ETFSector.com
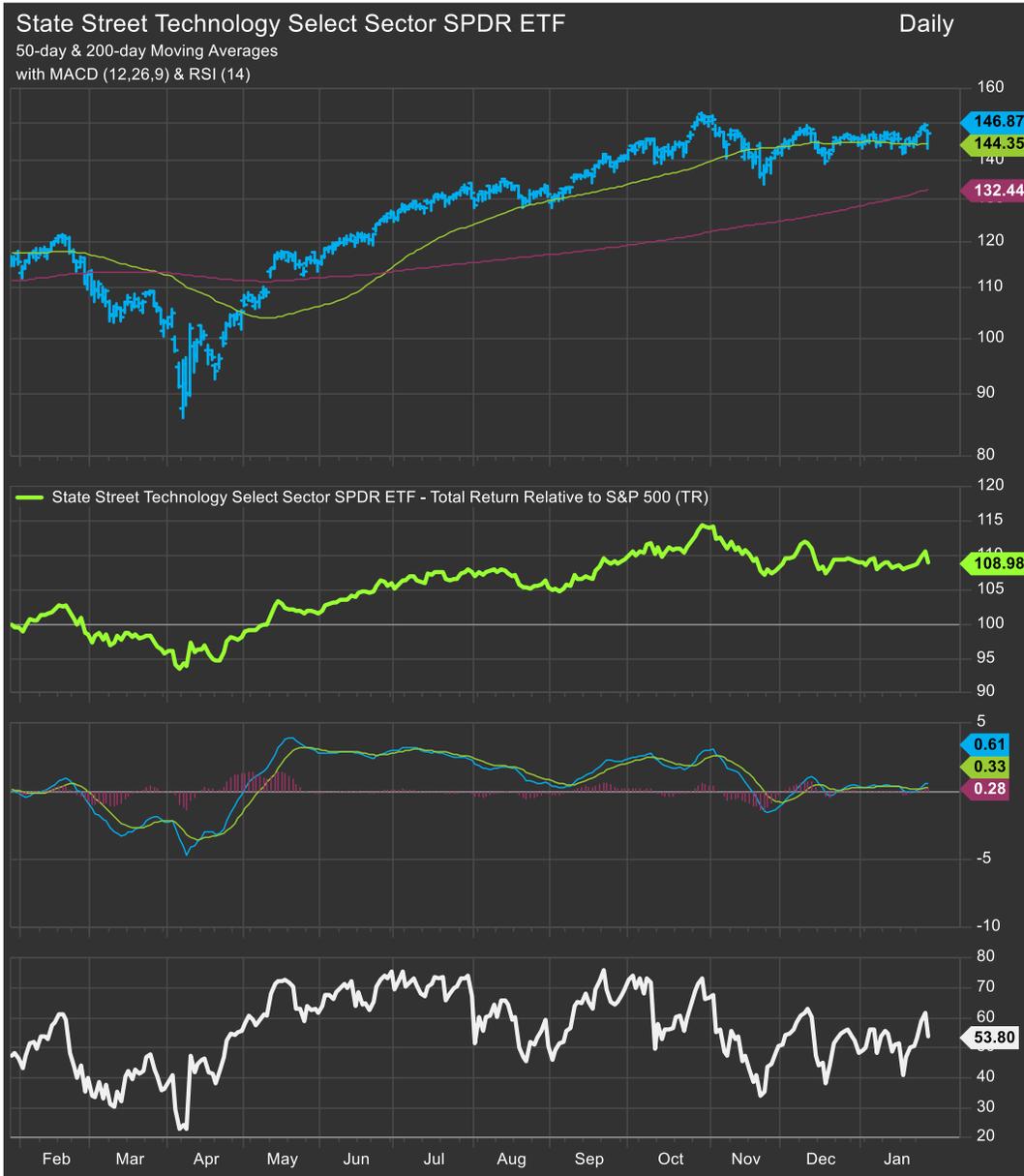
Monthly Insights: February Outlook

Information Technology Sector

Patrick Torbert, CMT

Editor & Chief Strategist

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)

146.87
144.35
132.44

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

108.98

0.61
0.33
0.28

53.80

Tech stocks continued to consolidate in January. Price and performance were stable as investors were attracted to commodities related assets in the near-term.
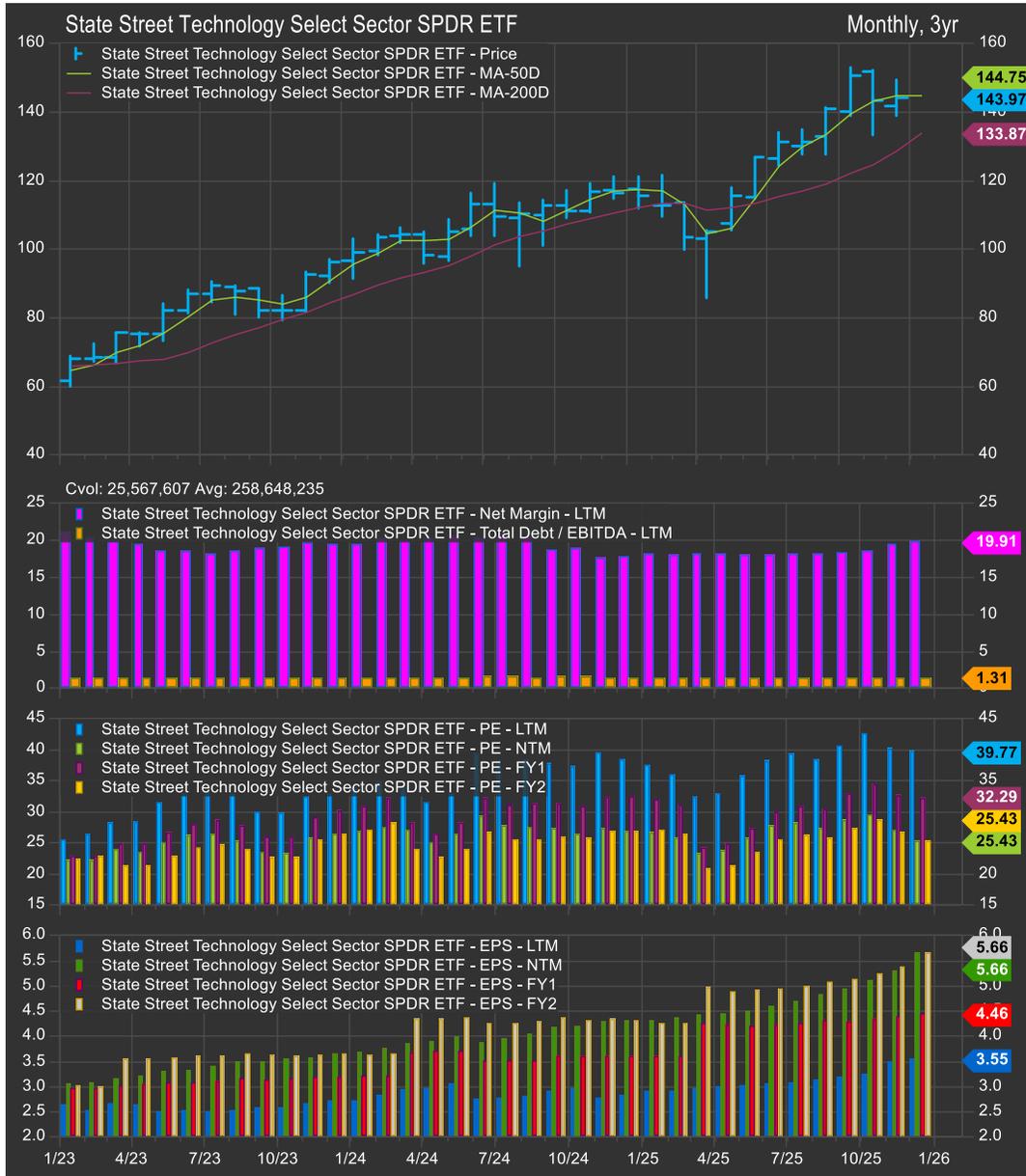
Despite some evidence of "AI-fatigue" with investor sluggish in accumulating the latest pullback in names like NVDA and PLTR, there are still many strong areas within the sector across Comm. Equipment, Semiconductors and Electronics. Digital infrastructure remains a core leadership theme of this bull market. However, the sector has been held back by profit taking in the biggest AI names as well as sluggish performance from AAPL and MSFT. We remain constructive on the former but are developing concerns about the latter.

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. Traditional Tech giants AAPL and MSFT are struggling with plateauing demand and rising cap-ex. Costs while Geopolitical and circular funding concerns haven't totally abated.

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 0.59% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

1/29/2026

Fundamentals: Information Technology Sector

State Street Technology Select Sector SPDR ETF — Monthly, 3yr

Price panel:
- 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

144.75
143.97
133.87

Cvol: 25,567,607 Avg: 258,648,235

Net Margin panel:
- State Street Technology Select Sector SPDR ETF - Net Margin - LTM
- State Street Technology Select Sector SPDR ETF - Total Debt / EBITDA - LTM

19.91
1.31

PE panel:
- State Street Technology Select Sector SPDR ETF - PE - LTM
- State Street Technology Select Sector SPDR ETF - PE - NTM
- State Street Technology Select Sector SPDR ETF - PE - FY1
- State Street Technology Select Sector SPDR ETF - PE - FY2

39.77
32.29
25.43
25.43

EPS panel:
- State Street Technology Select Sector SPDR ETF - EPS - LTM
- State Street Technology Select Sector SPDR ETF - EPS - NTM
- State Street Technology Select Sector SPDR ETF - EPS - FY1
- State Street Technology Select Sector SPDR ETF - EPS - FY2

5.66
5.66
4.46
3.55

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

Margins expanded through the recent reporting season and are almost at cycle peaks from early 2024 (chart, panel 2)

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 despite near-term rotation away from the biggest growers

1/29/2026

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

Technology Sector & Industries Relative to S&P 500

- Information Technology Select Sector SPDR Fund — 101.55

- S&P 500 / IT Services - IND — 93.68
- S&P 500 / Software - IND — 81.18
- S&P 500 / Semiconductor & Semi Equip - IND — 112.45

- S&P 500 / Comm Equip - IND — 104.75
- S&P 500 Electronic Equip & Inst - IND — 112.56
- S&P 500 / Tech Hardware, Storage & Periph -SUB — 113.88

Market Internals — Daily, 6M

- State Street Technology Select Sector SPDR ETF - Price — 146.87
- State Street Technology Select Sector SPDR ETF - MA-50D — 144.75
- State Street Technology Select Sector SPDR ETF - MA-200D — 133.87

- % of Stocks Above 200-day Moving Average — 53.52
- % of Stocks Above 50-day Moving Average — 51.39

- Advancers — 52.78
- Decliners — -45.83

Information Technology Industries (chart, left): Hardware continued retraced gains from early December as AAPL shares slumped. Electronics pulled back at the end of the month despite a strong trend while Semiconductors remain a leading segment underpinning the equity bull market.

Software has been a structural laggard with a weak quarter from MSFT the latest nail in the industries coffin.

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.

1/29/2026

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
SNDK	Sandisk Corporation	Uptrend	77,325.9	0.81	362.5	0.0	4.89	110.2
STX	Seagate Technology Holdings PLC	Uptrend	94,591.3	1.08	102.2	0.4	2.16	54.0
WDC	Western Digital Corporation	Uptrend	95,629.2	1.18	136.5	0.1	2.30	53.3
MU	Micron Technology, Inc.	Uptrend	489,911.7	0.47	119.3	0.1	1.89	52.1
INTC	Intel Corporation	Bullish Reversal	243,656.1	3.57	43.3	0.1	1.92	34.0
LRCX	Lam Research Corporation	Uptrend	300,919.7	1.73	63.2	0.3	2.01	33.8
AMAT	Applied Materials, Inc.	Uptrend	267,023.7	1.32	45.3	0.4	1.64	27.8
KLAC	KLA Corporation	Uptrend	213,801.6	1.59	38.1	0.3	1.46	26.4
TER	Teradyne, Inc.	Bullish Reversal	39,227.2	1.85	76.6	0.1	2.03	25.2
MCHP	Microchip Technology Incorporated	Bullish Reversal	43,387.1	1.32	20.8	1.6	1.74	22.8

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
APP	AppLovin Corp. Class A	Uptrend	166,828.3	1.44	-7.7	0.0	2.64	-24.8
INTU	Intuit Inc.	Downtrend	149,906.2	0.87	-25.8	0.6	1.13	-21.0
ROP	Roper Technologies, Inc.	Downtrend	38,789.3	0.67	-26.4	0.6	0.65	-20.7
GDDY	GoDaddy, Inc. Class A	Downtrend	13,966.9	0.57	-26.7	0.0	1.27	-19.4
HPQ	HP Inc.	Downtrend	17,487.6	0.25	-29.0	4.1	1.36	-18.9
PLTR	Palantir Technologies Inc. Class A	Uptrend	359,440.0	6.24	-16.6	0.0	1.86	-17.4
NOW	ServiceNow, Inc.	Downtrend	134,596.2	1.25	-30.0	0.0	1.22	-16.6
ADBE	Adobe Inc.	Downtrend	122,977.6	0.50	-19.8	0.0	1.45	-16.1
CRM	Salesforce, Inc.	Retracement	213,598.5	0.70	-15.5	0.3	1.45	-15.1
WDAY	Workday, Inc. Class A	Downtrend	40,282.6	0.71	-21.5	0.0	1.19	-15.1

AI Infrastructure remains the leadership theme with memory, storage and Electronics continuing to exhibit sustained upside momentum

Software and Services remain the rump of the sector with MSFT's recent miss adding to the outflows

We think PLTR and APP will eventually be picked up. We have our doubts about the others on the bottom of his list.

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

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

GREEN|RED

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

Economic & Policy Drivers: Information Technology Sector

Information Technology has been the market's **primary risk-on transmission channel** into early 2026: when investors believe growth is resilient and AI monetization is real, XLK leads; when policy/geopolitics or rates volatility spike, it gets hit first because it is **crowded, duration-sensitive, and expectations-heavy**.

Three macro forces mattered most in January:

Rates and curve volatility: Tech can live with "higher-for-longer" *if the long end is orderly*. The problem has been **episodic bear steepening** and bouts of term-premium repricing that compress multiples, especially outside megacap.

USD weakness: The dollar's sharp slide has been a tailwind for globally exposed software/hardware franchises (translation and risk sentiment), but FX volatility also increases dispersion and punishes weaker fundamentals.

AI capex / monetization scrutiny: The market is no longer rewarding "AI excitement" alone. The tape has been explicitly demanding **proof of monetization, efficiency gains, and credible margin narratives**. Elevated capex is acceptable—sometimes celebrated—*only* when the business can show conversion into revenue and/or durable competitive moat.

Policy and geopolitics stayed in the background most days, but they set the volatility floor:

China-facing constraints (chips, supply chain) still create **headline-driven drawdowns** in semis.

Election-cycle style rhetoric ("Main St > Wall St") keeps pressure on large platforms and megacap visibility, even when no rule changes occur.

Shutdown / tariff headlines tend to hit duration and "crowded longs" first—i.e., tech.

How policy transmission actually hits XLK
Interest rates
Tech is the S&P's most rate-sensitive sector because of long-duration cash flows and high multiple concentration.

Not just the level—**the pace and volatility** of long-end moves matters. Stable yields = bid; abrupt steepening = derate.

AI capex, industrial policy, export controls
AI winners = those controlling scarce compute, networking, and critical silicon or enabling "productive" AI adoption.

Export restrictions and China policy create **event risk** for semis and parts of hardware supply chains.

Antitrust / data / cyber policy
Less immediate to XLK than to Comm Services, but still influences mega-platform valuations and M&A optionality.

Cyber spending tends to be the "policy-proof" pocket when risk is high.

What has been working — and what has not
Semiconductors & Semiconductor Equipment
This has been the **alpha center** of XLK.

Demand narratives tied to **hyperscalers, memory tightness, and capacity constraints** have been rewarded.

But the group trades with a high bar: beats can still sell off if expectations were extreme.

Key takeaway: Semis can lead in February, but only the names with **credible forward visibility** and clean messaging on demand/capacity.

Software
Software has been a dispersion machine:

Companies showing **AI-assisted productivity, stickier retention, and pricing power** get rewarded.

"AI threat to incumbents" narratives still overhang certain workflows (especially where AI could substitute rather than augment).

Key takeaway: February likely reinforces a **quality bias** in software—durable ARR > storytelling.

IT Services / Consulting
This group is highly sensitive to:
corporate discretionary spend,
deal cycles,

and labor/price realization.

Key takeaway: Expect **uneven** results; it's not a clean beta play.

Hardware / Devices
This remains the most "macro-ish" part of XLK:

Cycles, inventory, and component constraints matter.

China headlines can whipsaw sentiment.

Key takeaway: Harder to lead unless demand surprises up or supply constraints ease without margin damage.

Cybersecurity (often treated as Tech beta, but acts defensive)
Cyber has been treated as **must-have spend** when uncertainty rises.

It's one of the few tech groups that can work even when the macro tape gets ugly.

Key takeaway: Cyber is the most reliable "quality growth" anchor in tech.

Sector performance context
Tech has continued to function as the market's **leadership barometer**—but January showed a key nuance: **leadership is narrowing into earnings windows** and broad tech beta is less reliable when rates spike or headline risk flares.

Translation: XLK can outperform, but the easiest money is no longer "buy tech"—it's **buy the right tech**.

Outlook into February
February is set up as a **high-stakes month** for XLK because expectations are already elevated and the market is explicitly grading:

AI monetization,

capex discipline / ROI framing, and

margin durability.

If yields stay contained and earnings confirm monetization momentum, tech can **lead the S&P again**. If the long end backs up or guidance implies "capex up, payoff later," XLK is the sector most likely to **give back quickly**.

This is still a leadership sector—but it's **not forgiving**.

Subsector leans
Semiconductors & Equipment: Bullish, but selective
Favor the demand-visibility / capacity-constraint winners; avoid the "high bar with no upside surprise" setups.

Cybersecurity: Bullish
Best risk-adjusted pocket if macro volatility persists.

Software: Selective bullish
Own durable ARR + margin stories; fade names where AI is framed as substitution risk.

Hardware / Devices: Neutral-to-bearish
More exposed to cyclical and China headline risk; harder to sustain leadership unless demand accelerates.

IT Services: Cautious
Watch bookings and deal duration; this group can disappoint even in an "okay" macro.

Bottom line
XLK is still the market's best path to upside, but it's also the cleanest path to disappointment if rates or guidance wobble. Into February, tech is a likely **relative leader vs most sectors**, but performance will be dominated by **earnings quality and AI ROI proof**, not broad multiple expansion.

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.