

TECHNOLOGY SELECT SECTOR SPDR ETF (XLK)

Risk: **Med**

Zacks ETF Rank 1 - Strong Buy

\$126.66 USD



Fund Type	Technology ETFs
Issuer	STATE STREET GLOBAL ADVISORS
Benchmark Index	TECHNOLOGY SELECT SECTOR INDEX
Date of Inception	12/16/1998
AUM (million)	\$37,531.96
Number of holdings in the ETF	74
Assets in top ten holdings	69.83%
Expense Ratio	0.13%
Dividend Yield	0.93%

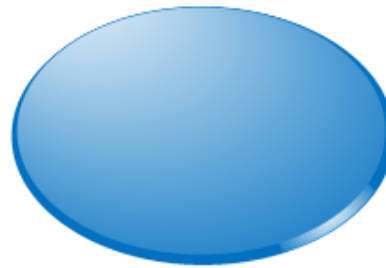
Price Fundamentals of XLK

Current Price	\$126.66
52-Week High	\$128.70
52-Week Low	\$70.40
NAV (11/30/2020)	\$123.43
1Yr ETF Ret (12/18/2020)	43.71%

Risk Statistics

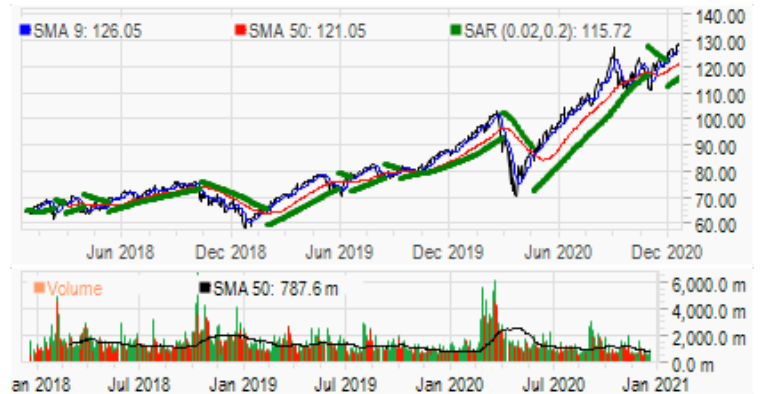
Beta (against S&P 500)	1.06
Standard Deviation	28.77%
R ²	73.08%

XLK Sector Weights



Information Technology 100.0%

Price Chart



Zacks Opinion

After being beaten down badly in the first quarter, the technology sector made an impressive comeback on the acceleration in global digital shift. The prospect of dividend government and distribution of the COVID-19 vaccine added to the optimism lately. Notably, the divided government would reduce the chances of major tax increases and tighter regulations. Further, the sector's long-term story remains intact with the emergence of cutting-edge technology such as cloud computing, big data, 5G, Internet of Things, wearables, VR headsets, drones, virtual reality, artificial intelligence and machine. The wave of mergers and acquisitions will also provide further impetus to the space. However, U.S.-China trade tensions and geopolitical tension will continue to weigh on the sector.

Key Points

- Largest and most actively traded tech ETF
- Exposure to large cap U.S. stocks
- Low expense ratio and low trading cost

Reasons to Buy

- Emergence of new technologies

Reasons to Sell

- Guilty of concentration and escalation in trade war fears

The data on the front page and all the charts in the report represent market data as of 12/18/2020, while the report's text is as of 12/21/2020

Holdings Breakdown

XLK is highly concentrated on the top two firms — Apple and Microsoft — with more than 20% share, suggesting that these firms dominate the returns of the ETF. Other securities account for not more than 4.4% share. Additionally, the fund is well spread out within the information technology sector as software, hardware storage & peripherals, IT services, and semiconductors & semiconductor equipment receive double-digit exposure each. The product allocates a hefty 98% of its assets to large caps, while mid caps account for a minor portion in the basket.

XLK Top 5 Holdings	Weight %
Apple Inc.	23.50%
Microsoft Corporation	20.18%
Visa Inc. Class A	4.39%
NVIDIA Corporation	4.17%
Mastercard Incorporated Class A	3.87%

Investment Objective

The fund seeks to match the price and yield of the Technology Select Sector Index, before fees and expenses. The ETF holds 74 stocks in its basket.

Analysis

This ETF is appropriate for investors seeking exposure to the technology segment of the broad U.S. markets with a focus on large cap equities. It is one of the low-cost choices in the technology space, charging 13 bps in annual fees with a tight bid/ask spread. The fund is extremely liquid as it trades in large volumes of about 8.1 million shares per day on average.

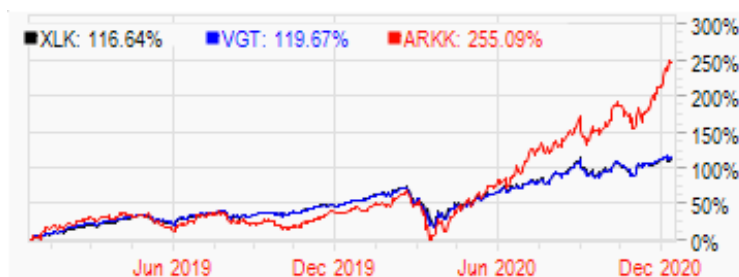
Description

Launched in December 1998, Technology Select Sector SPDR Fund (XLK) is a passively managed fund designed to deliver the returns of the U.S. technology stocks. With total assets of about \$37.6 billion, XLK is the largest and most popular ETF in the technology space.

Performance

Like many other funds in the space, XLK was off to a strong start this year but dropped drastically in late February. It rebounded in late March and has been on an uptrend since then with some dips in between. In fact, the ETF has been hitting new highs lately. It has gained nearly 41% so far this year and has a decent dividend yield of 0.93% per annum.

2-Year Comparative



Fundamentals	XLK	VGT	ARKK
Zacks Rank	1	1	NA
Price	\$126.66	\$346.51	\$132.09
AUM (million)	\$37,531.96	\$40,805.11	\$16,727.22
Expense Ratio	0.13%	0.10%	0.75%
Dividend Yield	0.93%	0.83%	0.15%
Assets in top 10	69.83%	61.68%	51.25%
Beta	1.06	1.11	1.73
YTD % Price Change	40.88%	43.75%	154.35%

Detailed Analysis

The ETF provides broad exposure to the U.S. technology space. The sector has shown strong resilience during the COVID-19 pandemic due to the stay-at-home trend and led the broad market rally since hitting lows in March. The global digital shift that has accelerated e-commerce for everything ranging from remote working to entertainment, and shopping is driving the sector higher.

The rapid adoption of cloud computing, big data, Internet of Things, wearables, VR headsets, drones, virtual reality, artificial intelligence, machine learning, digital communication and 5G technology is an added advantage. Additionally, the Fed has been easing aggressively which would continue to provide ample liquidity in the market. Further, the potential for a divided government would reduce the chances of major tax increases and tighter regulations. This scenario will limit the new legislation and dims the prospect of an antitrust breakup of mega-cap tech companies, thereby providing further boost to the tech sector.

Given the promising long-term trends, investors can easily tap the sector with the help of ETFs. We profile the other two popular funds targeting the broad space and compare these with XLK to find out whether it is an intriguing option to play the ongoing trends. Let's have a look at the alternatives:

Alternatives

Vanguard Information Technology ETF (VGT)

This fund provides exposure to a large basket of 344 technology stocks by tracking the MSCI US Investable Market Information Technology 25/50 Index. The top 10 holdings account for nearly 57% of the assets. From a sector perspective, technology hardware & storage, system software, semiconductors, application software, and data processing & outsourced services occupy double-digit exposure each. The product has managed assets of \$40.9 billion so far. The ETF has 0.10% in expense ratio while volume is solid, trading at nearly 545,000 shares – suggesting a slight extra cost for the product. The fund has gained 44% in the year-to-date time frame.

iShares U.S. Technology ETF (IYW)

This ETF tracks the Dow Jones US Technology Index and holds 157 stocks in its basket with AUM of \$6.6 billion. It trades in a good volume of around 410,000 shares per day, suggesting slight extra cost beyond the expense ratio of 0.43%. Like XLK, the fund is highly concentrated on Apple and Microsoft with nearly 23.9% and 19.2% share, respectively, while other firms hold less than 4.1% of the assets. From a sector look, software & services dominate the fund's portfolio with 39.9% share while hardware & equipment, semiconductors, and media & entertainment round off the next three spots. The fund is up 46.6% so far this year.

Our View

Compared to the two alternatives, XLK is highly traded and the most popular choice in the tech space. It charges a high initial fee relative to VGT but its liquid nature makes it worth playing. On the other hand, a moderate trading volume for VGT and IYW compel investors to pay extra in the form of a wide bid/ask spread, increasing the cost of total trading for the two funds.

Glossary

ACTIVE MANAGEMENT:	A portfolio management strategy where the manager uses variety of skills and attributes (like top-down approach, bottom-up approach, value investing, growth investing or absolute returns strategy) in the portfolio so that the fund outperforms the benchmark index.
ALPHA:	A measure of outperformance that can be calculated as the return of the fund minus the benchmark's return. A positive alpha indicates the fund has outperformed the benchmark index whereas negative alpha means underperformance.
AMERICAN DEPOSITORY RECEIPT:	A negotiable non-US security that trades in the US financial market.
AUTHORIZED PARTICIPANTS:	An entity chosen by an ETF sponsor to undertake the responsibility of obtaining the underlying assets needed to create an ETF. Authorized participants are typically large institutional organizations, such as market makers or specialists.
AVERAGE YIELD TO MATURITY:	The expected rate of return on a fund's portfolio if it is held until the maturity while reinvesting all coupon payments at the bond yield.
BASKET:	A portfolio of several stocks or securities that are selected for the inclusion in the fund with different weightings.
BETA:	A measure of risk compared to the market benchmark. A beta of less than 1 indicates that the fund is less volatile than the market and vice versa.
BID/ASK SPREAD:	The difference between the highest price that a buyer is willing to pay (often called bid price) for the underlying assets of securities of the fund and the lowest price that a seller is willing to accept (often called as offer or ask price) for it.
CONTRARIAN:	An investment style that goes against prevailing market trends (i.e. against the thinking of many) by buying assets that are performing poorly and then selling when they perform well.
CREATION UNIT:	A set of securities or underlying assets that can be created or redeemed by Authorized Participants for a certain number of ETF shares with the fund or trust. The creation units can vary in size ranging from 25,000 to 600,000 shares each.
DIVIDEND YIELD:	A financial ratio that measures how much a company pays out in dividends each year relative to its share price. It can be calculated as annual dividend per share divided by price per share.
EFFECTIVE DURATION:	A measure of a fund's interest-rate sensitivity. The longer the duration, the more sensitive is the fund to the changes in interest rates.
ENHANCED INDEXING:	An investment idea that attempts to amplify the returns of an underlying asset or the fund with lower tracking error. Enhanced indexing combines elements of both passive and active management.
EXCHANGE TRADED FUND:	The fund represents a basket of securities (that typically track an index), and is listed and trades like stocks on an exchange. ETFs can be traded throughout the day in amounts as little as one share.
EXCHANGE-TRADED NOTE:	The note is a senior, unsecured, unsubordinated debt issued by a major bank. It has a maturity date and is backed only by the credit of the issuer. The ETN however, do not actually hold any security, instead an issuing bank promises to pay to investors the amount reflected by the index's performance (minus fees).
EXPENSE RATIO:	An annual fee that the fund or ETF charge from the investors in order to provide exposure to the underlying asset.
FUND OF FUNDS:	A fund that invests in other funds instead of investing directly in stocks, bonds or other securities.
FUNDAMENTAL INDEXING:	A type of equity index in which stocks or securities are selected based on fundamental metrics such as revenue, dividend rates, earnings or book value.
INDEX:	An imaginary portfolio of securities representing a particular market or a portion of it.
INVERSE ETF:	An ETF that provides opposite (inverse) exposure in the underlying index through use of various financial and money market instruments over a specified period of time. This ETF is similar to holding a short position in order to take profit from the falling prices.
INVESTMENT STYLE:	A different style of investing such as growth, value and blend in a basket of asset.
LEVERAGED ETF:	An ETF that uses various financial instruments to amplify the returns (up to 3 times) of the underlying index over a specified period of time.

LIQUIDITY:	The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.
MARKET CAPITALIZATION:	Represents the aggregate value of the fund or underlying asset.
NET ASSET VALUE:	Value of an ETF on per share basis and is calculated as total asset minus total liabilities divided by number of shares.
PASSIVE MANAGEMENT:	A portfolio management strategy where the fund is the mirror image of the performance of the benchmark index.
PORTFOLIO TURNOVER:	A percentage of underlying assets bought and sold in a given year.
R-SQUARED:	A measure of correlation with the market benchmark. An R-Squared of 100 indicates perfect correlation of the fund that of market while an R-Squared of 0 indicates no correlation.
SECTOR ROTATION:	A strategy that involves moving from one sector to another by selling the underlying assets or securities of a sector and purchasing securities or assets in another.
SEC YIELD:	A standard yield that the bond funds must pay to its shareholders based on the most recent 30-day period covered by the fund's filings with the SEC.
SHORT ETF:	An investment strategy that offers to take short position in the underlying index through various financial instruments.
STYLE BOX:	A visual representation of the fund, created by Morningstar, to determine risk-return structures of the portfolio. A style box is comprised of nine squares, or categories, that classify securities by size (small, mid and large cap) along the vertical axis and by value, growth and blend characteristics along the horizontal axis.
TARGET DATE FUND:	A fund that invests exclusively in the assets or securities with a certain defined maturity.
TRACKING ERROR:	A measure of how closely a portfolio follows the benchmark index. It is calculated as the difference between the returns of fund portfolio and the benchmark index.
TREASURY INFLATION PROTECTED SECURITIES:	The bonds that are issued by the U.S. Treasury to protect against inflation. These securities pay interest on an inflated-principal amount (principal rises with inflation) and when the securities mature, investors get either the inflation-adjusted principal or the original principal, whichever is greater.
VOLATILITY:	A measure of risk calculated by the annualized daily movement in the fund price. The lower the volatility of the fund the better it is.
VOLUME:	The number of shares traded in the market during a given period of time.
YIELD CURVE:	A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. The yield curve provides an idea of future interest rate change and economic activity. It generally compares the three-month, two-year, five-year and 30-year U.S. Treasury debt
WEIGHTED MATURITY:	The remaining time to maturity of the underlying securities in a portfolio. A fund with a short average maturity is more sensitive to current interest rate fluctuations than one with longer average maturity.

Disclosure

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Please read the prospectus carefully.

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