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Monthly Insights: September Outlook
Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector



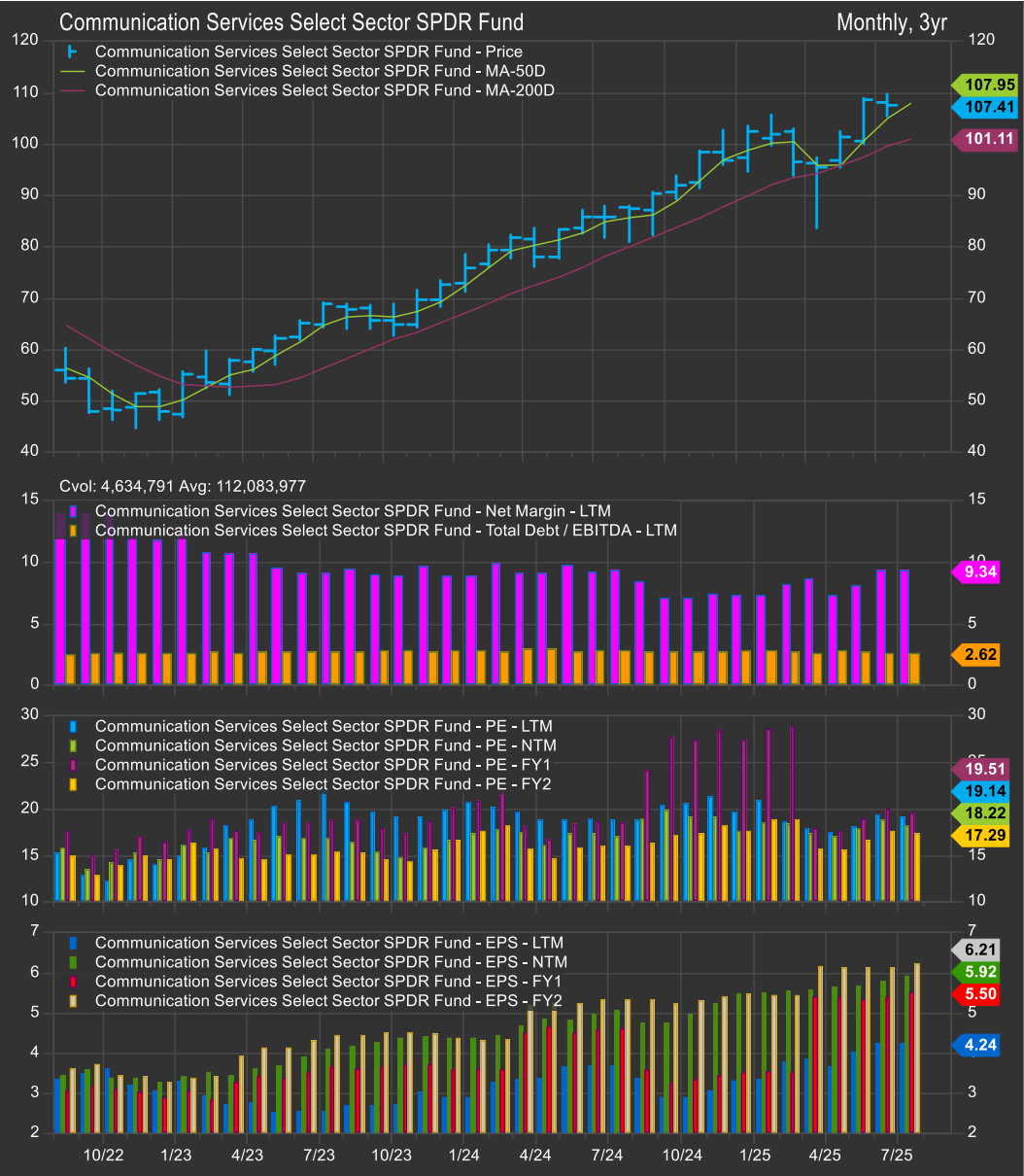
The S&P 500 Communication Services sector perked up in August as investors accumulated near-term weakness in NFLX and GOOG after retracements earlier in the year. The sector remains a bull market leader over longer timeframes but hasn't made significant headway vs. the S&P 500 since February. Dovish signaling from the Fed is a likely bullish catalyst for the sector unless the expectation of easing conditions sparks an inflationary impulse. This isn't our base case, but it was the dynamic the last time the Fed tried to step in to support the "Main Street" economy.

The macro setup is constructive for the sector with US rates moving lower over the past several months and commodities prices remaining muted. Despite some concern over tariffs causing some inflationary dynamics, the negative sentiment overhang in that regard has kept interest rates restrained.

What may be of more concern are the potential for retaliatory digital tax regimes between the US and important trading partners like the EU and China. Rare earths and magnets are also up for scrutiny. Heretofore the buyer has faced down tariff concerns, but the fact remains that regulatory retaliation is emerging as a stick in the ongoing global trade posturing and investors should be aware of those risks. We balance out the aforementioned against a dovish Fed, a benign macro backdrop and a strong long-term trend for the Comm. Services sector.

We start September long the Communication Services Sector with an **OVERWEIGHT allocation of +2.56% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Communication Services Sector

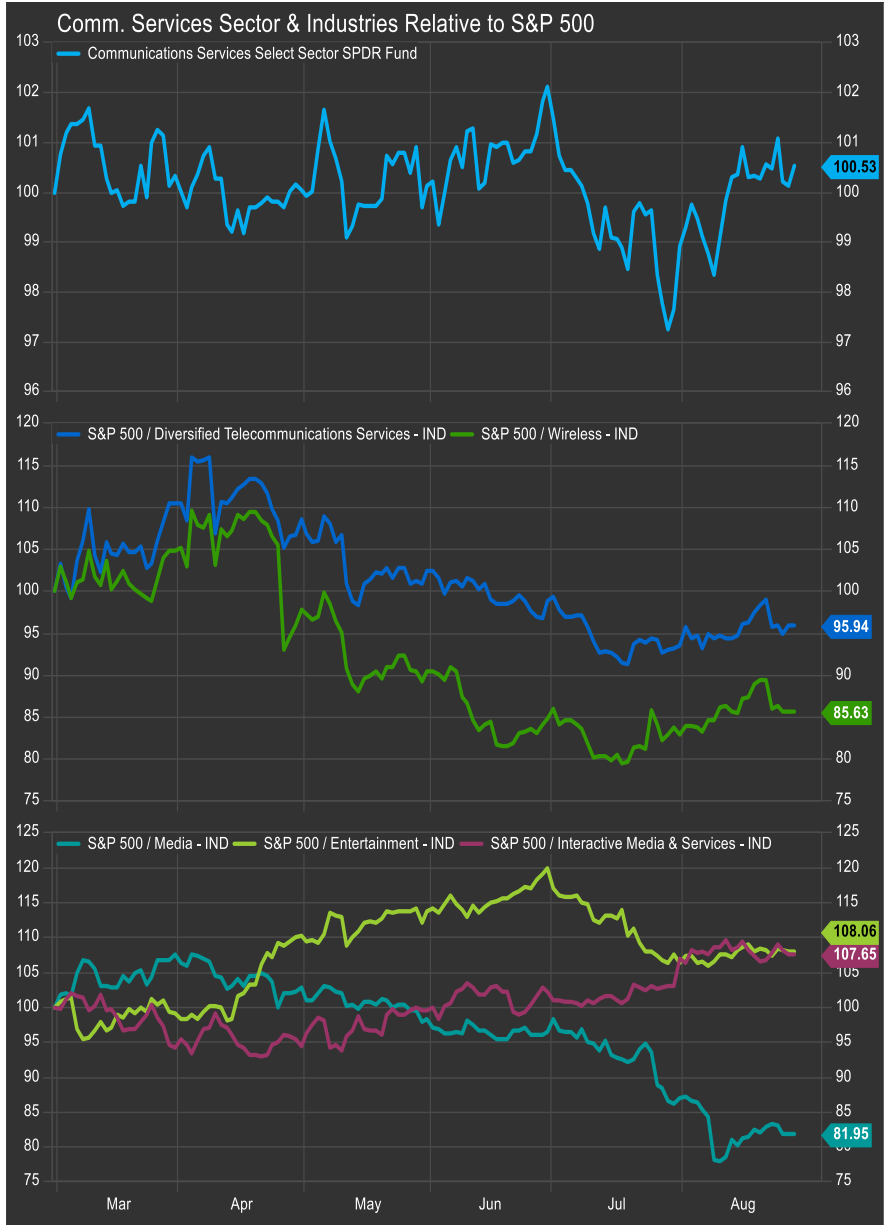


The chart (left) shows S&P 500 Communication Services Sector Margins, Debt/EBITDA, Valuation and Earnings

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

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



Communication Services Industries (chart, left): The sector perked up in August with upside participation broad based at the industry level. Interactive Media gained on the month along with Entertainment after the latter retraced YTD gains in July

Legacy Media remains the weakest trend with names like CMCSA and CHTR remaining under pressure

Legacy Telecoms perked up with T back on a buy rating in our work

Communication Services Sector Internals (chart, right): The sector corrected in July, though internal trends remain firm with the **long-term** series firm...we're expecting the **short-term** series to tick higher in the near-term on easing expectations

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
EA	Electronic Arts Inc.	Bullish Reversal	43,185.8	0.81	12.0	0.2	0.72	12.3
PSKY	Paramount Skydance Corporation Class B	Bullish Reversal	15,767.5	0.45	14.8	0.9	1.42	11.9
TKO	TKO Group Holdings, Inc. Class A	Uptrend	15,248.7	1.71	8.5	0.5	0.84	7.6
MTCH	Match Group, Inc.	Bullish Reversal	9,008.9	0.59	10.7	1.0	1.55	6.8
LYV	Live Nation Entertainment, Inc.	Bullish Reversal	38,404.0	3.11	6.2	0.0	1.30	6.6
GOOGL	Alphabet Inc. Class A	Bullish Reversal	2,337,491.5	0.80	9.3	0.2	0.91	5.8
GOOG	Alphabet Inc. Class C	Bullish Reversal	2,337,491.5	0.81	9.0	0.2	0.91	5.7
FOXA	Fox Corporation Class A	Bullish Reversal	25,312.1	0.56	-1.6	0.6	0.61	3.5
META	Meta Platforms Inc Class A	Uptrend	1,621,039.1	1.03	4.8	0.2	1.22	3.3
FOX	Fox Corporation Class B	Bullish Reversal	25,312.1	0.51	-2.5	0.7	0.68	2.8
T	AT&T Inc	Consolidation	207,790.2	0.54	-0.9	2.5	0.76	2.2
NFLX	Netflix, Inc.	Uptrend	519,897.4	1.63	-0.6	0.0	1.21	2.1
IPG	Interpublic Group of Companies, Inc.	Consolidation	9,859.9	0.35	-0.4	3.3	0.99	1.8
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	42,802.6	1.74	-3.1	0.0	0.80	1.7
TMUS	T-Mobile US, Inc.	Consolidation	282,885.3	0.83	-5.7	0.9	0.58	1.6
VZ	Verizon Communications Inc.	Consolidation	186,656.7	0.37	-4.0	4.1	0.52	1.2
OMC	Omnicom Group Inc	Support	15,199.5	0.35	-4.0	2.5	0.77	1.0
NWS	News Corporation Class B	Consolidation	17,596.0	1.32	-3.4	0.4	1.17	-0.3
NWSA	News Corporation Class A	Consolidation	17,596.0	1.14	-3.8	0.5	1.18	-1.1
CMCSA	Comcast Corporation Class A	Downtrend	124,514.2	0.31	-9.2	2.6	0.96	-1.2
DIS	Walt Disney Company	Bullish Reversal	212,318.0	0.74	-4.4	0.5	1.59	-4.4
WBD	Warner Bros. Discovery, Inc. Series A	Bullish Reversal	30,080.6	#N/A	5.1	0.0	1.90	-11.5
CHTR	Charter Communications, Inc. Class A	Support	36,773.4	0.26	-33.8	0.0	1.26	-14.7
TTD	Trade Desk, Inc. Class A	Support	23,464.4	2.13	-40.0	0.0	1.16	-40.4

With the Fed seen as supportive, many traditional media names are improving while Mega Cap. stalwarts META, GOOG and NFLX remain among the strongest charts in the S&P 500

DIS is looking a little shaky in the near-term and WBD is close to triggering a sell signal in our work, but overall the sector remains strong at the stock level

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

August Recap: Macro & Policy Drivers

Tariffs & Regulatory Pressure

Trump threatened **200% tariffs on China** if it fails to ensure rare earth magnet exports.

Proposed **retaliatory tariffs on countries with digital services taxes**, directly impacting US tech/communication names.

Google proposed **Play Store changes** to avoid EU penalties.

Meta accused of **inflated ad metrics and bypassing iPhone privacy rules** (FT whistleblower).

AI & Monetization Concerns

META reportedly restructuring and downsizing its **AI division** amid spending scrutiny.

Reports that **95% of enterprises adopting AI saw no measurable profit improvement** (MIT study) weighed on AI-related monetization narratives.

OpenAI reportedly exploring **renting out AI infrastructure**, similar to AMZN's AWS model.

Political & Policy Risk

Fed political pressure spilled into Comms coverage, given Trump's public disputes with META, AAPL, and ad regulation.

Sector also tied to broader **tariff-driven inflation narrative**, as companies face higher costs on hardware and services.

Consumer & Financial Backdrop

Advertising & Media Spend

Retail earnings commentary flagged **resilient consumer spend**, a positive for ad-driven platforms.

However, **rising tariffs** and **softer housing data** could weigh on discretionary ad budgets into 2H25.

Balance Sheets & Rates

Communication Services names (META, GOOGL, NFLX, telecoms) benefit from **lower discount rates** if Fed eases.

Market priced **83–90% chance of September cut**, supporting valuations.

Earnings & Company-Specific Trends

Internet & Media

META: Reported to downsize AI division; later reported to halt AI hiring; restructuring flagged as spending reset.

GOOGL: Won a **\$10B cloud contract with META** over six years, strengthening AI/cloud positioning.

NFLX: Not specifically highlighted, but media names mixed in performance.

Telecom

T (AT&T): To acquire spectrum from **SATS** for \$23B; expansion of wireless/5G coverage.

TMUS: Reportedly interested in spectrum not sold to AT&T.

Sector saw tariff-related cost concerns; telecom hardware tied to higher import duties.

Other Media / Platforms

SPOT: Signaled more **subscription price increases** tied to new features.

X (Musk): Sued Apple and OpenAI alleging **anticompetitive practices**.

Robinhood (HOOD): Entered **sports prediction markets**, putting pressure on DKNB/FLUT.

September Outlook

Tariffs: Digital tax retaliation + rare earth supply threats remain a major headline risk. Expect ongoing scrutiny of advertising and tech platform costs.

AI Narrative: META restructuring and MIT study on poor ROI for AI could weigh on sentiment, though GOOGL's \$10B META cloud deal is a bright spot.

Advertising Spend: Consumer resilience supports near-term ad budgets, but tariffs and housing weakness could pressure spending into 4Q25.

Telecoms: Spectrum acquisitions (T, TMUS) provide catalysts, though rising debt burdens from deals are a risk.

Media & Platforms: Subscription price increases (SPOT, NFLX potential) may support revenues, though regulatory pushback possible

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.