



Friday Favorites- Scanning The Materials Sector

Goldman Sachs recently noted that hedge funds have been "aggressively" selling technology and communications stocks. Per Bloomberg: *"Net selling in tech in June is on track to be the worst on record."*

Technology and communications, especially the mega-cap stocks within those sectors, are leading the market higher. Most other stock sectors are lagging well behind the S&P 500. For instance, the graphic below shows that technology, discretionary, and communications have increased over the last 25 trading days while every other sector has been down. Keep in mind that discretionary is being led by Tesla and Amazon. Most other discretionary stocks are down significantly.

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Insights

Markets

Portfolios

Performance Analysis

Factor Analysis

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Factors

Sectors

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SPY Excess Returns Over Time

Lookback Days:

25,20,20,20,60,60,60

Update

25 days

Symbol	Name	2024-05-29 to 2024-07-05	↕
XLP	Consumer Staples	-3.54%	
XLB	Materials	-7.44%	
XLRE	Real Estate	-1.29%	
XLE	Energy	-6.06%	
XLU	Utilities	-8.20%	
XLV	Health Care	-3.41%	
XTN	Transportation	-2.46%	
XLI	Industrials	-5.41%	
XLK	Technology	3.03%	
XLF	Financial	-3.66%	
XLY	Consumer Discretionary	3.39%	
XLC	Communication Services	0.76%	

The hedge funds are betting on a rotation. Of the sectors they have been buying are energy, materials, and industrials.

We thought it might be helpful to run a fundamental scan of the materials sector and then look at their technical situation and see if there are some attractive stocks from a fundamental and technical perspective.

Screening Criteria

We considered the following factors when screening:

- Basic Materials Sector
- Companies domiciled in the USA

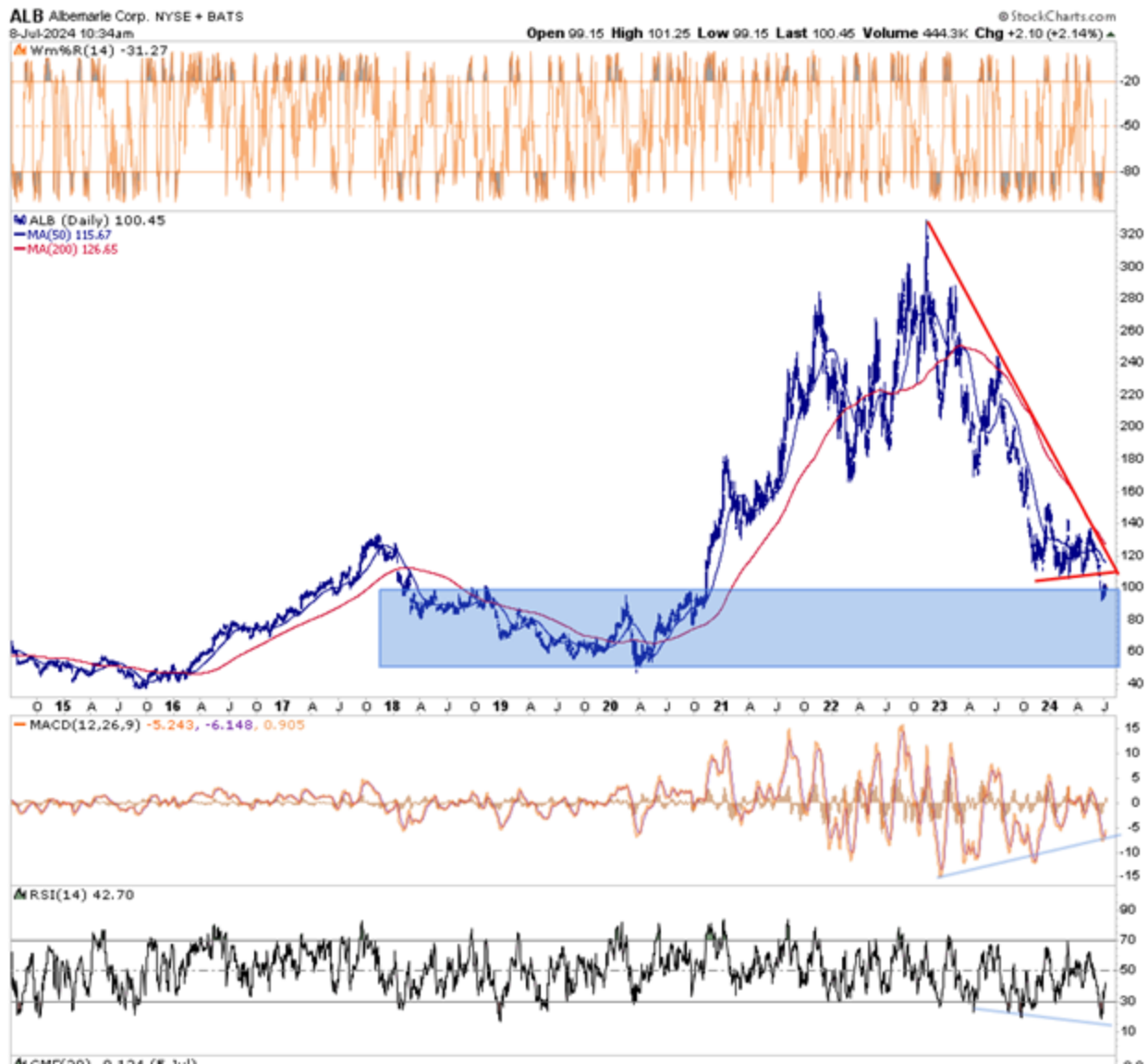
- Market Cap > \$5 billion
- Forward P/E <15
- EPS and Sales growth last 5 years >10%
- Expected EPS growth next year >10%
- Below its 20, 50, and 200 simple moving averages

As shown below, the scan only gave us three companies. The three stocks have excellent growth potential and proven track records. Furthermore, they are trading poorly compared to the market, so any rotation from the largest cap stocks to materials could favor these companies.

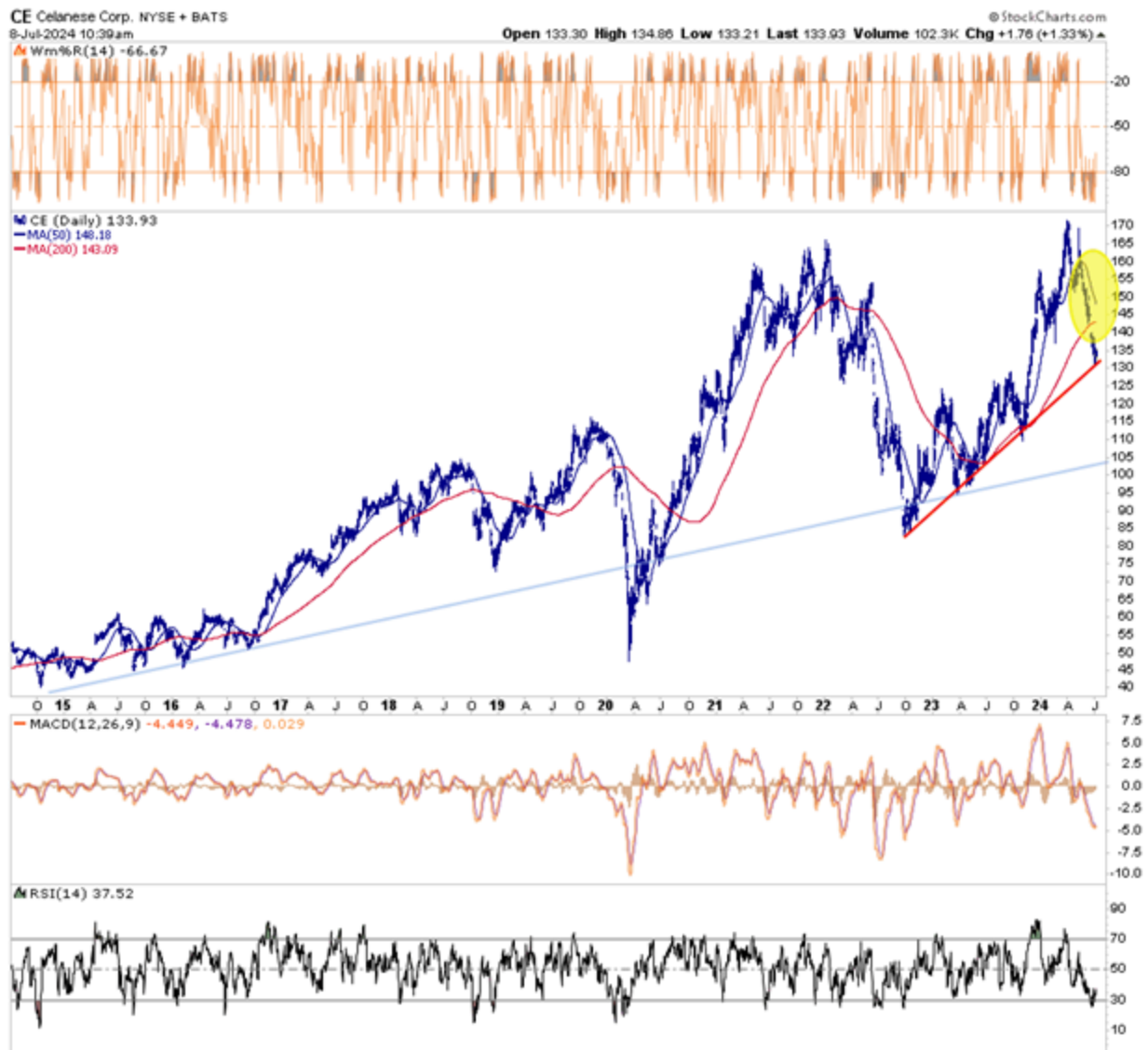
Company	Ticker	Market Cap (Bns)	Forward P/E	EPS Past 5 Years	Sales Past 5 Years	EPS Next Year	% Below 20DMA	% Below 50DMA	% Below 200DMA	Distance From 52 Week High
Albermarle	ALB	11.83	14.79	16.09%	30.25%	116.59%	-1.84%	-13.54%	-21.38%	-59.37%
Celanese	CE	14.62	9.68	14.99%	11.04%	22.20%	-3.47%	-9.70%	-6.78%	-22.04%
Eagle Materials	EXP	7.31	12.46	56.12%	10.33%	11.88%	-2.42%	-9.77%	-0.36%	-21.89%

Technical Summaries

ALB: The price of the world's largest lithium producer has collapsed over the last year, albeit from very stretched levels. It recently broke a wedge pattern which could result in further downside. Its MACD is forming a series of higher lows, which is positive, but its RSI gets weaker with each new low. We suspect ALB will hit a lasting low in the blue box and likely within the top third of the blue area. It may be worth taking a starting position in the company and nibbling if it declines further.



CE: Shares of this large chemical manufacturer are sitting on critical support. A break below the redline could send it to its longer-term support of 105 (blue line). The MACD is very oversold, and portending a bounce is likely. However, the 50dma may likely cross below the 200dma in the coming weeks, forming a death cross, thus making a retest of the blue line a possibility.

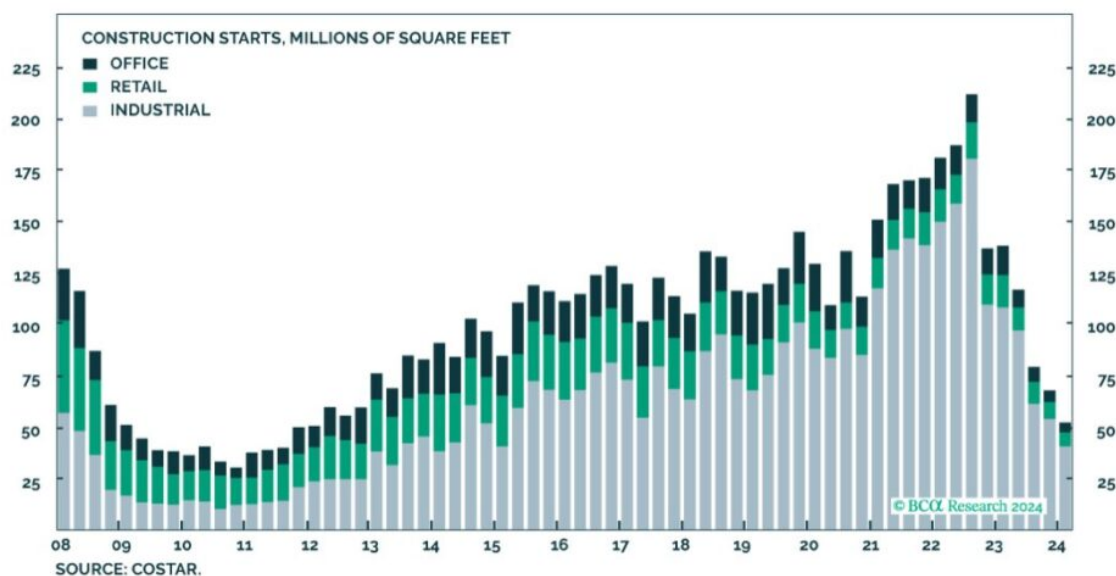


EXP: Of the three stocks, EXP looks the most likely to have a decent bounce, based solely on its technical situation. EXP is nearing critical support in the red parabola and the blue support line which was prior resistance. Furthermore, it is sitting on its 200 DMA. A decent bounce from a very oversold MACD is possible if it can hold at these support levels. With the lowest support at \$200, this setup provides an excellent stop-out level slightly below 200 to limit losses.

While the technical situation looks decent, housing and residential construction has slowed rapidly. Therefore, this producer of building materials may get dragged lower despite positive fundamentals and technicals.



Commercial Construction Starts Have Plummeted



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.