

# Cash Flow and Carey



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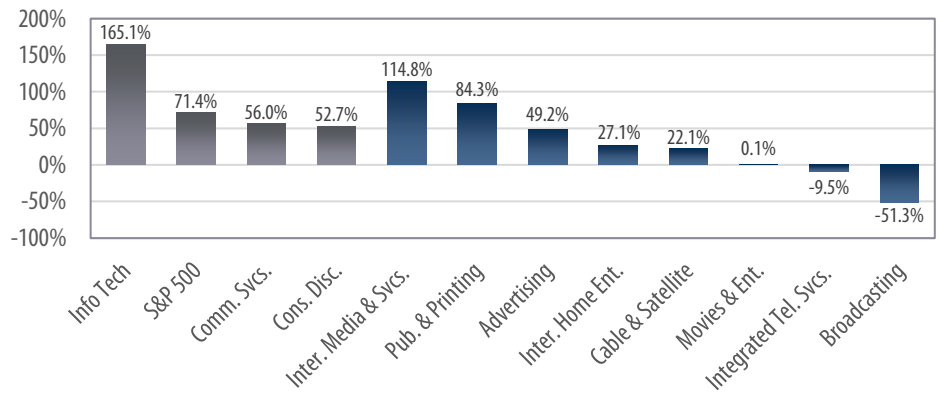


This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies 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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## Communication Services Sector Performance Since Inception

S&P Equity Indices (Cumulative Total Returns) 9/21/18 – 12/1/23



Source: Bloomberg. Past Performance is no guarantee of future results.

### View from the Observation Deck

In September 2018, the Telecommunications Sector was renamed to the Communication Services Sector as part of a broad reconstitution of the S&P 500 Index. The number of constituents in this sector expanded from just a handful of telecom carriers to 22 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. Notably, after the reclassification of its sole constituent, the “Alternative Carriers” subsector is no longer a part of the S&P 500 Communication Services Index (“Communication Services Index”). [Click here](#) to view our last post on this topic.

- As indicated in the chart above, the Communication Services Index has significantly underperformed the S&P 500 Information Technology Index and fallen well short of the S&P 500 (broader market) since its inception.
- Of the eleven sectors that comprise the S&P 500 Index, the Communication Services Index was the worst performer in 2022, posting a total return of -39.89%.
- With a total return of 48.32% on a year-to-date (YTD) basis through 12/1/23, the Communication Services Index is the second-best performing sector this year, outpaced only by the S&P 500 Information Technology Index which boasts a total return of 52.28% over the same period.
- From a valuations and earnings perspective, the outlook for Communications Services looks more optimistic than the broader market over the next year, in our opinion.
  - Bloomberg’s consensus earnings growth rate estimates for the S&P 500 Communications Services Index for 2024 and 2025 were 15.7% and 14.1%, respectively, as of 12/1/23. For comparative purposes, the 2024 and 2025 estimates for the S&P 500 Index were 11.10% and 11.93%, respectively, as of the same date.
  - With respect to valuations, as of 12/4/23, the year-end estimated price-to-earnings ratios for the S&P 500 Communications Services Index were 18.82 (2023) and 16.36 (2024) compared to 20.60 (2023) and 18.71 (2024) for the S&P 500 Index, according to Bloomberg.

### Takeaway

Of the eleven major sectors that comprise the S&P 500 Index, the Communication Services Sector posted the second-highest total return (48.32%) on a YTD basis through 12/1/23; a remarkable reversal from last year when it was the S&P 500 Index’s worst performing sector. In our view, unprecedented interest in Artificial Intelligence (AI) may explain much of the turnaround in the sector’s performance. That said, since its inception in 2018, the Communication Services Index has underperformed both the S&P 500 Technology Index (also a major benefactor of surging interest in AI) and the broader S&P 500 Index. A lack of diversification could be one reason for the sector’s lagging performance. After plummeting -52.5% between 12/30/22 and 3/17/23, the one company that comprised the Alternative Carriers subsector (a subsector of the Communication Services Index) was reclassified, and the subsector discontinued. As of 12/4/23, just 22 stocks comprise the Communication Services Index compared to 64 in the S&P 500 Information Technology Index.