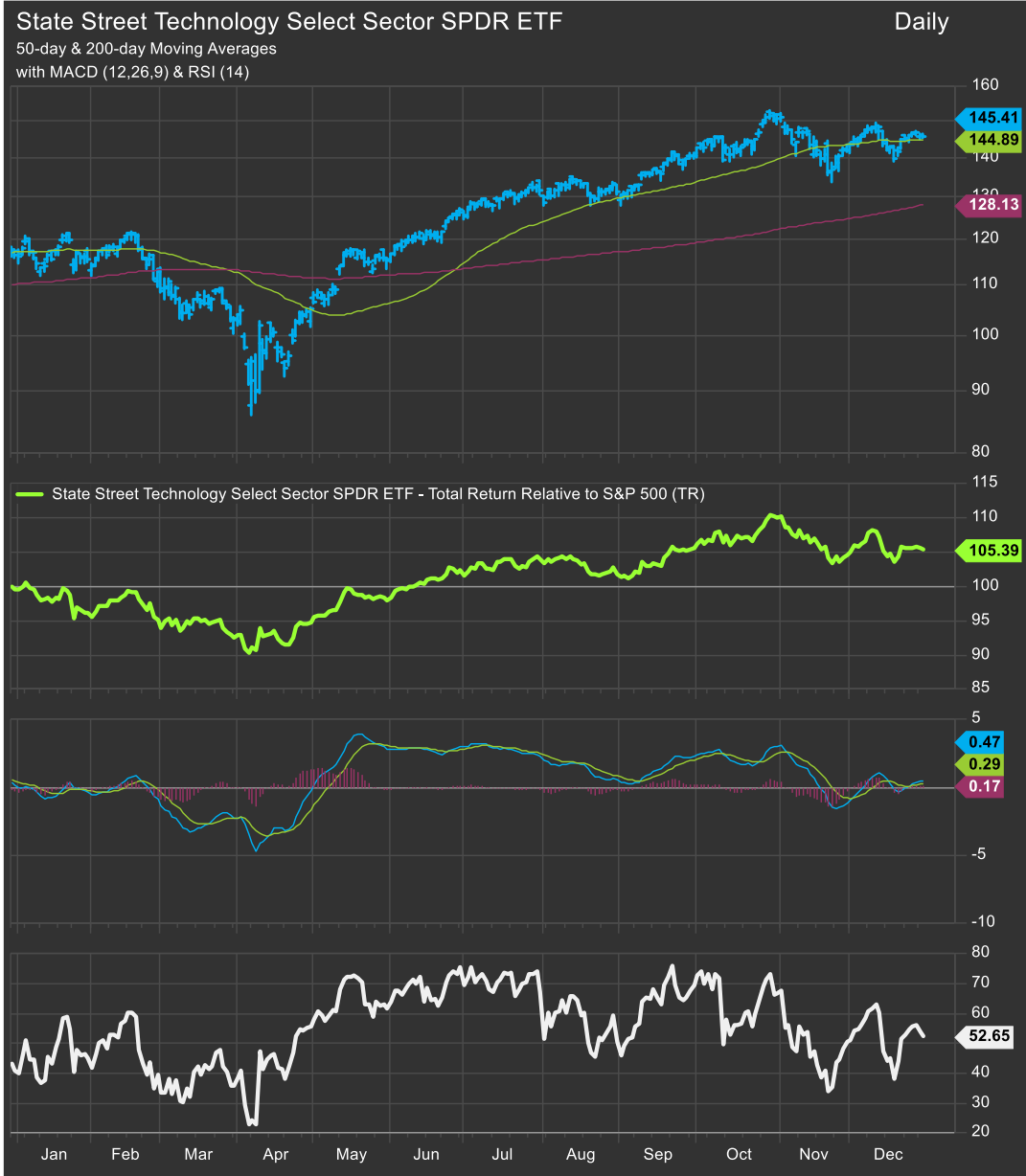# ETFSector.com

Monthly Insights: January Outlook

Information Technology Sector

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Sector Price Action & Performance Review: Information Technology Sector

State Street Technology Select Sector SPDR ETF — Daily
50-day & 200-day Moving Averages with MACD (12,26,9) & RSI (14)

145.41
144.89
128.13

State Street Technology Select Sector SPDR ETF - Total Return Relative to S&P 500 (TR)
105.39

0.47
0.29
0.17

52.65

Tech stocks stabilized in December after a November correction. The sector starts 2026 with oscillator studies in a neutral position as a result of 2+ months of price consolidation. Nonetheless the sector is very likely to finish the year as the top performer vs. the S&P 500 with the XLK currently showing excess returns of 650bps over the index return.

From a macro perspective, a supportive Fed. and a moderating economic growth have historically been a sweet spot for Growth assets. Treasury Yields have cooperated by moving lower in the near-term and commodities prices have pulled back in the very near-term as well.

Operating results continued to be strong for the sector, but risk appetite and enthusiasm for holding AI stocks has slipped in the near-term. Cash flow conversion and competition are current concerns that have prompted selling as Alphabet corp.'s latest Gemini LLM reportedly has outperformed the latest ChatGPT versions, putting pressure on OpenAI and other developers to justify their notional valuation and high cap-ex spending.

While we aren't in a position to dismiss those concerns, we do see a powerful technical and fundamental trend and we expect the buyer to step in sooner rather than later. The Fed is accommodative, earnings trends remain robust and despite softness in 2025, the economy remains near full employment with moderating inflation.

We start January with an OVERWEIGHT allocation to the Information Technology Sector of 2.77% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

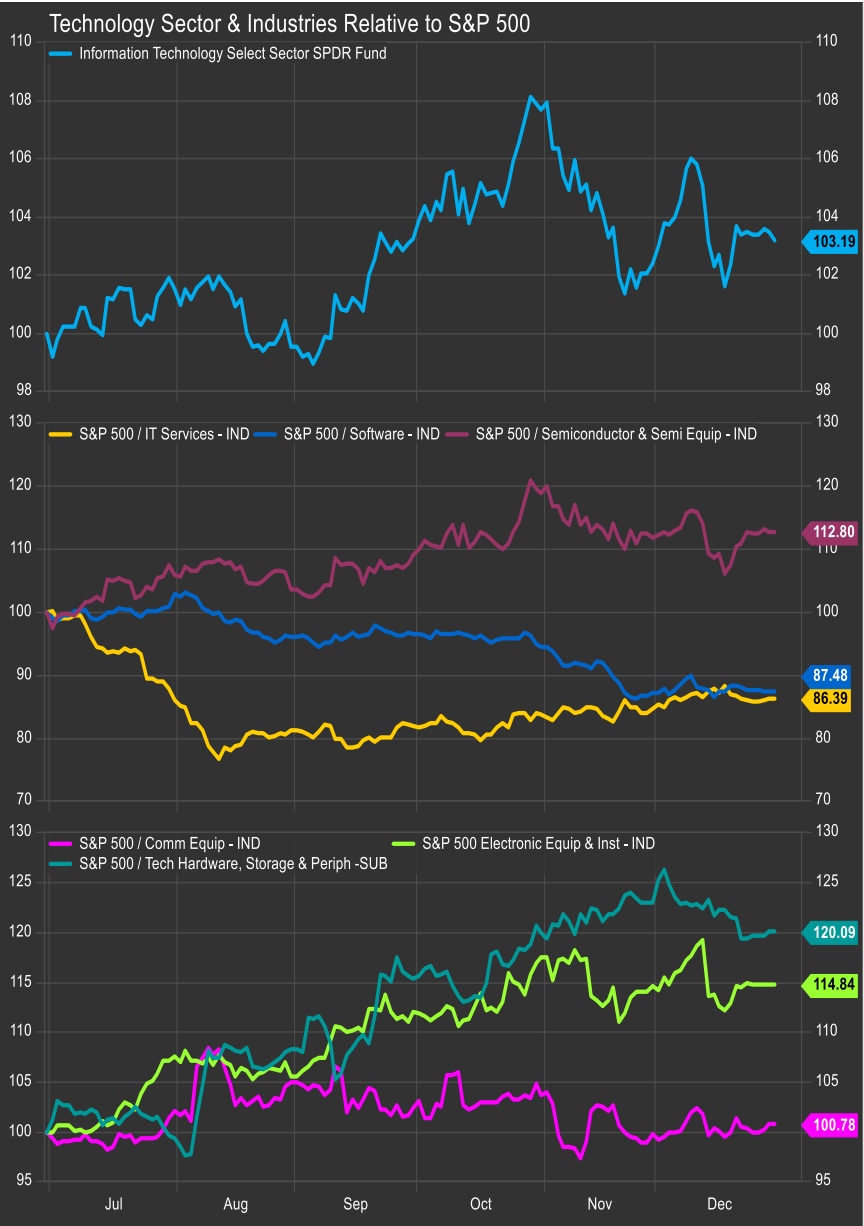12/30/2025

Fundamentals: Information Technology Sector
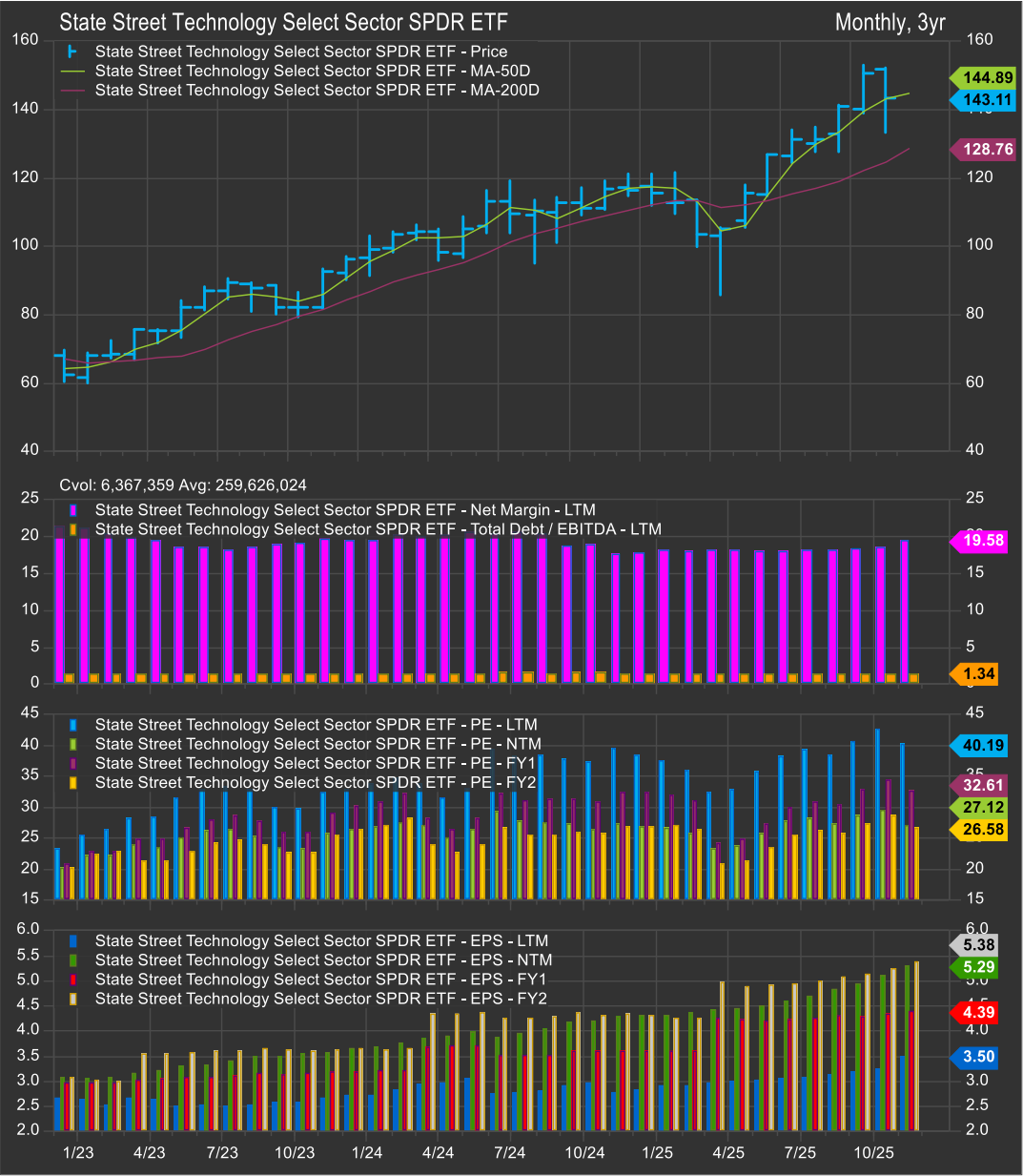
The chart (left) shows S&P 500 Information Technology Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins expanded through the recent reporting season (chart, panel 2) and that has held steady into 2025

Forward valuations are beginning to compress for the sector as forward guidance and consensus growth projections continue to be robust (panel 3 and 4).

Overall, the situation remains constructive as falling interest rates tend to boost the desirability of longer duration assets and future cash flows.

Industry/Sub-Industry Performance and Breadth: Information Technology Sector

Technology Sector & Industries Relative to S&P 500

— Information Technology Select Sector SPDR Fund

103.19

— S&P 500 / IT Services - IND — S&P 500 / Software - IND — S&P 500 / Semiconductor & Semi Equip - IND

112.80
87.48
86.39

— S&P 500 / Comm Equip - IND — S&P 500 Electronic Equip & Inst - IND
— S&P 500 / Tech Hardware, Storage & Periph -SUB

120.09
114.84
100.78

Jul   Aug   Sep   Oct   Nov   Dec

Market Internals — Daily, 6M

— State Street Technology Select Sector SPDR ETF - Price
— State Street Technology Select Sector SPDR ETF - MA-50D
— State Street Technology Select Sector SPDR ETF - MA-200D

145.41
144.89
128.76

— % of Stocks Above 200-day Moving Average — % of Stocks Above 50-day Moving Average

61.97
57.75

■ Advancers ■ Decliners

68.06
-30.56

Jul   Aug   Sep   Oct   Nov   Dec

Information Technology Industries (chart, left): Hardware names saw performance roll over in December while Semi's and Electronic stocks moved sideways despite volatility.

IT Services stocks continued to make incremental gains from a lagging position

Information Technology Sector Internals (chart, right): Breadth gages rebounded in December, but the shorter-term series remains below October highs...this is one of the few sectors that doesn't need broad participation to outperform, nonetheless, we would want to see new highs sooner than later to remain sanguine in our outlook from a technical perspective.

12/30/2025

Top 10/Bottom 10 Stock Level Performers: Information Technology Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
MU	Micron Technology, Inc.	Uptrend	331,316.2	0.35	69.8	0.1	2.03	23.6
MCHP	Microchip Technology Incorporated	Consolidation	34,939.9	1.17	0.9	1.9	1.79	19.7
APP	AppLovin Corp. Class A	Uptrend	214,954.9	1.91	21.1	0.0	2.99	15.6
CRM	Salesforce, Inc.	Consolidation	249,457.5	0.82	3.9	0.2	1.64	14.7
SNPS	Synopsys, Inc.	Retracement	91,635.7	1.30	-1.6	0.0	0.90	13.6
NXPI	NXP Semiconductors NV	Consolidation	55,484.2	0.64	-1.2	1.2	1.63	12.7
EPAM	EPAM Systems, Inc.	Bullish Reversal	11,691.5	0.68	21.9	0.0	1.48	12.2
LRCX	Lam Research Corporation	Uptrend	220,898.0	1.34	32.6	0.4	2.05	12.0
HPE	Hewlett Packard Enterprise Co.	Bullish Reversal	32,469.2	0.40	6.2	1.6	1.50	11.0
JBL	Jabil Inc.	Bullish Reversal	25,100.2	0.77	5.1	0.1	1.09	10.6

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
DDOG	Datadog, Inc. Class A	Consolidation	44,891.7	2.39	-10.6	0.0	1.85	-14.7
AVGO	Broadcom Inc.	Uptrend	1,656,553.8	1.30	0.7	0.5	0.90	-14.1
SMCI	Super Micro Computer, Inc.	Retracement	17,956.9	0.47	-33.0	0.0	1.74	-12.1
INTC	Intel Corporation	Bullish Reversal	174,963.6	2.48	7.9	0.1	1.89	-10.5
CRWD	CrowdStrike Holdings, Inc. Class A	Uptrend	119,976.2	4.06	-9.0	0.0	1.33	-7.5
HPQ	HP Inc.	Retracement	20,865.8	0.29	-15.0	3.5	1.34	-6.8
NOW	ServiceNow, Inc.	Retracement	160,514.4	1.52	-20.0	0.0	1.20	-5.8
DELL	Dell Technologies, Inc. Class C	Consolidation	42,561.2	0.45	-7.6	1.1	1.10	-5.4
CDW	CDW Corporation	Downtrend	18,046.1	0.53	-17.3	1.2	0.84	-4.8
ORCL	Oracle Corporation	Retracement	561,352.1	1.02	-22.5	0.6	1.87	-4.2

Some rotation laggards continued with the Fed moving to lower rates. Software and Services names benefitted on the margins while semiconductor stocks maintained a presence on the leader board after strong quarters from LRCX and MU

In the laggard column, AVGO finally got dinged despite a firm beat and raise of its own. ORCL continued to move lower after its disappointment while SMCI resumed its downward retracement

Metrics:

(Formulas are in the appendix at the end of the report)

<u>Valuation Multiple Relative to Index</u>

Premium (or discount) to benchmark valueation

<u>Momentum</u>

Long higher scores, short lower scores

<u>Dividend Yield Relative to Index</u>

Higher scores preferred when rates and equities are moving lower

<u>Near-term Overbought/Oversold</u>

Price is >10% away from the 50-day moving average Above/Below

<u>GREEN</u>|<u>RED</u>

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Information Technology Sector

The S&P 500 Information Technology sector in 2025 was shaped less by idiosyncratic company developments and more by **macro variables, monetary policy expectations, and regulatory signals**. Sector performance exhibited a strong inverse relationship with **real interest rates**, reflecting Technology's long-duration earnings profile. Periods of resilient growth data and sticky inflation compressed forward multiples as markets repriced the terminal rate, while softer inflation prints or dovish central-bank commentary catalyzed rapid rebounds.

Policy uncertainty added a persistent layer of volatility. Semiconductor export controls, evolving licensing frameworks, and shifting tariff timelines affected investor sentiment throughout the year. While many policy actions were delayed or partially implemented, they nonetheless raised **discount rates applied to global technology cash flows**, particularly for firms exposed to cross-border supply chains and advanced computing. As a result, valuation expansion was episodic rather than sustained, even during periods of strong earnings delivery.

Artificial intelligence: structural growth with cyclical scrutiny

Artificial intelligence was the defining secular theme for the Technology sector in 2025. Capital spending tied to AI workloads supported robust revenue growth across compute, cloud, networking, and software ecosystems. However, as the year progressed, market focus shifted decisively from **capacity build-out toward economic efficiency**.

Investors increasingly scrutinized:

- The pace of **revenue conversion** from AI investments

- Incremental margins on AI-related workloads

- Free-cash-flow trajectories amid elevated capital intensity

This evolution in narrative produced **greater dispersion within the sector**, as the market differentiated between companies demonstrating near-term monetization and those still in heavy investment phases. Importantly, this reassessment did not represent a loss of confidence in AI demand; rather, it reflected a maturing cycle where **returns on capital and operating leverage** became as important as growth rates.

Earnings strength versus valuation sensitivity

From a fundamentals standpoint, large-cap Technology delivered **above-index earnings growth** in 2025, supported by enterprise digitization, cloud optimization cycles, cybersecurity demand, and AI-enabled productivity tools. Consensus expectations for **continued double-digit earnings growth into 2026** remained largely intact by year-end.

Despite this earnings resilience, valuation remained highly sensitive to macro conditions. Rising real yields repeatedly constrained multiple expansion, while easing financial conditions quickly reignited momentum-driven inflows. This dynamic reinforced Technology's role as a **macro-sensitive growth leader**, where fundamentals anchored downside risk but upside depended on broader policy alignment.

Sector performance dynamics

Technology leadership in 2025 was episodic rather than linear. The sector outperformed during periods characterized by:

- Falling or stable real yields

- Improving risk appetite and momentum re-engagement

- Renewed confidence in AI monetization narratives

Conversely, Technology lagged during phases of hawkish data surprises, higher global bond yields, or renewed regulatory uncertainty. Unlike prior cycles, the sector did not function purely as a defensive growth allocation; instead, returns were **conditional on macro validation**, particularly around the path of inflation and policy rates.

Policy and regulation as a structural overlay

Regulatory and geopolitical considerations became a more persistent feature of Technology sector valuation in 2025. Export controls, antitrust scrutiny, and national-security frameworks increasingly influenced capital allocation and supply-chain strategy. Even when policy outcomes were incremental, the **risk of future intervention** remained embedded in valuation assumptions.

For large-cap Technology, scale and balance-sheet strength mitigated these risks relative to smaller peers, but policy remained a meaningful determinant of relative performance within the sector.

Outlook for 2026

Heading into 2026, the Information Technology sector enters a more selective phase of leadership:

Monetary policy remains the key swing factor. A gradual easing cycle would support valuation expansion and reinforce Technology's leadership, while a higher-for-longer outcome likely preserves earnings outperformance but limits multiple upside.

AI narratives will pivot toward profitability and productivity. Markets are likely to reward demonstrable margin expansion, recurring revenue streams, and quantifiable efficiency gains rather than headline capex growth alone.

Policy risk remains a valuation constraint. Trade policy, export controls, and regulatory oversight are expected to persist as background headwinds, influencing discount rates even amid strong demand conditions

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index
> Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index
> Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum
> Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.3

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.