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Monthly Insights: February Outlook

Communication Services Sector

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Sector Price Action & Performance Review: Communication Services Sector

The S&P 500 Communication Services has seen the rich get richer and the poor remain poor during January as Alphabet Corp. and Meta Inc. had strong months while most stocks in the sector sold off. While we don't think the average media or Telecom stock is worth owning at present, the Growth heavyweights remain some of the steadiest growers and cash-flow producers out there and we think they will continue to anchor the sector in a positive manner.

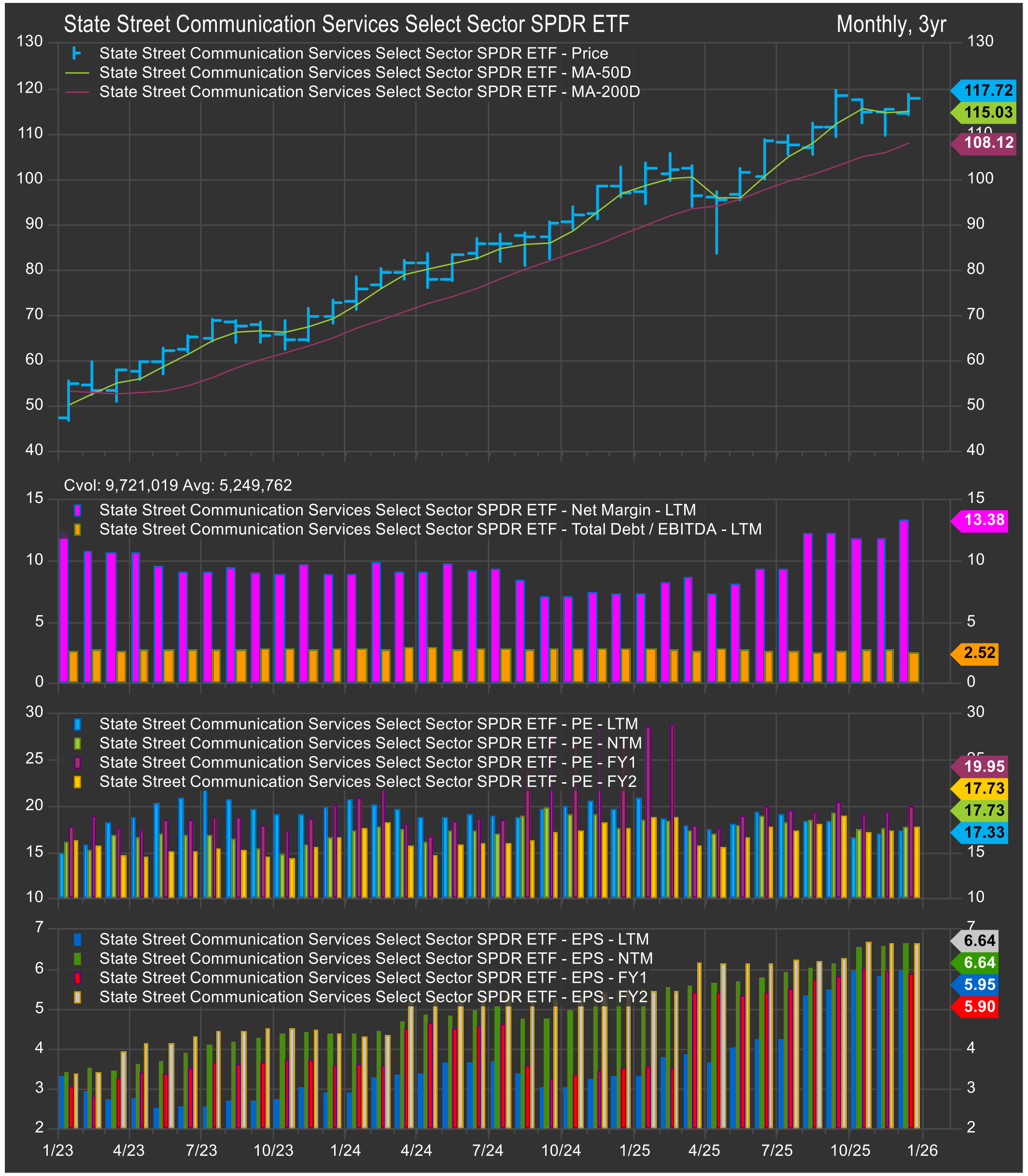
From a technical perspective the sector entered January tracing out a sideways consolidation. Further lackluster price action developed throughout the month until META hit on earnings on the 29th an popped the sector higher.

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. Ad spending is vulnerable to trade way headlines and Geopolitical concerns, but big earnings beats from the sector heavyweights have ameliorated many of these ancillary concerns.

We think the sector is setup to benefit from renewed investor focus on profitability while we think META is poised for a bounce. NFLX is concerning, but with Alphabet co. now perceived as a clear AI winner in the near-term, we think the sector can hold up and outperform in the near-term.

We start January long the Communication Services Sector with a OVERWEIGHT allocation of +1.11% 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. This speaks to the derating of legacy assets over the long-term, but also the fairly reasonable valuations of Growth heavyweights Alphabet, META and to a lesser extent, Netflix.

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

Communication Services Industries (chart, left): Media stocks have come back down after a strong December, but the longer-term performance trends are still driven by the heavyweights in the Interactive Media Industry, and both Meta and Alphabet came through with what investors needed to hear this month.

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, but with the fall-out turning a bit disorderly, the sector has reverted to its usual status of some intriguing mega cap. exposures and not much else to write home about

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
GOOGL	Alphabet Inc. Class A	Uptrend	3,773,172.2	1.18	27.0	0.1	0.78	6.4
CMCSA	Comcast Corporation Class A	Consolidation	103,254.7	0.30	-1.1	2.8	0.57	2.7
NWS	News Corporation Class B	Consolidation	15,682.4	1.09	-4.9	0.4	1.14	1.7
NWSA	News Corporation Class A	Retracement	15,682.4	0.94	-4.6	0.5	1.15	0.6
LYV	Live Nation Entertainment, Inc.	Consolidation	34,257.8	2.72	-4.5	0.0	1.49	0.4
META	Meta Platforms Inc Class A	Bullish Reversal	1,456,419.8	0.89	-9.6	0.2	1.62	0.0
EA	Electronic Arts Inc.	Bullish Reversal	51,006.6	0.89	4.7	0.3	0.64	-1.2
VZ	Verizon Communications Inc.	Downtrend	166,169.3	0.33	-3.0	4.5	0.44	-1.7
T	AT&T Inc	Retracement	170,643.1	0.42	-8.2	3.0	0.31	-2.0
FOX	Fox Corporation Class B	Bullish Reversal	29,968.4	0.54	10.3	0.6	0.62	-2.5
WBD	Warner Bros. Discovery, Inc. Series A	Bullish Reversal	69,345.6		33.6	0.0	2.33	-3.6
MTCH	Match Group, Inc.	Downtrend	7,404.3	0.45	-7.1	1.4	1.43	-3.8
DIS	Walt Disney Company	Retracement	195,596.2	0.64	-6.3	0.8	1.83	-4.3
FOXA	Fox Corporation Class A	Bullish Reversal	29,968.4	0.59	9.3	0.5	0.55	-5.0
OMC	Omnicom Group Inc	Consolidation	24,079.8	0.30	-3.2	2.6	0.71	-5.1
TTWO	Take-Two Interactive Software, Inc.	Consolidation	44,934.5	1.38	-4.7	0.0	0.81	-5.8
TMUS	T-Mobile US, Inc.	Retracement	208,321.9	0.64	-16.9	1.3	0.35	-8.1
TKO	TKO Group Holdings, Inc. Class A	Uptrend	15,380.4	1.38	-0.9	0.4	0.84	-11.2
NFLX	Netflix, Inc.	Retracement	357,363.8	1.07	-23.3	0.3	1.49	-11.2
CHTR	Charter Communications, Inc. Class A	Downtrend	23,657.3	0.17	-27.5	0.0	0.68	-12.5
PSKY	Paramount Skydance Corporation Class B	Downtrend	12,152.7	0.45	-25.3	1.2	1.65	-17.3
TTD	Trade Desk, Inc. Class A	Downtrend	14,033.0	1.14	-40.0	0.0	2.16	-17.6

Mega Cap. Alphabet Corp. has kept the sector afloat as the M&A blow-up around WBD and PSKY has sent media stocks lower in the near-term.

Legacy Telecom has also reverted to laggard status along with NFLX, TMUS and the video game makers

However, META coming through with a strong quarter and renewed AI-based momentum is a big deal.

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

Macro & policy backdrop
Communication Services has traded as a **macro-sensitive growth sector**, not a defensive one, through January. The dominant forces shaping large-cap Communication Services performance have been **rates volatility, USD weakness, AI capex/monetization narratives, and episodic political risk**, rather than traditional sector fundamentals.
The Fed's January **policy hold**, paired with **dovish dissents**, reinforced the view that policy is near the upper end of neutral. That has been constructive for long-duration cash flows *only when yields cooperate*. However, repeated **curve steepening episodes** and intraday rate volatility have capped upside and reinforced dispersion within the sector.
At the same time, the **sharp selloff in the US dollar** acted as a tactical tailwind for globally exposed ad and platform businesses, improving translation effects and sentiment around international demand. That benefit has been real — but fragile — as FX volatility itself has periodically reduced risk appetite for "crowded" growth exposures.
Government policy noise has not disappeared. Instead, it has **shifted from first-order shock risk to second-order drag**:
Tariff threats and geopolitical escalation pressure **advertising budgets** and consumer confidence.
"Main Street > Wall Street" rhetoric keeps **large platforms and telecom** politically exposed even in the absence of concrete legislation.
AI-related scrutiny (data use, content moderation, competition) remains a latent overhang.
Net macro takeaway: XLC works when rates and the dollar are stable. When either becomes disorderly, the sector de-rates quickly.
How policy transmission actually hits the sector
Interest rates
Communication Services trades like a **duration asset** when driven by ad and platform earnings. Any backup in real yields immediately pressures multiples, especially outside the top two or three names.
USD
A weaker USD supports global ad revenue and engagement metrics.
Dollar volatility, however, increases dispersion and punishes secondary names.
AI policy & capital spending
The market has accepted **higher AI capex** — but *only* where monetization is already visible.
"Trust us" AI stories are no longer rewarded.
Political risk
Regulatory pressure does not need to materialize to matter; **headline risk alone caps valuation expansion**.
Telecom and large platforms remain politically "addressable" sectors.

What has been working — and what has not
Interactive Media & Services (core XLC driver)
This remains the **only structurally strong pillar** of the sector.
Platforms demonstrating **direct AI-driven ad ROI, engagement lift, or commerce conversion** continue to attract capital.
AI is being treated as a **margin and revenue accelerator**, not a science project.
However, expectations are elevated. Earnings beats are being rewarded **only when guidance clears a high bar**.
Media & Entertainment
This group has quietly become the **weak link**.
High operating leverage + discretionary ad exposure = downside asymmetry if growth slows.
Subscription fatigue and pricing sensitivity remain unresolved.
In volatile macro tape, this is where investors de-risk first.
Telecom
Telecom has acted as a **conditional defensive**, not a true safe haven.
Stable cash flows and buybacks help when risk appetite fades.
Rising yields and pricing competition quickly negate that support.
Only operators with **clear free-cash-flow durability** are being rewarded.

Outlook into February
If February looks anything like late January — **headline volatility, policy noise, and rate sensitivity** — Communication Services is **unlikely to be a consistent leader** versus Technology or Industrials. It can still outperform cyclicals on select days, but leadership will be **narrow and unforgiving**.
The sector is set up for **continued dispersion**, not broad beta gains.
Interactive Media & Services: Bullish
Stick with platforms showing *current* AI monetization. This is where capital will stay.
Telecom: Cautiously constructive
Works only as a cash-flow story. Avoid anything reliant on multiple expansion.
Media & Entertainment: Bearish
Most vulnerable to macro disappointment, ad softness, and valuation compression.
Bottom line
Communication Services is not a defensive sector — and treating it like one will be costly.
Into February, XLC is best viewed as a **selective growth allocation**, not a broad market overweight. The winners will keep winning, but the sector as a whole is **more likely to lag than lead** if rates back up or political noise re-accelerates.

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.