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Monthly Insights: April Outlook

# Communication Services Sector

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# Sector Price Action & Performance Review: Communication Services Sector



Communication Services was one of the more pressured sectors in March, sitting on the wrong side of the defensive rotation that lifted utilities and select real estate names. The **Communication Services Select Sector SPDR (XLC)** fell alongside the broader S&P 500, with the sector's heavy concentration in mega-cap growth names — **Meta, Alphabet, Netflix, and Disney** collectively represent the majority of XLC's weight — making it acutely sensitive to the tariff-driven growth slowdown and the repricing of risk assets that defined the month.

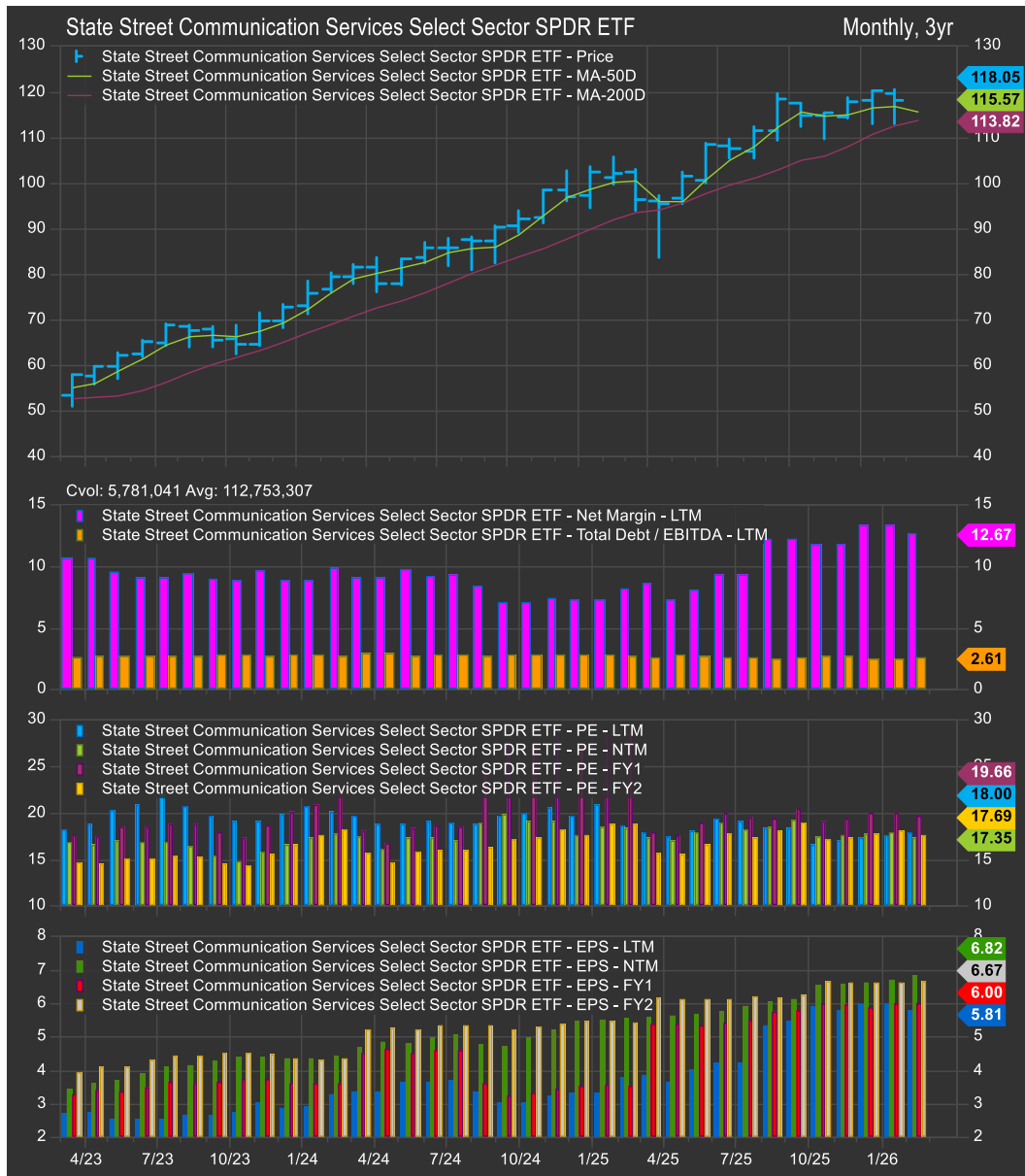
The sector's YTD performance through March was negative in absolute terms and the sector lagged the S&P 500 giving back February gains. The move reflected the market's deliberate rotation away from growth and advertising-dependent business models toward yield and earnings stability. Within the index, performance was highly dispersed: streaming and social media names with strong subscription revenue fared better than pure advertising plays, while traditional media and telecommunications carriers showed relative resilience on their bond-proxy characteristics. In previous similar environments T and VZ outperformed, but the sector had trouble.

XLC's technical posture through March was broadly negative, consistent with a sector under distribution rather than accumulation. The ETF broke below its 50-day moving average in early March and struggled to reclaim it through the balance of the month — a meaningful shift from the uptrend that characterized much of late 2025. It continues to trade above its 200-day moving average, which provides a longer-term structural floor, but the shrinking gap between current price and the 200-day is a caution signal if selling pressure persists into April.

Communication Services enters April as a sector in transition, navigating the intersection of cyclical advertising pressure, structural AI disruption risk, and a macro environment that actively disfavors growth-oriented equities. The near-term setup is challenging — the haven bid that lifted utilities and net lease REITs does not apply here, and the sector's earnings trajectory is more vulnerable to the tariff-driven slowdown than its defensive-sector peers. That said, the medium-term fundamental case for Meta and Alphabet remains intact: both are among the most profitable companies in the world, with AI capabilities that could accelerate rather than erode their competitive moats if monetization executes. Netflix is the clearest structural compounder in the sector on a risk-adjusted basis. Telcos (AT&T, Verizon) offer income stability for defensive-oriented investors who have exhausted utility and net lease allocations. The sector is not a tactical buy in April's macro environment, but selective positioning in quality names at post-correction valuations offers an interesting medium-term entry point for patient capital.

**We start April out of the Communication Services Sector with an **underweight allocation of -10.17%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Communication Services Sector

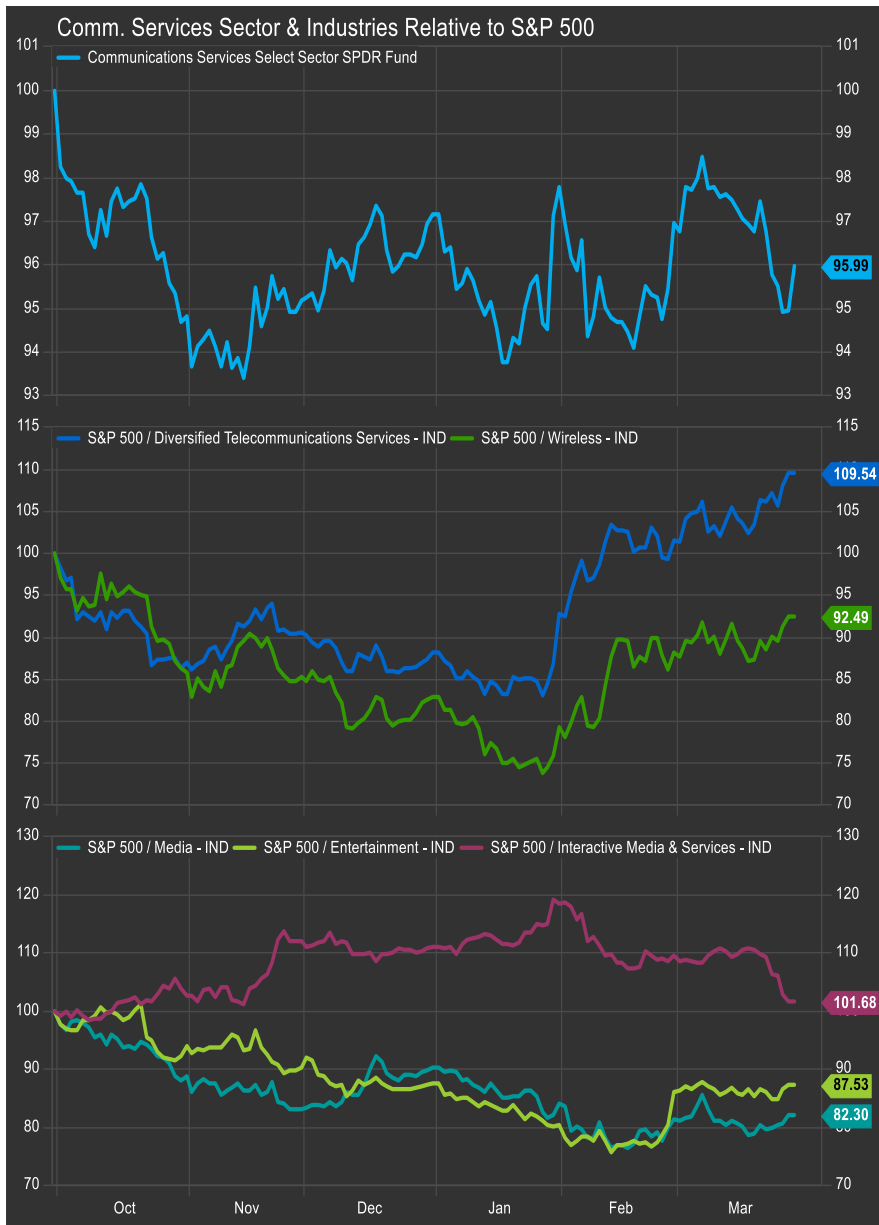


The chart (left) shows S&P 500 Communication Services Sector Margins, Debt/EBITDA, Valuation and Earnings

Net margins pulled back on the latest sector level reading (chart, panel 2).

However, consensus forward earnings projections have narrowed for the sector. That said, forward earnings growth is not projected to be robust relative to other sectors.

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



**Communication Services Industries** (chart, left): Continued correction in Interactive Media heavyweights (META, GOOGL) has been a drag on the sector despite strength from legacy telco's and Wireless (TMUS)

**Communication Services Sector Internals** (chart, right): Internal trends are back on the floor.

# 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
VZ	Verizon Communications Inc.	Bullish Reversal	207,636.6	0.40	18.7	3.80	0.40	24.0
T	AT&T Inc	Consolidation	195,106.1	0.48	6.4	2.66	0.21	17.6
CHTR	Charter Communications, Inc. Class A	Consolidation	28,587.1	0.20	4.7	0.00	0.56	17.2
TMUS	T-Mobile US, Inc.	Consolidation	240,933.3	0.80	2.5	1.29	0.30	17.0
LYV	Live Nation Entertainment, Inc.	Consolidation	36,068.2	3.59	6.9	0.00	1.42	5.1
CMCSA	Comcast Corporation Class A	Consolidation	110,486.9	0.33	10.2	2.64	0.44	4.5
OMC	Omnicom Group Inc	Consolidation	25,667.9	0.30	6.4	2.67	0.69	3.1
TKO	TKO Group Holdings, Inc. Class A	Uptrend	16,353.5	1.50	5.2	0.47	0.65	0.6
WBD	Warner Bros. Discovery, Inc. Series A	Bullish Reversal	71,668.7		37.9	0.00	1.84	0.6
MTCH	Match Group, Inc.	Consolidation	7,407.9	0.46	-8.7	1.39	1.15	0.4
META	Meta Platforms Inc Class A	Consolidation	1,429,736.2	0.86	-4.8	0.20	1.49	-1.3
EA	Electronic Arts Inc.	Bullish Reversal	50,546.2	0.88	0.0	0.25	0.63	-1.4
NFLX	Netflix, Inc.	Retracement	349,172.8	1.03	-21.4	0.27	1.38	-4.5
GOOGL	Alphabet Inc. Class A	Uptrend	3,523,960.9	1.07	3.7	0.18	0.72	-5.1
DIS	Walt Disney Company	Downtrend	186,098.2	0.61	-5.8	0.86	1.65	-5.9
NWSA	News Corporation Class A	Downtrend	13,592.0	0.81	-14.9	0.56	1.09	-12.7
PSKY	Paramount Skydance Corporation Class B	Downtrend	10,888.1	0.41	-31.9	1.18	1.31	-13.7
NWS	News Corporation Class B	Consolidation	13,592.0	0.90	-17.7	0.50	1.09	-16.1
TTWO	Take-Two Interactive Software, Inc.	Retracement	38,388.7	1.09	-17.3	0.00	0.79	-16.2
FOX	Fox Corporation Class B	Consolidation	22,011.3	0.40	-19.6	0.73	0.55	-24.8
FOXA	Fox Corporation Class A	Consolidation	22,011.3	0.43	-21.1	0.67	0.47	-26.3
TTD	Trade Desk, Inc. Class A	Downtrend	11,078.4	0.89	-40.9	0.00	2.14	-31.7

Media stocks led the sector lower while heavyweights GOOGL and META continue to be a drag as well. Traditional Telco's outperformed.

Cable operators saw inflows, while advertising adjacent concerns began to price in recession risk.

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

# Economic & Policy Drivers: Communication Services Sector

**Equity Market Stress — A Headwind, Not a Haven** Unlike utilities or net lease REITs, Communication Services does not attract a haven bid in risk-off environments. The sector's largest constituents are structurally growth-oriented, advertising-dependent, or both — characteristics that make them targets for de-risking when growth expectations compress. Meta and Alphabet together account for a substantial portion of XLC's weight, and both derive the majority of their revenue from digital advertising, which is among the first budget lines cut when corporate CFOs face uncertainty. The current macro environment — tariff overhang, slowing consumer spending, deteriorating business confidence — is precisely the setup that historically pressures advertising budgets and the stocks levered to them.

**Tariffs and the Advertising Cycle** Tariff escalation has a transmission mechanism into Communication Services that is less direct than for industrials or consumer discretionary, but real nonetheless. Retailers and consumer goods companies — among the largest digital advertising spenders — face margin compression from tariff-driven cost increases. The rational response is to cut variable marketing spend, and digital advertising is the most measurable and therefore most cuttable line item. An advertising slowdown would most directly impact **Alphabet (Google Search, YouTube)** and **Meta (Facebook, Instagram, Reels)**, which together define the sector's earnings trajectory. Any downward revision to digital ad spend forecasts would be an immediate negative catalyst for XLC.

**Interest Rates** Communication Services has a more complex relationship with interest rates than utilities or REITs. The sector's large-cap tech constituents are long-duration growth assets whose discounted cash flow valuations are sensitive to the discount rate — making rate stability a necessary condition for multiple maintenance. Telecommunications carriers (AT&T, Verizon) behave more like bond proxies and benefit from rate stability or decline through their dividend yields. The Fed's hold at **3.50–3.75%** is a neutral-to-slight positive for the sector overall, preventing further multiple compression on growth names while offering modest support to telco yield valuations. The risk, as elsewhere, is a stagflationary scenario where the Fed cannot cut despite slowing growth.

**AI — Opportunity and Threat Simultaneously** AI is the sector's most complex and double-edged thematic driver. On the positive side, **Alphabet and Meta** are among the most sophisticated AI developers in the world, with proprietary models (Gemini, Llama) increasingly embedded in their advertising platforms, improving targeting efficiency and monetization per impression. Both companies are also beneficiaries of enterprise AI adoption through Google Cloud and Meta's developer ecosystem.

The threat is equally real: **generative AI is fundamentally disrupting traditional search**, which is Alphabet's core revenue engine. As AI-native query interfaces reduce the volume of Google Search clicks — and the cost-per-click economics that accompany them — Alphabet faces a structural risk to its most profitable business line. The pace of this disruption is the single most debated question in mega-cap tech analysis and will be a central topic in Q1 earnings calls.

## Sector-Specific Drivers

**Digital Advertising Market Dynamics** The digital advertising market entered 2026 with solid fundamentals from 2025's recovery cycle, but the forward outlook is increasingly uncertain. Programmatic and performance advertising — Google Search, Meta's Advantage+ campaigns — have demonstrated strong ROI for advertisers, which provides some structural resilience even in a spending downturn. However, the **shift of advertising budgets toward streaming platforms** (Netflix, Amazon, Peacock) is a secular trend that is gradually redistributing spend away from pure search toward video and connected TV. This benefits Netflix's nascent ad-supported tier and creates competitive pressure on Alphabet's YouTube for video advertising share.

**Streaming Profitability Maturation** The streaming wars of 2020–2023 — characterized by aggressive content spending and subscriber acquisition at any cost — have given way to a profitability discipline phase. **Netflix** has successfully navigated this transition, with password-sharing crackdowns and ad-supported tier expansion driving both subscriber growth and ARPU improvement. Disney+ and Peacock remain in earlier stages of the profitability journey. This maturation shift means streaming names are increasingly being valued on earnings and free cash flow rather than subscriber count, which represents a meaningful improvement in sector quality from an investor perspective.

**Telecommunications — Stable but Unexciting** AT&T and Verizon offer the closest thing to utility-style defensive characteristics within Communication Services — regulated-adjacent infrastructure, stable cash flows, and dividend yields in the 5–6% range. Both companies have completed the bulk of their 5G capital cycles, transitioning from heavy investment phases to free cash flow harvesting. Neither offers meaningful growth upside, but in a stressed equity environment they provide income stability that attracts relative value flows from investors not yet ready to move entirely into traditional defensives. Debt levels remain elevated at both companies, however, making them vulnerable to any refinancing pressure from a renewed rate spike.

**Social Media Regulation Risk** Regulatory scrutiny of Meta, Alphabet, and to a lesser extent TikTok (under its current U.S. operational structure) remains an ongoing background risk. Antitrust proceedings, data privacy litigation in the EU and U.S., and content moderation political pressure introduce headline risk that can move individual names sharply on news flow. This is not a new dynamic, but in a low-sentiment market environment, regulatory headlines land harder than they do in a bull market.

# 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.