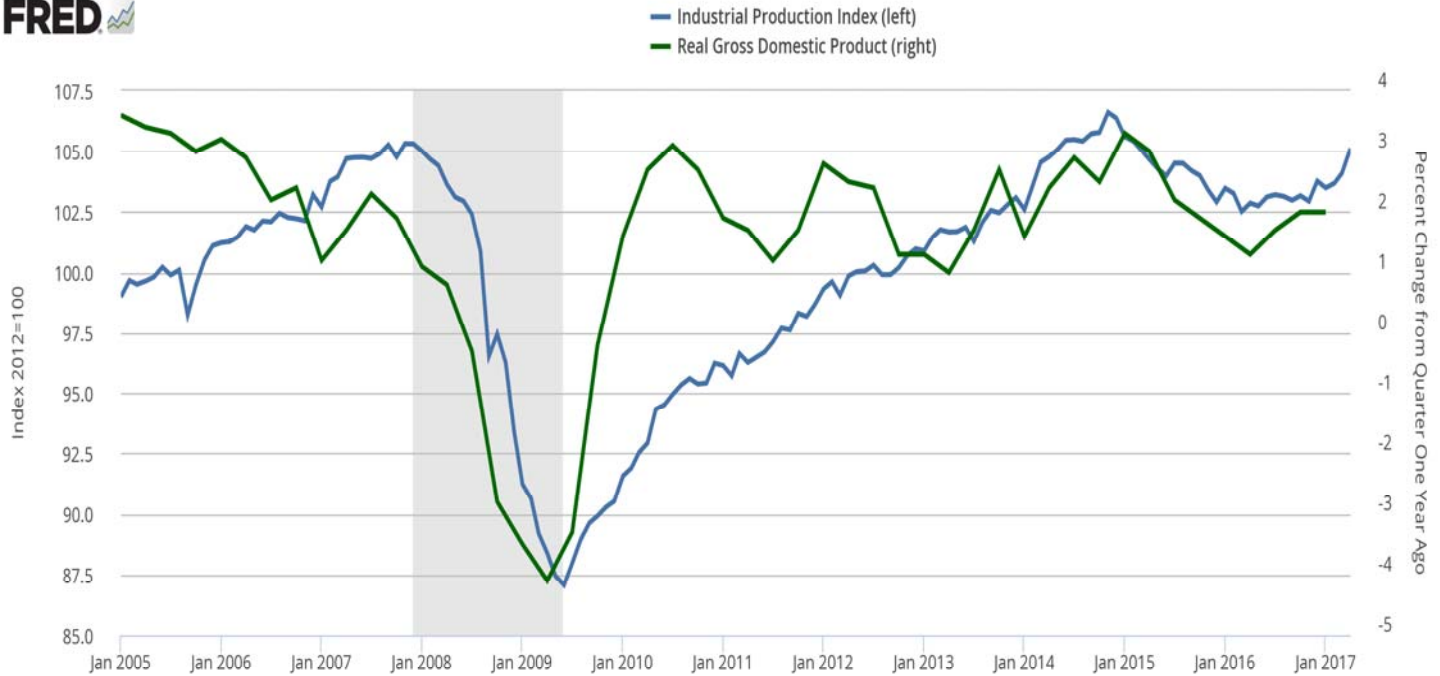
Industrials Looking Good

The industrial sector can be viewed as businesses that build or move an economy. The sector is made up of construction firms, railroads, airlines, home building products, defense contractors, etc. It is the segment of the economy that relies on large capital expenditures due to the high value and cost of production. Growth in Gross Domestic Product (GDP) is a strong indicator of future expansion within industrials. From the fourth quarter of 2015 until the fourth quarter of 2016, GDP growth was at or below 2%, bottoming during the second quarter of 2016 with anemic 1.3% growth. The pullback in GDP could be seen as businesses expressing uncertainty with last year's election and being unwilling to dedicate capital until a winner emerged. Insecurity surrounding tax policy, regulations and fiscal stimulus drove hesitation to make large multiyear outlay commitments in 2016.

With the election settled coupled with an administration that is rolling back multiple regulations and hopes for some type of tax reform, prospects for 2%-plus GDP growth would benefit industrials. Between October 2016 and April 2017 (the most recent data), the Industrial Production Index increased from a reading of 102.9 to 104.1, the first such positive inflection since January 2014. This is an indication that corporate America is becoming comfortable enough to spend more on capital expenditures.

As of May 2017 month end, the S&P 500 Index is up 8.66% total return year-to-date versus the 8.01% performance from the industrial sector. If industrial production trends hold, the industrial sector should eventually outperform the broader index.

A potential negative for industrials would be if Washington is unable to pass tax reform before the 2018 midterm elections. Such a delay would eliminate one of the catalysts for future investor optimism and GDP growth.



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