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Research Study: Intermediate-term Momentum

Information Technology Sector

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Momentum Indicator Study Details

Technology Select Sector SPDR Fund — Quarterly, 20YR
50-day & 200-day moving averages

232.95
224.40
212.73

Technology Select Sector SPDR Fund - Total Return Relative to S&P 500

206.69

ETFSector.com Intermediate-term Momentum Indicator

Construction:

- Indicator Value = (1M (Trailing) Excess Total Returns * 0.2) + (3M Excess Total Returns * 0.5) + 6M Excess Total Returns * 0.3)

- Binning Values by groups of 5

- Averaging coincident 1, 3, 6 and 12-month coincident excess total return vs. reference security by bin

Study Securities:

- Sector Proxy: XLK
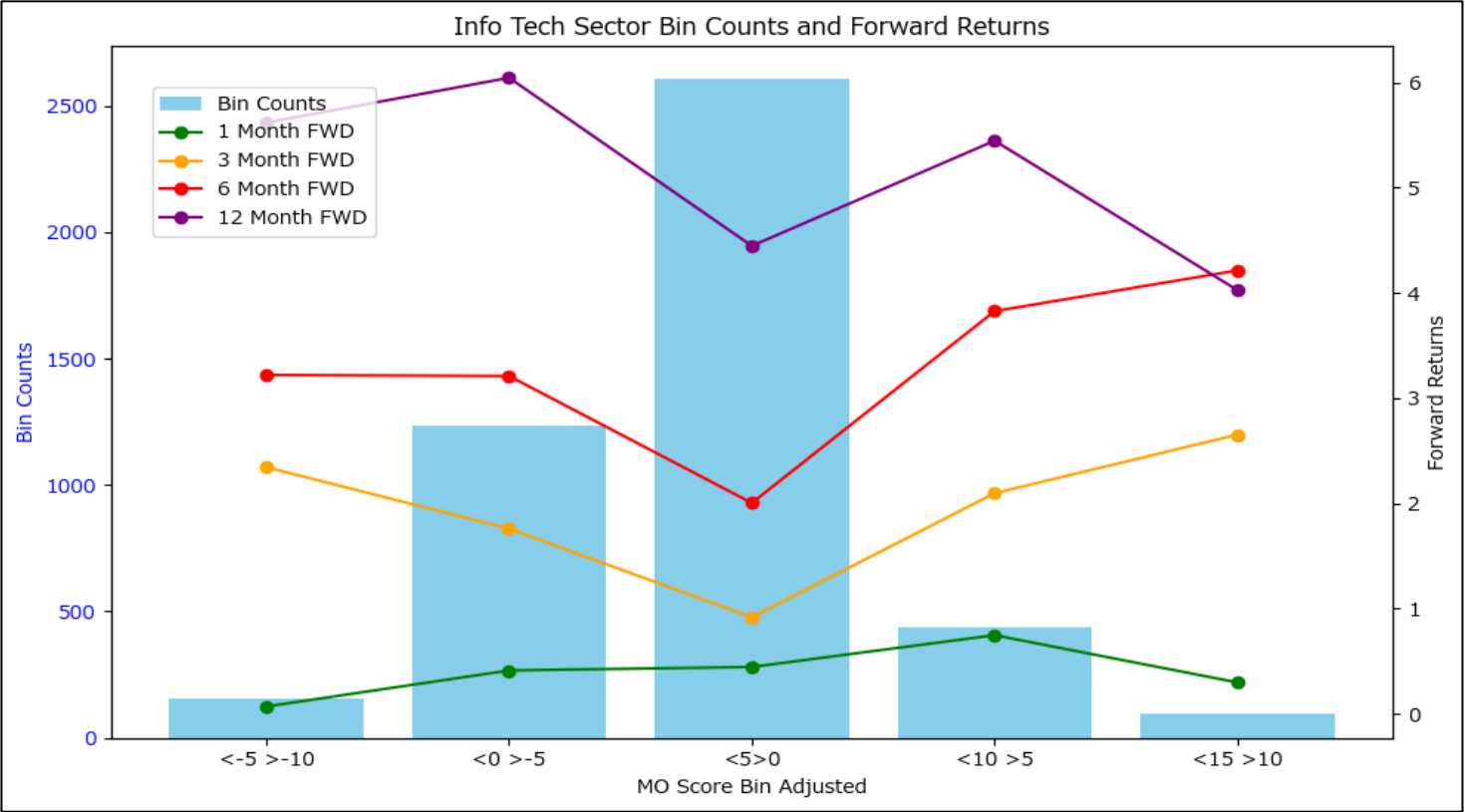
- Reference Security: SPY

Look Back Period:

- 20 years (Chart)

Objective:

- Insight into the behavior of sector level momentum using a momentum calculation that emphasizes 3-month excess returns

- Identifying historical levels that coincided with positive excess returns

# Momentum Indicator Study: Notable Results

Info Tech Sector Bin Counts and Forward Returns

MO Score Bin Adjusted	Count	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-5 >-10	158	0.070452919	2.344001832	3.220043333	5.617515653
<0 >-5	1234	0.413026383	1.760048248	3.210701186	6.044327021
<5>0	2604	0.446161783	0.917412563	2.003885568	4.446742284
<10 >5	439	0.748134831	2.096735958	3.826685581	5.446038554
<15 >10	95	0.298943771	2.652867968	4.21362288	4.026433801

Key Takeaways:

- The S&P 500 Info Tech. sector presents a different challenge in momentum indicator development than other sectors

- While the challenge for most sectors is to find a consistent cyclical cadence to their performance, the Info Tech. sector has been such a consistent outperformer that its momentum signature produces consistent positive returns over intermediate and longer-term timeframes regardless of the amount of intermediate-term momentum present

- Extreme readings both high and low result in positive excess returns based on the 20-year study period back to 2005

- **Our main takeaway from the study is other indicators are likely going to be more effective in differentiating prospects for the sector than the presence of momentum**

- *Based on this research the Information Technology Sector has persistently outperformed the S&P 500 regardless of whether momentum is positive or negative*
- *The strongest 6-month returns have come after scores >10, the strongest 12-month returns have come after scores of 0 to -5 are registered*
- *The Info Tech Sector Mo Score hit a low of -7.26 on 4/4/2025 which has expecting outperformance over 3, 6 and 12-month forward periods based on the study data*

Momentum Indicator Study: Insights & Strategy Tips

Info Tech Sector MO Score and 12-Month Forward Returns

Info Tech Sector MO Score and 12-Month Forward Returns
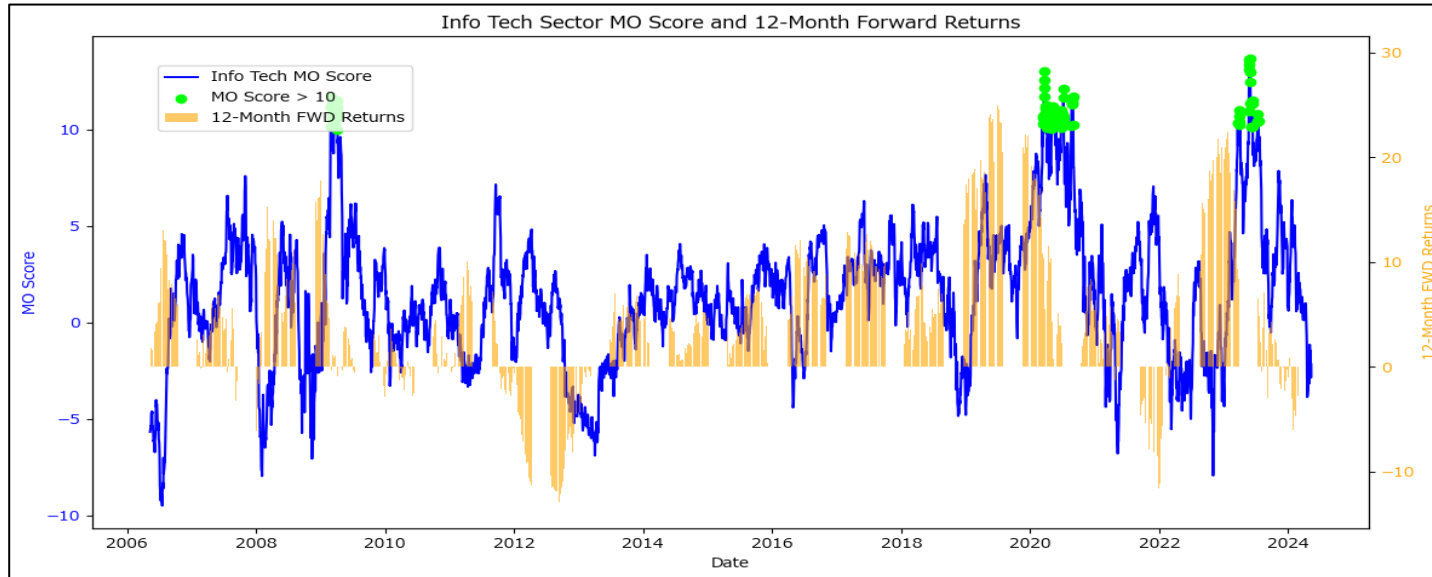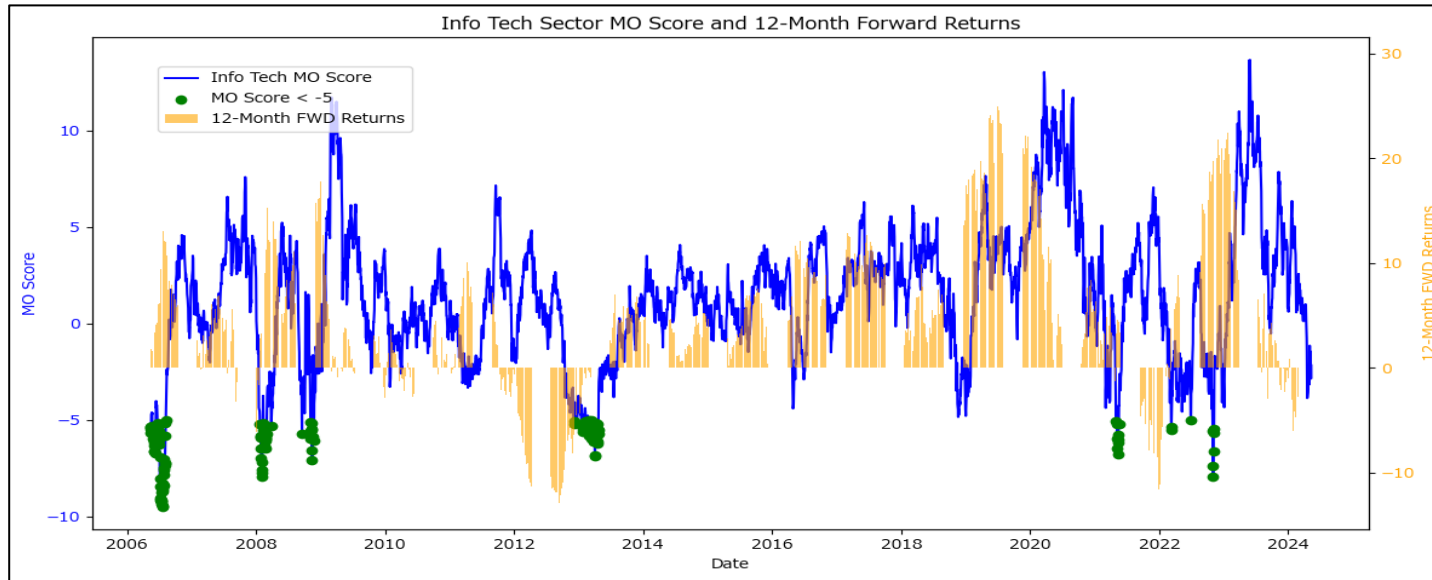
Insights on the Research:

- **Values <-5** (chart, top right) coincided with the highest excess forward returns over 12-month periods based on 158 observations in the data

- **Values > 10** (chart, bottom right) coincided with the highest excess returns over 6-month periods

- Info Tech has accrued the lion's share of excess returns at the sector level over the past 20yrs

- Our historical work on long-term market cycles posits that the sector can continue to exhibit pro-momentum bullish behavior while longer-term interest rates stay contained below the 5% level and inflation remains benign

- The Tech sector historically corrects and underperforms when equities go into bear market of recession, but even that playbook was thrown off by the pandemic decline in 2020 which saw Tech stocks outperform the broad market significantly