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Monthly Insights: May Outlook

Communication Services Sector

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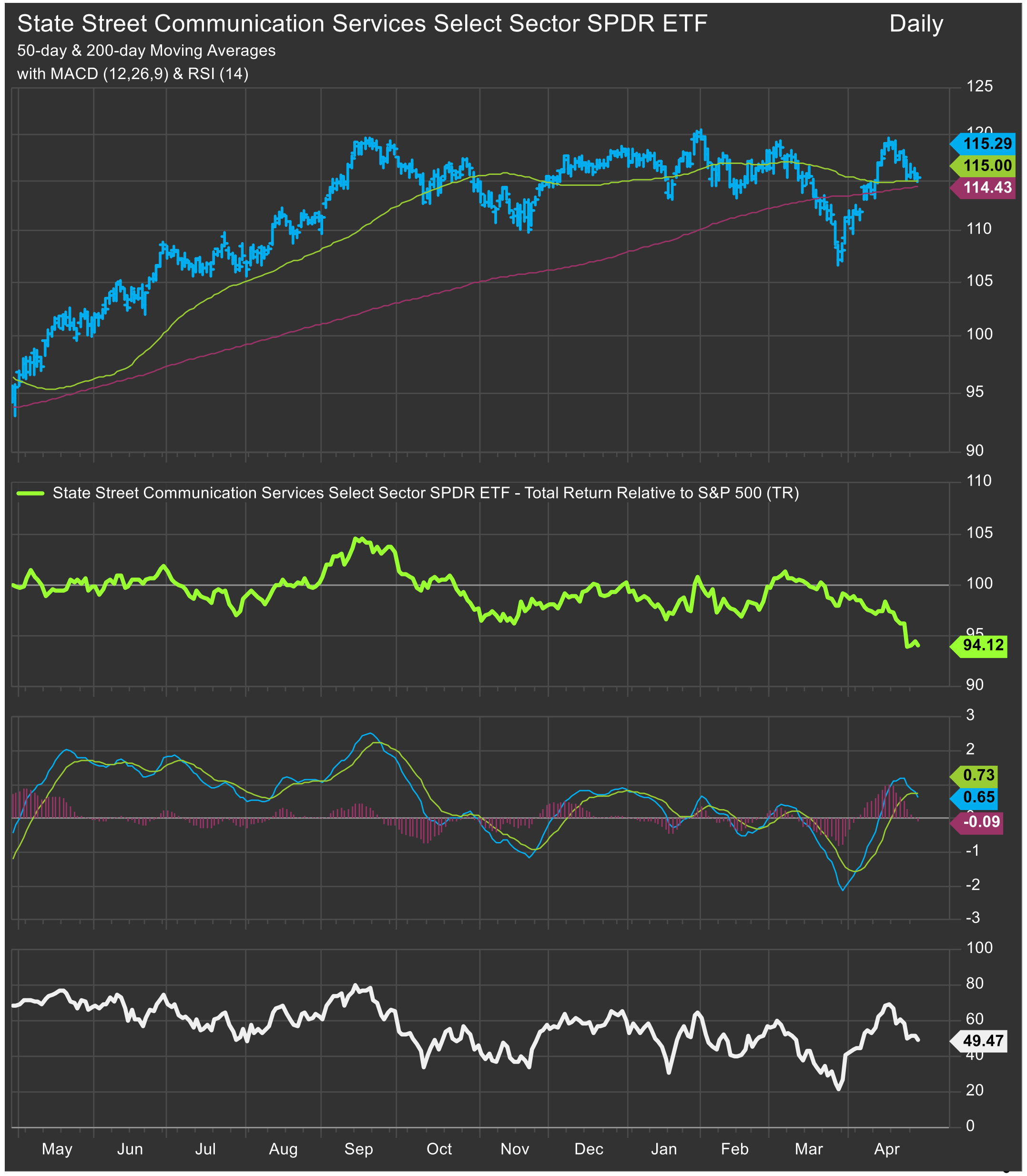
Sector Price Action & Performance Review: Communication Services Sector



4/29/2026

The Communication Services Select Sector SPDR Fund (XLC) delivered a constructive April rebound after a weak March. XLC closed March 31 at **$110.86** and traded near **$115.31** on April 29, implying a month-to-date price gain of roughly **4%**. The rebound was not as explosive as Technology, but it was stronger than traditional defensive sectors and reflected renewed investor appetite for advertising, artificial intelligence (AI)-enabled platforms, streaming, gaming, and select telecom exposure.

Technically, the setup is constructive but concentrated. XLC reclaimed the $112–115 zone after March weakness, but the next test is whether it can sustain momentum as mega-cap platform earnings, AI capital spending, digital advertising trends, and antitrust risk come back into focus. A move above the mid-$115s would suggest investors are still willing to reward the sector's platform growth profile. A break back below $111–112 would imply that April was more of a relief rally than a durable leadership move.

XLC is heavily concentrated in a small number of platform, entertainment, and media names. State Street data show top holdings including **Meta Platforms at 14.92%**, **Alphabet Class A at 9.05%**, **Alphabet Class C at 7.23%**, **Take-Two Interactive at 4.65%**, **Disney at 4.53%**, **EchoStar at 4.43%**, **Live Nation at 4.38%**, **Omnicom at 4.30%**, **Electronic Arts at 4.21%**, and **Warner Bros. Discovery at 4.19%**. At the industry level, XLC is **31.29% Interactive Media & Services**, **29.48% Entertainment**, **23.72% Media**, **11.83% Diversified Telecommunication Services**, and **3.69% Wireless Telecommunication Services**

The May outlook for Communication Services is **market weight to modest overweight**, with a preference for **AI-enabled advertising platforms, profitable streaming, gaming franchises, and select wireless exposure**. The sector has stronger revenue growth than most defensive groups, and it offers direct exposure to several durable themes: AI monetization, digital advertising, streaming profitability, gaming engagement, and telecom modernization.

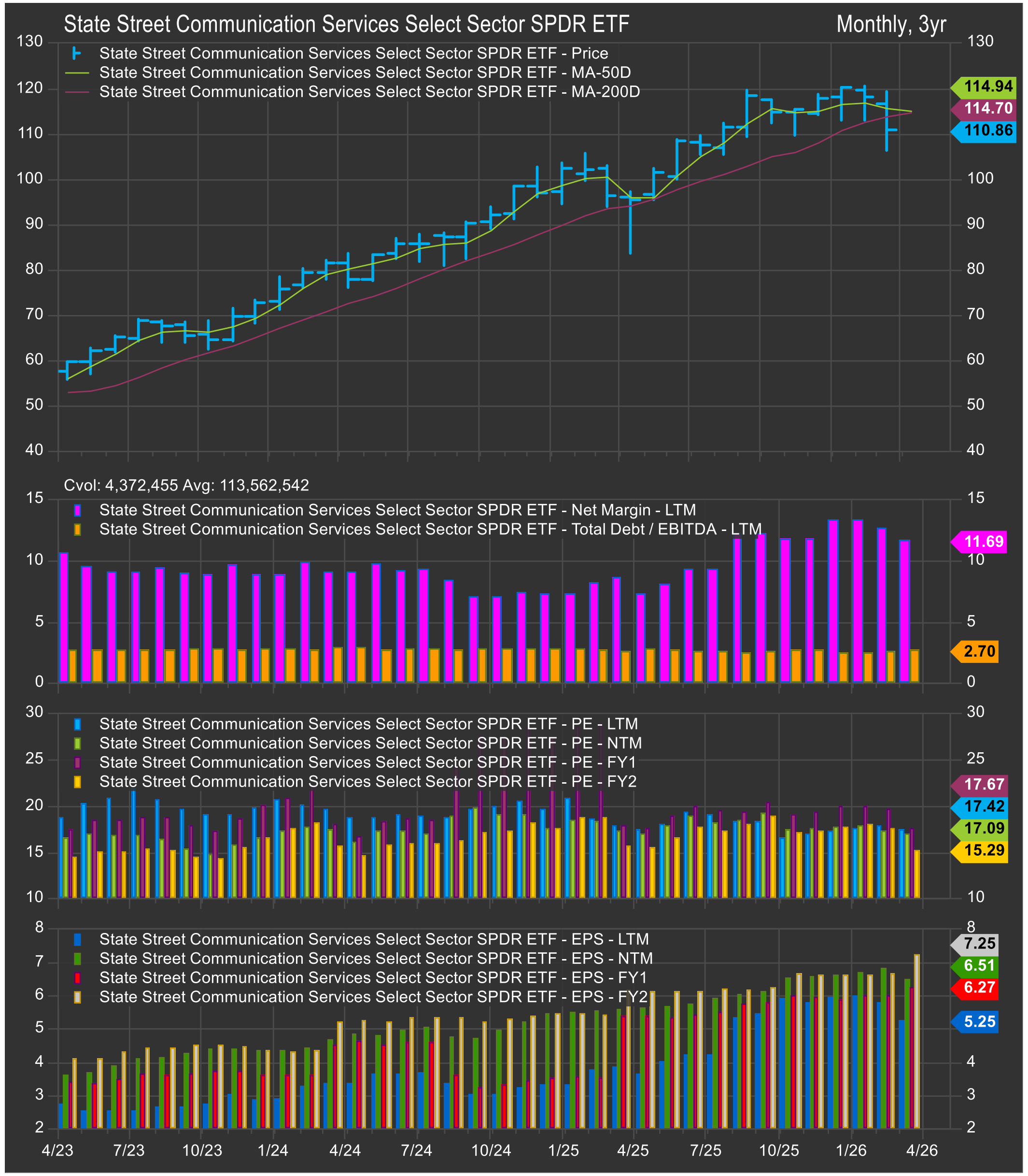
The best-positioned areas are **Interactive Media & Services**, **profitable streaming platforms**, **gaming**, and **select wireless telecom**. Meta and Alphabet remain the most important earnings drivers, while Netflix-style streaming profitability and T-Mobile-style wireless growth offer additional support.

The more cautious areas are **legacy media**, **linear-TV-exposed cable**, **low-growth advertising agencies without AI/data scale**, and **high-capex telecom without clear revenue acceleration**. These groups face cord-cutting, advertising share loss, content-cost inflation, regulatory pressure, and weak pricing power.

Overall, XLC deserves a **selective overweight in a risk-on or AI-led market**, but not an indiscriminate one. A bullish May scenario would include strong Meta and Alphabet guidance, evidence that AI improves ad monetization, stable digital ad spending, continued streaming margin expansion, and no major regulatory escalation. A bearish scenario would include weaker ad budgets, disappointing AI returns, higher rate pressure, antitrust headlines, or renewed weakness in broadband and legacy media.

We start May with an overweight allocation of +1.28% to the Communication Services in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Communication Services Sector



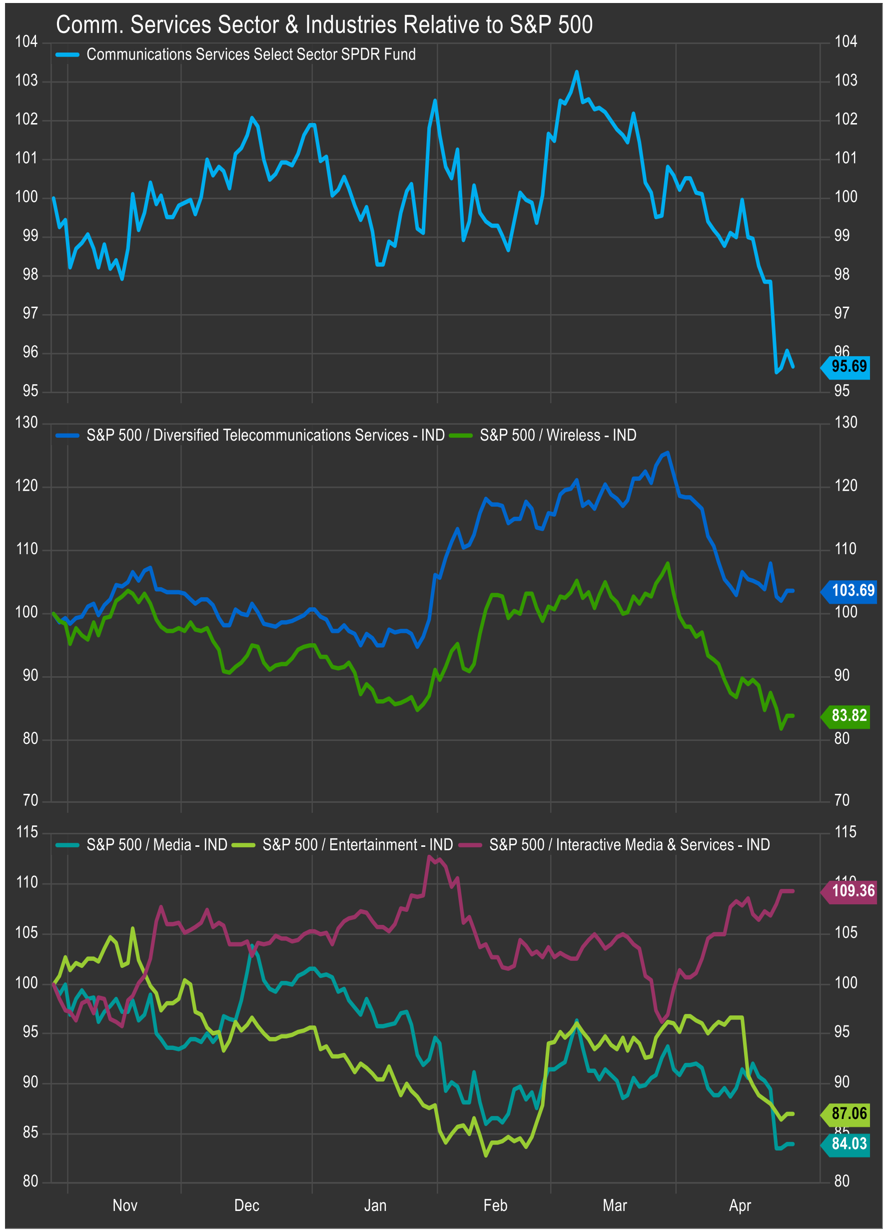
Communication Services had a favorable revenue backdrop in April, but the sector's earnings quality was not uniformly strong. FactSet's April 24 Earnings Insight showed the sector reporting the **second-highest year-over-year revenue growth rate** among all eleven S&P 500 sectors at **13.2%**. All five Communication Services industries were reporting revenue growth, led by **Interactive Media & Services at 21%**, followed by **Wireless Telecommunication Services at 10%**, **Entertainment at 7%**, **Diversified Telecommunication Services at 4%**, and **Media at 2%**.

The issue is margins. FactSet also noted that Communication Services was seeing one of the largest year-over-year margin declines, with sector net profit margin falling to **14.1% from 16.0%**. That makes the sector's May setup highly dependent on whether digital advertising acceleration, AI-driven monetization, streaming profitability, and telecom cost discipline can offset heavy capital spending, content costs, sports rights, regulatory pressure, and broadband competition.

At the company level, the strongest fundamental signal came from advertising, streaming, and wireless. Meta and Alphabet remained central to the digital advertising and AI monetization thesis, with investors focused on whether AI spending is improving ad targeting, engagement, and platform efficiency. Reuters reported that Meta is projected to surpass Google in global digital advertising revenue by the end of 2026, with eMarketer forecasting Meta at **$243.46B** versus Google at **$239.54B**. Netflix reported Q1 revenue growth of **16%**, operating income growth of **18%**, and maintained 2026 revenue guidance of **$50.7B–$51.7B** with a **31.5%** operating margin target.

Telecom results were steadier but lower-growth. AT&T reported consolidated revenue growth of **2.9%**, supported by fiber and fixed wireless growth, while T-Mobile reported Q1 revenue of **$23.1B** and raised its 2026 postpaid-account-addition guidance. Comcast beat estimates, with better-than-feared broadband losses, Peacock subscriber growth, wireless strength, and theme-park gains, but the company still showed pressure in core broadband and streaming losses.

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



Industry / Group	Approx. XLC Weight	April Performance Trend	Fundamental Read	Macro / Policy Sensitivity
Interactive Media & Services	**31.3%**	**Strongest structural growth pocket**	Best growth profile in the sector, but capital spending and regulatory risk are rising.	Sensitive to digital ad budgets, AI capex, antitrust, privacy rules, search disruption, creator economics, and consumer engagement.
Entertainment	**29.5%**	**Constructive but stock-specific**	Streaming leaders are improving margins, but content costs, sports rights, and subscriber saturation remain issues.	Sensitive to consumer spending, content costs, theatrical releases, sports rights, gaming cycles, strikes/labor, and merger regulation.
Media	**23.7%**	**Mixed to weak relative to platforms**	Low-growth advertising and linear-TV exposure remain structural headwinds. Agencies can work if AI improves efficiency and client return on investment.	Sensitive to ad budgets, election/political ads, cord-cutting, sports rights, AI creative tools, and media-merger scrutiny.
Diversified Telecommunication Services	**11.8%**	**Stable but not leadership-quality**	Defensive cash flow and dividends help, but revenue growth is modest and capital intensity remains high.	Sensitive to interest rates, fiber capex, copper retirement rules, broadband competition, spectrum policy, and dividend sustainability.
Wireless Telecommunication Services	**3.7%**	**Positive; T-Mobile remains best growth profile**	Wireless service revenue is resilient, but competition remains intense and network investment is ongoing.	Sensitive to pricing, churn, spectrum, fixed wireless, satellite partnerships, device cycles, and merger speculation.

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
META	Meta Platforms Inc Class A	Consolidation	1,474,293.2	1.02	0.6	0.21	1.76	15.5
GOOGL	Alphabet Inc. Class A	Uptrend	3,933,078.5	1.36	10.7	0.17	0.73	15.3
PSKY	Paramount Skydance Corporation Class B	Downtrend	11,364.1	0.65	-10.2	1.36	1.51	7.5
TTWO	Take-Two Interactive Software, Inc.	Retracement	39,444.2	1.25	-11.4	0.00	0.82	0.1
DIS	Walt Disney Company	Downtrend	179,756.1	0.69	-8.3	0.97	1.64	-2.4
TTD	Trade Desk, Inc. Class A	Downtrend	10,055.5	0.94	-27.6	0.00	2.24	-3.0
NWS	News Corporation Class B	Consolidation	15,265.6	1.18	-4.4	0.49	0.87	-3.7
NWSA	News Corporation Class A	Consolidation	15,265.6	1.03	-4.3	0.56	0.90	-4.2
SATS	EchoStar Corporation Class A	Uptrend	19,486.1		7.6	0.00	1.22	-4.8
FOXA	Fox Corporation Class A	Consolidation	25,387.5	0.59	-8.4	0.65	0.58	-5.3
LYV	Live Nation Entertainment, Inc.	Consolidation	35,959.0	4.16	-1.0	0.00	1.30	-6.0
FOX	Fox Corporation Class B	Consolidation	25,387.5	0.53	-8.9	0.72	0.65	-6.2
OMC	Omnicom Group Inc	Consolidation	21,910.0	0.32	-3.4	3.20	0.79	-8.0
EA	Electronic Arts Inc.	Consolidation	50,683.9	1.03	-5.8	0.27	0.43	-11.9
WBD	Warner Bros. Discovery, Inc. Series A	Consolidation	67,557.4		-2.1	0.00	1.86	-12.6
NFLX	Netflix, Inc.	Consolidation	388,530.3	1.20	-4.9	0.21	1.14	-13.4
CMCSA	Comcast Corporation Class A	Consolidation	98,475.4	0.36	-6.3	3.45	0.44	-13.5
TKO	TKO Group Holdings, Inc. Class A	Consolidation	14,391.0	1.66	-9.1	0.60	0.70	-14.6
VZ	Verizon Communications Inc.	Bullish Reversal	199,243.4	0.44	8.5	4.29	0.24	-16.8
T	AT&T Inc	Consolidation	181,073.7	0.52	-3.2	3.06	0.04	-21.7
TMUS	T-Mobile US, Inc.	Retracement	205,739.8	0.78	-11.7	1.59	0.24	-23.6
CHTR	Charter Communications, Inc. Class A	Downtrend	21,289.9	0.19	-20.8	0.00	0.53	-33.2

META and GOOGL reasserted themselves in April, but the former has more work to do to register a bullish reversal in our stock-level process

Traditional media and Telecom were at the bottom of the table in April as risk appetite shifted abruptly on conflict resolution dynamics

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

Communication Services sits at the intersection of digital advertising, AI monetization, streaming economics, telecom infrastructure, consumer engagement, media consolidation, and regulation. April's backdrop was constructive because ad growth and AI optimism improved, streaming profitability continued to normalize, and telecom results were steady. The risk is that the sector is now highly dependent on a narrow set of mega-cap platforms and must justify rising AI and content spending.

1. Digital advertising remains the most important earnings driver

Digital advertising is the sector's core cyclical and structural driver. Meta and Alphabet dominate the Interactive Media & Services bucket, while agencies, media companies, streaming platforms, and connected-TV businesses also depend on ad budgets. April data and earnings expectations suggested the ad market remained resilient despite weak consumer sentiment and higher fuel costs.

The strongest part of the ad market is performance-driven and AI-enabled. AI is improving targeting, creative testing, conversion tracking, search query interpretation, recommendation feeds, and ad automation. That is why investors are willing to look through heavy capex at Meta and Alphabet if the spending produces higher engagement and better return on ad spend. Reuters reported that Meta is expected to overtake Google in global digital ad revenue in 2026, a major signal that the ad market is shifting toward social, video, short-form, and AI-enhanced targeting.

The risk is macro sensitivity. If higher fuel prices, tariffs, or weaker consumer confidence pressure retail, travel, autos, apparel, and small-business spending, ad budgets can slow quickly. Communication Services can still outperform in that environment if AI improves ad efficiency, but the group is not immune to a consumer slowdown.

2. AI capex is both the opportunity and the risk

AI is now a central Communication Services theme. Meta and Alphabet are not just advertising companies; they are also large AI infrastructure investors. Reuters reported that Microsoft, Alphabet, Amazon, and Meta together are projected to spend more than **$600B** in 2026 on AI infrastructure and data centers, making hyperscaler earnings a major test of the AI-led market rally.

For Communication Services, the AI bull case is that large platforms can monetize AI through better ads, creator tools, recommendation algorithms, AI assistants, enterprise cloud, search enhancement, and new consumer products. The bear case is that AI capex becomes a margin drag if revenue growth does not scale fast enough. Investors will increasingly ask whether incremental AI spending is producing measurable ad conversion, cloud growth, user engagement, or subscription revenue.

This makes May a validation month. Meta and Alphabet need to show that AI is not just increasing costs; it is improving monetization. If they do, XLC can remain a leadership sector. If they do not, the sector could derate because its top holdings carry increasingly large AI investment expectations.

3. Search, social and AI discovery are converging

The traditional line between search, social, and AI discovery is becoming less clear. Alphabet faces the risk that generative AI changes how users find information, while Meta is increasingly using AI to improve recommendations, ad targeting, and creator tools. This convergence creates opportunity but also raises competitive risk.

For Alphabet, the key question is whether AI search and Gemini-style products defend search share while preserving advertising economics. For Meta, the question is whether AI-driven content discovery and ad tools can keep engagement high and improve advertiser return on investment. For smaller media and publishing companies, AI search can be a headwind if it reduces referral traffic or changes how content is monetized.

The investment implication is that platform scale matters more than ever. Large platforms with first-party data, distribution, compute capacity, and advertiser relationships should be advantaged. Smaller publishers and weaker ad-supported media assets remain vulnerable.

4. Antitrust and digital regulation remain persistent valuation caps

Regulatory risk remains one of the sector's largest overhangs. Alphabet continues to face search and advertising-technology antitrust scrutiny. Reuters reported that the U.S. government and a majority of states appealed the outcome of the Google search antitrust case after a federal judge ruled Google had a monopoly in online search but rejected the harshest remedies. Reuters also noted that the Department of Justice (DOJ) had prevailed at the district court level in arguing that Google operates as an unlawful monopoly in search, advertising, and advertising-technology markets.

European regulation is also expanding. Reuters reported that European Union (EU) regulators are moving Digital Markets Act scrutiny toward cloud services and AI, which could affect Alphabet and other large platforms. This matters because regulation can affect data access, platform bundling, advertising tools, app distribution, cloud contracts, AI model integration, and interoperability rules.

For May, regulation is unlikely to overwhelm earnings unless a major new remedy or enforcement action appears. But it remains a multiple cap for Alphabet, Meta, and other large platforms.

5. Streaming has moved from subscriber growth to profitability

Streaming remains a major industry transition. The investment debate has shifted from subscriber growth at any cost to operating margin, pricing power, advertising, churn, content efficiency, and free cash flow. Netflix is the best example. The company reported Q1 revenue growth of **16%**, operating income growth of **18%**, and an operating margin of **32.3%**, while maintaining full-year revenue guidance of **$50.7B–$51.7B** and a **31.5%** operating margin target.

Disney also showed progress earlier in the year, with streaming operating income up **72%** to **$450M** and streaming revenue up **13%** year-over-year. That supports the idea that streaming is becoming a more disciplined business. However, competition, sports rights, content spending, and advertising cyclicality remain important risks.

The May view is selective: own profitable scale platforms and companies with clear pricing, ad-tier, and content discipline. Avoid legacy media assets where streaming gains are offset by linear-TV decline and high debt.

6. Media consolidation and merger policy are active drivers

Media consolidation remained an important April theme. Reuters reported that Paramount Skydance sought Federal Communications Commission (FCC) approval for foreign investors backing its Warner Bros. Discovery acquisition, while the deal still faces broader regulatory scrutiny. Reuters also reported in March that the Department of Justice (DOJ) antitrust head said the Paramount-Warner Bros. review would not be fast-tracked for political reasons.

For legacy media, consolidation can create cost synergies, scale, and bargaining power. But it also introduces regulatory uncertainty, integration risk, debt concerns, and potential content/creative backlash. XLC's media exposure should be treated as event-driven rather than broadly attractive. Consolidation may create winners, but it does not fully solve cord-cutting, sports-rights inflation, and advertising share loss to digital platforms.

7. Telecom policy is becoming more supportive of network modernization

Telecom is not the sector's fastest-growth area, but it provides defensive cash flow and policy-driven optionality. The FCC adopted rules in March to accelerate retirement of old copper networks and speed deployment of modern high-speed networks, saying the move would free up capital for upgraded infrastructure. The Federal Register version of the order said the FCC eliminated certain filing requirements and streamlined processes for network changes and copper retirements.

This is supportive for AT&T, Verizon, and other carriers because it can lower legacy network costs and accelerate fiber and wireless modernization. The offset is capital intensity: telecom companies still need to fund fiber, wireless capacity, spectrum, fixed wireless, and customer acquisition. Higher rates can make that investment burden more expensive.

8. Broadband, fiber and fixed wireless are converging

Broadband competition is shifting from cable versus telecom to a broader contest among fiber, fixed wireless, cable broadband, satellite, and bundled wireless/home internet offerings. Comcast's Q1 results showed the pressure clearly: broadband losses were better than feared, but the company still lost broadband subscribers, while wireless and Peacock helped offset weakness. AT&T's Q1 commentary showed growth increasingly driven by fiber and fixed wireless internet customers.

This convergence favors companies that can bundle services, lower churn, and monetize multiple connectivity layers. It pressures legacy cable broadband where pricing is high and competition from fixed wireless and fiber is rising. For May, telecom is investable but not a growth leader; cable remains more challenged unless broadband losses stabilize.

9. Consumer spending and experience demand are still supportive, but affordability matters

Entertainment, gaming, live events, streaming, and travel-adjacent media depend on consumer willingness to pay for experiences and subscriptions. Live Nation-style demand remains structurally strong, and gaming remains supported by recurring franchises and digital engagement. But affordability risk is rising if fuel, rent, insurance, and food costs pressure household budgets.

This matters most for premium streaming tiers, theme parks, concerts, sports packages, and discretionary gaming purchases. Strong brands and must-have content can retain pricing power, but weaker services may face churn. For May, the best entertainment exposure is in companies with clear franchise strength, live-event demand, or profitable streaming scale.

10. Rates and valuation still matter

Communication Services is less rate-sensitive than unprofitable growth, but more valuation-sensitive than traditional telecom alone. Meta, Alphabet, Netflix, gaming publishers, and high-growth entertainment platforms are valued partly on future cash flows. If the Federal Reserve (Fed) remains restrictive because energy-driven inflation persists, valuation multiples can compress, especially where companies are spending aggressively on AI or content.

Defensive telecom can hold up better in that environment, but it lacks the upside of platform growth. Therefore, the sector's May performance will likely depend on whether platform earnings are strong enough to offset higher-rate pressure.

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.