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Monthly Insights: June Outlook

Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector

Communication Services Select Sector SPDR Fund — Daily
50-day & 200-day Moving Averages
with MACD (12,26,9) & RSI (14)

101.40
96.17
95.40

Communication Services Select Sector SPDR Fund - Total Return Relative to S&P 500 (TR)

108.48

1.66
1.61
-0.05

62.31

Comm Services stocks inflected positively with the broad market in May, but didn't make any headway vs. the broad market.
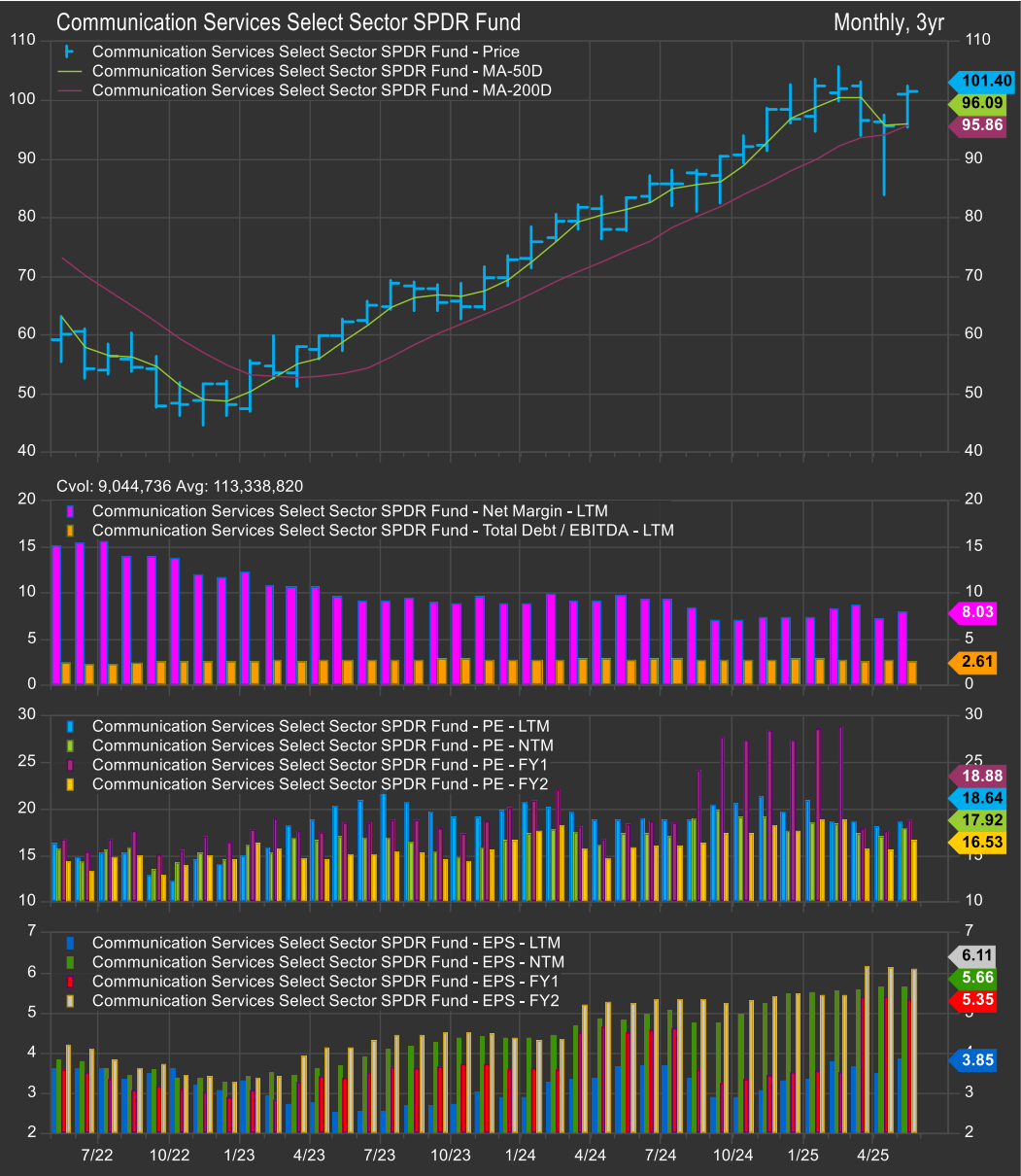
Sector heavyweight Alphabet Co. was a drag on the sector as investors began to bet against the stock on concerns over changing search habits amidst increased AI tool adoption. Legacy telco.'s VZ and T pulled back as well as investors rotated out of high dividend equities and back into Growth and cyclicality. Given that dynamic, Disney Corp. was the leading stock in the sector outperforming the S&P 500 by 16.4% in May.

Global trade continues to drive rotation within US equities. The Trump administration has floated the idea of using tariffs and other trade levers against countries that it feels have punitive digital regulations for US companies. However, App store policies and regulatory concerns are also present domestically with AI and Search company practices under scrutiny.

For the time being, improving sentiment on global trade has ameliorated recessionary concerns and has potential to continue as a tailwind for the industry.

We start June long the Communication Services Sector with an OVERWEIGHT allocation of +0.77% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Communication Services Sector

Communication Services Select Sector SPDR Fund — Monthly, 3yr

Communication Services Select Sector SPDR Fund - Price
Communication Services Select Sector SPDR Fund - MA-50D
Communication Services Select Sector SPDR Fund - MA-200D

101.40
96.09
95.86

Cvol: 9,044,736 Avg: 113,338,820

Communication Services Select Sector SPDR Fund - Net Margin - LTM
Communication Services Select Sector SPDR Fund - Total Debt / EBITDA - LTM

8.03
2.61

Communication Services Select Sector SPDR Fund - PE - LTM
Communication Services Select Sector SPDR Fund - PE - NTM
Communication Services Select Sector SPDR Fund - PE - FY1
Communication Services Select Sector SPDR Fund - PE - FY2

18.88
18.64
17.92
16.53

Communication Services Select Sector SPDR Fund - EPS - LTM
Communication Services Select Sector SPDR Fund - EPS - NTM
Communication Services Select Sector SPDR Fund - EPS - FY1
Communication Services Select Sector SPDR Fund - EPS - FY2

6.11
5.66
5.35
3.85

7/22 10/22 1/23 4/23 7/23 10/23 1/24 4/24 7/24 10/24 1/25 4/25
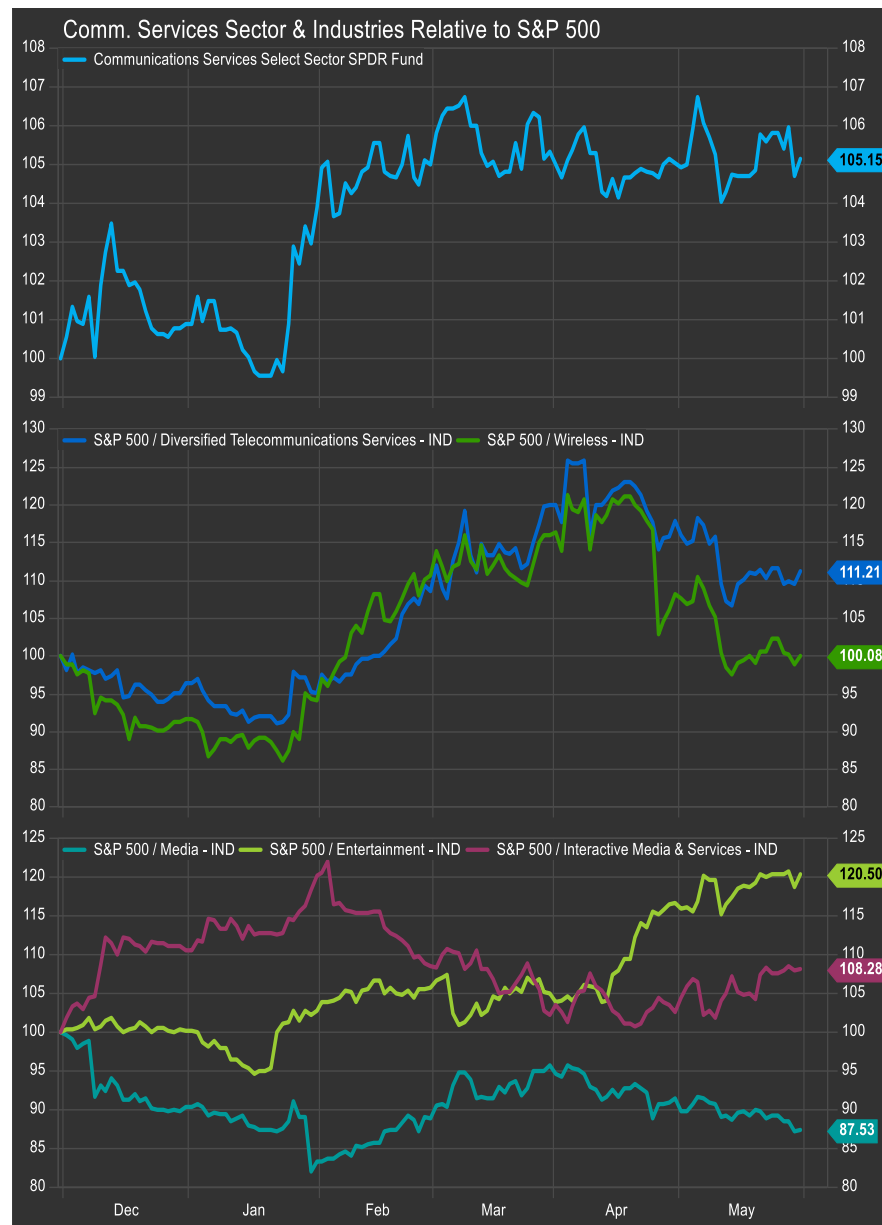
The chart (left) shows S&P 500 Communication Services Sector Margins, Debt/EBITDA, Valuation and Earnings

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) leaving the sector trading at a discount to the S&P in both present and forward terms

6/1/2025

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

Comm. Services Sector & Industries Relative to S&P 500
- Communications Services Select Sector SPDR Fund — 105.15
- S&P 500 / Diversified Telecommunications Services - IND — 111.21
- S&P 500 / Wireless - IND — 100.08
- S&P 500 / Media - IND — 87.53
- S&P 500 / Entertainment - IND — 120.50
- S&P 500 / Interactive Media & Services - IND — 108.28

Market Internals — Daily, 6M
- Communication Services Select Sector SPDR Fund - Price — 101.40
- Communication Services Select Sector SPDR Fund - MA-50D — 96.09
- Communication Services Select Sector SPDR Fund - MA-200D — 95.86
- % of Stocks Above 200-day Moving Average — 68.00
- % of Stocks Above 50-day Moving Average — 68.00
- Advancers — 32.00
- Decliners — -60.00

Communication Services Industries (chart, left):Traditional and Wireless Telecom retraced gains more gains in May while Media stocks also lost ground vs. the S&P 500

The outperformance trend in Entertainment stocks remained intact while META led a constructive bounce in the large cap. Interactive Media Industry

Communication Services Sector Internals (chart, right): Market internal trends have been better than those of most sector 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

6/1/2025

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
DIS	Walt Disney Company	Consolidation	201,383.5	0.74	-0.2	0.5	1.47	16.4
META	Meta Platforms Inc Class A	Bullish Reversal	1,400,499.0	0.98	10.2	0.2	1.12	9.9
WBD	Warner Bros. Discovery, Inc. Series A	Consolidation	24,839.7	#N/A	-0.5	0.0	1.88	8.0
FOXA	Fox Corporation Class A	Bullish Reversal	23,537.6	0.52	16.4	0.7	0.62	3.9
FOX	Fox Corporation Class B	Bullish Reversal	23,537.6	0.48	13.7	0.7	0.69	2.5
GOOGL	Alphabet Inc. Class A	Consolidation	1,944,413.9	0.71	-1.3	0.2	0.85	0.8
GOOG	Alphabet Inc. Class C	Consolidation	1,944,413.9	0.71	-1.6	0.2	0.84	0.3
NFLX	Netflix, Inc.	Uptrend	504,242.4	1.72	33.7	0.0	1.46	-1.2
NWS	News Corporation Class B	Consolidation	16,927.7	1.29	3.7	0.4	1.20	-1.4
NWSA	News Corporation Class A	Consolidation	16,927.7	1.13	-2.1	0.5	1.23	-1.7
PARA	Paramount Global Class B	Bullish Reversal	8,636.2	0.38	6.4	1.1	1.42	-2.8
LYV	Live Nation Entertainment, Inc.	Bullish Reversal	31,555.7	2.23	4.4	0.0	1.38	-3.5
CHTR	Charter Communications, Inc. Class A	Bullish Reversal	54,674.9	0.40	9.2	0.0	1.09	-4.0
MTCH	Match Group, Inc.	Consolidation	7,400.9	0.53	-5.9	1.2	1.45	-4.9
CMCSA	Comcast Corporation Class A	Downtrend	127,667.6	0.31	-12.8	2.5	0.88	-5.5
VZ	Verizon Communications Inc.	Consolidation	182,690.3	0.37	2.0	4.1	0.36	-5.6
T	AT&T Inc	Bullish Reversal	197,015.6	0.52	19.6	2.7	0.55	-6.2
TMUS	T-Mobile US, Inc.	Uptrend	271,712.0	0.84	1.4	0.9	0.59	-7.4
EA	Electronic Arts Inc.	Consolidation	35,819.4	0.70	-3.0	0.3	0.79	-8.5
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	39,989.8	2.22	15.0	0.0	0.81	-8.8
OMC	Omnicom Group Inc	Support	14,459.6	0.35	-20.4	2.7	0.97	-8.8
IPG	Interpublic Group of Companies, Inc.	Downtrend	8,988.3	0.36	-17.1	3.7	1.13	-9.1
TKO	TKO Group Holdings, Inc. Class A	Uptrend	12,813.1	1.66	12.6	0.5	0.89	-10.3

META and DIS paced Comm. Services shares in May with while legacy advertising and Telecom names lagged

Alphabet Co. remains near intermediate-term support ...we remain constructive, but a break-down in price from here would be a technical sell signal

Metrics:

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

<u>Valuation Multiple Relative to Index</u>

Premium (or discount) to benchmark valueation

<u>Momentum</u>

Long higher scores, short lower scores

<u>Dividend Yield Relative to Index</u>

Higher scores preferred when rates and equities are moving lower

<u>Near-term Overbought/Oversold</u>

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

<u>GREEN</u>|<u>RED</u>

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

Economic & Policy Drivers: Communication Services Sector

FCC Regulation & Spectrum Policy

The **FCC's position on spectrum auctions** was in focus after reports that new rounds of mid-band spectrum releases may be delayed until late 2025. This delay impacts longer-term infrastructure planning and 5G deployment strategies, particularly for large telecom operators.

Separately, debate intensified over **"net neutrality" and digital infrastructure rules**, with no major announcements in May but growing expectations that a shift in administration policy could alter broadband pricing regulation or public/private rollout incentives.

Discussions around **spectrum-sharing arrangements** also resurfaced as defense and telecom stakeholders clashed over mid-band utilization, relevant for content delivery networks and fixed wireless services.

Advertising Spending Trends

Meta (META) and **Alphabet (GOOG)** posted better-than-feared results, supported by resilient digital ad demand and improved monetization in AI-powered ad tools.

Meta's results highlighted strong engagement and improving cost controls, though the company warned of tougher comps ahead and signaled caution around macro-driven advertiser pullbacks, particularly from retail and auto sectors.

Alphabet reported **robust Cloud and Search growth**, with advertising revenue proving more resilient than expected despite economic uncertainty.

However, **legacy media and linear ad markets** underperformed, with weak trends cited by multiple entertainment firms. The **strike-impacted production pipeline** and continued cord-cutting weighed on linear programming and local broadcast ad demand.

Antitrust & Regulatory Scrutiny

The **FTC and DOJ continued their scrutiny of large digital platforms**, particularly around app store policies, ad tech vertical integration, and the use of generative AI in monetization models.

The **EU considered implementing a 10% tax on large digital platforms**, targeting companies like **Meta** and **Google**, drawing concern about retaliatory measures or cost pass-through to consumers and advertisers.

Reports noted **US-EU trade negotiations may hinge in part on digital services taxes and antitrust enforcement harmonization**, raising headline risk for multinational platforms.

Geopolitical and Trade-Related Risks

While not the primary driver for Comm. Services, escalating **US-China tensions around digital platforms and app store access** continued to create uncertainty:

Meta and Google both face potential restrictions on app store practices in Asia and Europe.

The White House floated Section 899 of the reconciliation bill, which would allow the US to raise tax rates on companies domiciled in countries with discriminatory digital policies, potentially complicating cross-border digital business operations.

Company-Specific Earnings Highlights

Alphabet (GOOG) delivered strong earnings, with better-than-expected Search and YouTube revenue. Cloud growth stabilized, while AI-driven advertising tools supported engagement and yield. No major margin headwinds were flagged. However, some concerns emerged that AI chatbots could be replacing search engines amidst growing adoption of AI technology.

Meta (META) beat on EPS and revenue and emphasized increased engagement across core platforms. However, management noted that **macro headwinds could weigh on ad budgets in the second half**, and regulatory/legal risk remains a watch item.

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.