

NDR Sector Highlights

Ned Davis Research



Information Technology Sector

Last updated: Jun 17, 2011

Recommendation Effective: Nov 29, 2010

Overweight

- U.S. Tech stocks have been range-bound since the Japan supply shock in March. As a result, the sector remains near its 50-day moving average. Earnings revision trends are negative, but appear to have stabilized. IPO activity has risen substantially, which has bearish tendencies (New).
- We continue to take a barbell approach within the sector, favoring both software and hardware industries. We continue to favor the Semi Equipment and Semi Manufacturers stocks, which also have been range-bound since the Japan quake. Based on our historical studies, we would expect to see a pick up in performance. We're concerned that despite the Taiwan Semi index showing better performance, the S&P 500 Semis are not following suit. **We are also overweight Systems Software and Application Software, both of which are at or near cycle highs relative to the sector.** We remain underweight Data Processing Services, Telecom Equipment, and Computer Storage & Peripherals. Even though relative strength hasn't yet improved for Data Processing Services, our 2H outlook favors a shift into this later-cycle, more-defensive industry, so we'll look for when to upgrade it to marketweight. We also have Networking Equipment on watch for downgrade to underweight, as technicals have been weak (New).
- **Recent Commentary: Another Tech Bubble Developing?, M&A Putting A Floor Under Semis, Central Bank Battles (p. 10), Tech Demand From Japan, What We're Watching Within Tech, Japan Disaster - Impact On Tech**

Sector Positives:

- Tech spending recovery continuing
- Outperformer in the months before bull market peak
- Technicals mixed
- Undervalued on forward P/E basis
- Underowned
- M&A activity picking up, putting a floor on valuation

Sector Negatives:

- Supply shock following the Japan disaster
- Earnings revision momentum bearish
- Taiwan indices weakening
- Industrial production for high-tech equipment beginning to improve
- Inventories still being worked off
- IPO activity rising (New)

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