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Monthly Insights: November Outlook

Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector

The S&P 500 Communication Services retraced recent gains in October with pressure on Mega Cap. constituents NFLX and META adding to weakness in legacy Media and Telecom industries.

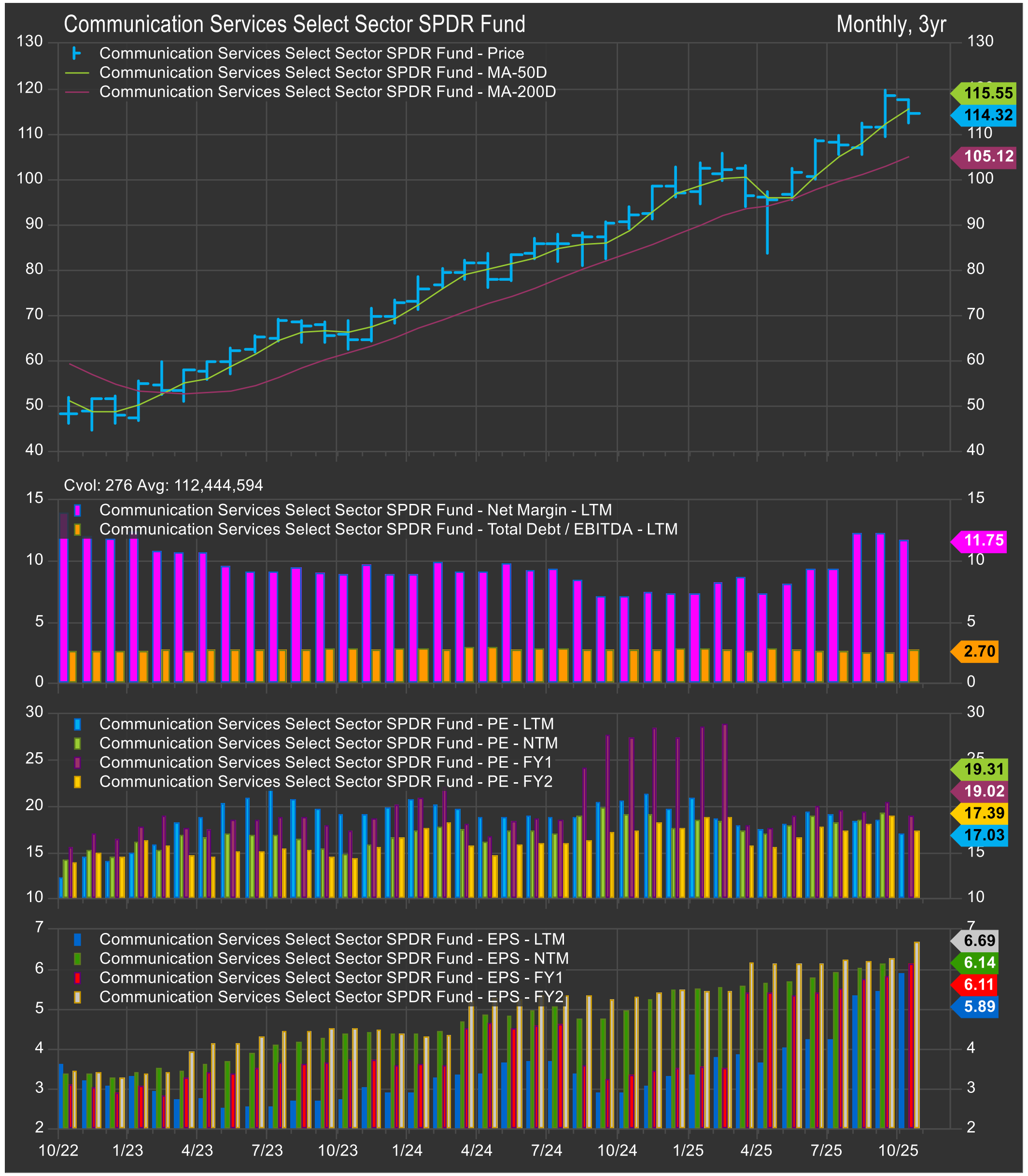
From a technical perspective, the pullback has left the sector near oversold conditions with the MACD study remaining on a tactical sell signal to start November.

Advertising is a potential concern for the sector as tariffs could complicate cross border licensing agreements. Economic softness also foreshadows potential concern as ad sales typically take a hit in late cycle and recessionary environments. Given some additional concerns about increasing AI Cap-ex. for META and a weaker quarter for NFLX, the sector in aggregate is facing headwinds in the near-term.

Our general read across sectors is that consumer focused names are weakening which impacts Comm. Services negatively. With Technology stocks showing continued strong earnings growth, Comm. Services names are coming under pressure when they fall short of the high bar. Our cautious outlook for the sector is reflected in our positioning.

We start November long the Communication Services Sector with a MARKETWEIGHT allocation of -0.80% 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

Recent net margin gains are narrowing in the near-term (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 corrected sharply in October as gains in Interactive Media stocks couldn't overcome broad weakness in legacy telecom and media names.

Communication Services Sector Internals (chart, right): Internal trends deteriorated in October with both the short-term and longer-term series near 6-month low readings.

Like many non-Tech sectors, Comm. Services remains on the ropes from a technical perspective and in need of a bullish catalyst.

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
WBD	Warner Bros. Discovery, Inc. Series A	Bullish Reversal	52,833.0		53.7	0.0	2.22	9.6
GOOG	Alphabet Inc. Class C	Uptrend	3,091,346.9	1.04	27.7	0.1	0.82	9.1
GOOGL	Alphabet Inc. Class A	Uptrend	3,091,346.9	1.04	28.1	0.1	0.83	9.0
META	Meta Platforms Inc Class A	Retracement	1,630,343.9	1.01	1.0	0.2	1.04	-2.4
TTD	Trade Desk, Inc. Class A	Support	22,265.5	1.93	-32.2	0.0	1.70	-2.9
EA	Electronic Arts Inc.	Acquisition	50,091.5	0.90	14.8	0.3	0.73	-4.4
TTWO	Take-Two Interactive Software, Inc.	Bullish Reversal	46,436.7	1.55	-3.2	0.0	0.67	-6.7
FOXA	Fox Corporation Class A	Bullish Reversal	25,605.5	0.55	-2.0	0.6	0.56	-6.8
DIS	Walt Disney Company	Consolidation	198,204.2	0.67	-11.2	0.5	1.73	-7.5
FOX	Fox Corporation Class B	Bullish Reversal	25,605.5	0.49	-4.7	0.6	0.64	-8.2
IPG	Interpublic Group of Companies, Inc.	Downtrend	9,435.0	0.33	-9.2	3.4	1.05	-8.4
OMC	Omnicom Group Inc	Consolidation	14,520.1	0.33	-10.4	2.6	0.82	-8.4
VZ	Verizon Communications Inc.	Downtrend	169,538.4	0.34	-14.6	4.6	0.36	-8.9
CMCSA	Comcast Corporation Class A	Downtrend	105,069.2	0.26	-21.7	3.2	0.77	-12.0
NFLX	Netflix, Inc.	Retracement	466,279.3	1.42	-16.2	0.1	1.47	-12.3
TKO	TKO Group Holdings, Inc. Class A	Uptrend	15,326.7	1.49	-4.2	0.4	1.05	-12.6
LYV	Live Nation Entertainment, Inc.	Consolidation	34,604.6	2.50	-10.9	0.0	1.22	-12.7
T	AT&T Inc	Retracement	179,760.7	0.46	-17.9	2.9	0.58	-13.0
TMUS	T-Mobile US, Inc.	Retracement	240,490.1	0.76	-20.1	1.1	0.53	-13.2
MTCH	Match Group, Inc.	Consolidation	7,707.1	0.49	-14.7	1.3	1.42	-15.3
NWS	News Corporation Class B	Consolidation	15,506.7	1.13	-19.3	0.4	1.20	-15.7
CHTR	Charter Communications, Inc. Class A	Downtrend	33,003.9	0.23	-28.5	0.0	1.03	-16.0
NWSA	News Corporation Class A	Consolidation	15,506.7	0.97	-21.0	0.5	1.22	-19.6
PSKY	Paramount Skydance Corporation Class	Bullish Reversal	16,906.7	0.50	1.5	0.8	1.54	-22.1

Alphabet Corp. kept sector level performance competitive with a strong quarter and bullish guidance, however META faltered towards the end of the month while NFLX and several content streamers saw profit taking as well

Breadth was narrow for the sector as consumer facing companies have faced headwinds from cord-cutting and a continued cost sensitive environment

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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 & Policy Backdrop

Macro conditions remained favorable for the sector. The **Federal Reserve's 25 bp rate cut** and **announcement to end QT on Dec 1** reinforced liquidity conditions and supported long-duration growth valuations. While Chair Powell's hawkish tone ("December cut not a foregone conclusion") capped multiple expansion, easing financial conditions continued to favor platform-based and subscription businesses with recurring cash flows.

On the policy side, the **Trump–Xi framework agreement** reduced headline trade risk and removed some tail pressure from digital-advertising names exposed to Asia. Reports that Washington could halve fentanyl-linked tariffs and defer software export curbs were viewed as positive for U.S. technology and media ecosystems. However, **AI-content regulation** remains a key watchpoint, as policymakers weigh data-privacy and antitrust implications of generative-AI integration across search, social, and content distribution.

Sector Earnings Summary

Q3 results were robust, with **~85% of Communication Services constituents beating EPS estimates** and median EPS growth exceeding +12% y/y. Margins expanded across both interactive and telecom industries as cost discipline, advertising recovery, and data-center demand offset higher AI-capex spending.

Advertising and digital-media trends surprised to the upside. Large platforms reported **double-digit revenue growth** and higher engagement, with AI-recommendation systems and video-format integration boosting conversion rates. Subscription and cloud services within the sector also maintained solid mid-teens growth, while traditional linear and broadband sub-segments continued to decline at a controlled pace.

Industry-Level Dynamics

Interactive Media & Services: This industry remained the largest contributor to sector earnings.

Alphabet (GOOGL) delivered standout results, with Google Cloud backlog up nearly 50% q/q and AI Overviews now reaching more than 2 billion users. Ad-pricing and monetization rates held firm relative to standard search formats, supporting high-teens EPS growth.

Meta Platforms (META) reported continued engagement tailwinds from AI-driven content recommendations, though forward guidance for sharply higher 2026 opex introduced near-term pressure.

Snap (SNAP) and **Pinterest (PINS)** saw improved ad demand as retail and CPG brands reinvested in performance campaigns.

AI-related infrastructure spending—especially on data-centers, GPUs, and language models—remained a notable expense, but investors viewed it as strategically accretive given accelerating user adoption and productivity gains.

Overall, interactive-media names benefited from a **stable ad-revenue environment**, expanding AI-tools adoption, and increasing cross-platform commerce integrations (e.g., PayPal's ChatGPT "instant-checkout" functionality).

Entertainment & Media: Streaming and traditional media names posted mixed outcomes.

Studio consolidation and disciplined content budgets drove modest margin improvement.

Live-events and sports broadcasting maintained strong ratings, offsetting declines in scripted content.

Telecommunication Services: Carrier fundamentals improved modestly, though rate sensitivity and capital intensity limited multiple expansion.

Verizon (VZ) and **AT&T (T)** posted stable earnings, aided by disciplined promotions and network-efficiency initiatives.

Fixed-wireless adoption continued to rise, offsetting wireline losses.

Spectrum-auction spending normalized, easing free-cash-flow pressure.

AI-enabled network-optimization tools are beginning to enhance productivity and energy efficiency, providing incremental cost savings heading into 2026.
Tower and fiber-infrastructure operators cited stable leasing demand from cloud and edge-compute projects, adding a secondary AI-exposure angle to the group.

Tailwinds:

Sustained **AI-driven engagement** across search, social, and video platforms.

Solid ad-demand recovery across retail, travel, and financial categories.

Lower discount-rate environment post-Fed easing supports high-growth valuations.

5G and broadband upgrades driving incremental data-usage growth.

Headwinds:

Elevated **AI-infrastructure costs** pressuring short-term margins.

Regulatory scrutiny over data-privacy, content moderation, and digital-ad market concentration.

Maturing broadband penetration and slower net-add trends in wireless.

High expectations for AI monetization leave little room for disappointment in 2026 guidance.

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.