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Monthly Insights: May Outlook  
**Communication Services Sector**

Patrick Torbert, CMT  
Editor & Chief Strategist

# Sector Price Action & Performance Review: Communication Services Sector



The Communications Services lagged the S&P 500 in February by just >1%. Price regained the 200-day moving average after a rally into month end, but we see the \$100 level for the XLC as a key confirmation to any potential bullish reversal.

Our oscillator studies are bouncing from oversold levels and despite some retracement in 2025, the sector continues to sport a rising 200-day moving average.

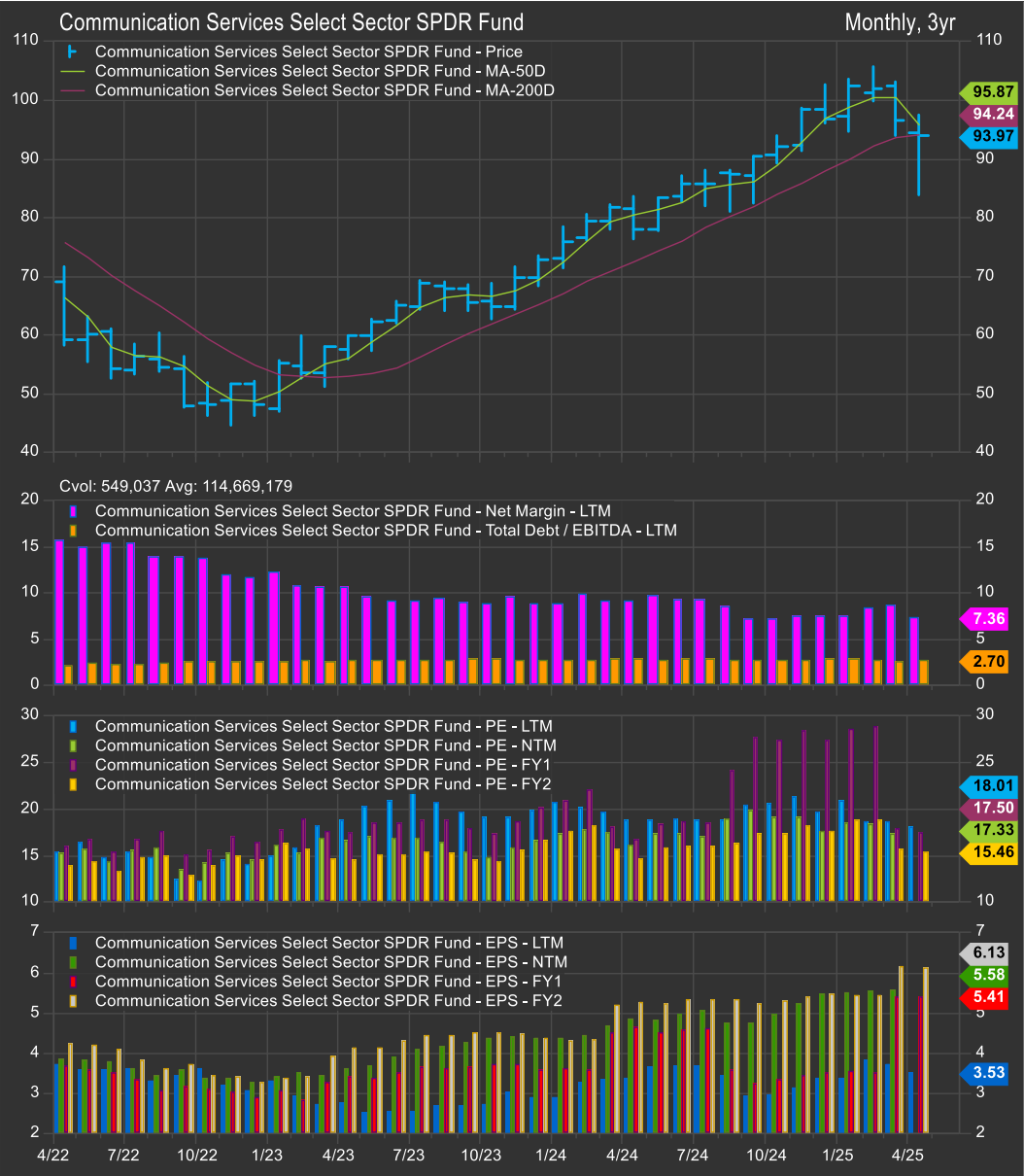
The sector will likely be path-dependent on the direction of equities going forward and we will be following our bullish reversal levels to the upside and watching for positive momentum divergences on any retest of the lows near \$85.

From a macro and policy standpoint, the Comm. Services sector’s primary risk stem from increased overseas regulatory scrutiny given elevated trade tensions. Advertising revenue is key for the sector, soft economic data like today’s negative GDP print are a risk going forward. Further, increased scrutiny over content is a potential headwind if congress moves to enact more oversight on content moderation.

We are taking a glass is half full approach to the sector for May as we see some potential challenges, but we’ve also had a significant discounting of negative news to start 2025. We expect a choppy road ahead, but we expect investors to begin accumulating Mag7 and other Growth names as trade policy negotiations continue

**We start May long the Communication Services Sector with an **OVERWEIGHT** allocation of +2.97% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Communication Services Sector



The chart (left) shows S&P 500 Communication Services Sector Margins, Debt/EBITDA, Valuation and Earnings

Net Margins contracted for the sector through the first wave of earnings reports (chart, panel 2).

FY1 and FY2 Earnings projections were raised in the most recent quarter (panel 4), while forward P/E has contracted accordingly (panel 3)

At its core, the Comm. Services sector is driven by advertising revenue...recession dynamics will be an important pivot there.

# Industry/Sub-Industry Performance and Breadth: Communication Services Sector



**Communication Services Industries** (chart, left): Traditional and Wireless Telecom retraced gains in April as there was some “risk on” rotation after the big drawdown at the beginning of the month

Entertainment stocks led by NFLX TTWO and TKO represents near-term leadership within the sector

**Communication Services Sector Internals** (chart, right): Market internal trends have been better than those of piers with >50% of constituents above their 200-day moving average

Mag7 constituents META and GOOG/L are at chart support and we are expecting accumulation in May

# Top 10/Bottom 10 Stock Level Performers: Communication Services Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
NFLX	Netflix, Inc.	Uptrend	479,040.1	1.67	48.0	0.0	20.8	NT OVERBOUGHT
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	40,719.3	1.22	38.1	0.0	9.9	NT OVERBOUGHT
TKO	TKO Group Holdings, Inc. Class A	Uptrend	13,290.0	1.77	34.3	0.7	9.1	NT OVERBOUGHT
LYV	Live Nation Entertainment, Inc.	Bullish Reversal	30,970.0	1.74	14.1	0.0	6.1	
NWS	News Corporation Class B	Consolidation	16,183.0	1.26	10.6	0.4	5.9	
CHTR	Charter Communications, Inc. Class A	Bullish Reversal	54,226.9	0.39	21.6	0.0	5.0	
GOOG	Alphabet Inc. Class C	Support	1,816,816.7	0.67	-5.7	0.2	4.1	
GOOGL	Alphabet Inc. Class A	Support	1,816,816.7	0.66	-5.9	0.2	4.1	
NWSA	News Corporation Class A	Consolidation	16,183.0	1.11	3.5	0.5	2.3	
PARA	Paramount Global Class B	Bullish Reversal	8,327.4	0.33	8.8	1.1	1.9	
EA	Electronic Arts Inc.	Bullish Reversal	38,042.3	0.78	12.6	0.4	1.5	
T	AT&T Inc	Bullish Reversal	195,964.4	0.52	30.0	2.7	-1.8	
MTCH	Match Group, Inc.	Support	7,333.7	0.55	-11.2	1.0	-2.1	
VZ	Verizon Communications Inc.	Bullish Reversal	181,088.2	0.37	9.9	4.2	-2.6	
META	Meta Platforms Inc Class A	Support	1,209,383.6	0.87	-0.7	0.2	-3.6	
IPG	Interpublic Group of Companies, Inc.	Downtrend	9,236.0	0.37	-11.6	3.6	-4.7	
OMC	Omnicom Group Inc	Support	14,801.0	0.36	-15.6	2.6	-5.2	
CMCSA	Comcast Corporation Class A	Downtrend	126,401.4	0.31	-10.4	2.6	-6.2	
DIS	Walt Disney Company	Support	164,816.1	0.63	-10.1	0.6	-6.8	
TMUS	T-Mobile US, Inc.	Uptrend	274,312.2	0.86	14.8	1.0	-8.5	
FOX	Fox Corporation Class B	Retracement	21,655.5	0.45	19.7	0.8	-8.6	
FOXA	Fox Corporation Class A	Retracement	21,655.5	0.49	19.9	0.7	-9.0	
WBD	Warner Bros. Discovery, Inc. Series A	Consolidation	21,695.5		3.6	0.0	-15.2	NT OVERSOLD

Entertainment stocks outperformed to the point of generating near-term overbought signals despite a corrective tape in 2025

Media names brought up the rear for the month while interactive media names were in the middle of the pack for the month

Absent recession positioning on today's weak GDP report, we expect higher momentum names to be accumulated

*Metrics:*

*(Formulas are in the appendix at the end of the report)*

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

# Economic & Policy Drivers: Communication Services Sector

## 1. Advertising Trends: Cautious Rebound with Pockets of Strength

The digital ad market continues its post-2023 recovery, though **April results and commentary were mixed** across the sector:

**Alphabet (GOOGL)** delivered a strong Q1, with Search and YouTube both growing revenue 10% y/y. Cloud also posted +28% growth, and the company emphasized its **full-stack AI monetization strategy**. Ad performance was strong across financial services, retail, and travel.

**Meta (META)** commentary (ahead of earnings) hinted at improving platform engagement and ramping AI-driven ad delivery, though the company continues to face pressure from **antitrust scrutiny and operational fragmentation**.

**Snap (SNAP)** missed expectations and chose not to provide formal Q2 guidance, citing macro uncertainty and uneven ad demand. Shares were down sharply on the day, reflecting the platform's more discretionary ad base and fragile monetization model.

**Spotify (SPOT)** also reported softer-than-expected premium revenue and ARPU, despite strong subscriber growth and favorable engagement trends.

Overall, **ad budgets are returning**, but with **greater scrutiny on ROI** and variability across platforms. AI integration is a tailwind, but not yet fully offsetting caution in areas like CPG, auto, and small business verticals.

## 2. Spectrum Auctions & Infrastructure Investment: Limited Visibility

No major new developments occurred in April regarding **spectrum auctions**, though investors are increasingly focused on potential updates in H2 2025. The next batch of FCC auctions is likely to focus on **mid-band spectrum**, but timing remains unclear.

**T-Mobile (TMUS)** reported a Q1 earnings beat but saw a miss on **postpaid net adds and higher churn**, suggesting **wireless competition is intensifying**. This raises questions about pricing power and ROI on prior spectrum investments.

Fixed broadband competition is rising from **cable and satellite providers**, with **Charter (CHTR)** delivering a beat thanks to residential strength but seeing softness in commercial and advertising segments.

Expectations for **infrastructure investment moderation**—including the winding down of post-pandemic broadband subsidies—could also impact revenue visibility for legacy telcos and towers.

## 3. Regulation & Antitrust: Escalating FCC and DOJ Scrutiny

April saw a **renewed wave of regulatory scrutiny** across multiple fronts:

The **Department of Justice (DoJ)** and **Federal Trade Commission (FTC)** continued active reviews of **media consolidation, streaming bundling, and exclusive advertising partnerships**.

Reports emerged that the DoJ may challenge **Disney's consolidation of Hulu and FuboTV**, citing competitive concerns in the vMVPD space.

**Google** is still contending with lingering antitrust litigation over ad-tech practices, while OpenAI and Meta face inquiries into **AI and data aggregation dominance**.

The **FCC** intensified enforcement language around **net neutrality and data throttling practices**, though no formal rules have yet been finalized. These policies could **raise compliance costs** or reduce pricing flexibility for ISPs.

This growing regulatory pressure is a **multi-quarter overhang**, especially for platform-centric businesses and ISPs. It introduces downside risk to operating margins and limits M&A flexibility across the sector.

## 4. Global Trade & Digital Taxation: Emerging Frictions

The **re-escalation of US-China tensions** around tech supply chains and digital services has started to pose risks for multinational communication platforms:

**Alphabet and Meta** remain heavily exposed to data sovereignty and content regulations abroad. Several reports in April indicated that **China and the EU are intensifying demands** around **data localization** and **algorithm transparency**.

The **Trump administration's 125% tariff on Chinese imports** has not directly impacted digital ad players yet, but spillover effects are growing:

Apple's reported supply chain shift to India is likely to alter **digital advertising addressability and user attribution**.

Trade pressures have also hit advertisers' margins (e.g., CPG and auto), leading to **pullbacks in nonessential marketing spend**.

Meanwhile, **digital service taxes (DSTs)** in Europe and Latin America are being revived, with **France and Brazil** both proposing new DST structures, potentially slicing into international margins.

## 5. Government Regulation on Speech & Content: A Growing Risk

April featured increasing headlines around **government intervention in speech governance**, especially as the US moves toward the election:

The **White House and Congress** escalated scrutiny of **platform content moderation**, with hearings focused on "algorithmic bias" and **foreign influence operations**. This was especially relevant for Meta, X (formerly Twitter), and YouTube.

**Spotify** and **Google Podcasts** were both drawn into regulatory debate over medical misinformation and AI-generated content, raising the risk of **forced labeling or distribution rules**.

For platforms, this raises compliance and legal costs and **potentially undermines user trust**—a reputational risk not yet fully priced in. It also complicates **AI-generated content rollout**, a major monetization initiative for 2025.

# Appendix: Metric Interpretation/Descriptions

## Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

### *Valuation Multiple Relative to Index*

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

## Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

### *Dividend Yield Relative to Index*

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

## Momentum

Long higher scores, short lower scores

### *Momentum (simple mean)*

**1-Month Excess Total Return (vs. S&P 500) \* 0.1**

*Plus*

**3-Month Excess Total Return (vs. S&P 500) \* 0.3**

*Plus*

**6-Month Excess Total Return (vs. S&P 500) \* 0.4**

*Plus*

**12-month Excess Total Return (vs. S&P 500) \* 0.2**

# Metric Interpretation/Descriptions

## Price Structure

We categorize stock chart patterns into 7 categories

**Uptrend**—Stock exhibits sustained outperformance

**Bullish Reversal**—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

**Consolidation**—Sideways price action, generally a bearish pattern in a bull market

**Retracement**—A sharp move lower in a previously strong chart

**Distributional**—A topping pattern

**Downtrend**—Sustained underperformance, lagging the benchmark by >15% per year

**Support**—Price has reached a level where major bottom formations or basing has occurred in the past

**Basing**—A protracted consolidation at long-term support

## Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

## Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

## Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 10% above 50-day m.a.

Oversold = Stock price > 10% below 50-day m.a.