

Tactical Sector Allocation Under Dollar Regimes

Quantifying forward returns, correlation amplification, and drawdown mitigation across 11 S&P 500 sectors using a composite DXY signal.

WINDOW : 2009 – 2025 (16 Years)

OBSERVATIONS: 4,139 Trading Days

TARGET : 11 SPDR Sectors + SMH

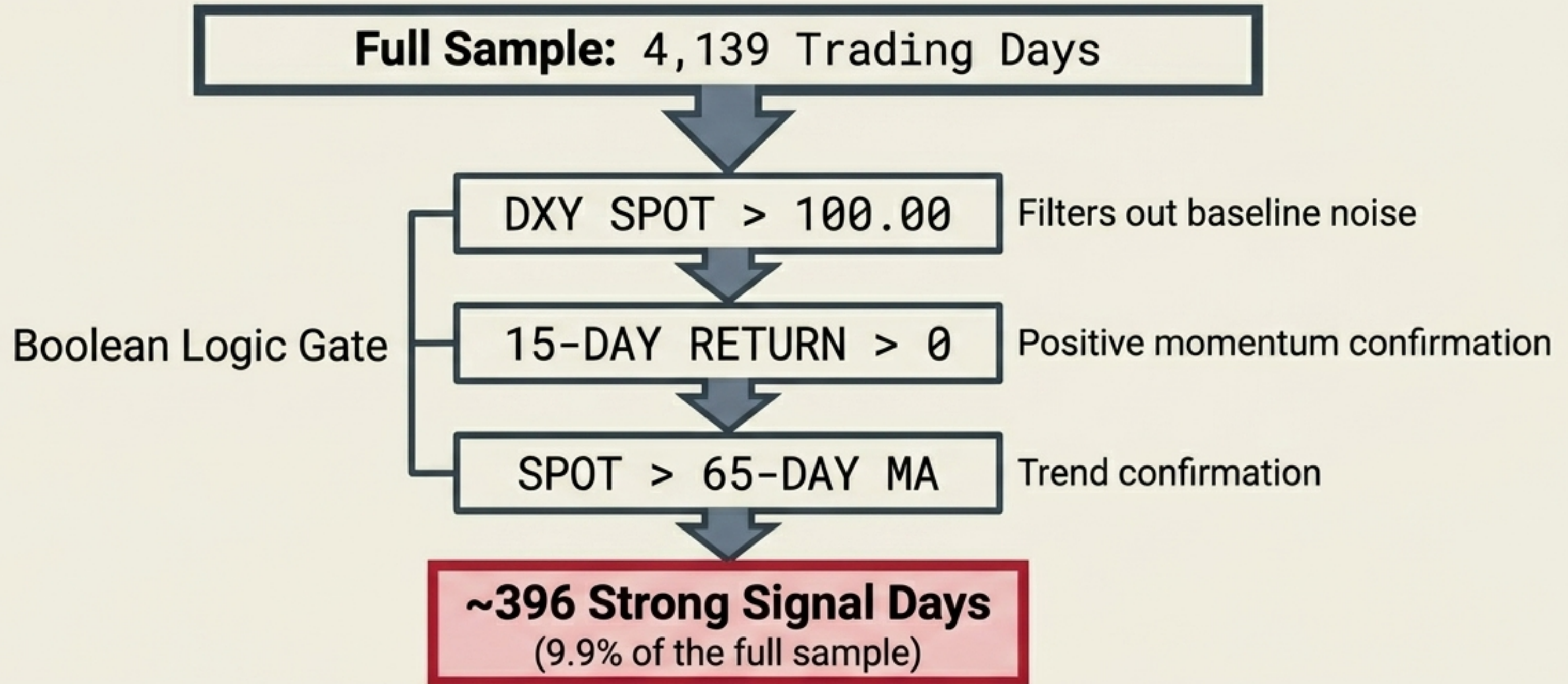
CONFIDENCE : Statistical significance assessed via
two-sample t-tests

Tactical Allocation Rules Under Dollar Extremes

Tactical Rotation Matrix

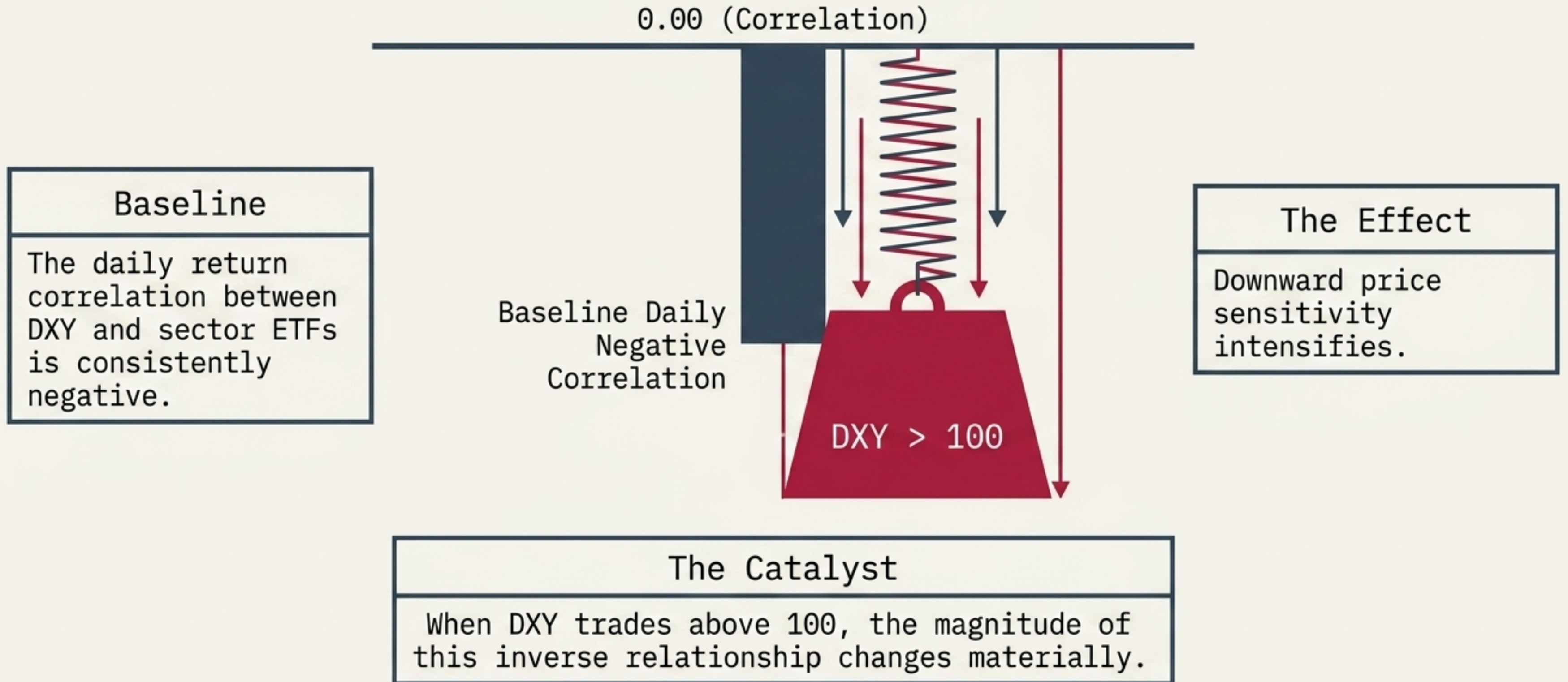
STRONG \$ (signal active)	Reduce / Avoid: XLRE, XLP, XLU, XLC		Rationale: Rate-sensitive, domestic-revenue sectors face amplified headwinds.
STRONG \$ (signal active)	Overweight / Hold: XLE, XLF (63d), XLI, SMH		Rationale: Energy benefits from strong-\$ commodity dynamics; Financials from steeper curves.
WEAK \$ (signal off)	Rotate Back In: XLP, XLRE, XLY (63d), XLC, XLU		Rationale: Rate relief lifts real estate and consumer staples.
TRANSITION (signal firing)	Watch / Prepare: XLE (momentum), XLF (carry)	Reduce: XLC, XLRE	Rationale: Signal onset precedes sector rotation by 5–21 days.

Isolating the 9.9% of Sustained Dollar Strength

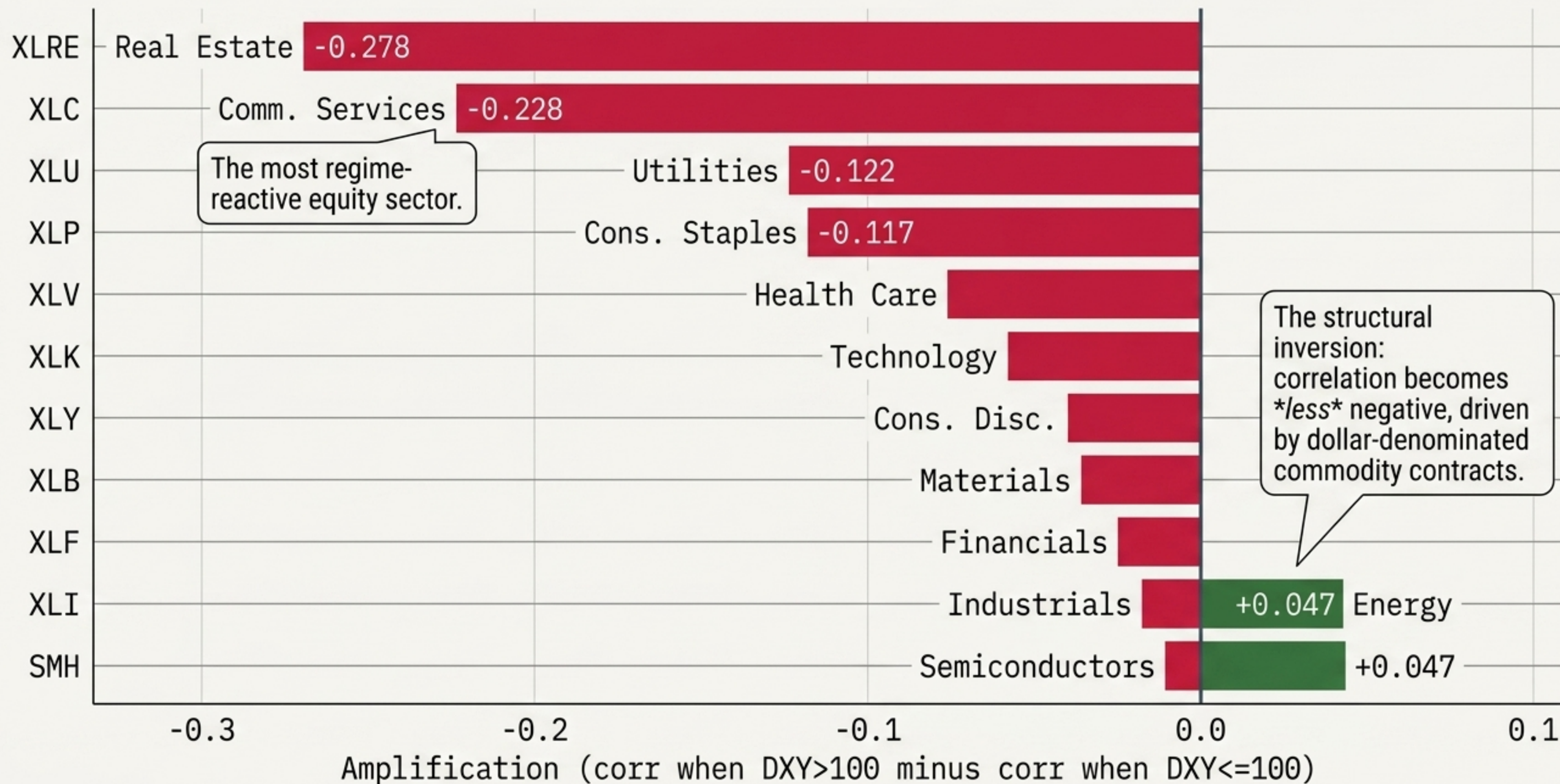


Key Takeaway: This composite approach eliminates false signals from brief DXY spikes, targeting only sustained dollar-strength episodes.

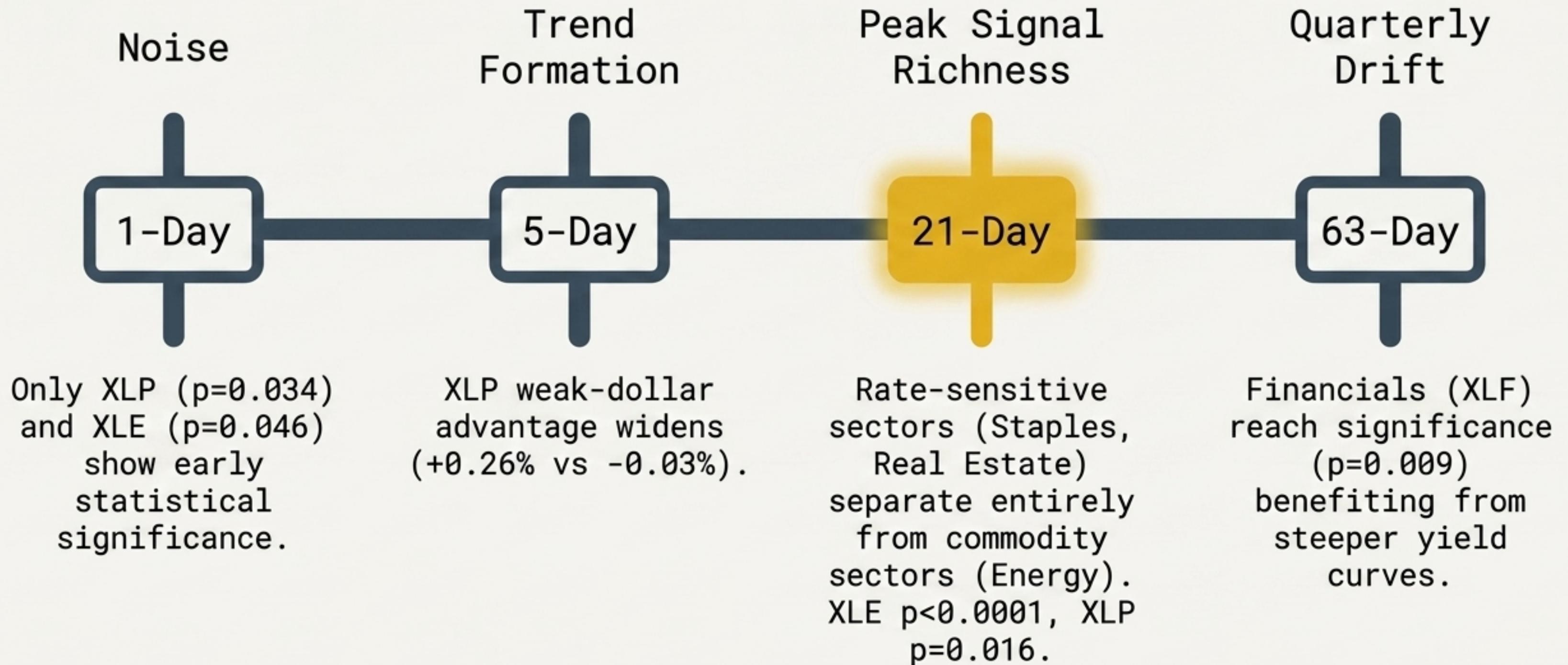
The Regime Amplification Mechanic



Sector Reactivity to the Dollar Regime

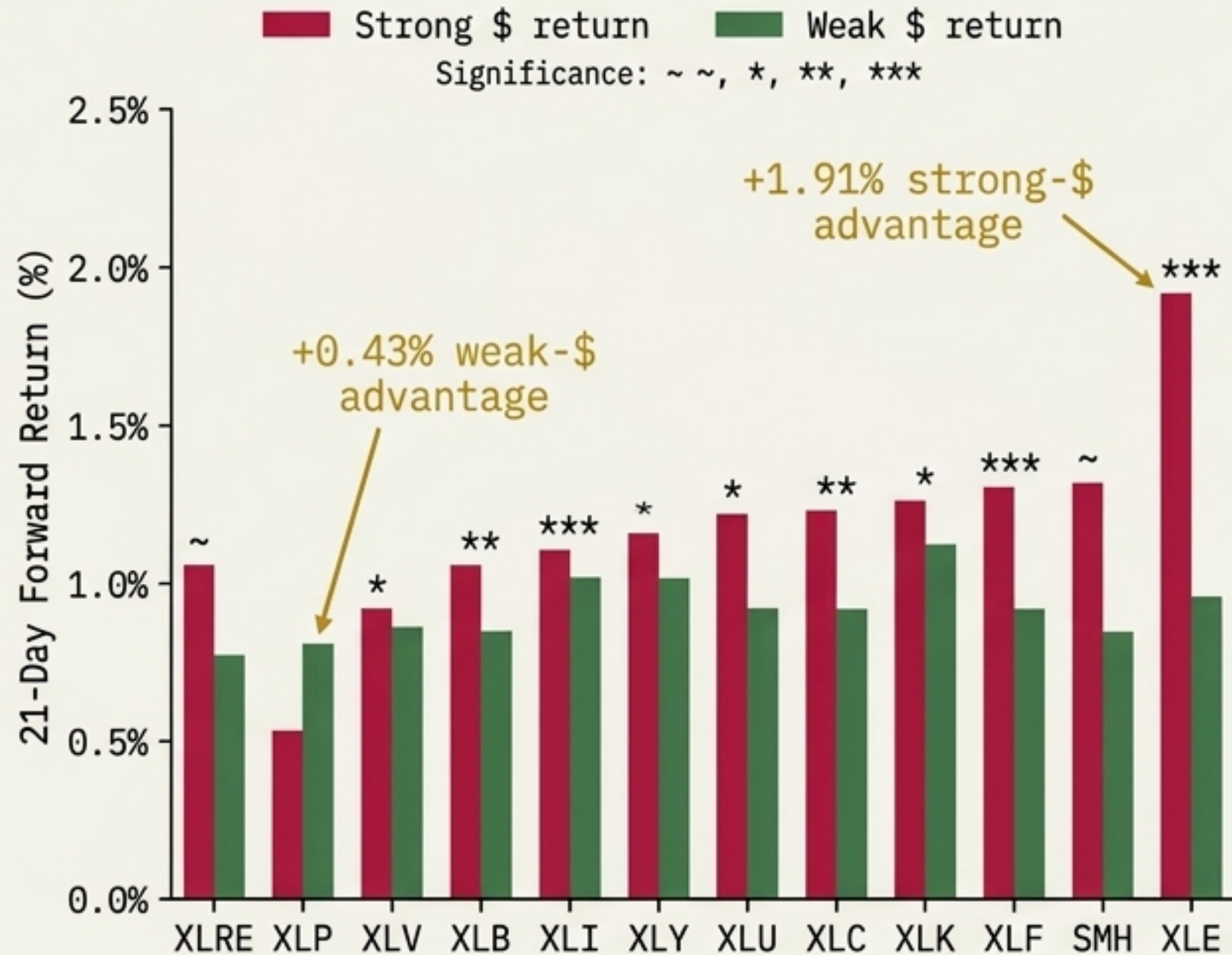


Signal Maturation Requires a 21-Day Horizon

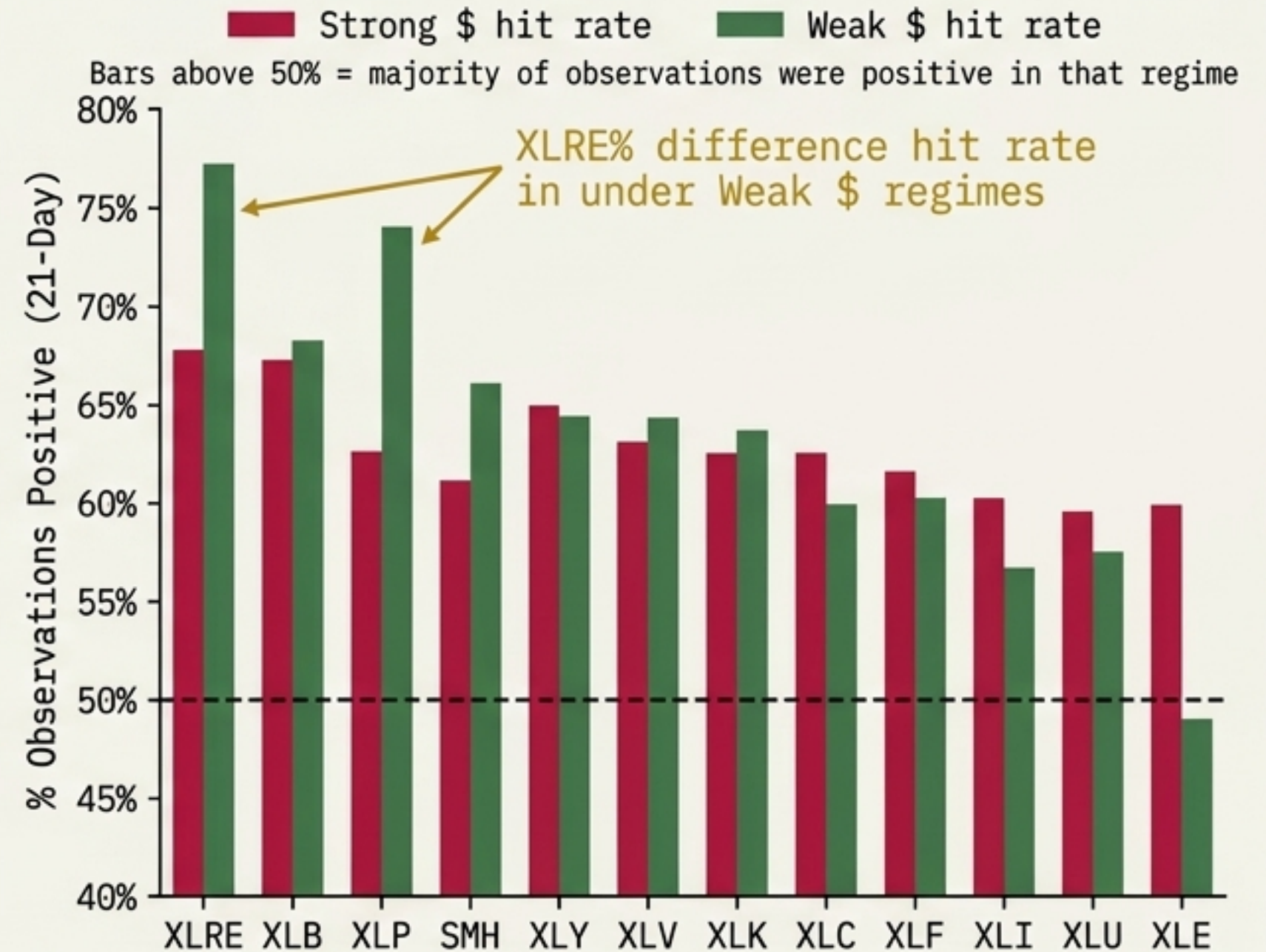


Probability and Magnitude at the One-Month Horizon

Magnitude



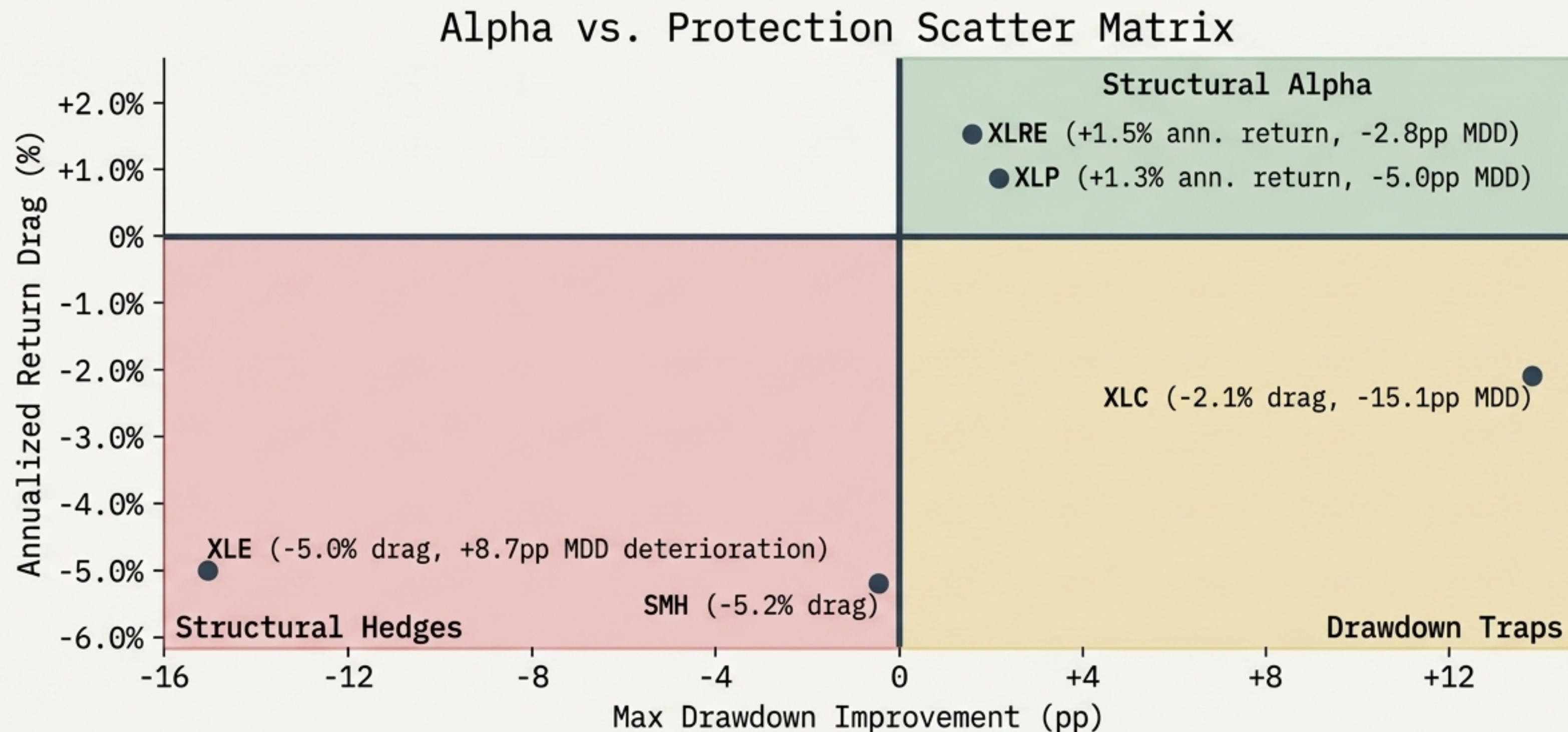
Probability



Terminal Note

XLE: +2.64% Strong \$ vs +0.73% Weak \$ ($p < 0.0001$) | XLP: +0.58% Strong \$ vs +1.01% Weak \$ ($p < 0.01$)

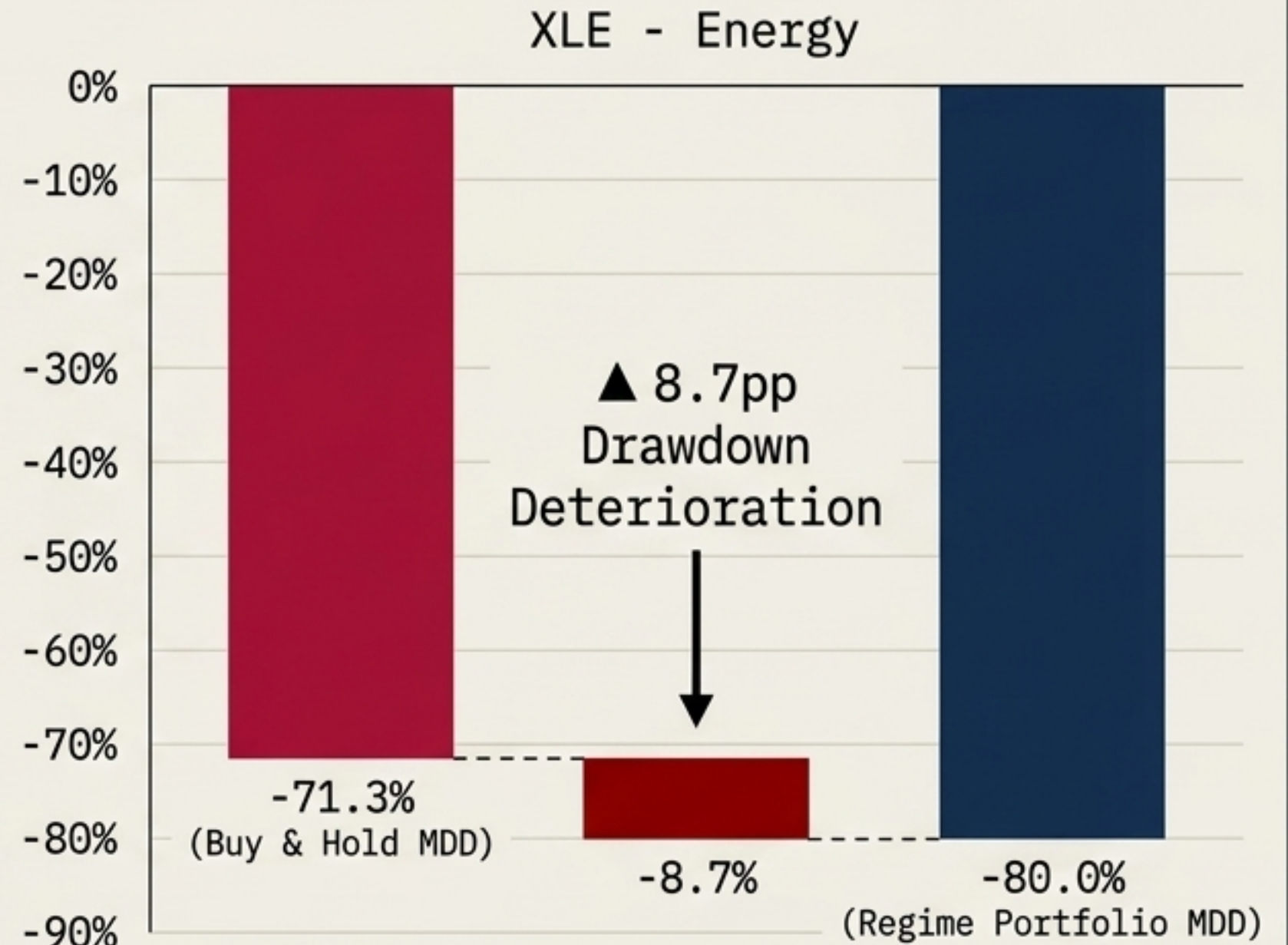
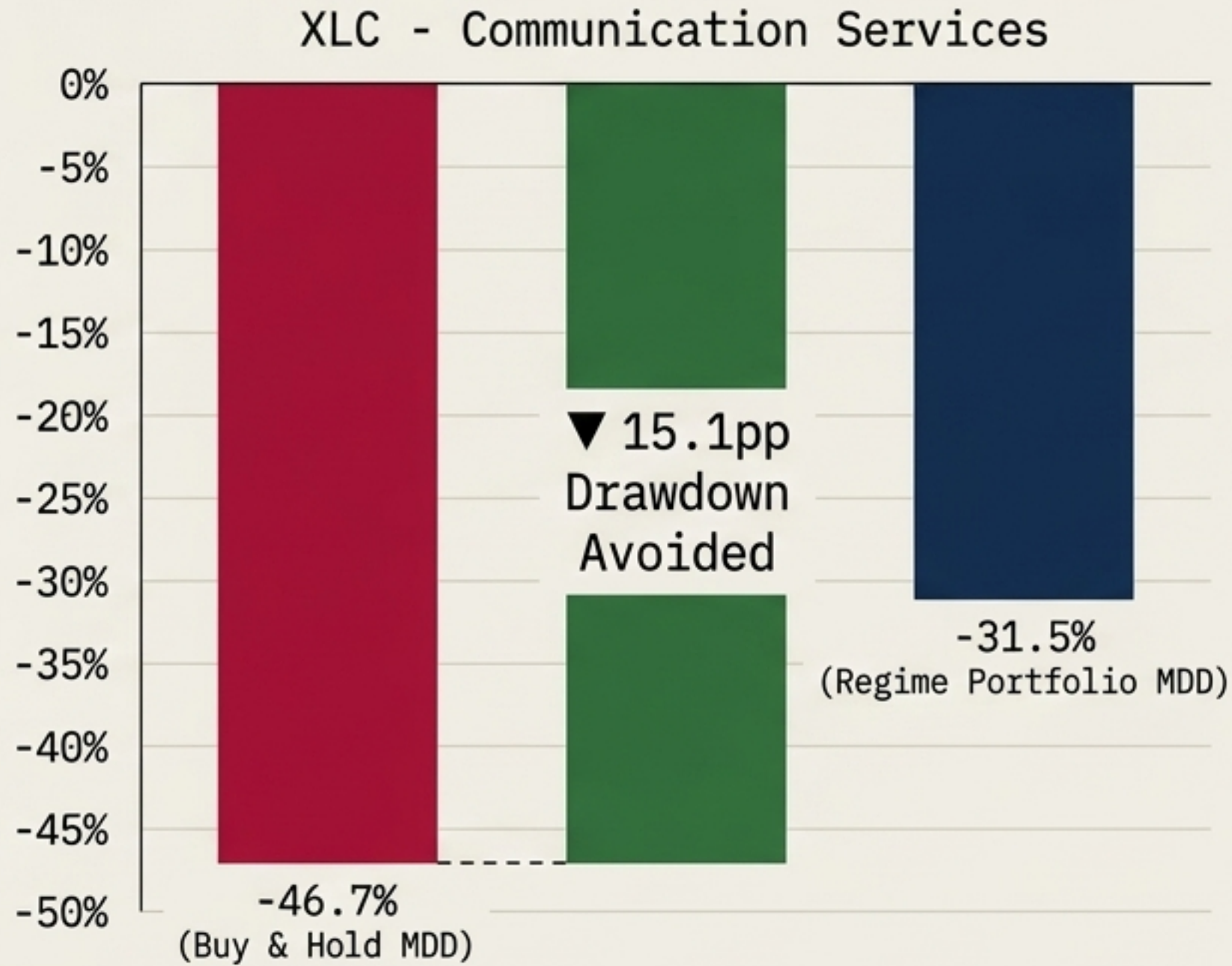
Filtering the Dollar Noise: Alpha vs. Protection



Key Takeaway: The weak-dollar filter (moving to cash during strong \$) generates **pure alpha** for **XLRE/XLP**, acts as disaster insurance for **XLC**, and **destroys value** for **XLE**.

The Capital Preservation Asymmetry

Drawdown Delta Waterfall



Filtering strong-dollar periods saves XLC holders from massive multiple compression, but costs XLE holders their greatest historical rallies.

Sector Archetypes Under Regime Stress

Sector Diagnostic Matrix			
Energy (XLE) The Structural Hedge	Cons. Staples (XLP) The Alpha Generator	Real Estate (XLRE) The Rate Reactor	Comm. Services (XLC) The Drawdown Trap
Amplification: +0.047	Amplification: -0.117	Amplification: -0.278 [Extreme]	Amplification: -0.228
21-Day Conviction: Peak Strong-\$	21-Day Conviction: Peak Weak-\$	21-Day Conviction: Weak-\$ Reliant	21-Day Conviction: Neutral
MDD Delta: +8.7pp (Worse)	MDD Delta: -5.0pp (Better)	MDD Delta: -2.8pp (Better)	MDD Delta: -15.1pp [Massive]
Role: Overweight during DXY>100 to capture commodity rallies.	Role: Core weak-dollar compounding engine.	Role: Highly binary; strictly avoid when composite signal fires.	Role: Strategic avoidance candidate to prevent multiple- compression tail risk.

The 2022 Validation Crucible

YEAR: 2022 | SIGNAL ACTIVE: 41.8% OF TRADING DAYS (Highest in 16-year sample)

PROTECTION

XLP regime portfolio captured **-15.7%** vs buy-and-hold **-32.6%** for the QQQ reference.

INSULATION

XLRE regime portfolio successfully sidestepped the worst of the REIT multiple compression as rate expectations surged.

PRESERVATION

XLC achieved its massive **-15.1pp** drawdown improvement primarily by avoiding the 2022 tech/growth slaughter.

THE EXCEPTION

XLE proved its inverse rule. The Russia/Ukraine commodity spike coincided with dollar strength; filtering XLE here cost investors their best returns of the decade.

Implementation Parameters and Guardrails

01

Terminal Rule: Tail-Risk, Not Daily Alpha

The composite DXY signal is active only ~9.9% of the time. It is a tactical tail-risk overlay, not a primary portfolio construction engine.

02

Terminal Rule: The Energy Mandate

XLE is the most regime-sensitive sector in either direction. Investors utilizing this macro filter must maintain explicit Energy exposure during strong-dollar windows rather than defaulting to purely defensive cash.

03

Terminal Rule: SMA Efficiency

While transaction costs are unmodeled, the sheer magnitude of the Max Drawdown improvements (especially XLC's 15.1pp and XLV's 6.4pp) mathematically justifies regime-based tilts for separately managed accounts even at moderate transaction cost levels.