3 Top Tech ETFs Are Sinking in the Perfect Storm

Description

Tech-based or tech-heavy Canadian exchange-traded funds (ETFs) were hot picks in 2020 during the first COVID year. They mirrored the impressive performance of the technology sector that delivered a mind-boggling 80.3% overall return for the year.

However, the sector's robust performance didn't sustain in 2021 and, instead, turned for the worse in 2022. TSX tech stocks are collectively deep in the red (-35.97%), while the NASDAQ index in the U.S. is down 23.33% year to date.

Meanwhile, ETFs such as **TD Global Technology Leaders Index ETF** (TSX:TEC), **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT), and **BMO NASDAQ 100 Equity Index ETF** (TSX:ZNQ) are sinking in the perfect storm.

TD Asset Management Inc., BlackRock, and BMO Global Asset Management are top ETF providers but are powerless to stem the tide. TEC, XIT, and ZNQ are down year to date by an average of 27.97%. Investors should avoid tech stocks or tech ETFs for now, because the selloff in the beleaguered sector could extend for months.

International

The sector mix of TD's TEC is predominantly technology (71.1%). Sectors like consumer services (8.80%), financial (5.80%), and consumer goods have representations, although none of them have percentage weights of more than 10%. Also, 85.2% of the 286 holdings are U.S. stocks. European Union and Japanese stocks comprise 7.1% and 4.8% compared to 1.2% of Canadian equities.

TEC seeks to track, to the performance of a global equity index. The said index measures the investment return of global mid- and large-cap technology stocks. Right now, the benchmark index is the Solactive Global Technology Leaders Index. **Apple** (14.8%), **Microsoft** (12.28%), and **Amazon.com** (6.51%) are the top three holdings.

The portfolio managers make sure that TEC holds a proportionate share or a sampling of the constituent securities of the applicable index. As of June 1, 2022, TEC trades at $22.81 (-25.41% year to date) and pays a 0.67% dividend.

100% Canadian

BlackRock's XIT is 100% Canadian. The portfolio has 26 holdings, with application software companies (51.18%) having the most percentage weight. Internet services & infrastructure and IT consulting & other services follow with 19.09% and 18.63%, respectively.

Tech sectors like data processing & outsourced services, system software, communications equipment, and electronic manufacturing services are duly represented.

XIT seeks to provide long-term capital growth to investors by replicating the S&P/TSX Capped Information Technology Index's performance. Unfortunately, at $33.13 per share, the ETF is losing by 36.01% thus far in 2022. According to BlackRock, XIT carries a risk rating of medium to high.

100% American

BMO Global Asset Management designed ZNQ to replicate the performance of NASDAQ-listed companies. Moreover, this market capitalization weighted index tracks 100 of the largest non-financial stocks on NASDAQ. The top three holdings are identical or the same with TEC.

Performance-wise, ZNQ is down 22.5% year to date. At $51.59 per share, investors can partake of the ultra-modest 0.16% dividend. In 3.01 years, the total return is a respectable 66.23% (18.42% CAGR). However, the percentage gain could reduce with the continued sub-par performance this year. BGAM has a medium-risk rating for ZNQ.

Wait for a market rotation

Rising inflation and interest rates have forced investors to stay away from growth-oriented stocks, mostly in the technology sector. Some market analysts say a market rotation will come, although the time frame is indeterminable.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:TEC (TD Global Technology Leaders Index ETF)
2. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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