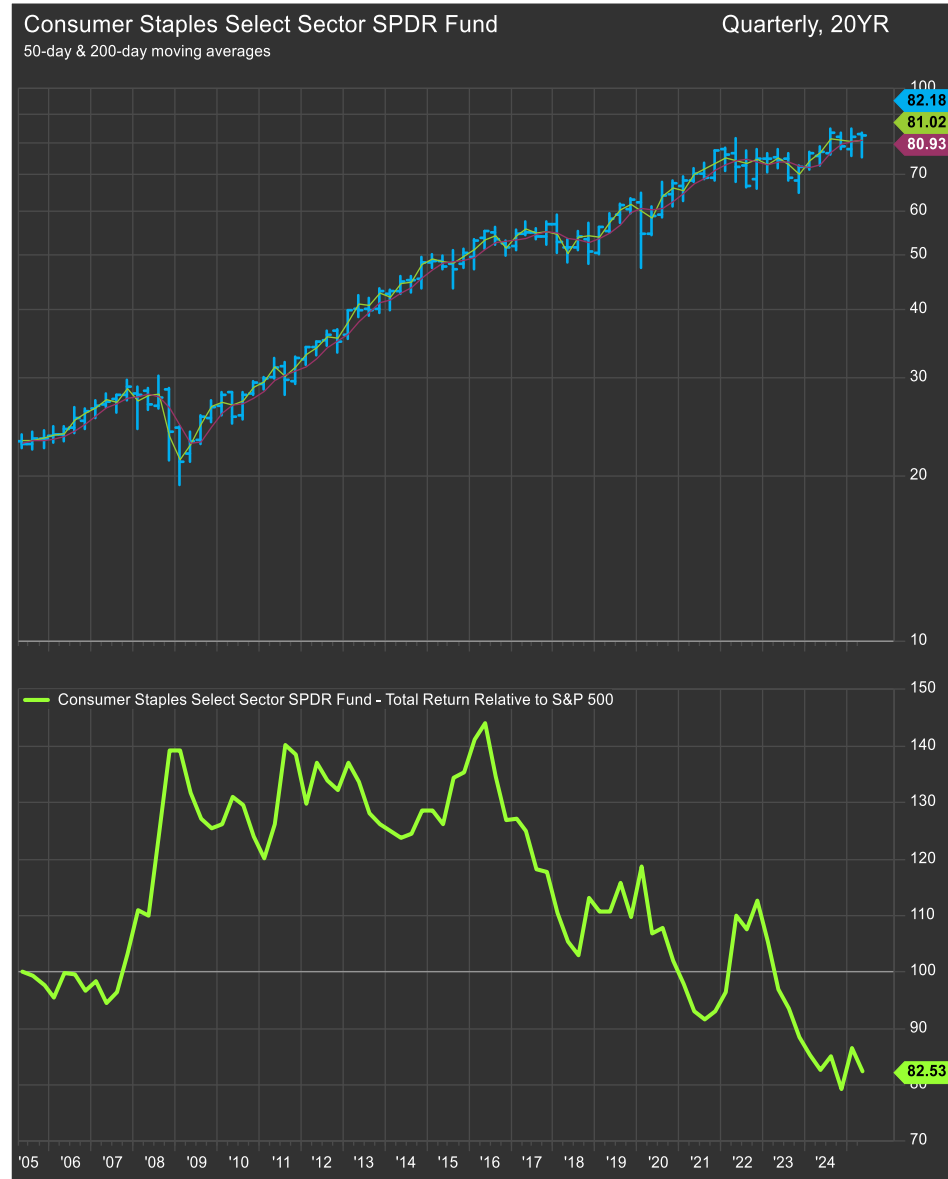


ETFSector.com

Research Study: Intermediate-term Momentum Consumer Staples Sector

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Momentum Indicator Study Details



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: XLP
- Reference Security: SPY

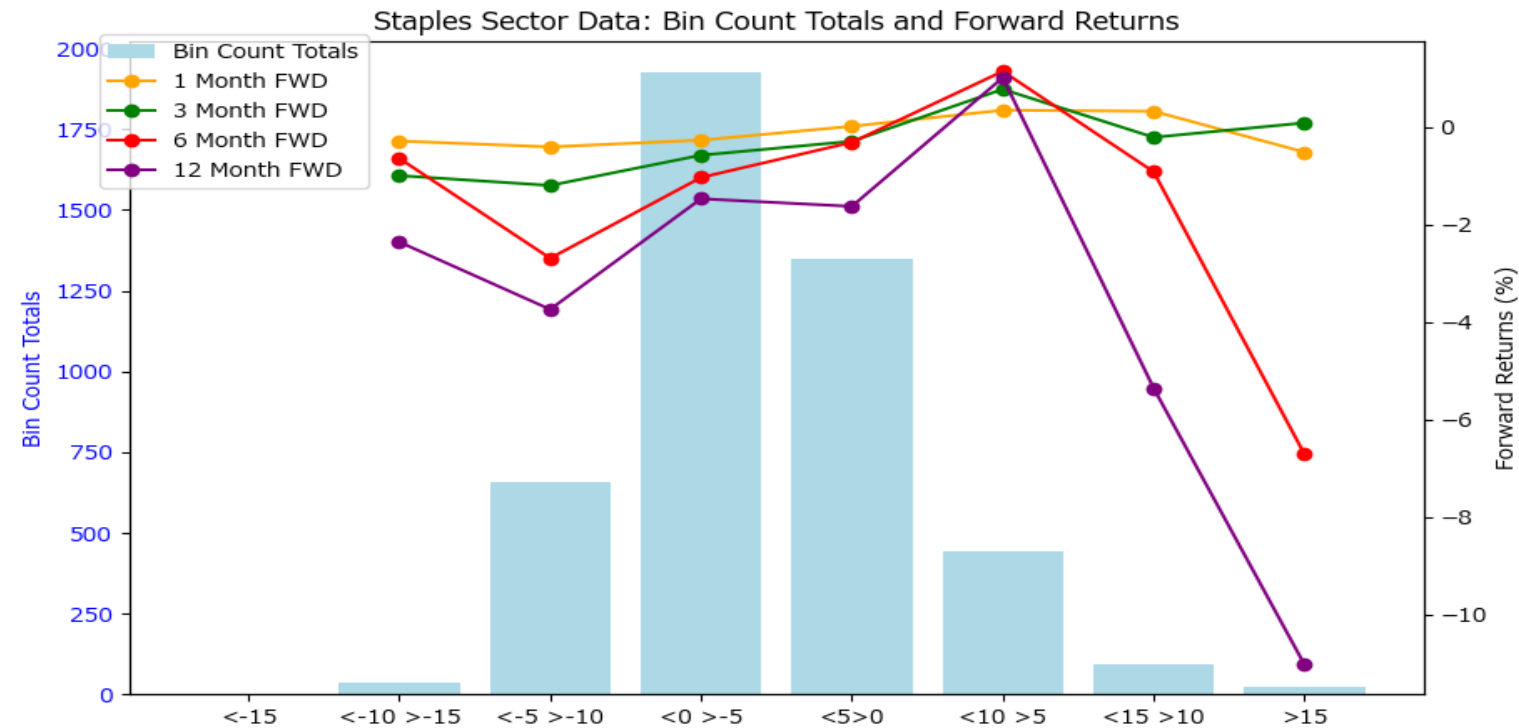
Look Back Period:

- 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



Key Takeaways:

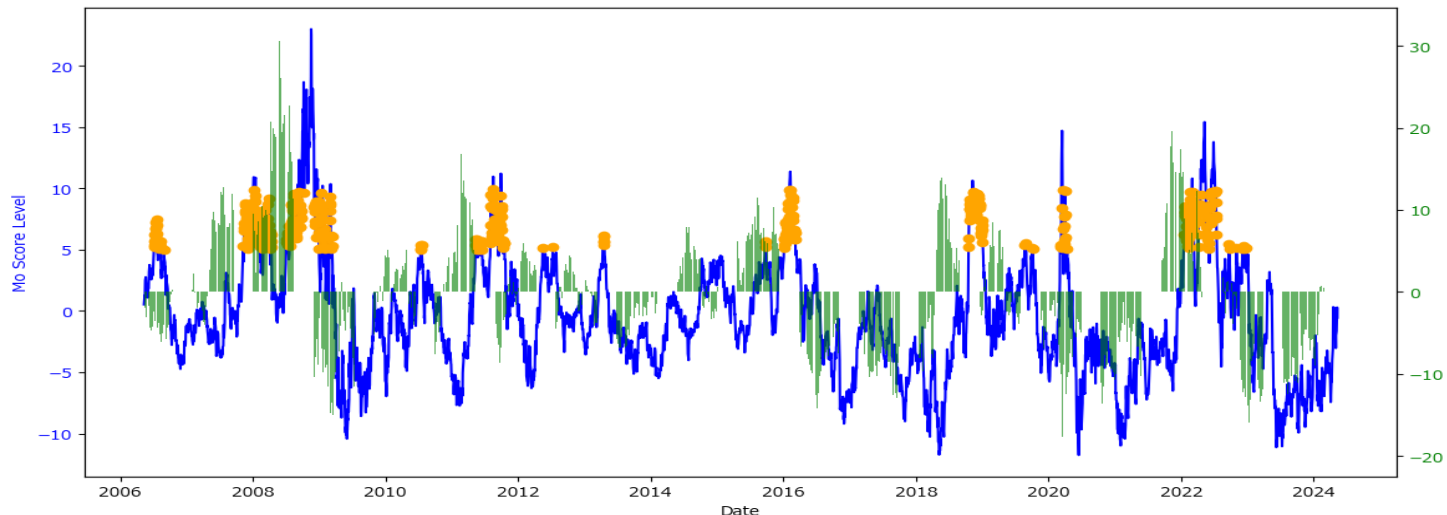
- Staples stocks generate strong longer-term sell signals when intermediate-term momentum scores for the sector are at high levels
- Deeply oversold conditions that result in **negative momentum readings also have coincided with negative forward returns**
- Positive, but not extreme scores between the 5 and 10 level on this study coincide with the best average forward excess returns
- When looking at average excess returns over the study periods the return profile makes more sense when considering the results in analog format (next slide)
- Strong excess returns for the sector accrue during periods of equity market stress and significant price draw-downs
- Since the sector's worst returns come at peak positive excess return momentum readings, any Staples sector momentum strategy needs a trend/technical analysis component overlaying the S&P 500 or the sector's relative strength ratio to generate pivot signals on trend change

Bin	Observations	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-10 >-15	36	-0.288651971	-0.998373077	-0.64416357	-2.361053579
<-5 >-10	659	-0.409269926	-1.200368053	-2.69499516	-3.743805599
<0 >-5	1925	-0.271008892	-0.579682059	-1.037118156	-1.47342684
<5 >0	1349	0.014026622	-0.293313921	-0.315203898	-1.630107327
<10 >5	444	0.344602273	0.773433124	1.142681248	1.012276125
<15 >10	92	0.322018542	-0.212575387	-0.920566477	-5.360497887
>15	25	-0.516797512	0.083644392	-6.718816739	-11.03575643

- **Based on this research the Consumer Staples Sector is on a neutral signal with a Mo Score of -1.4 which projects slightly below average forward returns for 1, 3, 6 and 12-month forward periods**

Momentum Indicator Study: Insights & Strategy Tips

Staples Sector Mo Score and 6-Month Forward Returns with Bin Markers



Insights on the Research:

- **Values <10, >5** coincided with highest average excess returns over 1, 3, 6 and 12-month periods (chart, right)
- **Values > 10** were a strong sell signal with those readings typically registering at the end of prolonged bear market cycles (2008, 2020, 2022) and sharp corrections with drawdowns >15% for equities (2011, 2015/16, 2018)
- **Values <5** coincided with negative excess returns
- Low vol. sectors don't appear well suited for intermediate-term momentum strategies when momentum is the only input
- While there are positive forward returns accruing to Mo score values between 5-10 we can see that those periods typically terminate at values that produce strong sell signals in the study period
- We need to do more research with shorter-duration Mo signals for single input strategies
- In our next iteration of this study, we will be looking at strategies that combine these momentum readings with technical analysis rules for trend change with the goal of improving of downside alpha capture

Time Series of MO Score and 6-Month Returns with Markers for MO Score > 10

