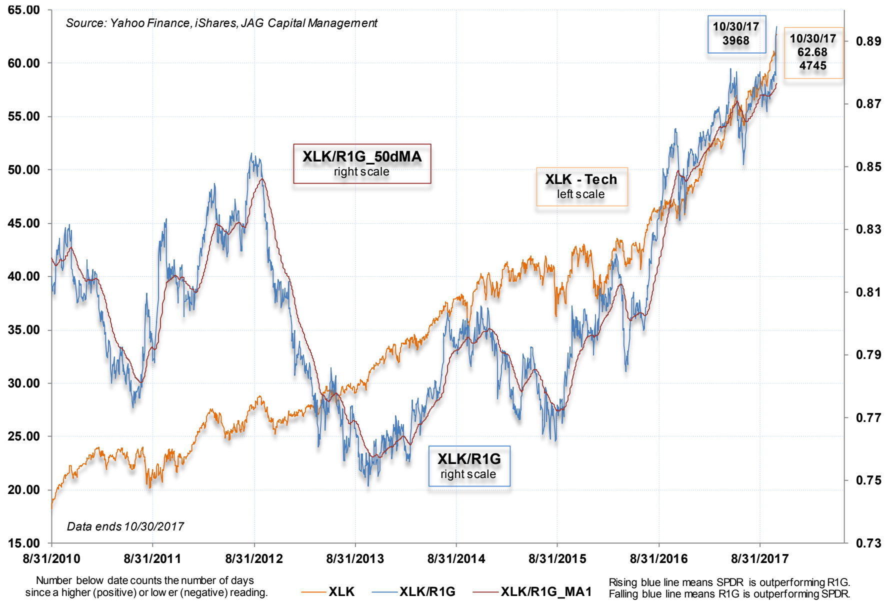
Timely Insights from JAG's Research Team

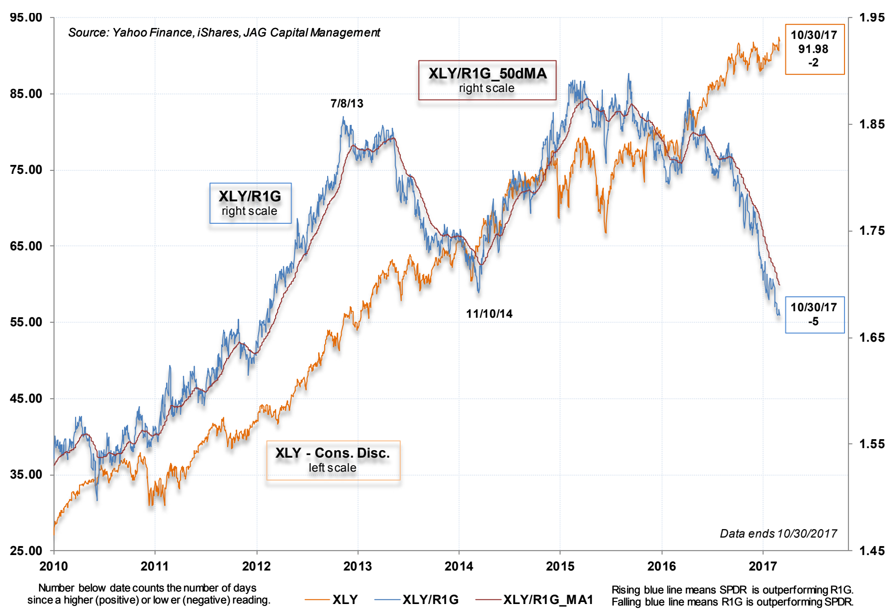
Total reading time = 2 minutes

XLK vs. XLK / Russell 1000 Growth (R1G) with Moving Average



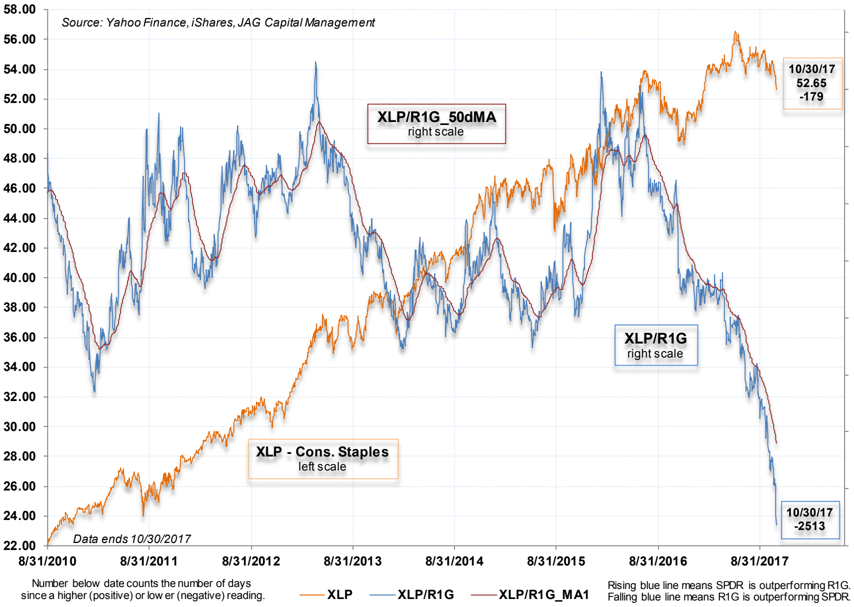
The Technology sector has been a real beauty in 2017. The ETF representing the sector has roared higher by more than 30%, almost doubling the S&P 500's year-to-date gain of 16%. On a relative strength basis, Technology stocks have broken out to a 3,968 trading-day high versus the Russell 1000 Growth Index. This implies that the sector is doing better than it has in almost 16 years(!). To a large extent, we think this is well-deserved. As a group, technology stocks are delivering strong top- and bottom-line results. Importantly, they are benefitting from a boom in semiconductors, cloud computing, and a general "digitization" of the global economy. We remain constructive.

XLY vs. XLY / Russell 1000 Growth (R1G) with Moving Average



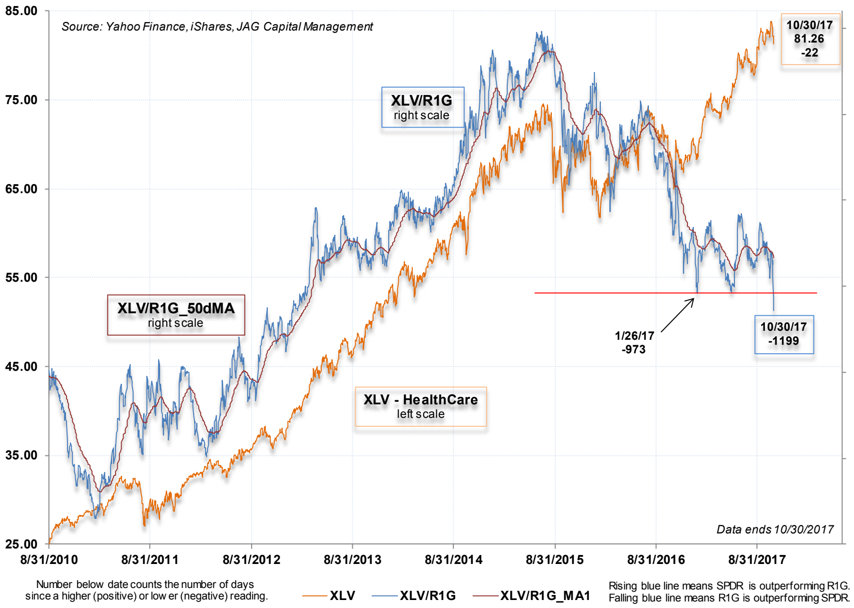
The Consumer Discretionary sector ETF has done OK on a price basis in 2017 – after all, it is up more than 14%. But that return is well shy of the S&P 500 and the Russell 1000 Growth Index, and the group's relative strength versus the Russell index has fallen off a cliff this year. A big culprit is the struggling retail industry, specifically physical "brick and mortar" retail stores. Consumer preferences are quickly shifting to ecommerce, which is pressuring margins and upending century-old business models.

XLP vs. XLP / Russell 1000 Growth (R1G) with Moving Average



Consumer Staples continue to disappoint on both a relative and absolute return basis. The sector has now carved out a 2,513 trading-day (c. 10 years) low in relative strength versus the Russell 1000 Growth Index. In a very strong year for the broader market, the Consumer Staples ETF is up barely 3% in 2017, vastly under-performing the S&P 500 and most other benchmarks. Investors have historically granted blue-chip, high-quality Consumer Staples stocks with premium valuations, due to their slow-but-steady growth characteristics and competitive dividend yields. But growth and margins in consumer packaged goods companies are under pressure, which is causing growth-adjusted valuations to remain quite high. We remain unenthused.

XLV vs. XLV / Russell 1000 Growth (R1G) with Moving Average



We had high hopes for the Healthcare sector earlier this year, but we are beginning to think our bullishness could have been a bit misplaced. On a price basis, the sector ETF has gained more than 18%, modestly outperforming the S&P 500. But the recent break-down in relative strength versus the Russell 1000 Growth Index has us concerned. We are still finding some good ideas in Healthcare, but we are avoiding the distributors, PBM's and insurers for now. We think there are price and margin pressures emerging for the "middlemen" industries involved in the delivery of healthcare products and services.

Disclosures

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