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Monthly Insights: July Outlook

Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector



The S&P 500 Communication Services sector outperformed in June, supported by strength in digital platforms, ad-driven models, and AI-enabled infrastructure. The sector gained momentum amid resilient consumer data, improving platform engagement, and a rotation back into growth and tech-adjacent equities as long-end Treasury yields declined.

From a technical perspective the recent breakout above the \$105 level protects to a price target near \$120 or the intermediate term. The MACD study is on an uptrend by signal the RSI study has maintained consistent strength which is typically a bullish overbought condition.

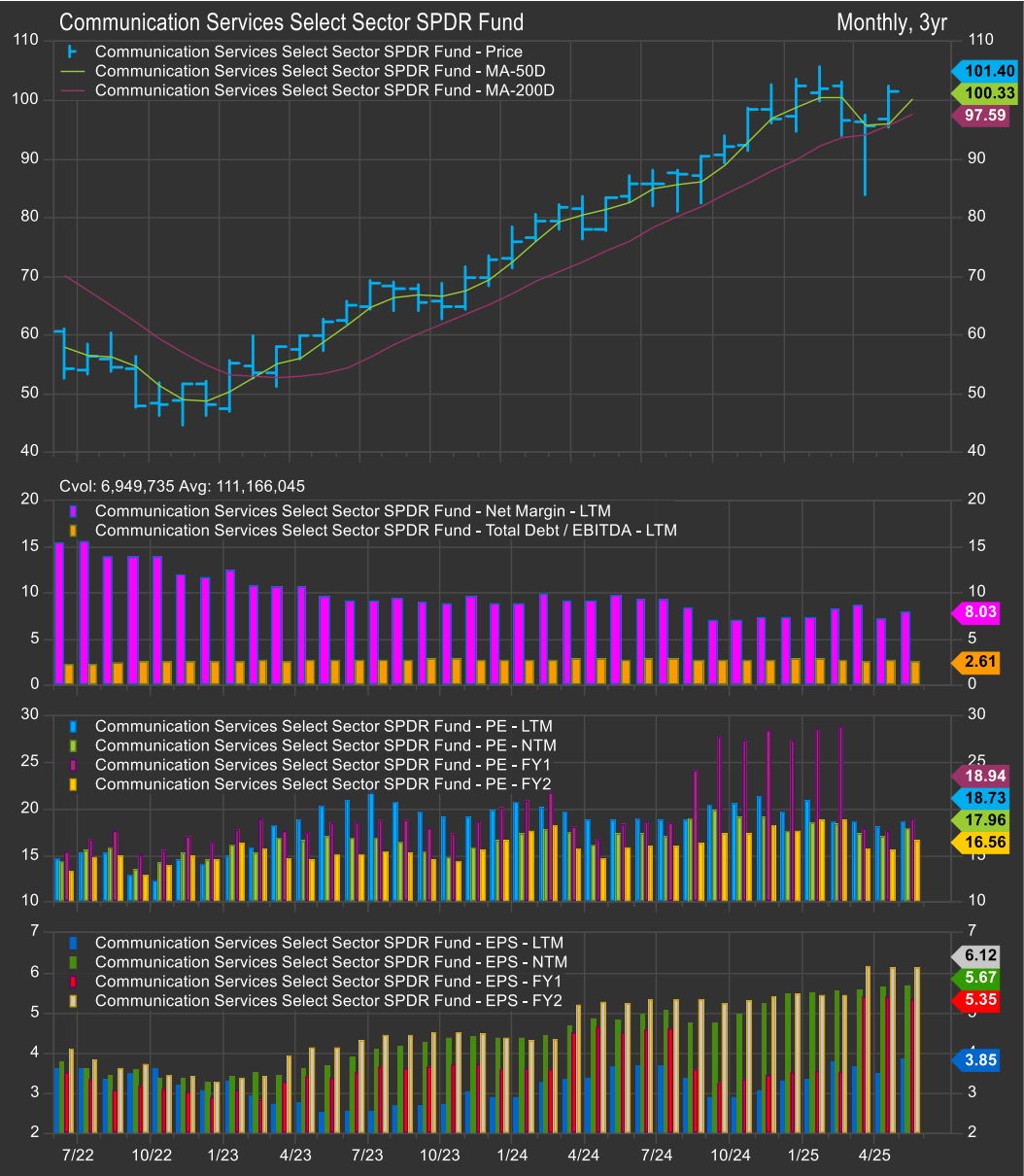
Sector heavyweight Alphabet Co. was a drag on the sector as Along with a legacy diversified telecom names T and VZ, However META and NFLX grew the sector along with strength from Disney and several of the broadcast networks.

Valuation remains a potential tailwind as forward earnings projections are robust and multiple is at a discount to the S&P 500.

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 July long the Communication Services Sector with an **OVERWEIGHT allocation of **+1.98%** 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 appear to have stabilized for the sector through Q2 earnings season (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

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



Communication Services Industries (chart, left): At that industry level growth-focused industries, Interactive Media and Entertainment hooked higher in June while defensive plays which include Diversified Telecom Services and Media plays have continued to retrace gains from earlier in the year

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 constituent GOOG/L is at chart support and Could be on the cusp of a negative pivot

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
META	Meta Platforms Inc Class A	Uptrend	1,592,819.3	1.10	14.6	0.2	1.16	9.1
TKO	TKO Group Holdings, Inc. Class A	Uptrend	14,661.4	1.80	11.2	0.4	0.84	8.2
WBD	Warner Bros. Discovery, Inc. Series A	Consolidation	27,957.0	#N/A	1.8	0.0	1.92	7.8
DIS	Walt Disney Company	Bullish Reversal	219,936.3	0.79	9.9	0.5	1.57	5.2
NFLX	Netflix, Inc.	Uptrend	563,081.9	1.89	25.0	0.0	1.42	4.5
EA	Electronic Arts Inc.	Consolidation	39,635.6	0.76	0.5	0.3	0.78	2.4
LYV	Live Nation Entertainment, Inc.	Bullish Reversal	34,763.5	2.40	7.0	0.0	1.34	2.0
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	42,837.5	2.18	7.2	0.0	0.75	0.8
PARA	Paramount Global Class B	Consolidation	8,853.0	0.39	2.1	1.0	1.43	-0.9
NWSA	News Corporation Class A	Consolidation	17,499.4	1.17	0.0	0.5	1.19	-1.1
GOOGL	Alphabet Inc. Class A	Consolidation	2,012,220.5	0.73	-0.2	0.2	0.86	-1.3
NWS	News Corporation Class B	Consolidation	17,499.4	1.32	2.3	0.4	1.16	-2.0
GOOG	Alphabet Inc. Class C	Consolidation	2,012,220.5	0.73	-1.3	0.2	0.85	-2.0
T	AT&T Inc	Consolidation	202,052.5	0.53	-1.7	2.6	0.54	-2.8
CMCSA	Comcast Corporation Class A	Support	131,540.8	0.32	-9.6	2.5	0.88	-3.0
FOX	Fox Corporation Class B	Bullish Reversal	24,487.8	0.50	-2.9	0.7	0.71	-3.3
FOXA	Fox Corporation Class A	Bullish Reversal	24,487.8	0.54	-2.5	0.6	0.65	-3.8
IPG	Interpublic Group of Companies, Inc.	Support	8,966.1	0.36	-13.0	3.7	1.06	-3.8
MTCH	Match Group, Inc.	Downtrend	7,565.2	0.53	-8.0	1.2	1.43	-3.9
CHTR	Charter Communications, Inc. Class A	Bullish Reversal	55,387.7	0.40	-0.9	0.0	1.08	-6.5
VZ	Verizon Communications Inc.	Consolidation	178,389.7	0.36	-8.6	4.3	0.36	-6.9
TMUS	T-Mobile US, Inc.	Uptrend	267,113.5	0.81	-12.7	1.0	0.55	-7.2
OMC	Omnicom Group Inc	Support	13,923.0	0.33	-16.9	2.7	0.92	-7.7

META again led the sector while Entertainment names provided a further tailwind

NFLX and TKO continued their strong run of outperformance while DIS remains a promising bullish reversal

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)

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

Macro and Market Drivers

Despite weak May labor data (ADP +37K vs. 130K est.) and the ISM Services Index slipping into contraction, **consumer engagement with digital platforms remained strong**, underscoring the sector's partial insulation from macro soft patches.

The steep drop in long-term rates during mid-June supported equity duration trades, bolstering the **valuation-sensitive communications sector**, particularly advertising-heavy and subscription-based platforms.

Key Stock-Level Developments

Meta Platforms (META):

META emerged as a top performer in large-cap tech, driven by several tailwinds:

A **long-term power purchase agreement** with Constellation Energy (CEG) garnered attention as META deepens its investment in **low-cost, nuclear-based energy for AI infrastructure**, estimated at ~\$80/MWh (well below Microsoft's Three Mile Island deal).

Analysts were broadly constructive on META's positioning in **AI-related advertising optimization** and platform retention trends.

META's use of **AI tools for privacy risk evaluation** also signaled an effort to reduce regulatory friction while enhancing automation.

Alphabet (GOOGL):

GOOGL underperformed big tech peers during part of the month despite positive mentions of its **autonomous driving subsidiary, Waymo**, which maintains a lead over TSLA in the space.

Broader investor sentiment was mixed amid fears that **China-related regulatory or retaliatory measures** could weigh on core services and Android-related revenues. However, AI ad targeting capabilities and sustained YouTube engagement remained positives.

AT&T (T):

The stock fell following a major **cybersecurity breach**, with reports indicating that hackers leaked personal data (including decrypted Social Security numbers) of **88 million customers**.

The incident worsened sentiment toward legacy telecoms already under scrutiny due to **capital constraints, low pricing power**, and high dividend payout ratios in a slowing macro environment.

Pinterest (PINS):

Upgraded to "overweight" by JPMorgan in June, with analysts citing **improving monetization, deepening user engagement, and better leverage of full-funnel ad offerings**, including AI-enhanced mid-market targeting.

Performance was further supported by AI integration for **content personalization**, which positioned PINS well in the broader digital ad recovery narrative.

Twitter (not publicly traded but relevant context):

While not directly cited in June, broader discussions of platform regulation and moderation dynamics had indirect effects on **social media sector multiples**.

Policy and Regulatory Landscape

US-China Tensions: The ongoing **trade and tariff uncertainty**, with focus on **rare-earth and digital platform restrictions**, had mixed implications. While META and GOOGL derive relatively limited revenue directly from China, the **broader regulatory climate and supply chain disruptions** (particularly in AI hardware) were flagged as long-term risks.

Reconciliation Bill: While not communication-specific, the reconciliation bill's projected deficit impact heightened concerns about **corporate tax increases or digital ad taxes**, though no such measures were explicitly detailed in June headlines.

Data Regulation and AI Oversight: The sector saw growing mentions of AI safety and **privacy-centric compliance investments**, with META taking the lead by deploying **AI tools for internal product change audits**—a proactive move aimed at preempting regulatory penalties.

July 2025 Outlook: AI Monetization vs. Macro Volatility

1. AI Monetization Remains Core Investment Theme

META, GOOGL, and PINS are well-positioned to benefit from **advertising ROI improvements tied to AI-driven targeting**. Investor attention will focus on July commentary regarding **return on ad spend (ROAS), ad auction dynamics, and AI infrastructure scaling**.

2. Privacy and Security Scrutiny to Intensify

The AT&T breach is a warning signal. Expect investor rotation away from legacy telecoms toward **platforms with stronger data governance and cybersecurity defenses**, particularly if additional regulatory pressure emerges from Washington or state-level bodies.

3. Ad Market and Consumer Resilience in Focus

With **May CPI and jobs data pending**, any material weakening in consumer spending could dent ad budgets. However, the sector has shown **resilience through engagement gains and monetization improvements**—metrics that investors will closely track into earnings.

4. China Policy Risk May Cap Upside

Although direct financial exposure is limited, heightened geopolitical tension and **export control uncertainty (e.g., on AI chips)** may pressure sentiment, particularly if retaliatory measures hit **Android ecosystems or cloud-based services**.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.