Market Commentary Blog

Cash Flow *and Carey*

Robert Carey, CFA

Chief Market Strategist

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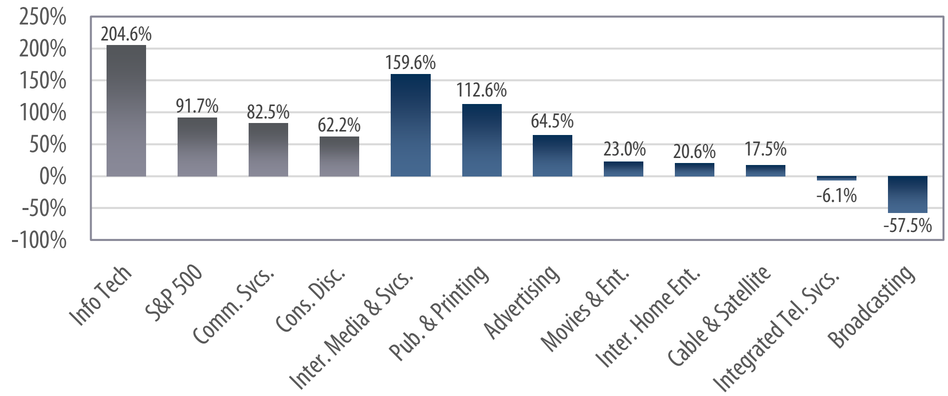
Communication Services Sector Performance Since Inception

S&P Equity Indices (Cumulative Total Returns) 9/21/18 – 3/15/24



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

View from the Observation Deck

In September 2018, the Telecommunications sector was renamed 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 diversification 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. Click here to view our last post on this topic.

As indicated in the chart above, the S&P 500 Communication Services Index (Communication Services Index) has significantly underperformed the S&P 500 Information Technology Index (Information Technology Index) and fallen short of the broader S&P 500 Index 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%. In 2023, the sector experienced a significant turnaround, posting a total return of 55.80%, second only to the Information Technology Index which boasted a total return of 57.84% during the year.

With a total return of 11.37% on a year-to-date (YTD) basis through 3/15/24, the Communication Services Index is the best performing sector so far this year. The S&P 500 Information Technology and the S&P 500 Energy Indices were the second and third-best performers with total returns of 10.87% and 9.31%, respectively, over the same period.

From a valuations and earnings perspective, the outlook for the Communication Services sector appears more optimistic than the broader market, in our opinion.

Using 2024 consensus earnings estimates, the Communication Services sector had an estimated price-to-earnings (P/E) ratio of 18.85 as of 3/15/24. For comparison, the S&P 500 Index had an estimated P/E ratio of 21.27 as of the same date.

Bloomberg's consensus 2024 earnings growth rate estimate for the Communication Services sector stood at 17.8% as of 3/15/24, tied with the Information Technology sector for the highest estimated earnings growth rate in the S&P 500 Index. For comparative purposes, the 2024 estimate for the S&P 500 Index was 9.9% as of the same date.

Takeaway

Of the eleven major sectors that comprise the S&P 500 Index, the Communication Services sector posted the highest total return (11.37%) on a YTD basis through 3/15/24. In our view, unprecedented interest in Artificial Intelligence (AI) continues to drive valuations within the sector. That said, since its inception in 2018, the Communication Services Index has underperformed both the S&P 500 Information 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. As of 3/18/24, the Communication Services Index was comprised of just 22 stocks, compared to 65 in the S&P 500 Information Technology Index. The recent performance of the Communication Services sector has been strong and could be reflective of market-topping earnings growth expectations in 2024. In our view, if those expectations are met, the sector could continue to produce outsized returns.