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MARKETS

Rebound for Industrials Helps Stabilize U.S. Stocks

The Dow industrials' stability marks a shift from earlier in the year, when trade tensions helped batter manufacturers. The S&P 500 industrials sector has risen 4.9% in the past month, making it the best-performing of the broader index's 11 groups in that span and lifting it up 2.9% despite recent swings in the market's best-performing sectors. It is at its highest level since March. The [Dow Jones Industrial Average](#) has also outperformed recently, earlier this month narrowing the gap on the S&P 500 to its lowest level since July.



Traders on the floor of the New York Stock Exchange. PHOTO: JUSTIN LANE/EPA-EFE/REX/SHUTTERS/EPA/SHUTTERSTOCK

The blue-chip index is up 5.8% for the year, compared with the S&P 500's 8.6% climb.

The Dow industrials' stability marks a shift from earlier in 2018, when trade tensions and worries about [higher commodity costs battered manufacturers](#). Data Friday showed U.S. [industrial output rose](#) more than expected in August, lifted by strong utility and motor-vehicle production.

Industrial stocks have been among the market's worst-performing sectors in the past six months even with the U.S. economy growing at its quickest pace in years, so some analysts think more strong data could give the group a further boost. Figures from last month showed July output from factories, mines and utilities was [weaker than expected](#).

Yet investors have rewarded industrials lately after many manufacturers reported strong second-quarter earnings despite the threat of tariffs hurting global demand.

Additionally, data earlier this week showed a gauge of U.S. business prices in August clocked the first monthly decline in about a year and a half, a potentially positive sign for consumer-facing firms combating higher costs. Some commodity prices have fallen lately, a potential boon for many industrial companies. And some analysts think strength in the U.S. economy could continue to underpin manufacturing stocks, even as global trade discussions continue.

"We're focusing more on domestic demand," said Benjamin Lau, chief investment officer of Apriem Advisors, who has been slightly overweight industrials this year.

Third-quarter earnings season will mark a crucial period for industrial shares, with investors increasingly looking for sectors cheaper than the broader market that can still post consistent sales growth.

However, cautious comments from industry executives or setbacks on trade could send the group spiraling again, putting pressure on other sectors to pick up the slack.