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Monthly Insights: August Outlook

# Communication Services Sector

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# Sector Price Action & Performance Review: Communication Services Sector



The S&P 500 Communication Services sector retraced gains in July, though it remains a leading performer over the trailing 12-month period. Sideways consolidation has worked off overbought conditions in our oscillator studies. The rotation to high beta exposures off the April 7<sup>th</sup> market low has finally caught up with the sector.

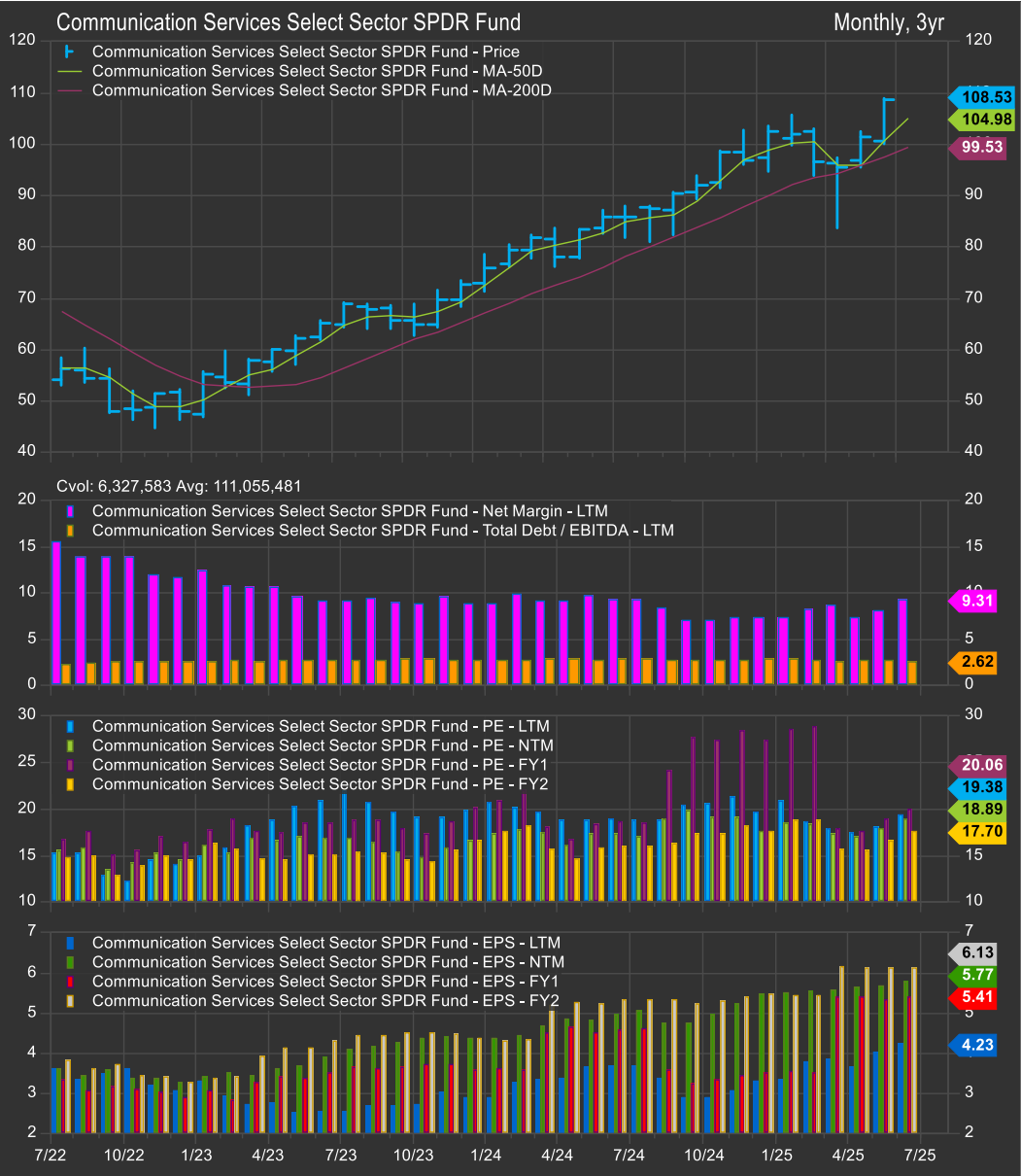
Legacy and Wireless Telecom names have retraced earlier gains. NFLX wasn't able to say the magic words on its earnings call and got dinged for potential operating margin contraction. Alphabet Co. saw buyers defend intermediate support on its chart, buoying the sector.

Bullish tailwinds revolve around AI monetization, resilient advertising spending in a “stronger for longer” bull cycle and strong earnings trends. Potential headwinds include rising costs, stabilizing subscriber trends amid increased competition and economic slowdown. August 5<sup>th</sup> is a major tariff deadline for India and August 15<sup>th</sup> is the next FCC hearing on digital regulation could be impactful for the sector.

For the present, we take a “glass is half full” view on the sector. We expect near-term weakness in NFLX and META to be accumulated and an eventual return of interest in lower volatility stocks.

**We start August long the Communication Services Sector with an **OVERWEIGHT** allocation of **+1.51%** 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 are expanding again 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

There is some concern of earnings regression at the sector level over the intermediate-term based on the consensus view

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



**Communication Services Industries** (chart, left): At the industry level, the sector has seen some profit taking in the Entertainment Industry (NFLX, TKO) while a rebound in Alphabet Corp. shares has boosted the Interactive Media Industry

Continued rotation away from defensive exposures have driven Telecom shares lower

**Communication Services Sector Internals** (chart, right): The sector corrected in July, though internal trends remain firm with the **long-term** and **short-term** series both near 70% positive

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
TTD	Trade Desk, Inc. Class A	Consolidation	37,670.7	3.43	18.0	0.0	1.09	18.6
WBD	Warner Bros. Discovery, Inc. Series A	Bullish Reversal	32,459.9		25.1	0.0	1.84	12.8
MTCH	Match Group, Inc.	Consolidation	8,351.1	0.58	0.8	1.0	1.48	7.8
GOOG	Alphabet Inc. Class C	Bullish Reversal	2,205,292.6	0.77	4.0	0.2	0.88	6.9
GOOGL	Alphabet Inc. Class A	Bullish Reversal	2,205,292.6	0.77	4.5	0.2	0.88	6.4
PARA	Paramount Global Class B	Consolidation	9,340.0	0.41	2.7	1.0	1.27	2.5
IPG	Interpublic Group of Companies, Inc.	Downtrend	9,306.8	0.34	-8.5	3.6	1.00	1.5
OMC	Omnicom Group Inc	Support	14,397.5	0.33	-11.6	2.7	0.80	0.9
VZ	Verizon Communications Inc.	Consolidation	180,079.2	0.36	-6.5	4.2	0.38	-0.7
TMUS	T-Mobile US, Inc.	Consolidation	269,256.5	0.80	-9.0	1.0	0.58	-1.6
LYV	Live Nation Entertainment, Inc.	Bullish Reversal	34,879.3	2.51	-1.6	0.0	1.33	-2.9
NWSA	News Corporation Class A	Consolidation	17,363.6	1.14	-5.2	0.5	1.17	-4.0
NWS	News Corporation Class B	Consolidation	17,363.6	1.29	-5.1	0.4	1.15	-4.2
T	AT&T Inc	Consolidation	195,992.1	0.52	-6.3	2.7	0.58	-4.7
FOXA	Fox Corporation Class A	Bullish Reversal	24,056.6	0.53	-1.5	0.7	0.58	-4.8
DIS	Walt Disney Company	Bullish Reversal	215,567.8	0.77	7.0	0.5	1.58	-5.3
FOX	Fox Corporation Class B	Bullish Reversal	24,056.6	0.49	-3.0	0.7	0.65	-5.3
META	Meta Platforms Inc Class A	Uptrend	1,519,803.6	1.03	2.8	0.2	1.05	-7.9
CMCSA	Comcast Corporation Class A	Downtrend	122,267.4	0.29	-14.8	2.7	0.85	-9.5
TKO	TKO Group Holdings, Inc. Class A	Uptrend	13,745.8	1.60	-8.3	0.4	0.87	-9.5
EA	Electronic Arts Inc.	Consolidation	37,135.5	0.71	-5.6	0.3	0.74	-9.6
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	41,317.0	1.88	-9.8	0.0	0.81	-10.5
NFLX	Netflix, Inc.	Uptrend	496,628.4	1.59	-7.4	0.0	1.37	-15.0
CHTR	Charter Communications, Inc. Class A	Support	38,348.7	0.28	-36.7	0.0	1.11	-33.3

Leading stocks META and NFLX corrected in June setting up potential accumulation opportunities

Alphabet bounced off support and remains a positive input in the Elev8 model boosting the sector

TTD is surfing the index inclusion wave having been a recent addition

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

## AI Integration & Monetization

**Meta (META)** and **Alphabet (GOOGL)** expected to report Q2 earnings **July 30**, with Street consensus projecting:

META: Revenue +22% y/y; AI R&D spend +15% q/q

GOOGL: Ad revenue +12% y/y; Google Cloud growth reacceleration to +26% y/y

**AI spend up** across sector: Meta, Alphabet, Spotify, and Microsoft all cited increased infrastructure investments, primarily for generative AI applications.

Despite the cost ramp, analyst previews from JPMorgan and Goldman highlight that “early-stage AI monetization” through dynamic ad targeting and improved recommendation algorithms is already contributing to click-through rates and ad efficiency.

**Spotify (SPOT)** using AI for music and podcast personalization but flagged **Q2 operating margin decline of 80bps y/y**, partially due to higher AI-related payroll and content-moderation tools.

## Advertising Trends

**Digital ad trends resilient** despite macro uncertainty:

Meta and Alphabet are expected to follow **Alphabet’s strong Q2 ad results**, which showed Search revenue +10% y/y and YouTube +12% y/y.

Analysts project **Meta’s ad impressions up 20% y/y**, with average price per ad flat to slightly higher.

**Spotify Q2:** Total MAUs +23% y/y to 635M, Premium subs +17% to 251M. However, ad-supported revenue up just +10% y/y, below expectations.

**July 30 Consumer Confidence Index** printed at **97.2 vs. 95.5 expected**, reinforcing advertiser optimism around back-to-school and holiday planning.

## Subscriber & Engagement Trends

**Meta daily active users** expected to grow +6% y/y; WhatsApp monetization and Reels engagement in focus.

**Netflix (NFLX)** Q2 results (July 17): Subscriber net adds of 7.2M vs 5.1M expected; password-sharing crackdown showed positive early impact.

**Spotify MAU growth** beat, but **Q3 guidance lowered** due to FX headwinds and weaker-than-expected uptake in Asia and Latin America.

## Regulatory & Trade Policy Developments

**FCC hearings held July 18** explored potential new transparency rules, including:

Platform interoperability

Algorithmic accountability frameworks

Potential ad revenue-sharing mandates for creators and news outlets

**Congressional spectrum and digital revenue hearings scheduled for August 15**, with early drafts indicating possible structural revenue reforms impacting large digital platforms.

**Tariff policy tightening:**

U.S.–China talks in Stockholm (July 29) concluded with **90-day truce extension**, moving the tariff deadline to **October 27**.

**Trump’s Air Force One remarks (July 29)** floated a **20–25% baseline tariff** on Indian goods, under final review for **August 5**.

Companies including **Procter & Gamble (PG)** and **UPS (UPS)** flagged potential **15–55% increases in component costs**, affecting digital service delivery and device margins.

**Meta and Alphabet** have not provided updated tariff impact disclosures, but analysts expect additional shipping and hardware costs to affect Meta’s Portal and AR initiatives, and Google’s Pixel phone program.

**XLC ETF** finished July nearly flat, underperforming S&P 500 by ~80bps.

Defensive sector rotation and muted forward guidance from **SPOT (-11.6% Jul 30)** and **PYPL (-8.7% Jul 29)** weighed on performance.

**July 30 FOMC policy decision** expected to maintain rates; Powell may face questions on employment risks from AI automation.

## August Outlook

**Earnings catalysts:** Meta, Alphabet (Jul 30); Apple, Amazon (Jul 31) to shape near-term direction.

**Regulatory catalysts:** Aug 5 (India tariff deadline), Aug 15 (FCC/Congress hearings on digital regulation).

**Macro catalysts:** Aug 2 (July payrolls), Aug 29 (core PCE inflation), ongoing tariff developments and Powell commentary from **July 31 FOMC press conference**.

# 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.