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Monthly Insights: January Outlook

Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector

The S&P 500 Communication Services sector resumed outperformance in December with investor interest in Media stocks a new bullish dynamic.

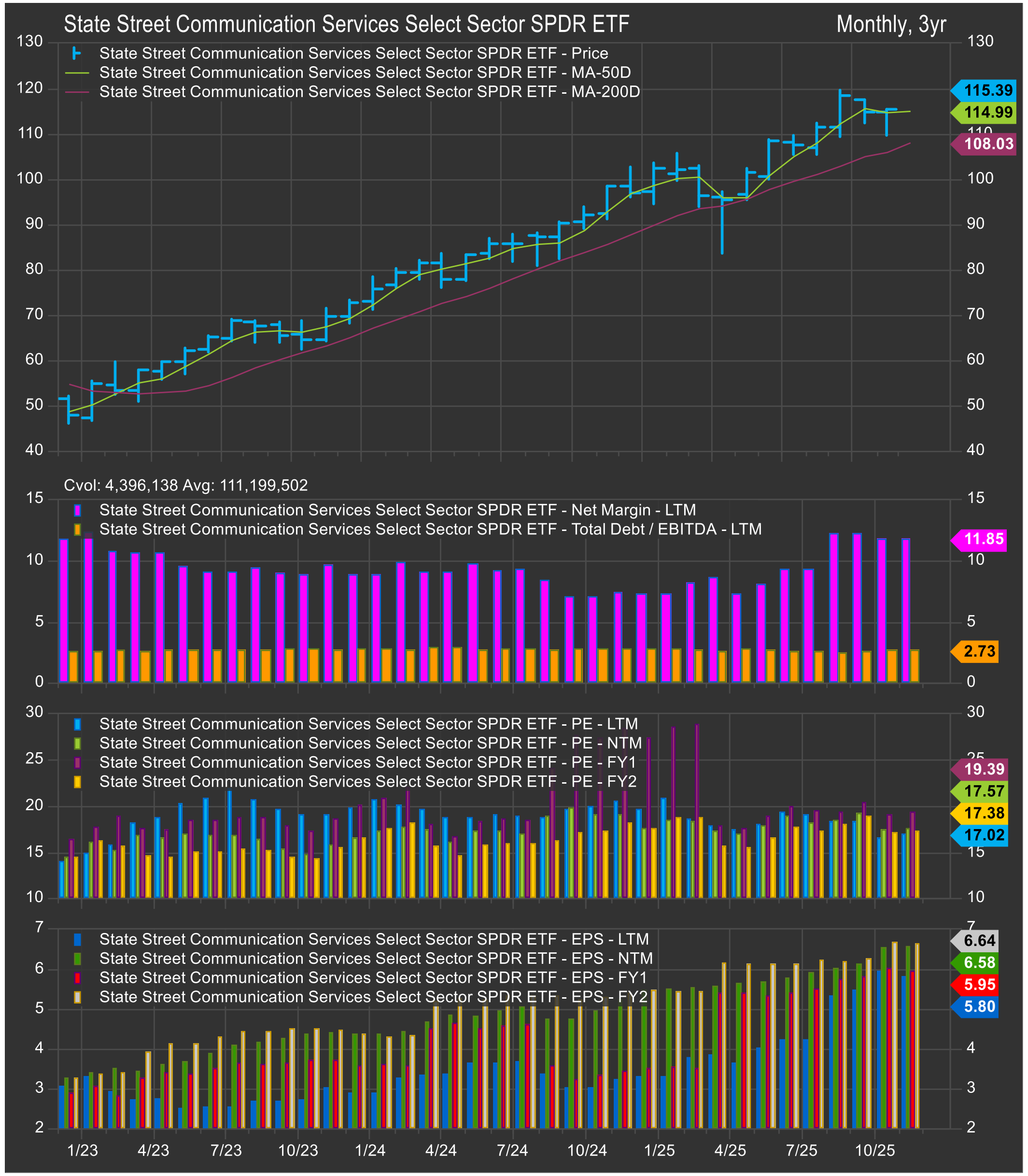
From a technical perspective the sector entered December off a deeply oversold condition and a breadth wash out. Fed easing spurred rotation into structural laggards in Media while Mega Cap. Growth names NFLX, META and GOOG saw selling.

From a fundamental perspective, streaming dynamics have changed dramatically in 2025 as cord cutting has continued to erode the dominance of traditional media, while improving cost discipline has firmed margins among legacy media players.

We think the sector is setup to benefit from renewed investor focus on profitability while we think oversold Growth exposures like META and NFLX are likely to be accumulated eventually if rates stay low and disinflationary dynamics prevail in the beginning of 2026.

We start January long the Communication Services Sector with a OVERWEIGHT allocation of +3.09% 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 and among the cheapest sectors in aggregate.

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

Communication Services Industries (chart, left): Media stocks led in December, but the longer-term performance trends are still driven by the heavyweights in the Interactive Media Industry

Communication Services Sector Internals (chart, right): Internal trends got a boost from Media M&A activity with the **short-term** series moving above 50% for the first time since October

Mega Cap. Growth stocks will likely be the next pivot for the sector.

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	71,353.1		58.5	0.0	2.45	19.0
OMC	Omnicom Group Inc	Consolidation	25,316.2	0.33	3.6	2.4	0.64	12.5
FOXA	Fox Corporation Class A	Bullish Reversal	30,722.3	0.62	13.8	0.5	0.66	11.8
CMCSA	Comcast Corporation Class A	Downtrend	108,561.0	0.29	-6.0	2.9	0.61	11.0
TKO	TKO Group Holdings, Inc. Class A	Uptrend	17,055.9	1.45	5.9	0.4	1.04	10.9
FOX	Fox Corporation Class B	Bullish Reversal	30,722.3	0.55	10.9	0.6	0.73	10.8
DIS	Walt Disney Company	Consolidation	203,862.1	0.67	-2.9	0.8	1.84	9.1
LYV	Live Nation Entertainment, Inc.	Consolidation	33,570.5	2.80	-8.5	0.0	1.44	9.0
CHTR	Charter Communications, Inc. Class A	Downtrend	27,051.7	0.20	-25.2	0.0	0.82	3.5
TTWO	Take-Two Interactive Software, Inc.	Consolidation	47,247.9	1.53	-3.2	0.0	0.79	3.0
NWSA	News Corporation Class A	Consolidation	15,403.6	0.95	-13.9	0.5	1.12	1.3
META	Meta Platforms Inc Class A	Retracement	1,434,553.8	0.89	-11.9	0.2	1.48	0.8
NWS	News Corporation Class B	Consolidation	15,403.6	1.08	-13.5	0.5	1.12	0.3
EA	Electronic Arts Inc.	Bullish Reversal	51,089.2	0.90	2.1	0.3	0.70	0.3
VZ	Verizon Communications Inc.	Retracement	170,680.9	0.34	-7.9	4.5	0.37	-2.5
GOOG	Alphabet Inc. Class C	Uptrend	3,524,198.9	1.12	24.4	0.1	0.93	-2.7
GOOGL	Alphabet Inc. Class A	Uptrend	3,524,198.9	1.12	24.1	0.1	0.93	-2.9
MTCH	Match Group, Inc.	Consolidation	7,646.3	0.48	-9.8	1.3	1.54	-3.7
TMUS	T-Mobile US, Inc.	Retracement	227,224.6	0.71	-15.3	1.2	0.43	-3.7
TTD	Trade Desk, Inc. Class A	Downtrend	16,903.8	1.40	-25.9	0.0	2.13	-3.9
T	AT&T Inc	Retracement	175,605.7	0.45	-13.6	3.0	0.34	-5.7
NFLX	Netflix, Inc.	Retracement	430,218.0	1.17	-25.3	0.3	1.38	-13.4
PSKY	Paramount Skydance Corporation Class B	Retracement	14,467.5	0.53	-23.0	1.0	1.66	-16.3

The bidding war for WBD has benefitted the target and caused price havoc with the potential acquirers as PSKY plunged on rejection

Alphabet, NFLX and META underperformed, but the sector still outperformed in aggregate which has been a rare occurrence in this cycle

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

Economic & Policy Drivers: Communication Services Sector

The S&P 500 Communication Services sector in 2025 reflected a **hybrid exposure to growth, advertising cycles, and evolving regulatory risk**. Sector performance was closely tied to the broader macro environment, particularly **consumer spending trends, corporate advertising budgets, and interest-rate expectations**. While not as duration-sensitive as Information Technology, Communication Services still exhibited valuation sensitivity during periods of rising real yields and hawkish policy repricing.

Policy uncertainty was a persistent overhang. Antitrust enforcement, content moderation rules, data privacy, and digital advertising regulations featured prominently throughout the year. Even when concrete actions were limited, the **threat of incremental regulation influenced sentiment and valuation multiples**, reinforcing a preference for scale, diversification, and strong balance sheets within the sector.

Advertising recovery and digital monetization

A central driver of sector performance in 2025 was the **uneven recovery in global advertising demand**. After a choppy start to the year, ad spending improved alongside resilient consumer activity and better corporate visibility. Digital platforms captured a disproportionate share of incremental ad budgets, benefiting from superior targeting, measurable ROI, and growing adoption of AI-driven ad tools.

That said, growth was **cyclical rather than linear**. Periods of macro uncertainty or tighter financial conditions led advertisers to pause or reallocate spending, contributing to short-term volatility in earnings expectations. As a result, the sector increasingly traded as a **levered expression of economic confidence**, rather than a purely defensive or secular-growth allocation.

Streaming, content economics, and cost discipline

Another defining theme of 2025 was the continued evolution of **streaming and content economics**. Large-cap players emphasized cost discipline, content rationalization, and improved monetization strategies, including pricing adjustments, advertising-supported tiers, and bundling. Investor focus shifted away from subscriber growth at any cost toward **profitability, free cash flow generation, and return on content investment**.

This transition supported improved margins and balance-sheet repair across the sector, even as competitive intensity remained elevated. Markets rewarded evidence that scale advantages and pricing power could translate into sustainable cash flow, rather than continued capital consumption.

Earnings delivery versus valuation dynamics

From a fundamental perspective, large-cap Communication Services delivered **steady earnings improvement in 2025**, supported by advertising recovery, cost controls, and improving monetization across platforms. However, valuation expansion remained constrained by macro crosscurrents and regulatory uncertainty.

The sector tended to outperform during periods characterized by:

- Improving consumer confidence
- Stabilizing or easing financial conditions
- Clearer visibility into advertising and content monetization trends

Conversely, Communication Services lagged during phases of heightened policy risk, weaker sentiment indicators, or renewed concerns about global growth.

Sector performance dynamics

Relative to the broader S&P 500, Communication Services displayed **episodic leadership rather than sustained dominance** in 2025. Performance was strongest when markets favored growth with near-term cash-flow visibility, and weakest when investors rotated toward either defensive sectors or capital-intensive growth areas with stronger secular narratives.

Importantly, large-cap constituents benefited from **diversified revenue streams**, which helped dampen downside risk during periods of macro stress, even as headline volatility remained elevated.

Policy and regulation as a structural constraint

Regulatory risk remained a defining structural feature of the sector. Antitrust scrutiny, digital advertising rules, and content governance debates created a persistent valuation discount relative to other growth-oriented sectors. While large-cap Communication Services companies were better positioned to absorb compliance costs and adapt business models, **policy uncertainty continued to cap multiple expansion**, particularly during election-driven news cycles.

Outlook for 2026

Entering 2026, the Communication Services sector appears positioned for **moderate, fundamentals-driven returns** rather than multiple-driven outperformance:

Advertising trends remain the key cyclical variable. A stable or improving economic environment should support continued growth in digital ad spending, while any macro slowdown would likely pressure near-term revenue expectations.

Profitability and cash flow are likely dominate investor focus. Markets are expected to reward companies demonstrating durable margin expansion and disciplined capital allocation.

Regulatory risk persists. Policy outcomes may remain incremental, but headline risk will likely continue to influence sentiment and valuation.

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.