ETFSector.com

Research Study: Intermediate-term Momentum

Real Estate Sector

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Momentum Indicator Study Details

<u>ETFSector.com Intermediate-term Momentum Indicator</u>

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: XLRE
- 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

Bin	Observations	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-15	2	2.835798302	5.557856055	-2.590599898	-16.34854731
<-10 >-15	100	1.102081388	1.426564405	0.979930454	1.981142343
<-5 >-10	496	-1.182587361	-1.681383232	-3.241865313	-6.066294539
<0 >-5	631	-0.594311264	-2.868194827	-4.397942453	-6.917078158
<5>0	616	-0.339452585	-1.371777367	-3.460458107	-6.636416321
<10 >5	185	-1.089241182	-1.766503139	-2.286202843	-6.508195622
<15 >10	6	-2.685069029	-0.351824366	-0.285839765	-6.603567385

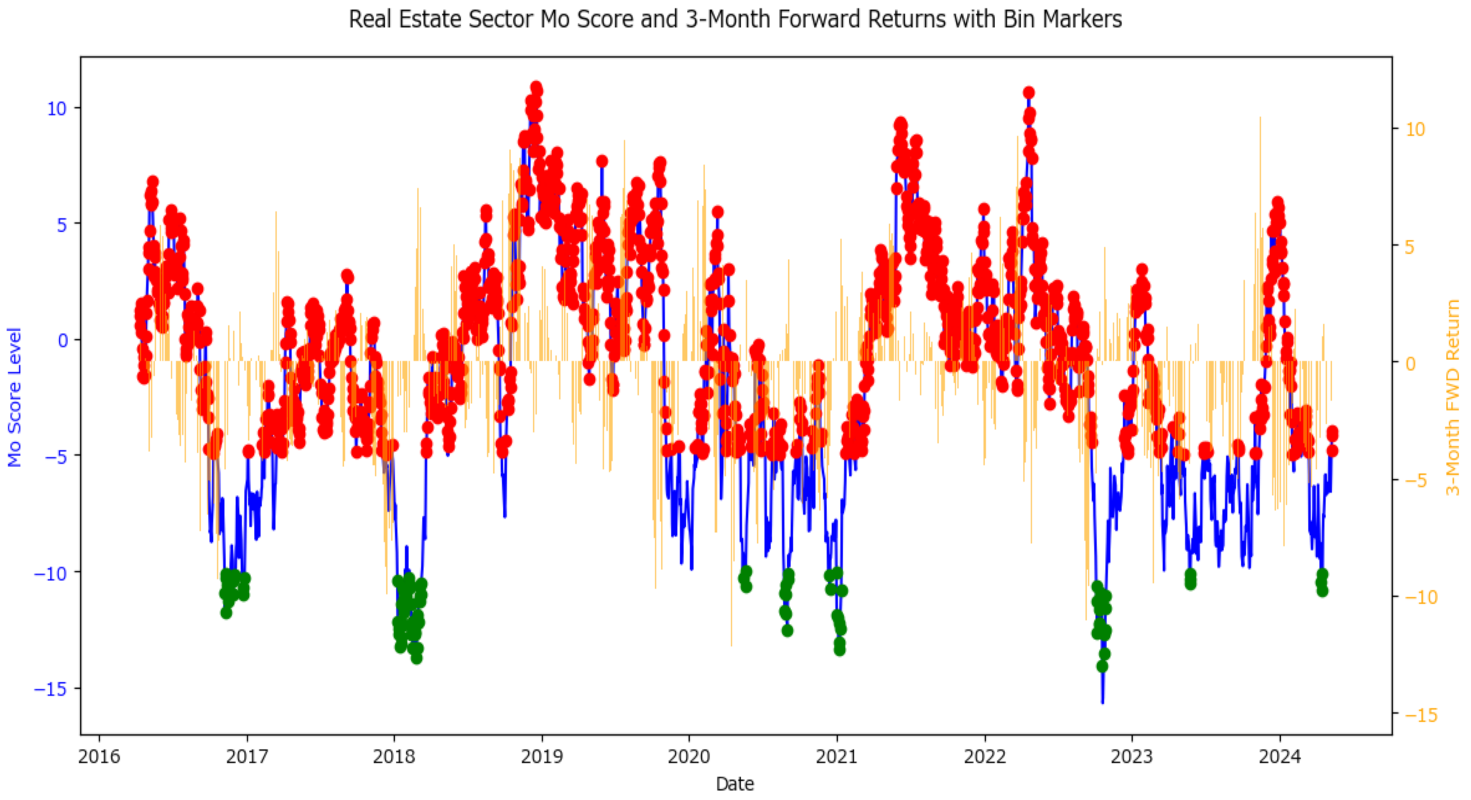
Key Takeaways:

- The Real Estate Sector has been in a structural underperformance trend since its inception as a stand-alone sector in late 2015
- Prior to that REITs were part of the Financial Sector
- Alpha potential is muted, but positive forward returns have been associate with the -10 to -15 level over 1, 3, 6 and 12-month timeframes based on 100 observations in the data
- Interestingly the 2 extreme readings had very positive 3-month returns, but sharply negative 12-month returns
- Investors haven't been paid to hold onto the sector over periods longer than 3-months
- Any positive intermediate-term momentum (1-6 months duration) has been a sell signal over the 10yr period of study

- ***Based on this research the Real Estate Sector registered a strong sell signal on April 2, 2025 while hitting a reading above >10***

- ***The current reading is 1.14 which has coincided with positive 1-month excess returns and negative fwd returns over longer periods***

Momentum Indicator Study: Insights & Strategy Tips



Insights on the Research:

- **Values > 5** coincided with negative forward returns (charts, right)
- **Values <-10** coincided with the biggest historical alpha opportunities, but the magnitude and duration of those positive forward returns is underwhelming to say the least
- If we built an indicator off this research we'd be looking to hold the XLRE for 1-3 months when readings went below the -10 level…that would have given us exposure in the sector about 10% of the time.