

## Machinery, E&amp;C and Waste

## Capex commentary slows, yet ISM (finally) perks up – provides some support into 2H

Industry Overview

## Headwinds finally catch up, yet some green shoots emerge

In our 2024 Year Ahead, we discussed two conflicting forces: cyclical headwinds finally catch up to Machinery's order profile, yet lead indicators likely bottom/gradually recover towards year-end. Machinery withstood cyclical headwinds all through '23. These headwinds (rising rates, falling ISM, weak China) are starting to "catch up" (i.e., weigh) on growth in '24: capex plateaus, Intel delays \$20bn Ohio Project (Bloomberg), fleet replacement moderates, weak oil/copper. That said, lead indicators are starting to perk up and multiples typically follow next. As a result, investors are not likely to (fully) underwrite the lower backlogs into 2025 if indicators are bottoming/improving in 2H.

## Capex trends so far: Energy flat, Trucks down, Tech up

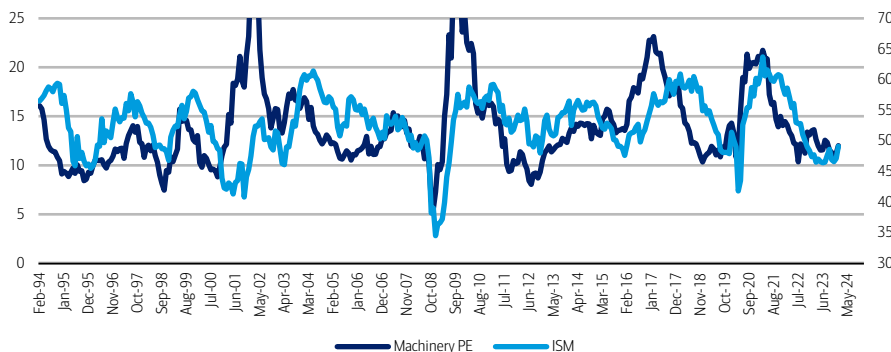
Early read into customer capex trends imply slowdown in 2024 – energy flat, trucks down, data centers a bright spot: i) **Energy:** Schlumberger guiding to flat capex YoY (2023: \$1.9bn, +20% YoY), Exxon guiding flat capex of \$23-25bn in 2024, ii) **Trucks:** public trucker JB Hunt guiding 2024 capex \$800-1bn (down ~40%) and partly citing the fleet is refreshed into 2024. iii) **Tech/data centers:** Meta guiding capex \$30-37bn in 2024 (vs \$27.3bn in 2023), growth driven by investments in servers & data centers as ramps up construction on sites with previously announced ne data center architecture.

## ISM: New Orders up, Inventories down: the right direction

The ISM climbed to 49.1 in January, better than expectations (47.2). This is the fifteenth month in contraction territory (sub 50), yet underlying data provides silver linings. i) New orders: 52.5 – back in expansion territory for first time in 1.5 years, ii) Customer inventories: 43.7 – lowest reading in a year. The 'new orders less inventory' metric typically leads ISM (exhibits 10-11). While end market activity has diverged from the ISM last 1-2 years, we believe it is hard to ignore a scenario where the ISM bottoms & recovers in the 2H – see pages 2-5. Machinery multiples typically follow these indicators.

## Exhibit 1: Machinery PE vs ISM

Machinery multiple typically re-rates as ISM bottoms and recovers in certain periods



Source: Bloomberg, DataStream, IBES consensus

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Equity  
Americas  
Machinery, E&C and Waste

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# PMI playbook

## Exhibit 2: ISM vs Caterpillar (CAT) dealer retail sales: biggest divergence in years

Typically follow the same cycle yet there is a clear divergence from end market demand/growth vs the ISM. High backlogs, supply constraints, infrastructure, and mega projects likely play a part.

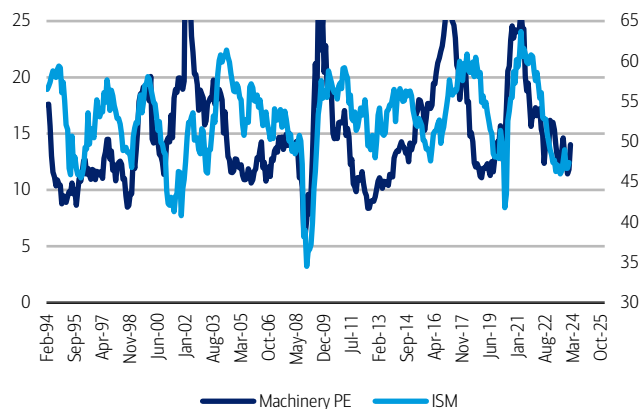


Source: ISM, CAT filings

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## Exhibit 3: Machinery 12 month forward PE vs ISM

Machinery multiple re-rates typically with ISM going up

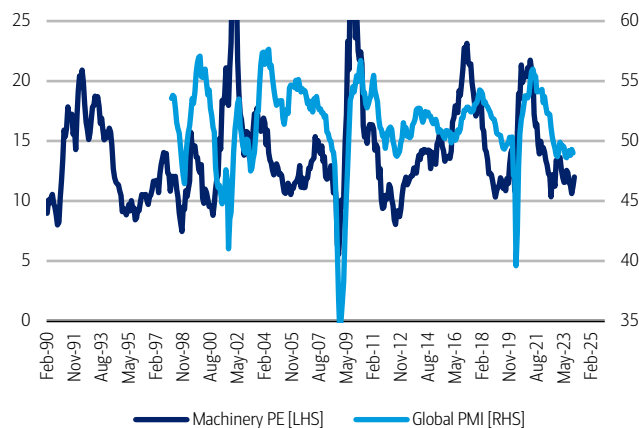


Source: Bloomberg

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## Exhibit 4: Machinery 12 month forward PE vs Global PMI

Machinery multiple re-rates typically with Global PMI going up

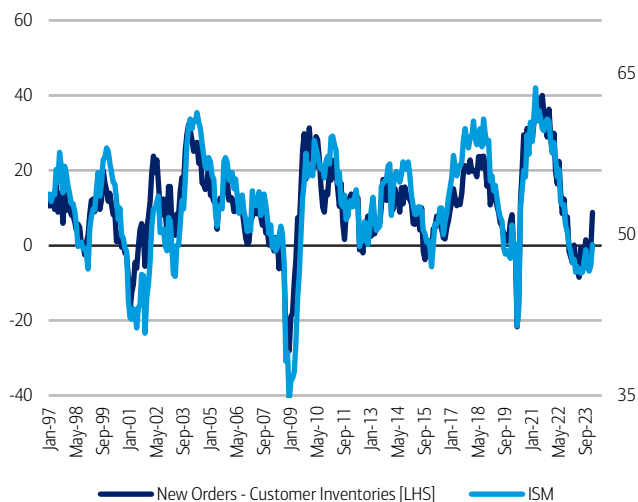


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**Exhibit 5: ISM new orders less customer inventories versus ISM**

As new orders slow and inventories rise, it weighs on overall ISM

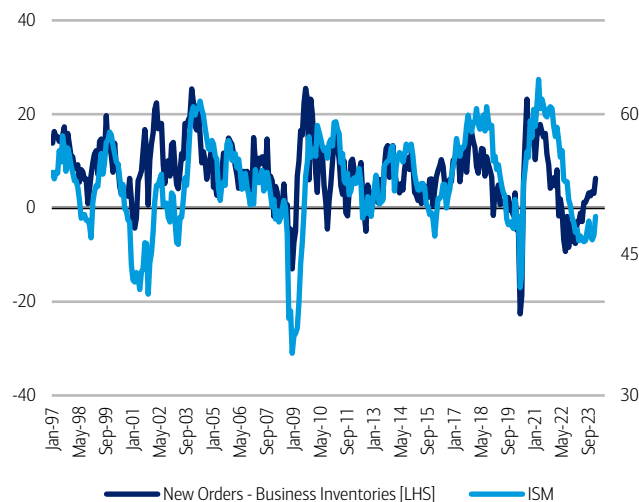


Source: Bloomberg

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**Exhibit 6: ISM new orders less business inventories versus ISM**

As new orders slow and inventories rise, it weighs on overall ISM



Source: Bloomberg

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**Exhibit 7: What happens next after the ISM Manufacturing is below 50 (contraction) for 14 months?**

Typically, cyclical machinery performs post 14 months of ISM in contraction with 1990's a clear exception (ISM remained below 50 for nearly 25 months)

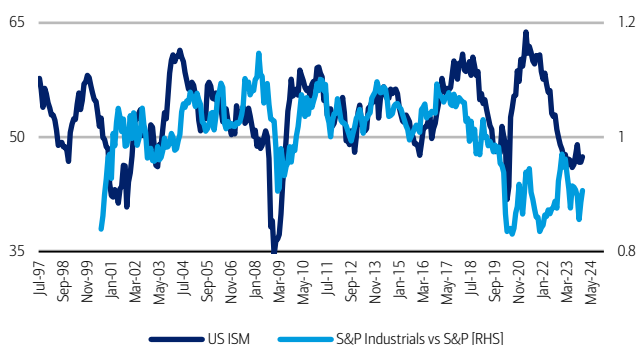
Date	SPX					CAT					DE			
	3 month	6 month	9 month	12 month		3 month	6 month	9 month	12 month		3 month	6 month	9 month	12 month
Jun-90	-15%	-8%	5%	4%		-20%	-11%	-9%	-6%		-35%	-36%	-33%	-29%
Jun-96	2%	10%	13%	32%		11%	11%	18%	58%		5%	1%	9%	37%
Sep-01	10%	10%	-5%	-22%		17%	27%	9%	-17%		16%	21%	27%	21%
Apr-09	13%	19%	23%	36%		24%	55%	47%	91%		6%	10%	21%	45%

Source: Bloomberg

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**Exhibit 8: S&P Industrial relative performance vs ISM**

Typically, Industrials relative performance follows the ISM

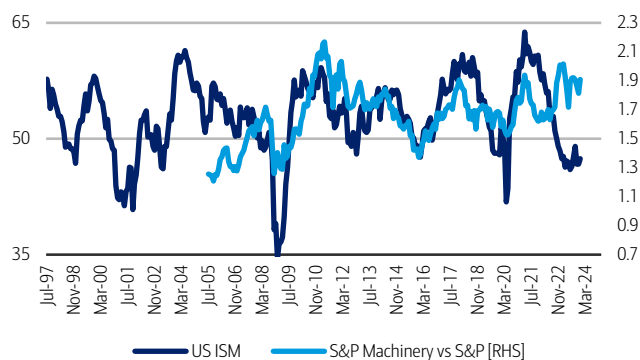


Source: Bloomberg

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**Exhibit 9: S&P Machinery relative performance vs ISM**

Typically, Machinery relatively follows the ISM

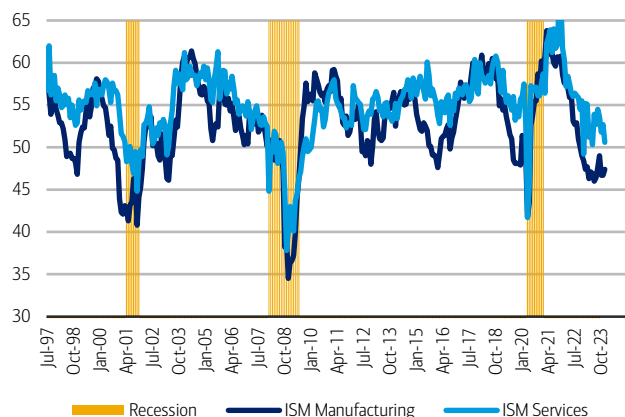


Source: Bloomberg

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**Exhibit 10: ISM Services (above 50) vs ISM Manufacturing (sub 50)**

ISM Manufacturing below 50 nearly a dozen instances. ISM Services below 50 typically marks a true recession.

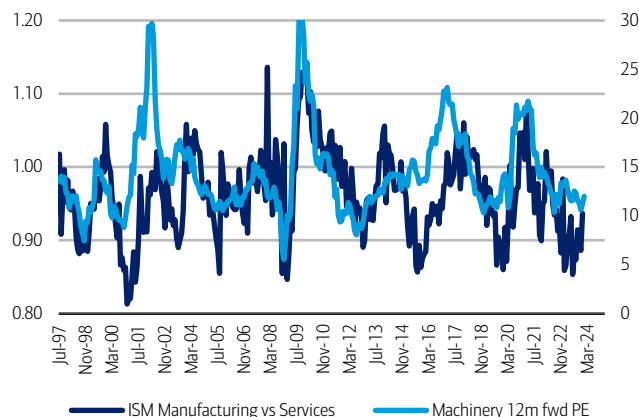


Source: Bloomberg

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**Exhibit 11: Machinery multiple vs ISM Manuf vs Services spread**

Typically, Machinery multiple re-rates as ISM Manufacturing vs Services spread narrows.

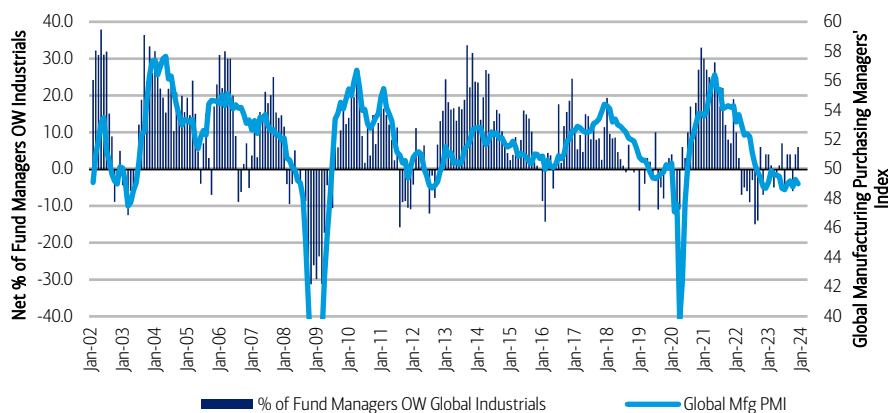


Source: Bloomberg

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**Exhibit 12: Global Fund Managers' Positioning Industrials versus Global Manufacturing Purchasing Managers' Index**

There is a tight relationship between Global PMIs and Fund Manager positioning with Industrials



Source: BofA Global Research, Bloomberg

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