

NDR Sector Views

JUNE 4, 2025

Communication Services: Marketweight effective 11/24/24

Key Takeaways

- Communication Services was second-best performer in May.
- The sector had a solid Q1 earnings season and earnings revisions have been positive.
- The sector saw sector model improvement but the model remains marketweight the sector.

Led by strong gains from Meta (+17.9%), Alphabet (+8.2%), and Disney (+24.3%), Communication Services surged nearly 10% in May and was the second-best performing sector for the month. Model and indicator evidence shifted in favor of Growth in May, and we upgraded Consumer Discretionary to overweight on May 15. If we further increase our Growth exposure, Communication Services will be a leading candidate for increased exposure.

Key drivers: Q1 earnings season went well for Communication Services. With 100% of the sector reporting, 90.5% beat on bottom line estimates, second best among all sectors. Importantly, Alphabet and Meta, the sector's largest constituents representing more than 65% of the sector's market cap, both beat estimates. Additionally, analysts turned more optimistic for the full year, raising 2025 growth targets for both companies over the last two months.

Indicators to watch: In response to the

improving outlook by analysts, the sector's Earnings Revision Breadth indicator turned bullish on May 16 in the sector's external (non-price-based) composite. The sector finished the month with the second-highest overall composite score behind only Consumer Discretionary. Despite the improvement, the model remained

marketweight the sector, matching our recommendation. However, if improvement continues, we could add to our allocation in the coming weeks.

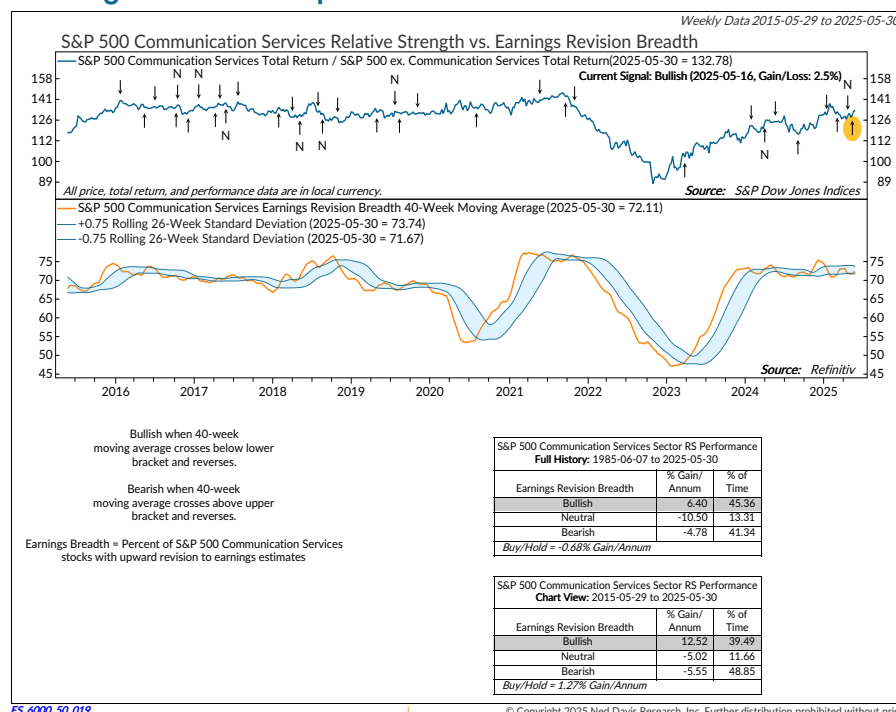
Sector positives

- Sector's relative Volume Supply/Demand indicator is bullish
- Mag 7 relative valuations look attractive versus long-term averages
- Along with Alphabet and Meta, Disney has performed well

Sector negatives

- Capex surge from mega-caps represents a risk if market turns lower
- EPS growth from Meta and Alphabet is decelerating in 2025
- Tariff uncertainty has hit tech names hard

Earnings revisions improved for Communication Services



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Some sectors receive “over-,” “market-,” or “under-” weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

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