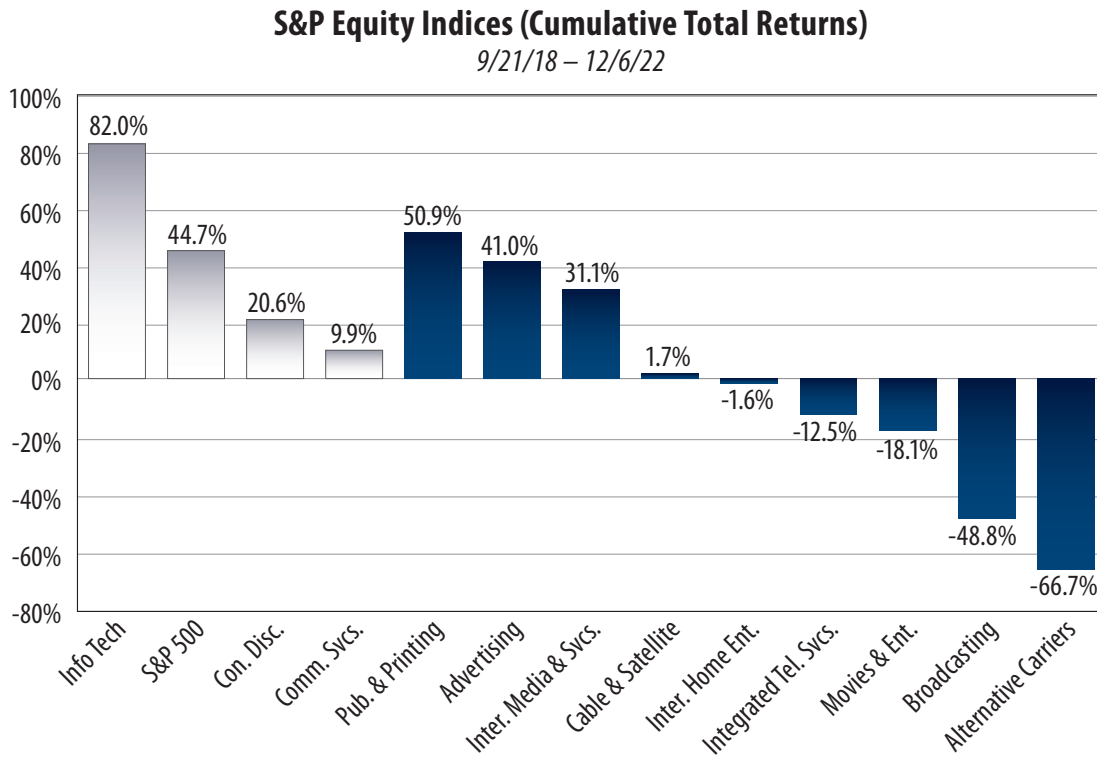


How Communication Services Has Fared Since Its Inception (September 2018)



Source: Bloomberg. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. For those who may not recall, the Telecommunications Sector was reconstituted within the S&P 500 Index in September 2018. Its name was changed to Communication Services.
2. The number of constituents in this sector expanded from just a handful of telecom carriers to 25 companies today. The new members have brought more diversity to the sector via exposure to the internet, media and entertainment industries (see subsectors in chart above). These companies were formerly members of the information technology and consumer discretionary sectors.
3. As indicated in the chart above, the S&P 500 Communications Services Index has significantly underperformed the S&P 500 Information Technology Index and fallen well short of both the S&P 500 (broader market) and S&P 500 Consumer Discretionary Indices since its inception.
4. The year-to-date (YTD) total return through 12/6/22 for the S&P 500 Communication Services Index was -37.2%, making it the worst performing sector so far in 2022. For comparative purposes, the YTD total returns for the S&P 500 Consumer Discretionary Index and the S&P 500 Technology Index were -32.4% and -24.9%, respectively, according to Bloomberg.
5. In a previous post from May 2021 ([click here](#)), we discussed the rollout of 5G technology. As it turns out, the launch coincided with some difficult health and geopolitical issues that have yet to be resolved, according to *Microwave Journal*. Despite these issues, progress has been achieved, in our opinion.
6. As of September 2022, 98 nations have commercialized 5G or are conducting 5G trials, compared to 79 at the end of 2021, according to *Microwave Journal*.
7. From a valuation and earnings perspective, the outlook for Communications Services over the next two years looks more optimistic than the broader market, in our opinion.
8. Bloomberg's consensus earnings growth rate estimates for the S&P 500 Communications Services Index for 2023 and 2024 were 10.0% and 17.6%, respectively, as of 12/2/22, up from -12.5% in 2022. For comparative purposes, the 2023 and 2024 estimates for the S&P 500 Index were 2.7% and 9.7%, respectively, compared to 8.4% in 2022.
9. With respect to valuations, as of 12/7/22, the year-end estimated price-to-earnings ratios for the S&P 500 Communications Services Index were 14.62 (2022), 13.21 (2023) and 11.35 (2024), compared to 17.88 (2022), 16.72 (2023), and 15.29 (2024) for the S&P 500 Index, according to Bloomberg.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance, while the S&P sector and subsector indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector or industry.

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