

NDR Sector Views

AUGUST 5, 2025

Communication Services: Marketweight effective 11/24/24

Key Takeaways

- Communication Services was roughly a market performer in July.
- Q2 earnings have been strong, and the sector now has the highest growth estimate for the full year.
- The model remains marketweight, matching our recommendation.

Communication Services gained 2.3% in July, roughly in line with the return from the S&P 500. Strong showings from both Alphabet and Meta were partially offset with losses from several other of the sector's largest members, including Netflix and Disney. Given the mega-cap strength, we could add to our allocation in the sector if we decide to shift more aggressively towards Growth over Value.

Key drivers: Analysts used tariff uncertainty to meaningfully lower earnings expectations. S&P 500 operating earnings estimates for 2025 have fallen from north of 15% at the start of the year down to 9.9%. While Q2 estimates look reasonable at 7.5%, analysts are expecting a jump in the back half of the year to 13.0% in Q3 and 13.5% in Q4. Among sectors, Communication Services now leads the pack, with full year earnings expected to rise 20.9%. With expectations high, investors could punish the sector if earnings fall short of forecasts, representing a risk as we enter

the second half of the year.

Indicators to watch: The sector's Relative Price Deviation from Trend indicator turned bearish on July 29, suggesting the sector is losing some momentum. However, the weight of the indicator evidence remains neutral, and the model remains

marketweight, matching our current recommendation on the sector.

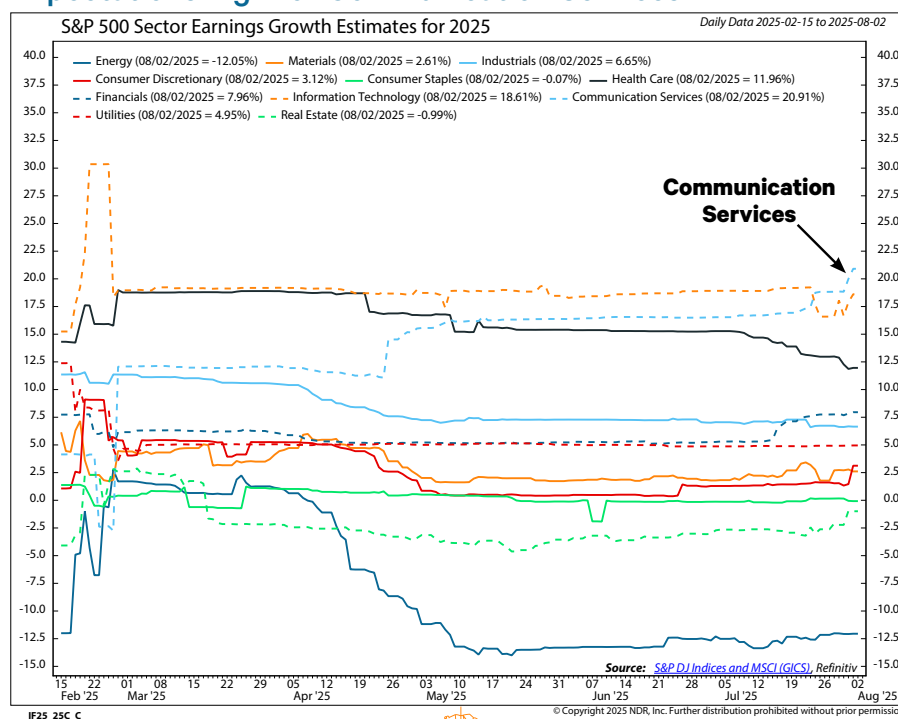
Sector positives

- 92% Q2 earnings beat rate
- Mag 7 relative valuations look attractive versus long-term averages
- NDR favors Growth over Value

Sector negatives

- Capex surge from mega-caps represents a risk if market turns lower
- EPS growth from Meta and Alphabet is decelerating in 2025
- Traditional media names continue to underperform

Expectations high for Communication Services



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Recommendations

NDR’s sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a “short leash” if they rank opposite the model’s top and bottom quintiles, unless industry-specific influences can be shown to dominate.

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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