INSIDE THE Buy·Side®

INDUSTRIAL SENTIMENT SURVEY®

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Q3'24

ISSUE: 38
October 17, 2024

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INSIDE THE Buy-Side®
INDUSTRIAL SENTIMENT SURVEY®

Survey Scope:
50 sector-dedicated investors and analysts globally; buy side firms manage ~$2.6 trillion in assets, including ~$334 billion invested in Industrials

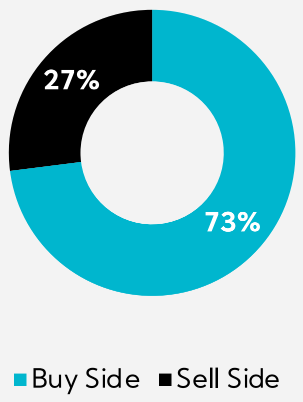
Survey Timeframe:
August 19 – September 30, 2024

Since 2007, we have surveyed global investors quarterly on the equity markets, world economies, and business climate. At the start of every earnings season, we publish our flagship *Inside The Buy-Side® Industrial Sentiment Survey®*, which captures real-time *Voice of Investor®* sentiment and trends.

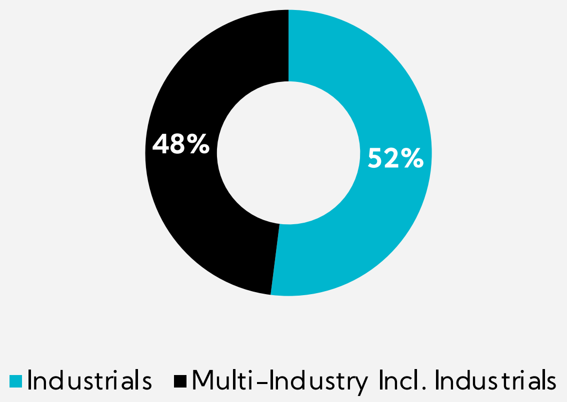
Leveraging our capital markets experience, deep understanding of investor relations, and best practice knowledge, our research and advice is at the nexus of global market trends, investor sentiment, and effective communication strategies.

Market Performance[1]	Q3'24	YTD[2]
DJIA	8.2%	13.4%
NASDAQ	2.6%	22.0%
S&P 500	5.5%	21.9%
S&P 500 Industrial	11.2%	21.1%
Russell 2000	8.9%	11.0%

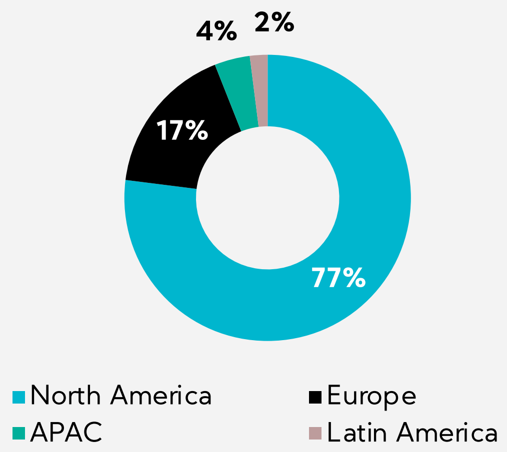
BY ROLE



BY SECTOR FOCUS



BY REGION



[1] Source: FactSet; [2] As of 10/15/24

Investors Navigate a World of Uncertainty and Try to Make a Call on Industrial Demand Recovery

Margins remain front-and-center, with demand and capex increasingly in focus for the investment community as we enter a lower interest rate environment and approach the upcoming U.S. Presidential Election

VISUAL REPRESENTATION OF SURVEY COMMENTARY: UNDERLYING SENTIMENT ■ Positive ■ Neutral ■ Negative

Q3’24

Q2’24

Q1’24

Q4’23

Q3’23

Top Mentions		Q/Q	Quarterly Ranking (1–30) Q2’24	Q1’24	Q4’23	Q3’23
Demand	1	↑ 6	8	14	1	8
Neutral	2	↑ 6	10	22	15	12
Bearish	3	↑ NEW	–	–	16	–
Margins	4	↓ 4	1	6	6	5
Bullish	5	↑ 13	18	9	16	22

Industrial Investors Brace for Disappointing 2H24 amid Anticipated Misses and Downward Guidance Revisions; Sights Turn to 2025 for Which Optimism is Building

Mixed Sentiment Overall but with a Notable Increase in Bears, as More Investors Brace for Misses and Lower Top / Bottom Line Guides

- **40%** characterize their sentiment as *Bullish* or *Neutral to Bullish*, up from 31% last quarter, while those reporting downbeat views increased to **30%** from 22%, the highest level of bearishness captured since Jun. 2023
  - Upbeat investors highlight government stimulus, reshoring, and the potential for short-cycle recovery in industrial demand, while skeptics believe stimulus benefits are over-estimated and not enough to offset a weak economy and political uncertainty
- Similarly, while **27%** describe executive tone as *Bullish* or *Neutral to Bullish*, up from 16% QoQ, **35%** characterize this group as *Neutral to Bearish* or *Bearish*, up from 21%
- More, **44%**, anticipate Q3'24 earnings results to be *Worse Than* consensus, the highest level captured in three years; 39% expect *In Line* performances
- Regarding Q3 KPIs, more expect stronger YoY *Revenue* and *FCF* prints, while *EPS* sees a notable step down in confidence and *Margins* are anticipated to remain intact
- More than **50%** are bracing for companies to lower annual *Revenue* and *EPS* guides
- Top areas to address on earnings calls include Demand/Order Rates, Margins/Pricing, Capital Allocation, and Labor Trends

Margins and Balance Sheet Strength Remain En Vogue as Industrial Weakness Persists Albeit at Lower Perceived Levels

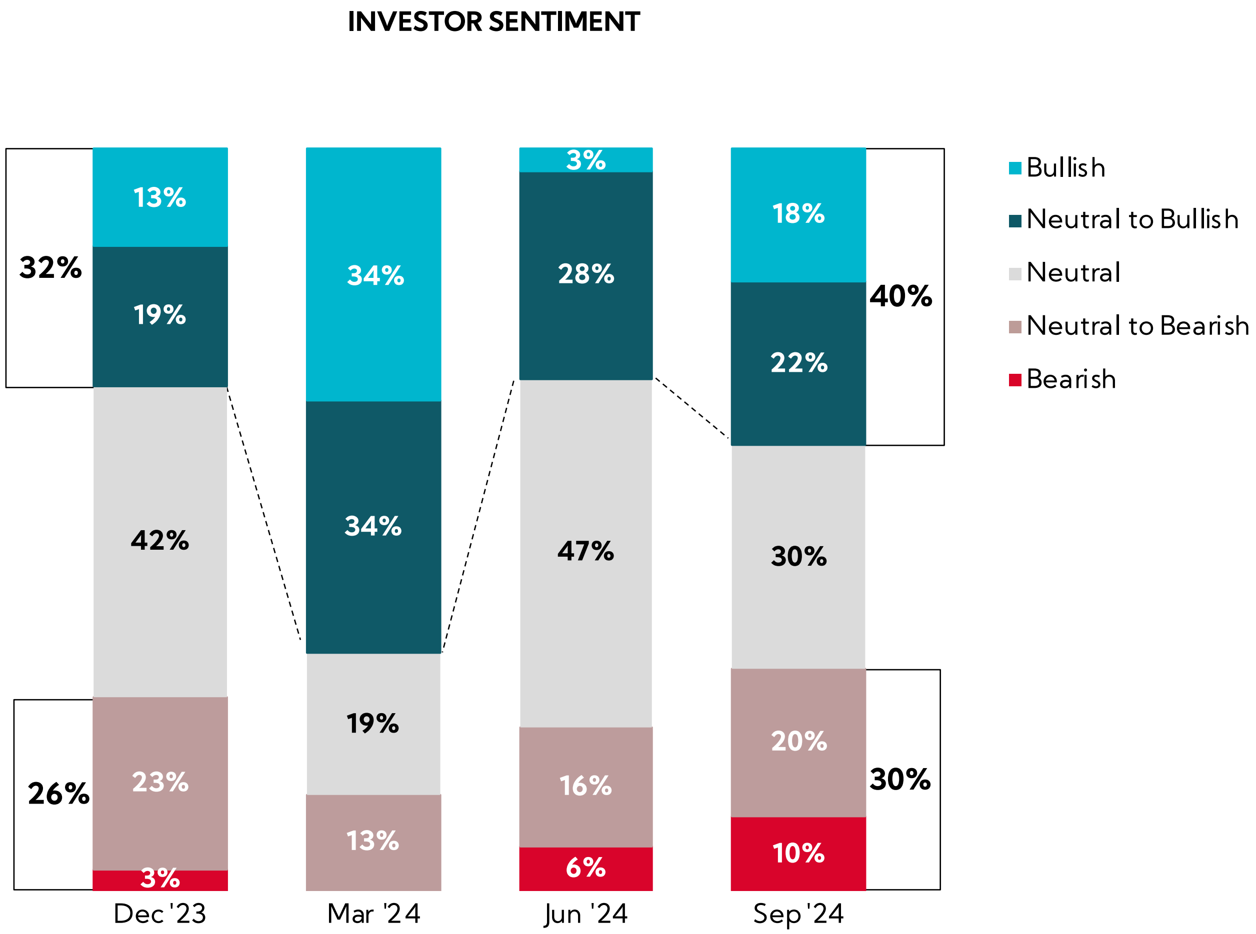
- **64%** report seeing broad-based industrial weakness at this time, down meaningfully from 94% last quarter, but still above the recent low of 47% registered in Q1'24
  - Investors are nearly evenly divided on whether 2024 Industrial Organic Growth will be *Higher, In Line,* or *Lower* than in 2023
  - **46%** express *More Concern* with demand levels, down from 63% QoQ
- **61%** prioritize margins over growth at this time, up from 48% last quarter, and the highest level registered in a year
  - **42%** report instances of companies continuing to pass on cost / increase price at the same level, down QoQ and meaningfully lower than the 76% captured in Q1'24
  - Additionally, cost-cutting is observed at higher levels
- *Debt Paydown* jumps to the second-preferred cash usage, rising to **50%** from 32% QoQ, while *M&A* recedes to **25%** from 51%, as challenging-to-read demand trends weigh on near-term optimism

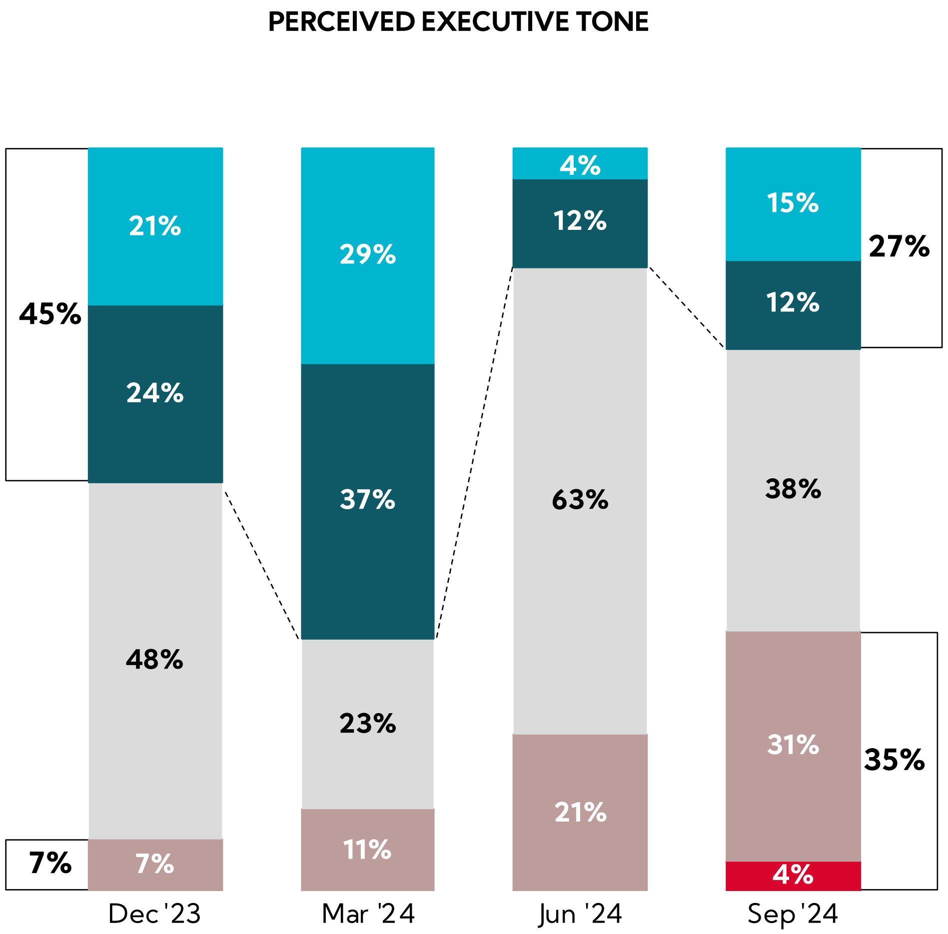
Hope on the Horizon amid Expectations for Global Capex to Strengthen Post-U.S. Election; Investors Report Net Buying

- **69%** believe we have moved past destocking, up from 57% QoQ, though 82% report they are not seeing "what if" China tariff-induced restocking
- Looking ahead, **67%** expect short-cycle order rates to *Accelerate* over the next six months, up from 33%
- *Reinvestment* remains the preferred use of cash, with **54%** in support of increasing growth capex, up from 23%
- **~50%** expect Global PMI and Global Capex to *Improve* over the next six months, but with 85% noting the U.S. Presidential election is delaying and/or negatively impacting larger capex projects
- Broadly bullish sentiment exists across nearly all industries, led by **Defense**, **Building Products** and **Distribution**; **Water** and **Commercial Aero** the only industries to see an increase in bears
- **50%** report being *Net Buyers* and none are *Net Sellers*
  - Government Policy, Reshoring/Nearshoring, and Robotics/Automation seen as compelling themes, while pure plays remain favored over conglomerates
  - **76%** consider mid-caps compelling followed by small-caps at **54%**, compared with only **18%** and **24%** for large- and mega-caps, respectively
  - AI not yet seen as a meaningful industrial theme, though **54%** report seeing *some* level of adoption across their universe
- North America remains the regional darling for the tenth consecutive quarter

Following a Hard Downshift to Neutral Last Quarter, Investor Sentiment is Increasingly Mixed, with those Characterizing Executive Tone as Downbeat at the Highest Level in Nearly Two Years

Investor *Bearishness* hits highest level since December 2022, but is slightly outpaced by an uptick in *Bullish* investor views





Sentiment Divided on the Impact of Government Stimulus and Timing of Industrial Recovery

Upbeat investors highlight government stimulus, reshoring, and the potential for short-cycle recovery in industrial demand, while skeptics believe stimulus benefits are over-estimated and not enough to offset a weak economy and political uncertainty

Bullish

"I am bullish toward the industrial sector, mainly based on the reshoring going on and around a lot of the government stimulus like the IIJA, CHIPS and Science Act, and IRA all going toward building a lot of capacity in the U.S., which should be favorable to the industrial economy here." **Buy Side, Generalist, N. America**

"The U.S. Federal Reserve pivoting to lower rates is a tailwind for shorter-cycle demand and continued strength in some longer-cycle cyclical industries." **Buy Side, Generalist, N. America**

"My broader sentiment on industrials is positive. There is a lot of capital investment that is going to happen with the likes of reshoring and some of these megaproject tailwinds. At some point, the short-cycle industrial with the PMI will start to turn and be favorable as well, which should bode well for the group." **Buy Side, Industrials, N. America**

"My sentiment toward the Industrial sector is positive for the U.S. They stand to benefit from reshoring. Even if there are tariffs, it brings heavier manufacturing on shore, so it is more of a winner in most scenarios." **Buy Side, Generalist, Europe**

Neutral to Bullish

"I am neutral in the very near term. Longer term, I am more optimistic." **Buy Side, Generalist, N. America**

"I am bullish, but not wildly so. Certain parts of the industrial space have gone through their own downturn over the last year and a half or more with PMIs and ISMs being below 50 for quite a while." **Buy Side, Industrials, N. America**

"Interest rate dynamics, onshoring activity/infrastructure funding." **Sell Side, Generalist, N. America**

"I am moderately bullish toward the industrial sector. There are still headwinds and additional capacity coming. We are not by any means out of the woods, but share prices have generally come down. Steel prices appear to have bottomed. We have been recovering for the last month." **Sell Side, Industrials, N. America**

"Market priced in ahead of consensus." **Sell Side, Industrials, Asia**

"Close to bottom of cycle, but hard to predict exact timing." **Buy Side, Industrials, Australia**

Neutral

"Certain parts of the economy have been supported by government stimulus and those things that are in the later innings of things or the spending impact is not going to be as much as people think. For spaces not being held up by fiscal stimulus effectively, I am more positive because we have gone through the destock and some of the economic reset. We are closer to a recovery phase rather than another shutdown." **Buy Side, Generalist, N. America**

"I am neutral toward the industrial sector in the short term given that the construction activity ahead of the IIJA and IRA and spending is soft, except for areas like data centers and chip factories. Longer term, the conditions are temporary." **Buy Side, Generalist, N. America**

"I am neutral toward the industrial sector, because they still have a lot of infrastructure spending that will happen. We are up against a weak economy, so the two likely counter each other." **Buy Side, Generalist, N. America**

"I am neutral toward the industrial sector. The secular trends for the industrial economy in the U.S. are very good, but there is a big question about going through a recession." **Buy Side, Industrials, N. America**

"My general sentiment toward the industrial sector is neutral. There are generally still very mixed trends in the overall sector. Many subdivisions in industrial have been weak and equities in general have not been very strong, so you have reasonable stock prices, but you have very mixed fundamentals." **Sell Side, Industrials, N. America**

Neutral to Bearish / Bearish

"We have been in a low-key industrial downturn for the better part of a year or maybe even two. PMIs are below 50 and have been for 19 of the last 20 months or something. Executive sentiment is very mixed. There are some industries that sound quite cautious and others that sound optimistic." **Buy Side, Generalist, N. America**

"The macro has been slow. Broadly speaking, it has been a restrictive environment for a few years, ISM is still sub-50, so neutral to negative." **Buy Side, Industrials, N. America**

"My sentiment toward the industrial sector is bearish in the short term, because there are a lot of macropolitical and geopolitical risks and an uncertain election. Times of uncertainty are not good for the industrial backdrop or demand. In the longer term, I am positive, but less positive than many. At one point in the last couple years, the market was overly excited about the long term. The IRA and Infrastructure Bill are meaningful and powerful, but we have had a history of false starts. There is a bold case the U.S. will become the industrial manufacturing hub of the world. Certain parts of the market got too optimistic on the long term. Nearshoring and reshoring are positive longer-term drivers, but they are not a massive, game-changing theme." **Buy Side, Industrials, N. America**

"I am bearish toward the industrial sector because of concerns about the health of the U.S. economy." **Buy Side, Industrials, N. America**

Top Concerns from Around the Globe

U.S. politics leads list of concerns heading into the November U.S. Presidential Election; recession concerns moderate somewhat, but still remain top of mind, while monetary policy and labor availability increasingly in focus

	Unaided	(QoQ Change)	
1	64%	(↑ 47 pts)	U.S. Politics
2	39%	(↓ 11pts)	Recession / Slowdown
3	36%	(↑ 7pts)	Monetary Policy
4	30%	(UNCH)	Margins, Pricing Power
5	23%	(↑ 16pts)	Labor
6	15%	(↓ 5pts)	Demand

Views from N. America

"Disconnect between buyers and sellers, continued softening of rents, interest rates." **Buy Side, Generalist**

"Inflation, political uncertainty, margin contraction." **Buy Side, Industrials**

"Supply chain disruptions, potential of significant tariffs, political instability." **Buy Side, Industrials**

"Macro, election uncertainty, geopolitical." **Sell Side, Generalist**

"Recession, election, fed behind the curve." **Sell Side, Industrials**

"Recessionary fears, labor cost and availability, political landscape." **Sell Side, Industrials**

"Consumer, short-cycle industrial demand, progressive green policies in western democracies." **Sell Side, Industrials**

Views from Europe

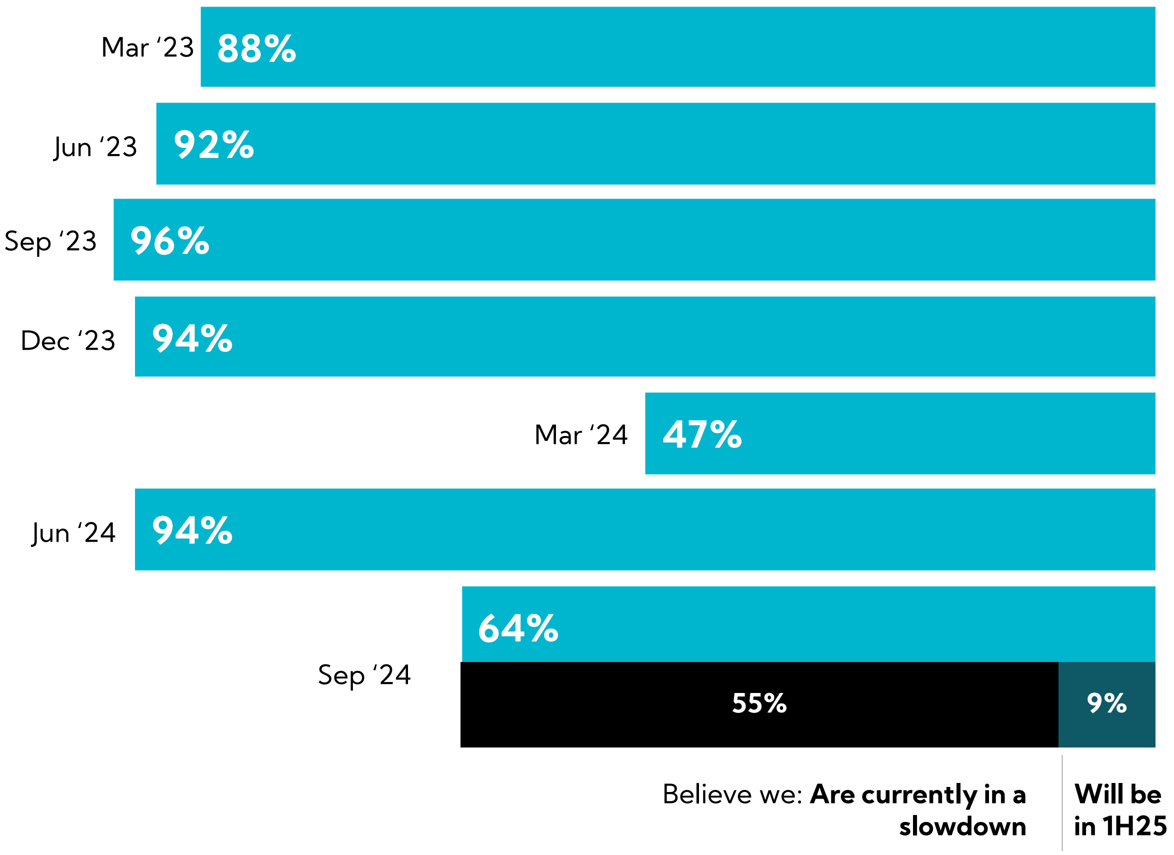
"Dollar, interest rates, labor." **Buy Side, Generalist**

"Eur. chem: energy prices, lower macro growth." **Buy Side, Generalist**

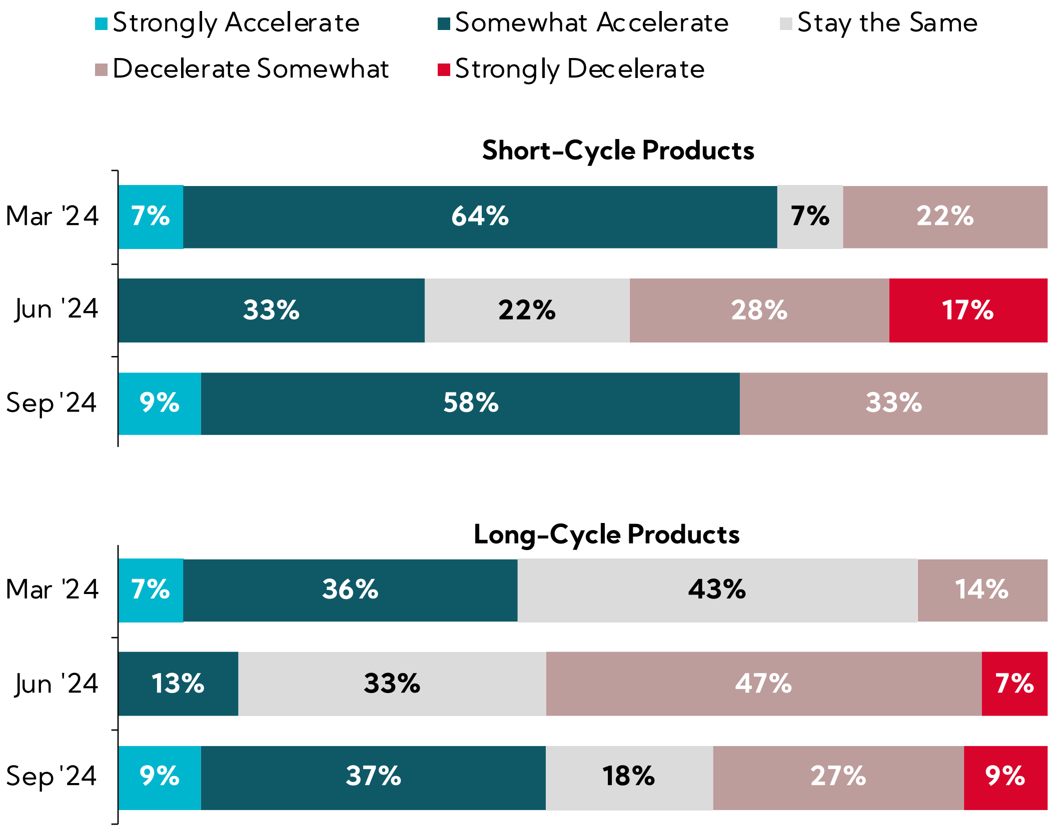
Broad-Based Industrial Weakness Still Observed, But Fewer Express Concern Versus Last Quarter as Expectations for Modest Acceleration in Short-Cycle Order Rates Increases

Most expect short-cycle order rates to *Somewhat Accelerate* over the next six months though one-third is calling for retrenchment; views on long-cycle order rates improve somewhat

BROAD-BASED INDUSTRIAL WEAKNESS, QoQ EXPECTATIONS

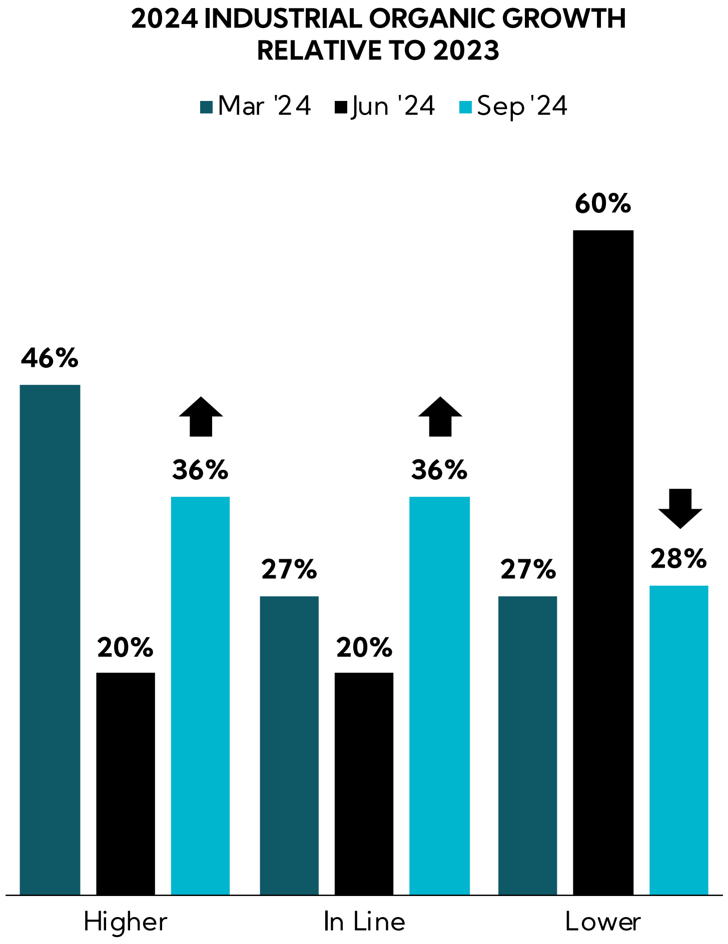


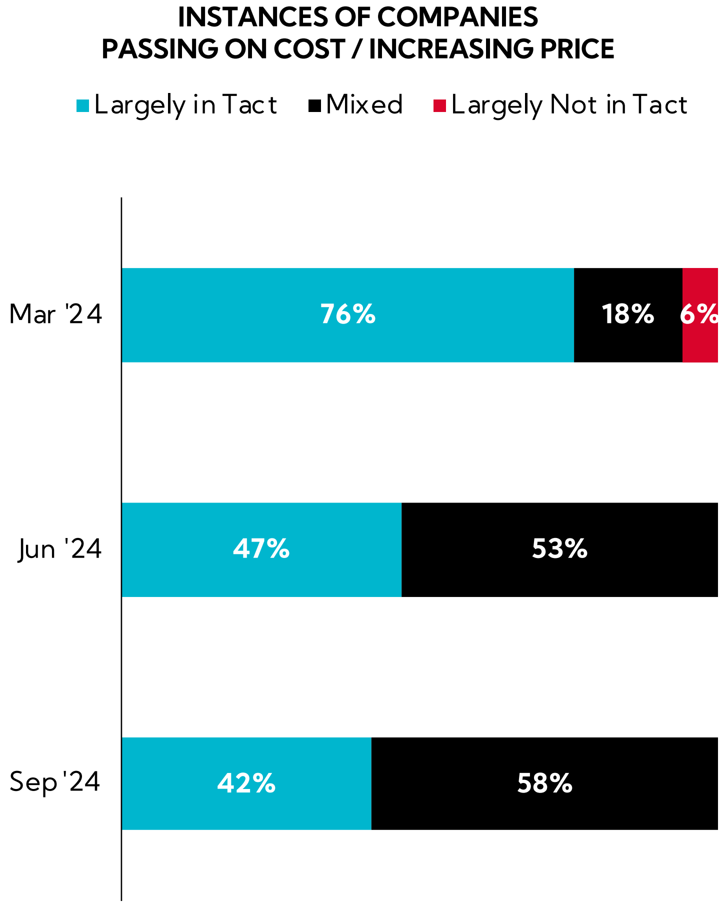
INDUSTRIAL ORDER RATE EXPECTATIONS OVER THE NEXT SIX MONTHS

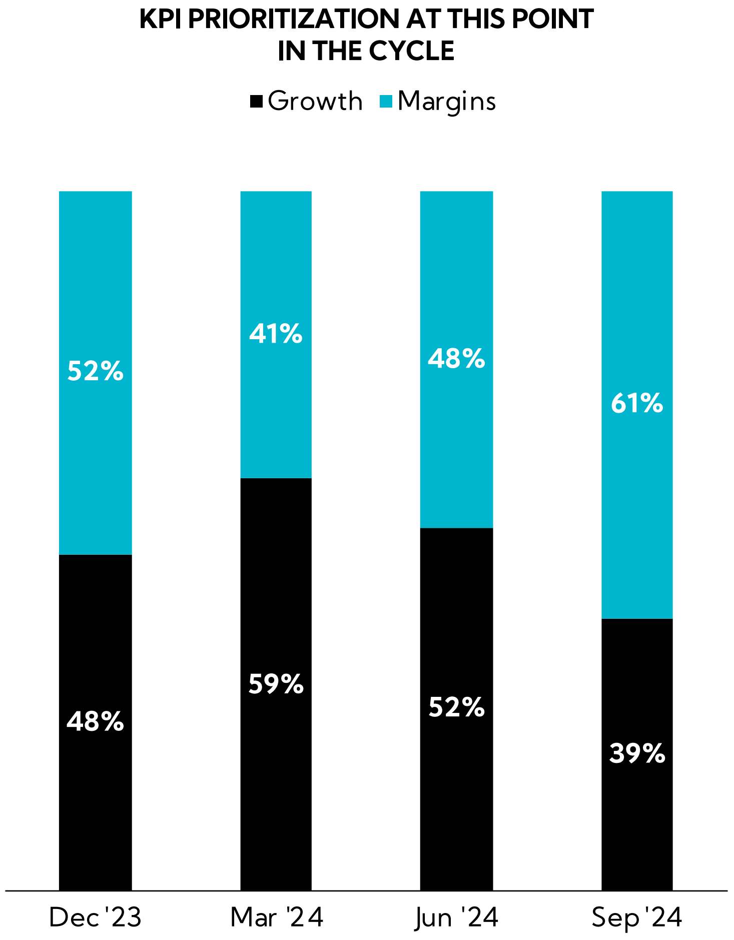


Another Proof Point of Divergent Views, Investors Decidedly Mixed on 2024 Industrial Organic Growth, With More Optimism QoQ

Those prioritizing margins over growth increases for the third consecutive quarter, as fewer report industrial companies within their coverage are still passing on cost

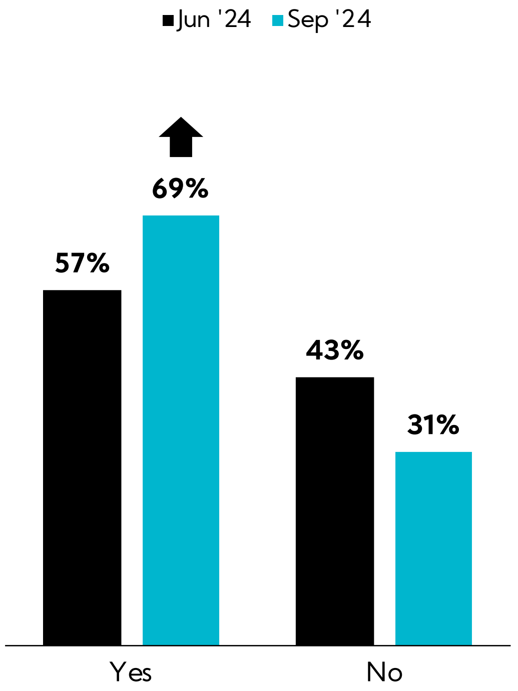


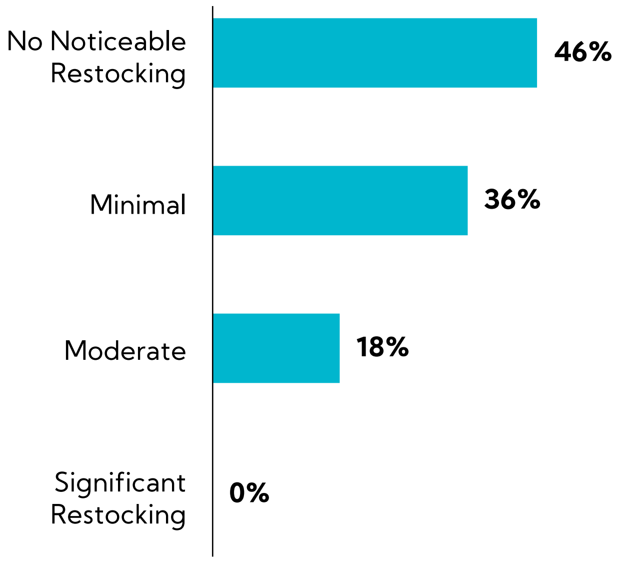


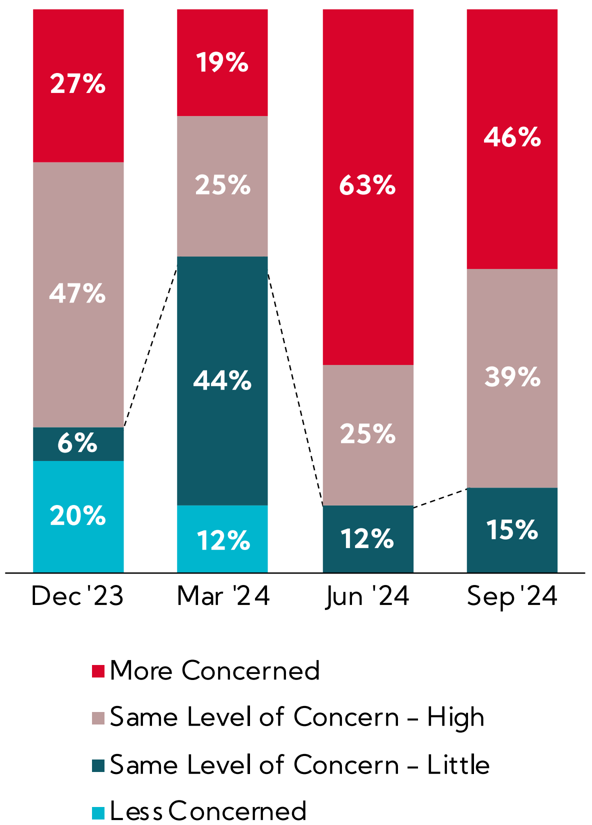


Destocking Largely in the Rear View, and While Concerns with Underlying Demand Remain Elevated, It Is Less of a Concern QoQ

Though the survey reflects heightened anxiety around U.S. politics and the coming election, 82% report they do not see China tariff concerns driving companies to restock at a higher level







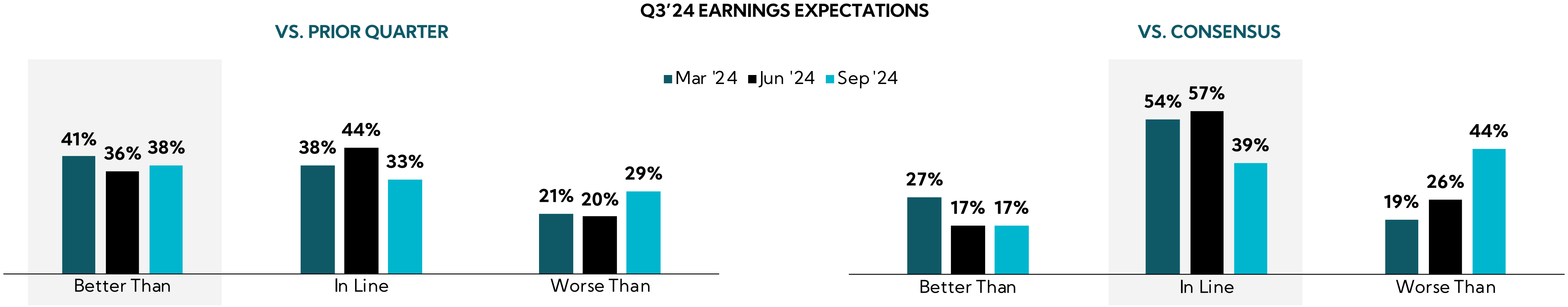
"We have had two years post-COVID of destocking and business start to normalize. Europe is at the base and going to recover and we are not looking for a recession in the U.S. no matter which party gets in."
Buy Side, Generalist, N. America

"We had an immense oversupply and demand from COVID and large amounts of liquidity, so we are going through the hangover now. It is a lot more than folks thought. There is a big inventory build and they are working their inventory down a little below where they normally do because they are anticipating weakness in demand going forward. We are going to be in a neutral to bearish type of environment. We are bouncing along the bottom but are not going to get a demand uptick. Everybody is thinking it will happen this year, but it will not. We hear a lot of commentary about rates needing to come down to spur demand again."
Buy Side, Generalist, N. America

"Through the back half of the year, my sentiment is leaning slightly negative from a demand perspective for broader industrials, meaning the demand side of the equations for steel end markets and general manufacturing, construction, and automotive. The back half of the year is softer than the first half."
Sell Side, Industrials, N. America

Mixed Views on Sequential Earnings Growth, but with More Expecting Misses vs. Consensus

Those expecting earnings to be *Worse Than* consensus reaches the highest mark since September 2021



Better Than

"Normalization of supply chain and channel inventories." **Sell Side, Generalist, N. America**

"Operations." **Sell Side, Generalist, N. America**

In Line

"My expectations vary a lot by sector but I am reasonably cautious overall in most sectors. In steel, the number is too high still. In LTL, I am not sure. That could go either way. In container shipping and freight forwarding, they will come in higher than consensus or consensus moves up. In something like aggregates and packaging, expectations are reasonably well balanced." **Buy Side, Generalist, N. America**

"Recovery will take longer than consensus is expecting." **Buy Side, Industrials, Europe**

"Yen strength, slow recovery." **Sell Side, Industrials, Asia**

Worse Than

"Weaker interest rate sensitive sectors like ag and machinery, weaker farmer affordability impacting fertilizer stocks." **Buy Side, Industrials, Australia**

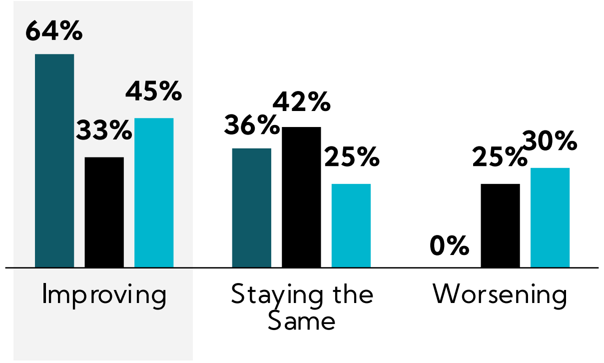
While More Expect To See Improving Revenue Trends, This Is Not Seen as Enough to Meet Lofty Annual Outlooks; More than Half Expect Industrials to Lower Revenue and EPS Guidance

FCF generally expected to *Improve*, while margins are expected to *Stay the Same*

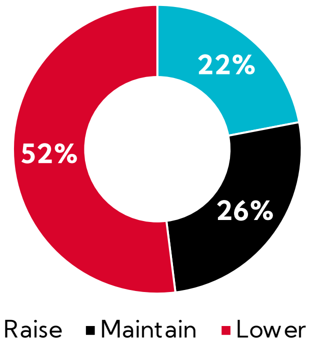
Q3'24 PERFORMANCE EXPECTATIONS

REVENUE

PERFORMANCE EXPECTATIONS

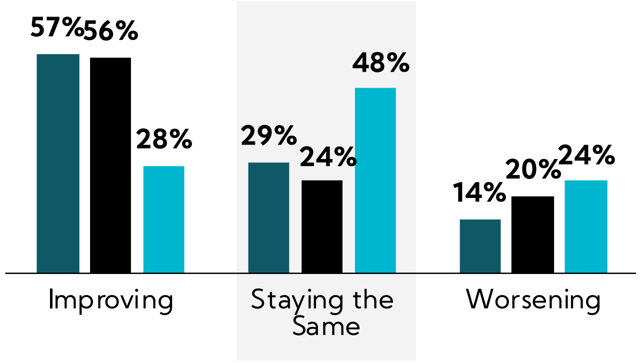


GUIDANCE EXPECTATIONS
Annual 2024 Guides



EPS

PERFORMANCE EXPECTATIONS



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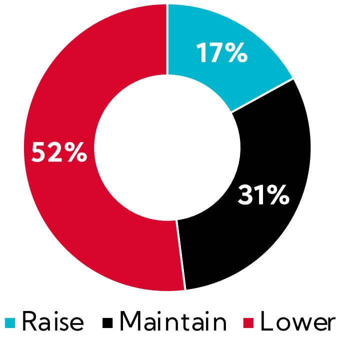
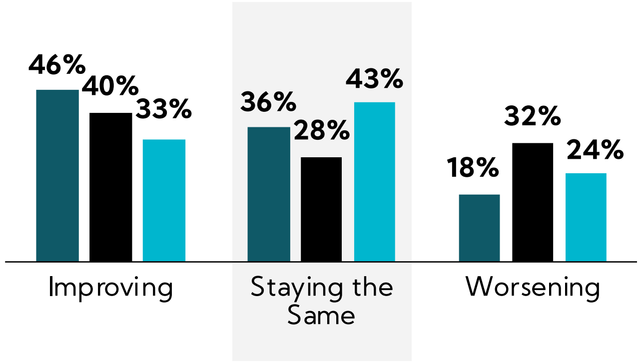


Mar '24 Jun '24 Sep '24

OPERATING MARGINS

PERFORMANCE EXPECTATIONS



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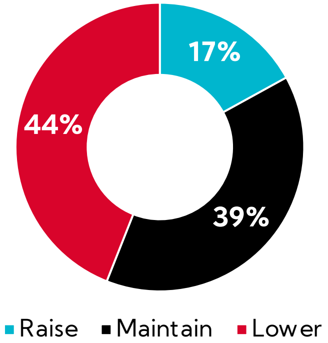
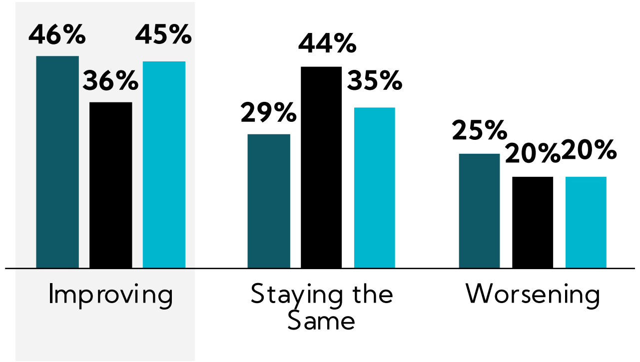
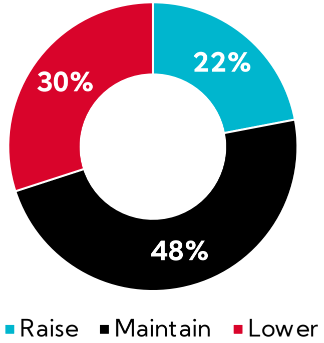


FCF

PERFORMANCE EXPECTATIONS



GUIDANCE EXPECTATIONS
Annual 2024 Guides



55% Demand, Order Rates, Growth (↓ 21pts)

31% Margins, Pricing Power (↓ 17pts)

25% Capital Allocation (↑ 1pt)

24% Labor, Unemployment (↑ 17pts)

24% Business Outlook (↓ 8pts)

17% U.S. Election Impact (↑ 12pts)

Topics of Interest for Upcoming Earnings Calls

Demand and order rates top the list while margins remains a consistent focus; labor trends and U.S. Election impact see the largest QoQ increases in mindshare

Views from N. America

"Demand trends, inflationary pressures, capex plans." **Buy Side, Industrials**

"Sales growth, impact of growing unemployment, margin prioritization." **Buy Side, Industrials**

"Customer demand, actions taken to reduce supply chain risks, investments taken to increase revenue, expand margins, reduce risks." **Buy Side, Industrials**

"Growth and cadence of the growth during the quarter, price/cost, customer trends, and any evidence of pause for rates/election." **Buy Side, Industrials**

"I am interested in companies addressing how they see their order backlogs developing, infrastructure build, and IRA spending and are they actually seeing it and when could it get better if it got worse." **Buy Side, Industrials**

"I am interested in executive teams discussing their general outlooks and what their customers are saying in feedback. This question will become more topical after we get through this election cycle." **Buy Side, Generalist**

"AI power demand, macro expectations for 2025, election ramifications." **Sell Side, Generalist**

"Pricing power, lingering inflation impacts, labor challenges." **Sell Side, Industrials**

"Pace of orders, labor inflation, visibility around longer cycle project timing (semis, EVs, battery, data centers, etc.)." **Sell Side, Industrials**

Views from Europe

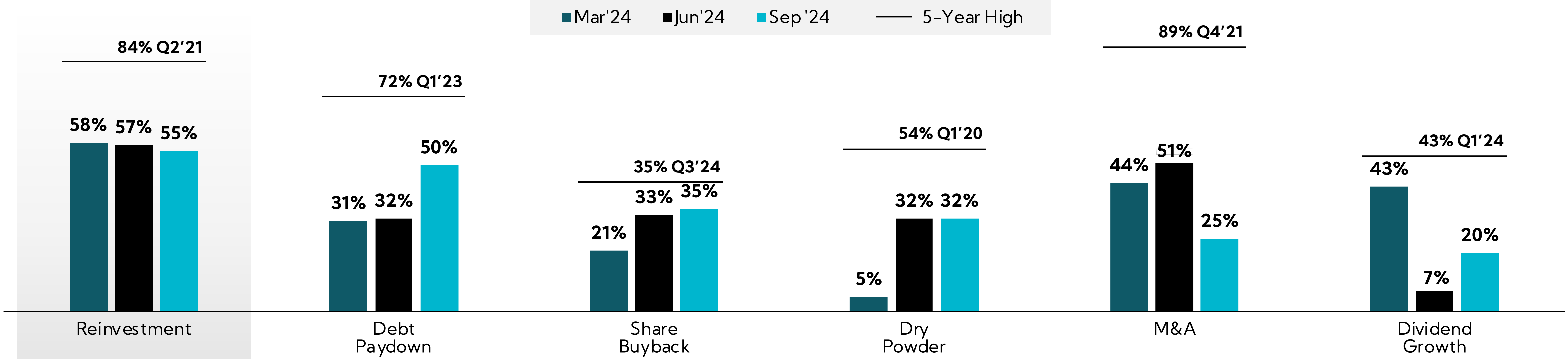
"Volumes and prices, margins (input costs), outlook guidance, capex plans, qualitative comments." **Buy Side, Generalist**

"Guidance/outlook, macro data." **Buy Side, Generalist**

Capital Allocation Preferences Reflect Continued Support for Reinvestment While Debt Paydown Endorsement Jumps; Appetite for M&A Pulls Back as Dry Powder Remains a Priority

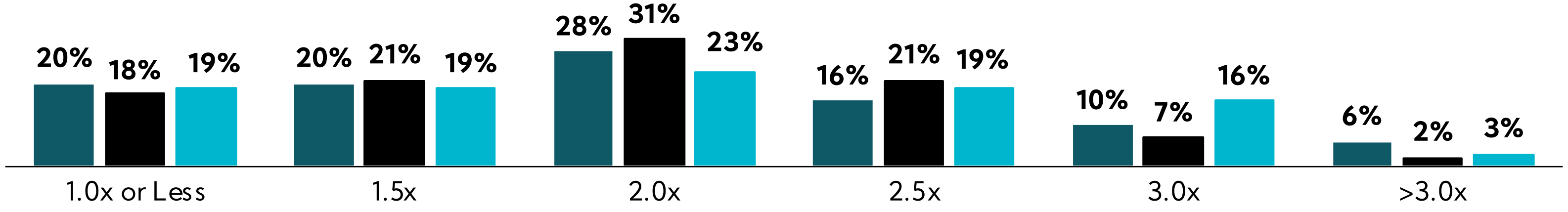
A majority, 54%, now encourage companies to *Increase* current levels of growth capex, while 61% cite 2.0x or lower as the ideal net debt-to-EBITDA threshold

PREFERRED USES OF CASH
In Descending Order of Top Two Preferences



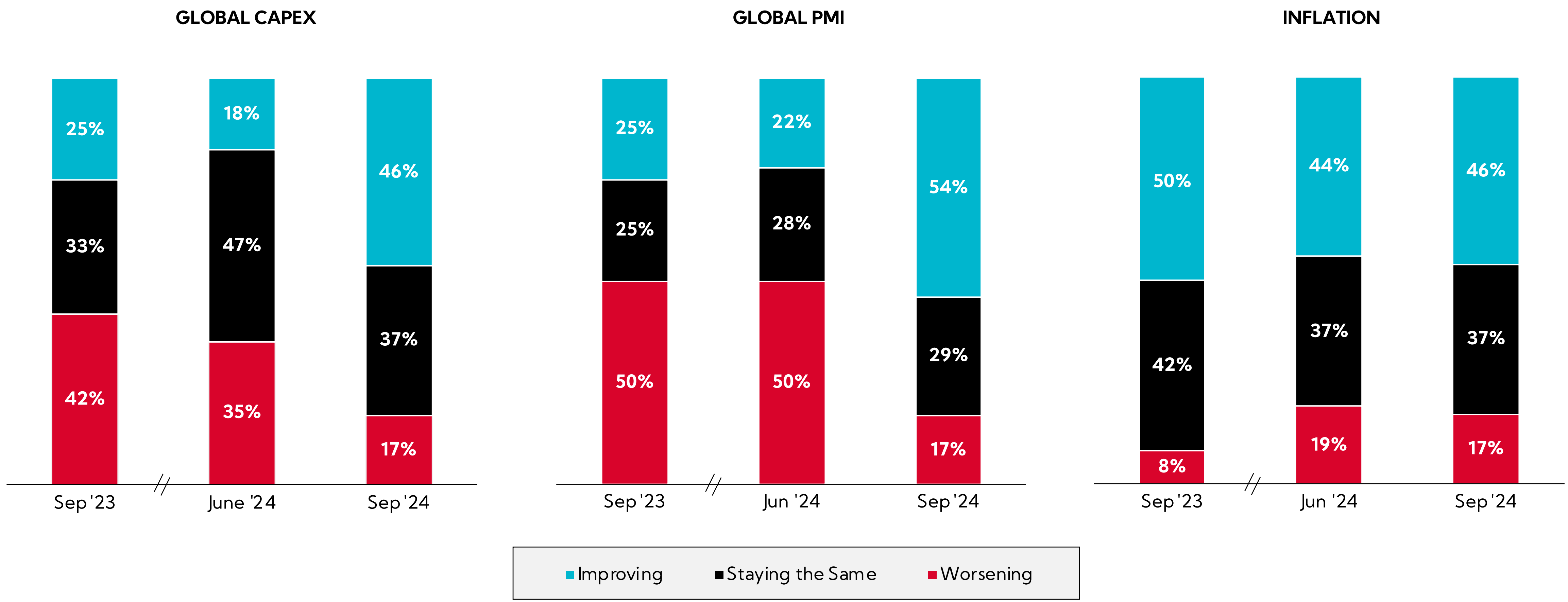
61% prefer ≤2.0x, down from 70% QoQ

THRESHOLDS FOR IDEAL NET DEBT-TO-EBITDA



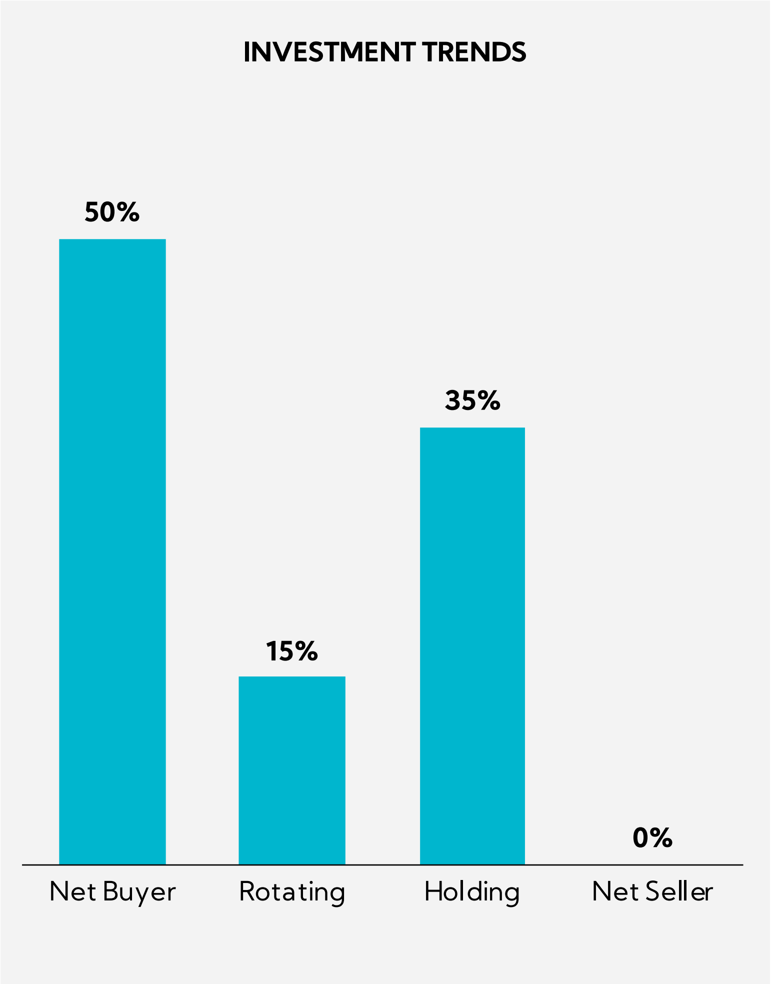
Views on Key Economic Indicators Over the Next Six Months

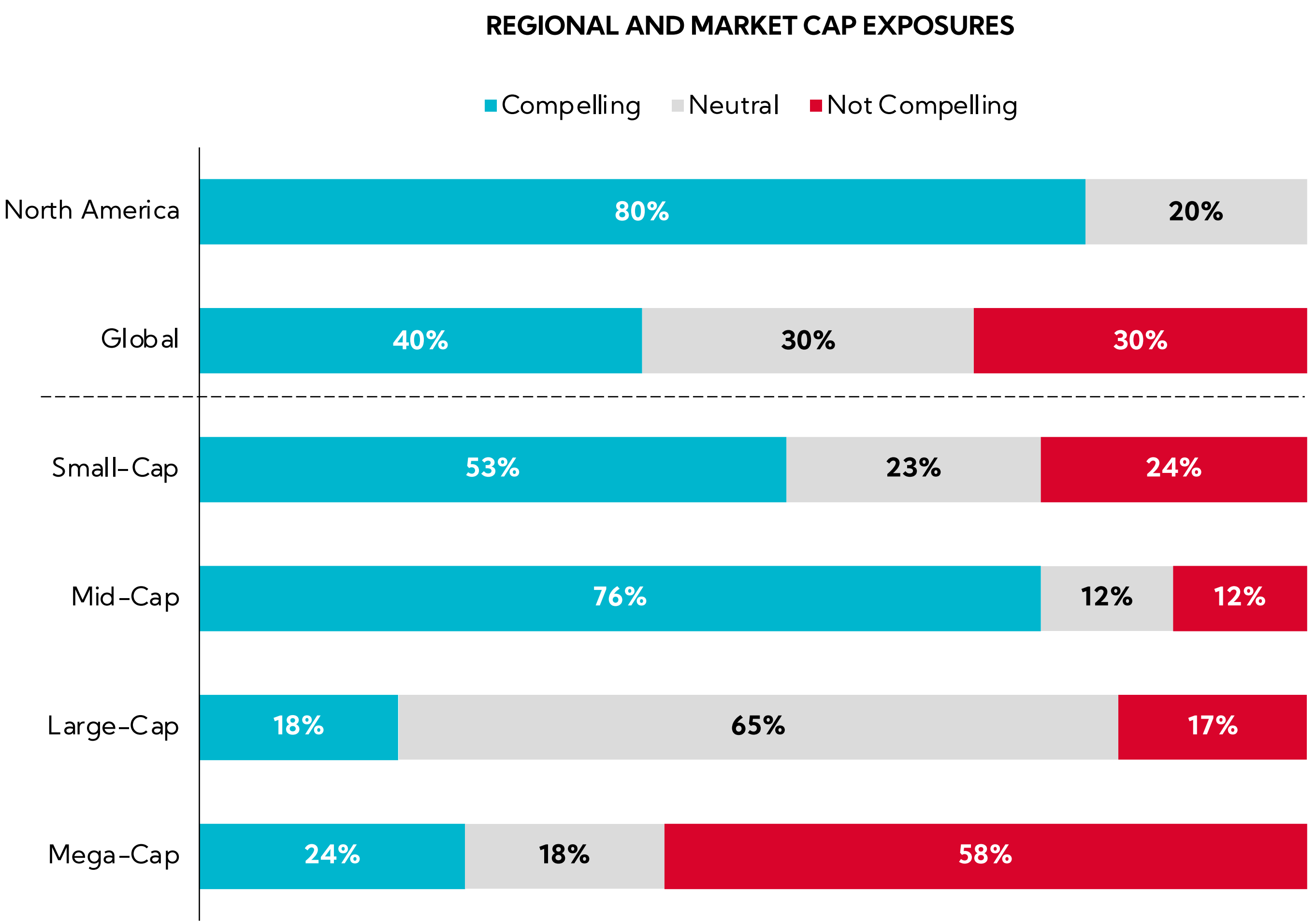
Improved views QoQ for global PMI and global capex, but with 85% noting the U.S. Presidential election is delaying and/or negatively impacting larger capex projects, indicating optimism is saved for post-U.S. election clarity



Buying the Dislocation: Half of Investors Report Being Net Buyers with Mid- and Small-caps Seen as More Compelling At This Time

Investors report shifting investment focus to smaller companies, being on the lookout for undiscovered quality and potential

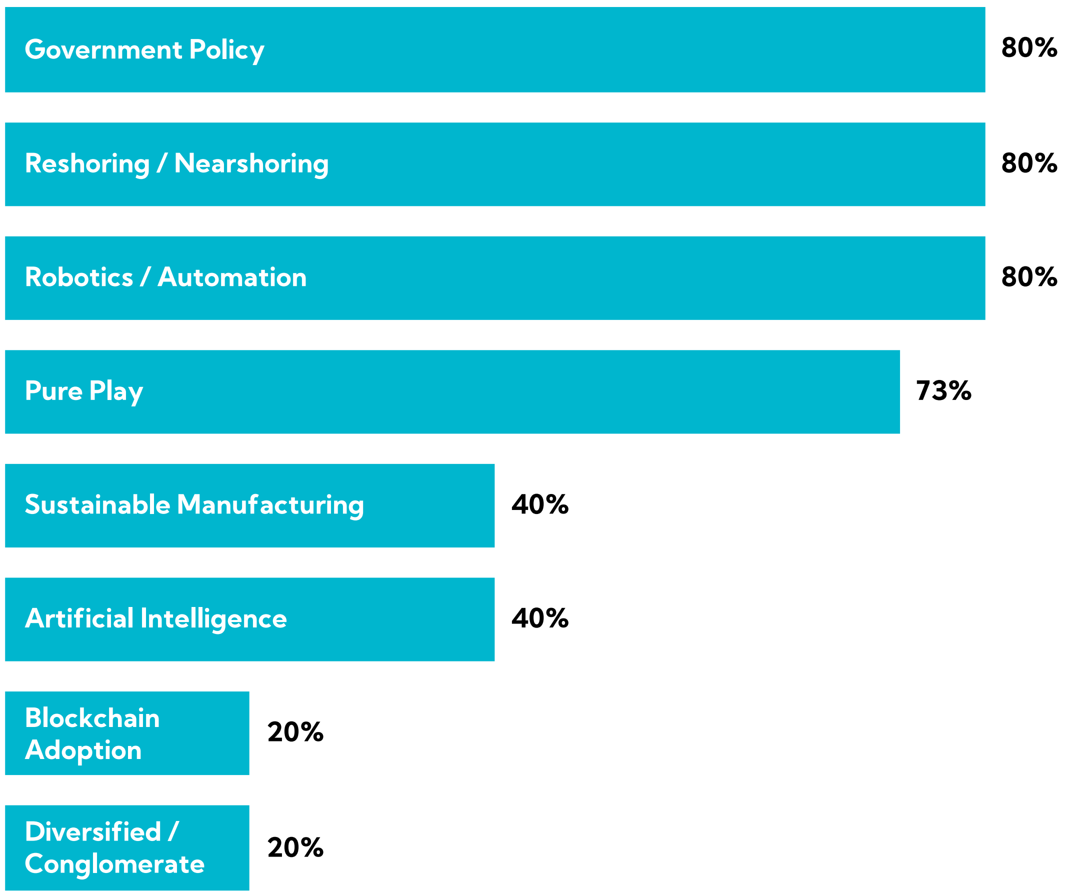




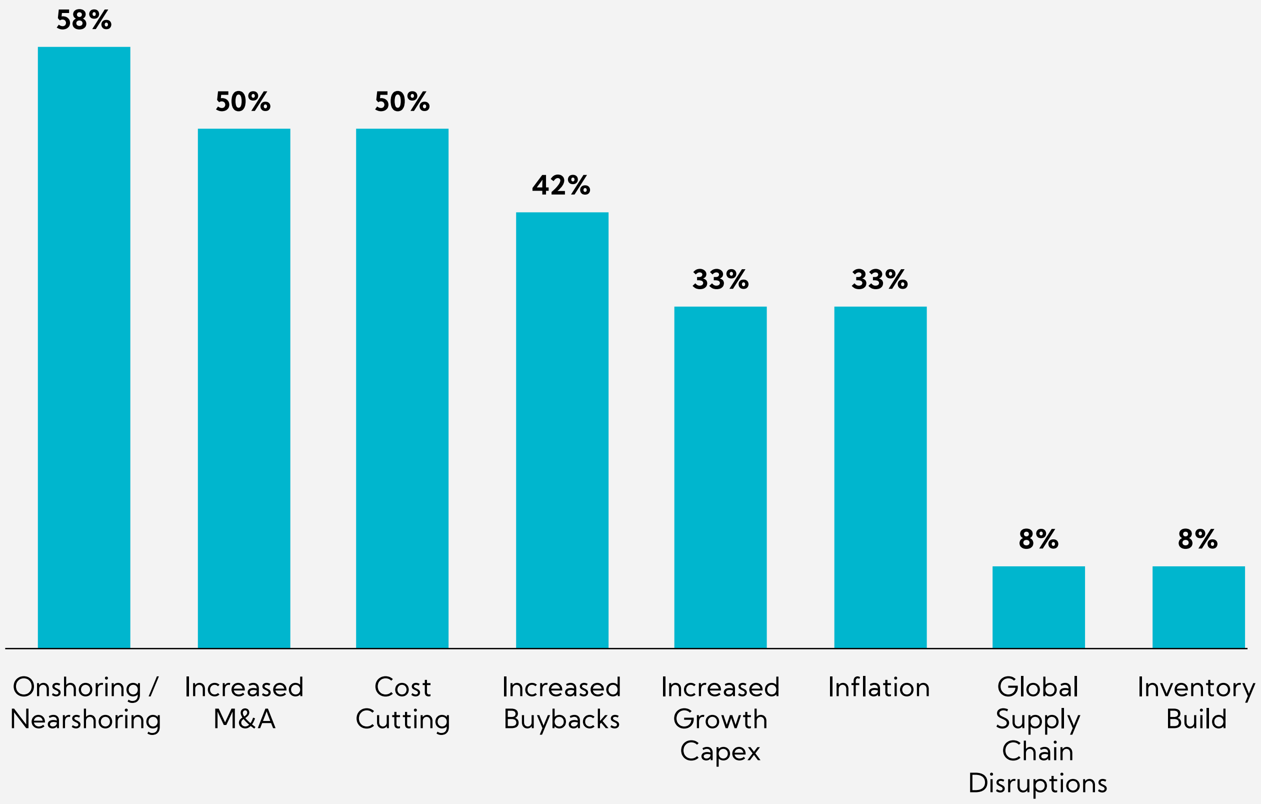
Government Policy, Reshoring/Nearshoring, and Robotics/Automation Seen as Compelling Investment Themes, While Investors Observe Both Increased M&A Activity and Cost-cutting

AI not yet seen as a meaningful industrial theme, though 54% report seeing some level of adoption across coverage

COMPELLING INDUSTRIAL THEMES

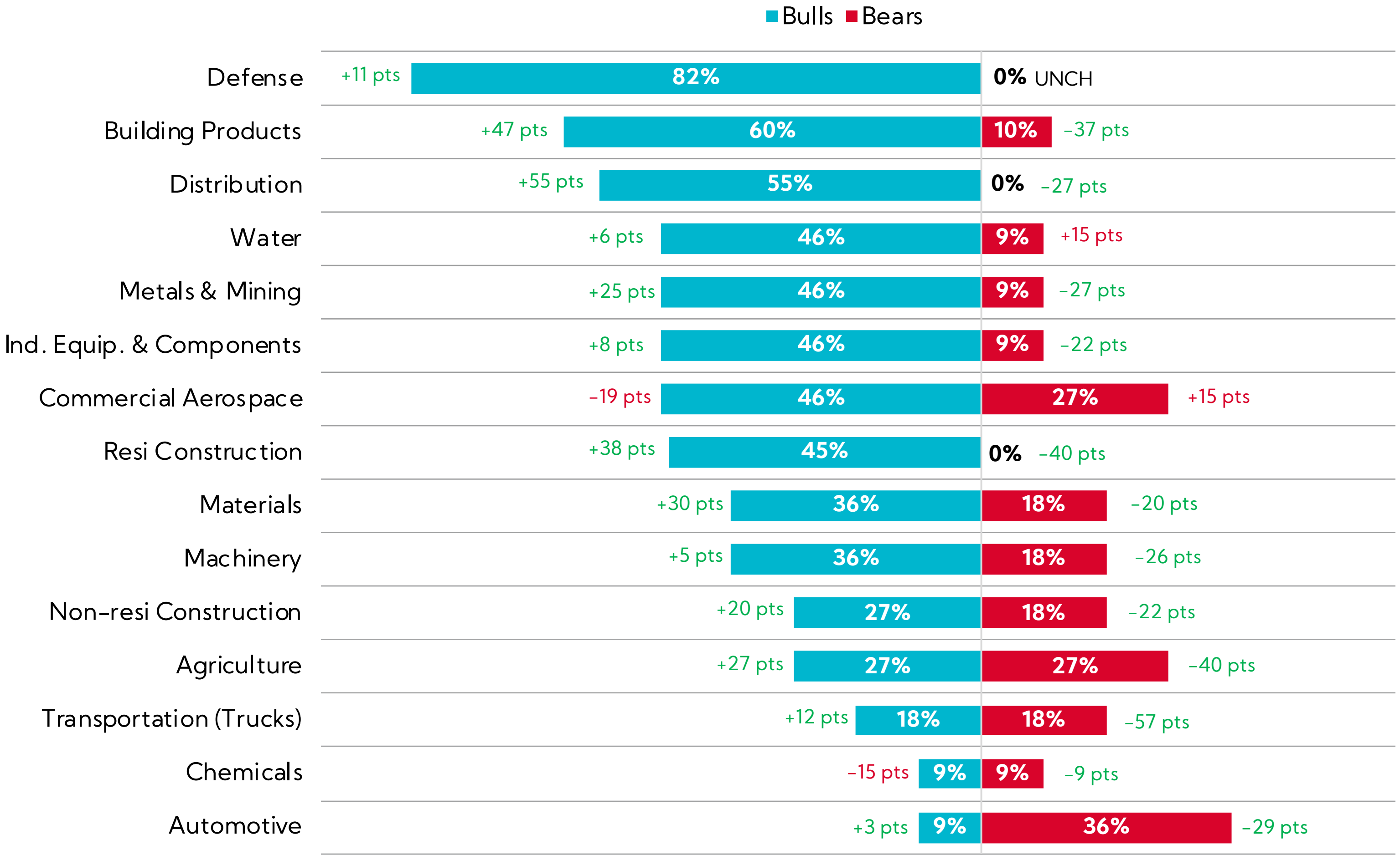


WHAT INVESTORS ARE SEEING ACROSS INDUSTRIAL UNIVERSE



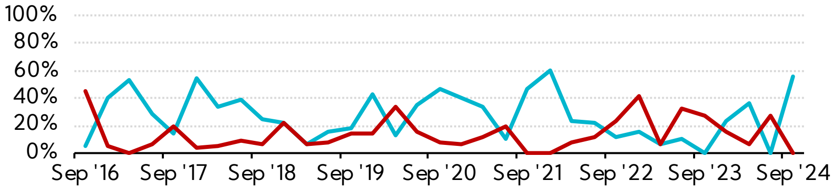
After a Broad-based Pullback in Sentiment Last Quarter, Nearly All Industries See Improvement, Led by Distribution and Building Products

BULLS VS BEARS

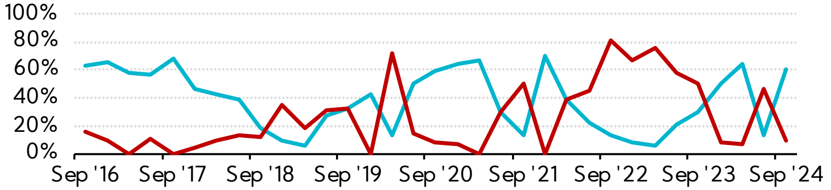


LARGEST BULL SENTIMENT GAINERS

DISTRIBUTION

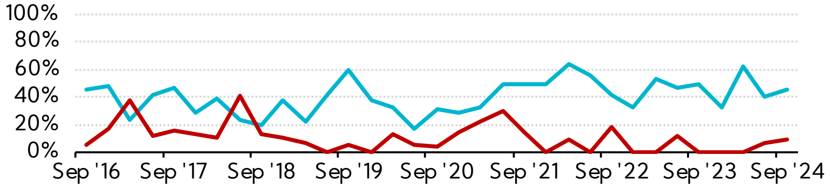


BUILDING PRODUCTS

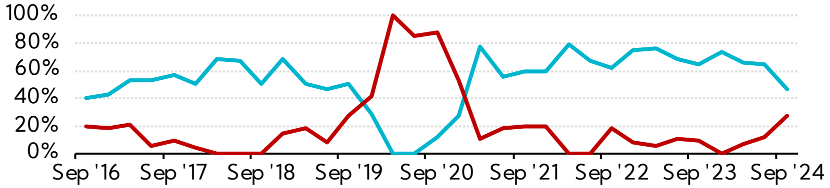


LARGEST BEAR SENTIMENT GAINERS

WATER



COMMERCIAL AEROSPACE



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