
Sector Momentum Rotation Strategy

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Idea

XLC	Communication Services
XLY	Consumer Discretionary
XLP	Consumer Staples
XLE	Energy
XLF	Financials
XLV	Healthcare
XLB	Materials
XLI	Industrials
XLK	Technology
XLRE	Real Estate
XLU	Utilities

- Rotate into strongest-performing sectors of the U.S. market
 - 11 SPDR ETFs (XLK, XLF, etc.)
 - Basic version: rank by 12-month momentum, invest equally in 3 top sectors.
 - Goal: Test if momentum rotation can outperform S&P 500 (SPY) on a risk-adjusted basis.
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Process

Step 1: Pure Momentum (Top-3 sectors)

- Sharpe = **0.23** → too weak.

Step 2: Add Filters

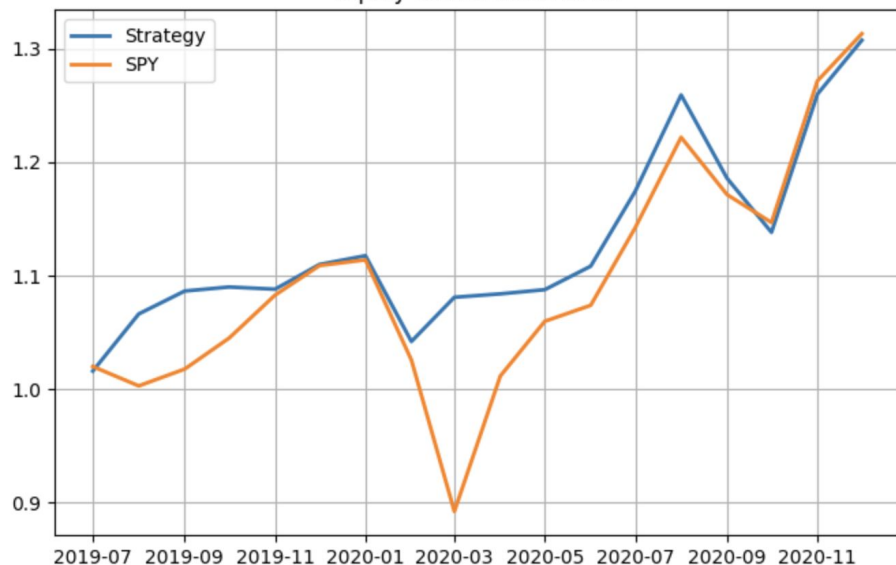
- Absolute momentum → avoid losers.
- SPY trend filter → go risk-off in downturns.
- Volatility scaling → penalize unstable sectors.

Step 3: Refined Strategy

- Top-2 sectors, equal weight.
 - Risk-off fallback: Utilities (XLU) or Bonds (IEF).
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Results

Equity Curve: 2018-2020



Final Results (2018–2020):

- Strategy:
 - a. CAGR ~19.6%,
 - b. Sharpe ~1.27,
 - c. MaxDD ~-9.6%.
 - SPY:
 - a. CAGR ~19.9%,
 - b. Sharpe ~0.95,
 - c. MaxDD ~-19.9%.
- Pure momentum was noisy, underperformed.
 - Filters + vol scaling boosted Sharpe > 1.
 - Strategy outperformed SPY with smaller drawdowns.
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Thank you!
