

# Cash Flow and Carey



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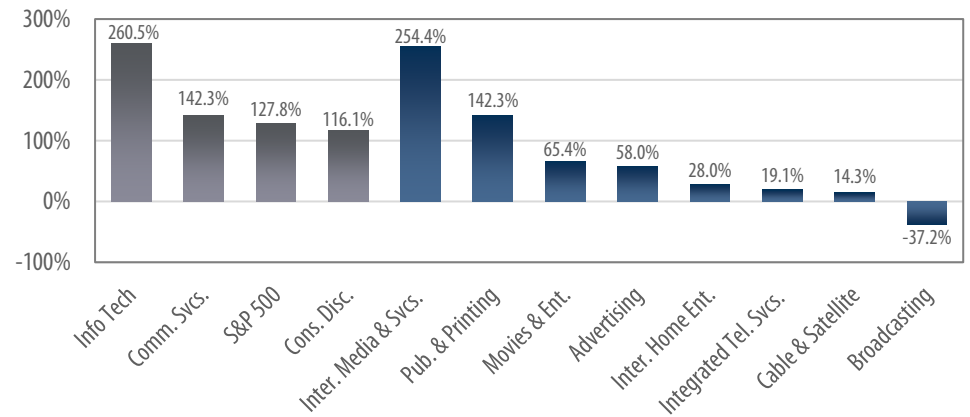
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. 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 – 1/27/25



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) since its inception.

That said, of the eleven sectors that comprise the S&P 500 Index, the Communication Services Index was the top performer in 2024, posting a total return of 40.23%. Information Technology came in second, with a total return of 36.61% over the period.

With a total return of 5.43% year-to-date through 1/27/25, the Communication Services Index is the fifth-best performing sector. The S&P 500 Health Care and Financials Indices were the first and second-best performers with total returns of 7.26% and 6.40%, respectively, over the same period.

After blockbuster growth in 2024, the earnings outlook for the Communication Services Index is mixed for 2025.

As of 1/24/25, data from Bloomberg showed that the earnings per share (EPS) for the Communication Services Index were estimated to increase by 26.79% in 2024. The figure represents the highest estimated earnings growth rate of all eleven sectors that comprise the broader S&P 500 Index. By contrast, the 2024 EPS growth estimate for the S&P 500 Index stood at 10.11% on 1/24/25. With a current estimate of 11.02%, however, the Communication Services Index's EPS is not expected to increase at nearly the same rate in 2025.

### Takeaway

The Communication Services Index posted the highest total return (+40.23%) of all eleven sectors that comprise the broader S&P 500 Index in 2024. In our view, unprecedented interest in Artificial Intelligence (AI) has been a major catalyst to surging valuations within the sector. Since its inception in 2018, the Information Technology Index (another of AI's chief benefactors) is the only sector to outperform the Communication Services Index. In our view, investors would be well-served to monitor recent developments among competing AI companies closely. As the cost to integrate AI declines, we expect increased adoption among industries that have yet to benefit from the technology. Furthermore, we expect that interest rate policy will continue to influence investor behavior over the near-term. The Communication Services and Information Technology Indices are the fifth-best and worst performing sectors, respectively, since Jerome Powell revealed interest rate cuts were forthcoming on 7/9/24, posting total returns of 13.36% and -2.25%. The S&P 500 Financials and Consumer Discretionary Indices, by contrast, increased by 24.18% and 22.95% (total return) respectively, over the same period.