

Combining Momentum and Energy Exposure

Dorsey Wright™ Technical Leaders Energy Index

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Introduction

The suite of Dorsey Wright™ Technical Leaders Sector Indexes launched just over nine years ago in March 2013. Each momentum-driven index in the suite follows the same rules-based methodology that is designed to measure the performance of high relative strength leaders across nine broad sectors of the US equity market as defined by Dorsey Wright's proprietary sector classification system, including Basic Materials, Consumer Cyclical, Consumer Staples, Energy, Financials, Healthcare, Industrials, Technology, and Utilities. The Dorsey Wright Technical Leaders Sector Index methodology combines concentrated sector exposure with a momentum overlay using just one objective input – price – to measure relative strength. As an investment factor, relative strength (momentum) has proven to be a robust factor, and when used as a selection criterion, is capable of delivering outperformance over the long term. So far in 2022, we have seen sustained US equity market leadership from Energy despite elevated volatility driven by the Russia/Ukraine war, rising rates, and record-setting inflation numbers. As a result, the Dorsey Wright Energy Technical Leaders Index™ (DWEN™) has substantially outperformed the broader US equity market, while also outpacing Energy sector benchmarks thanks to its concentration of high relative strength constituents.

Dorsey Wright Technical Leaders Sector Index Lineup

Sector	Index Symbol
Basic Materials	DWBM™
Consumer Cyclical	DWCC™
Consumer Staples	DWCS™
Energy	DWEN™
Financials	DWFN™
Healthcare	DWHC™
Industrials	DWIDX™
Technology	DWTY™
Utilities	DWUT™

Index Methodology

The starting universe for the Dorsey Wright Energy Technical Leaders Index begins with the top 2,000 largest securities in the Nasdaq US Benchmark Index that are also classified within the Energy sector, based on DWA's proprietary industry classification system. A liquidity screen is then applied, requiring stocks to have a three-month average daily dollar trading volume of \$1 million. Next, the stocks are ranked by their respective momentum scores using the Point & Figure Relative Strength methodology. Each security's momentum score is based on intermediate and long-term price movements relative to a representative market benchmark. For a deeper dive into Point & Figure Relative Strength, please refer to the [Point & Figure Relative Strength Signals](#) [whitepaper published by Dorsey Wright](#).

Once ranked, the top 30 stocks (at minimum) are selected for inclusion, as these are considered to be the strongest on a relative basis. The Index operates on a quarterly reconstitution and rebalance schedule, enabling it to adapt to changing leadership trends throughout the calendar year. Index weights are determined such that securities with higher relative strength scores receive larger weights. There are no sector or sub-sector constraints on the Dorsey Wright Energy Technical Leaders Index, allowing for a concentrated energy play with a momentum tilt.

Index Composition

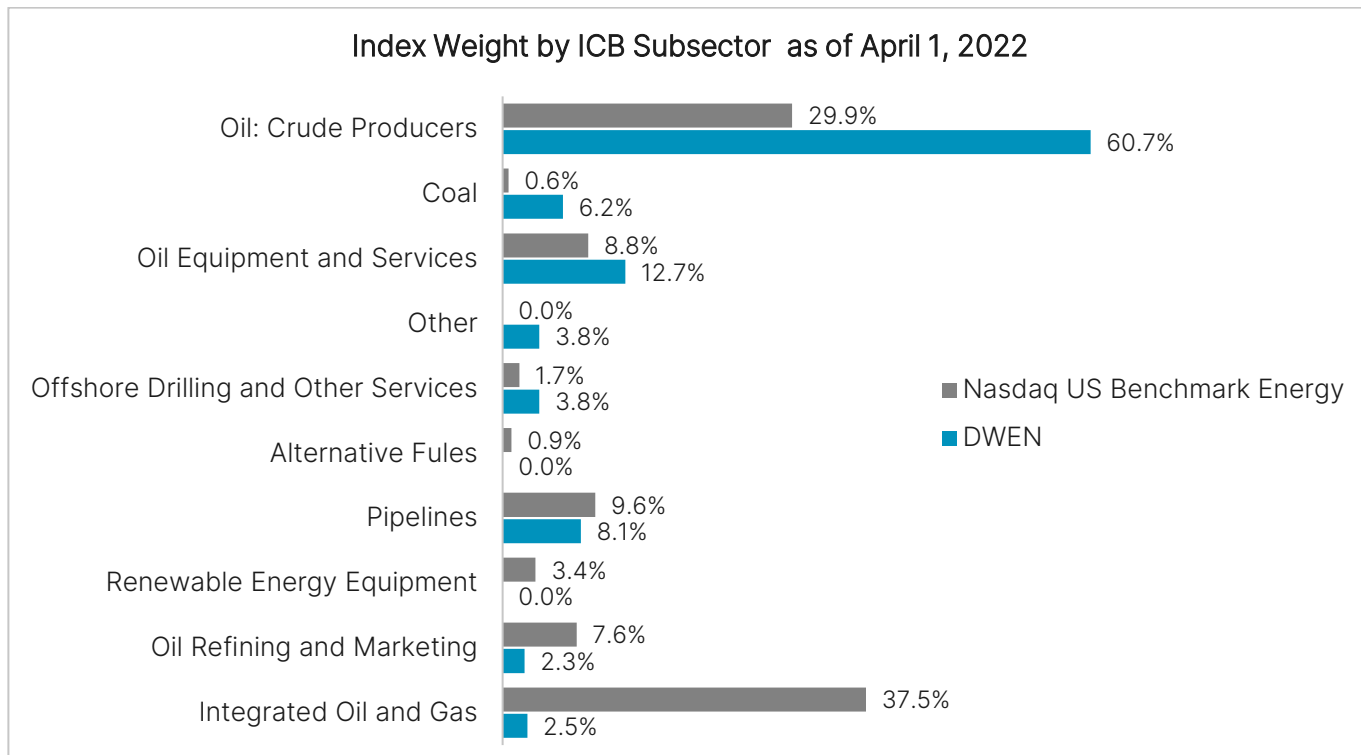
As of the most recent quarterly reconstitution and rebalance, the Dorsey Wright Energy Technical Leaders Index consists of 40 names with an overweight to the Oil: Crude Producers sub-sector at 61%. In fact, eight of the ten largest weightings come from the Oil: Crude Producers sub-sector, including Ovintiv Inc, Range Resources, and Matador Resources. On average, the top ten weighted stocks gained 50.5% over the first quarter of the year, speaking to the unprecedented level of strength coming from the top-ranked momentum stocks within the Energy sector.

DWEN: Top 10 Holdings as of Start of Day 4/1/2022

Name	Symbol	ICB Subsector	DWEN Weighting	Q1 2022 Total Return
Cheniere Energy	LNG	Pipelines	4.3%	38.0%
Ovintiv Inc	OVV	Oil: Crude Producers	4.1%	61.2%
Range Resources Corp	RRC	Oil: Crude Producers	4.0%	70.4%
Matador Resources	MTDR	Oil: Crude Producers	3.9%	43.6%
Targa Resources Corp	TRGP	Oil: Crude Producers	3.8%	45.4%
PDC Energy Inc	PDCE	Oil: Crude Producers	3.7%	49.5%
SM Energy Co	SM	Pipelines	3.7%	32.1%
Antero Resources Corp	AR	Oil: Crude Producers	3.7%	74.5%
Devon Energy Corp	DVN	Oil: Crude Producers	3.2%	36.5%
APA Corp	APA	Oil: Crude Producers	3.1%	54.3%

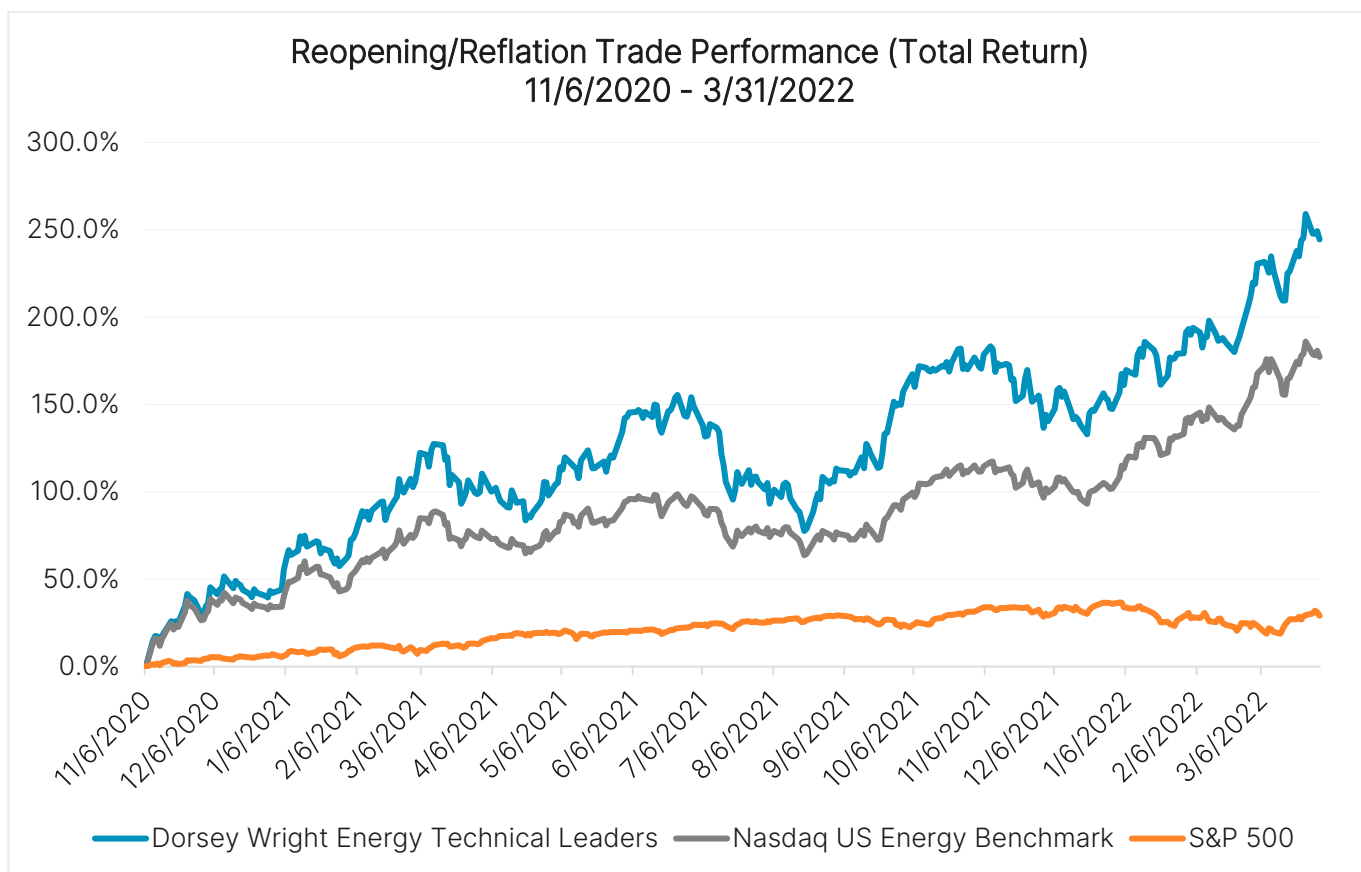
Sources: Nasdaq, FactSet

When compared to a traditional market cap-weighted broad energy benchmark like the Nasdaq US Energy Benchmark Index™, the Dorsey Wright Energy Technical Leaders Index currently provides more exposure to the Oil: Crude Producers, Oil Equipment & Services, and Coal subsectors (per ICB). Unlike the Nasdaq US Energy Benchmark Index, DWEN does not have any exposure to Alternative Fuels or Renewable Energy Equipment, which has been a weaker area of the energy market of late due to factors such as implementation costs and infrastructure constraints. One of the benefits of pairing a momentum overlay with a quarterly reconstitution and rebalance schedule is that the Index can adapt more quickly to shifts in subsector leadership versus operating on an annual or semi-annual evaluation schedule. It is the process of rotating into areas of strength like Oil: Crude Producers and out of areas of weakness such as Renewables that drives the long-term success of such relative-strength-based strategies.



Index Performance

Since Pfizer and BioNTech announced a vaccine that was 90% effective against COVID-19, the Dorsey Wright Energy Technical Leaders Index has gained an impressive 244.5%, outperforming the Nasdaq US Energy Benchmark Index and the S&P 500 Index by 67.3% and 215.4%, respectively (11/6/2020 – 3/31/2022). While the reopening/reflation trade is not the only driving factor behind energy’s recent run, it has certainly played a significant part. Furthermore, we’ve seen stellar performance on a year-to-date basis, with DWEN posting a Q1 2022 return of 40.0% while the Nasdaq US Energy Benchmark has gained 37.2%. The S&P 500 Index has lost -4.6% over the same timeframe.



Sources: Nasdaq, FactSet

Although the broader energy sector’s price movement has been particularly bullish over the last 18 months, we have seen periods of extreme weakness over the past decade, such as the oil market oversupply crisis of 2014-2015, the broad equity bear market in 4Q’18, and the Coronavirus-induced lockdowns beginning in March 2020 – which briefly brought oil prices into negative territory for the first time in history. These weaker periods resulted in amplified drawdowns in DWEN’s concentrated portfolio when compared to the Nasdaq US Benchmark Energy Index, causing the Dorsey Wright Energy Technical Leaders Index to lag over the long term. Since its launch on March 28, 2013, DWEN has lost -14.27% on a price return basis, while the Nasdaq US Benchmark Energy Index has returned -2.71%; meanwhile, the S&P 500 Index has gained over +188%. As a reminder, relative strength thrives on performance dispersion and requires sustained market leadership, which is what we’ve seen play out over the last 18 months and is reflected in DWEN’s recent returns. While we have no way of knowing whether energy’s leadership trend will stay in place, we do know the Dorsey Wright Energy Technical Leaders Index will continue to adapt and adjust its exposure accordingly in a rules-based, objective fashion using relative strength.

Summary

The Dorsey Wright Energy Technical Leaders Index tracks the returns of high relative strength leaders in the broader energy space. Over the first quarter of 2022, the Index gained +40% on a total-return basis, outperforming the SPX by over +44%, demonstrating the power of dispersion and superior relative strength within the energy space.

The Invesco DWA Energy Momentum ETF (Nasdaq: PXI) tracks the Dorsey Wright Energy Technical Leaders Index.

Sources: FactSet, Bloomberg, Nasdaq Global Indexes.

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