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September 2021

5 predictions for the future of media

U.S. Markets
Signs of an improving labor market, strong corporate earnings, and more clarity from the Fed on its tapering plans propelled stocks to multiple record highs during August.
The Dow Jones Industrial Average gained 1.22 percent while the Standard & Poor's 500 Index rose 2.90 percent. The Nasdaq Composite led, picking up 4.00 percent.[1]

Corporate Earnings
Corporate profits in the second quarter were by all measures exceptional. With 98 percent of companies in the S&P 500 index reporting, 89 percent beat Wall Street consensus estimates by an average of 17.7 percent. The companies posted an earnings-per-share growth of nearly 92 percent over the second quarter of 2020.[2] The labor market also showed signs of improving health, providing evidence that the economic recovery remained intact. In August, jobless claims reached pandemic lows, while employers added 953,000 jobs in July, and job openings reached record levels.[3]

Fed at Center Stage
In the final days of trading, Fed Chair Jerome Powell stated that the Fed might begin to pare back its monthly bond purchases before year-end. Powell's update followed multiple comments from regional Federal Reserve Bank presidents indicating their support for reducing bond purchasing. It's important to note that Powell said that tapering should not be seen as an indicator of future changes in interest rates.[4]

COVID Worries
The month was not without its worries. The global spread of the Delta variant resulted in flashes of investor anxiety that led to temporary pullbacks in stock prices. New COVID-19 cases in the U.S. rose throughout August, raising concerns that spreading infections could derail the economic recovery.[5] In Asia, outbreaks closed some shipping ports. Vietnam partially halted manufacturing, and Japan extended its lockdown protocols. These actions raised concerns about their supply chain impact and what it may mean for inflation and economic growth.

MARKET INDEX	Y-T-D CHANGE	May 2021
DJIA	15.53%	1.22%
NASDAQ	18.40%	4.00%
S&P 500	20.41%	2.90%
YIELD	**YTD**	**May 2021**
10 YR TREASURY	0.38%	1.30%

Sources: Yahoo Finance, August 31, 2021.
The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

Monthly Quote
"Perform at your best when your best is required. Your best is required each day."

JOHN WOODEN

Tip of the Month
If you're shopping for a homeowner policy, feel free to ask for a discount. If you can demonstrate that you are taking steps to manage risk, you may be able to negotiate one.

The Monthly Riddle
What do the words Potato, Voodoo, Grammar, Revive and Banana have in common?

Last month's riddle:
An auto dealership sold 150 cars in a special 6-day tent sale offer. Each day the dealership sold 6 more cars than the day before. How many cars were sold on the 6th day?

Last month's answer:
40 cars. On the first day, the company sold x cars. On the second day, x + 6, on the third day, x + 12, on the fourth day, x + 18, on the fifth day, x + 24, and on the sixth day, x + 30. If you add all the days together you get the equation: x + (x + 6) + (x + 12) + (x + 18) + (x + 24) + (x + 30) = 150 cars sold. 6x + 90 = 150 and so x = 10. So, on day 6 (x + 30) = 40.

5 predictions for the future of media

With remarkable speed, the COVID-19 pandemic has accelerated select investment themes across a number of industries. Nowhere is that truer than the media and entertainment sectors where technological advances and work-from-home trends are rapidly changing the landscape.

Structural shifts in media consumption are disrupting the business models of traditional media giants as momentum builds for cord cutting, streaming video services and more interactive forms of entertainment. The resulting shift in viewership habits, especially among young people, could profoundly alter the outlook for media companies in the years ahead.

With that in mind, here are five powerful themes that I believe will play a major role in the evolution of media and entertainment over the next decade.

1. Video games will surpass pay TV as the largest in-home entertainment market.

Video games should enjoy at least another decade of demographic tailwinds generated by young people playing and spending more, and older people continuing to stay in the game, so to speak. Dramatic advancements in graphics quality, increased access to cloud-based gaming platforms, and the further adoption of in-game monetization efforts should allow video games to continue taking time and wallet share from traditional pay TV companies.

Pandemic-related lockdowns over the past year allowed the gaming industry to shine like never before. Console makers Microsoft (Xbox), Sony (PlayStation) and Nintendo (Switch), as well as game developers such as Activision, Electronic Arts and Take-Two Interactive, experienced huge increases in engagement and revenue as homebound consumers turned to video games for interactive fun and perhaps some degree of escapism.

In my estimation, the $130 billion video game industry should be able to sustain a 5% annual growth rate over the next decade. On that path, video games will eventually surpass the $200 billion pay TV market that is growing at just 1% to 2% per year.

2. The number of U.S. pay TV bundle subscribers will fall dramatically.

In a related theme, I expect almost all general entertainment television viewing to shift away from legacy pay TV bundles and toward on-demand streaming over the next decade. Live sports and news, which account for about 25% of viewing, will be the only viable reasons that some consumers pay $100 or more per month for a bundle of channels.

NBCU is already making the Premier League and Olympics available on the Peacock streaming service. Meanwhile, the renewal of NFL Sunday Ticket in 2022 could spell the end of bundling as we know it. If it is made available on ESPN+, Amazon Prime Video or YouTube TV, that will be another reason for consumers to ditch the legacy bundle.

In another blow to the future of pay TV, young people in particular are turning away from conventional viewing in huge numbers. Since 2010, the time spent watching traditional TV by those ages 18 to 34 has declined by about 70%, according to ratings firm Nielsen. Traditional TV has also lost significant ground among people ages 35 to 49. Only the 65+ crowd has remained loyal over the past 10 years.

3. Video streaming will grow to become the primary form of movie and TV consumption.

It is becoming increasingly clear that streaming services are the primary replacement for traditional pay TV bundles. As consumers become comfortable cutting the cord, streaming giants such as Netflix, Disney+ and Amazon Video are the primary beneficiaries.

Similar to the video game industry, streaming services got a huge shot in the arm during the COVID-19 lockdowns as millions of new subscribers flocked to them in a binge-watching flurry. Once the domain of old TV shows and movies, new and original content is now driving growth at the major streaming services. Think “Stranger Things” on Netflix, “The Mandalorian” on Disney+ or “The Marvelous Mrs. Maisel” on Amazon Video. Netflix, for example, is expected to have a content budget of $25 billion to $30 billion by 2030, allowing it to potentially drop four $100 million series or movies each week. Given that enormous budget, there is a good chance Netflix will make something that most U.S. households will want to watch, enabling it to eventually reach about 90 million U.S. subscribers.

4. Professional football viewership could be in structural decline.

Today, the value of live sports to advertisers and legacy media companies is unquestioned — and the NFL is the gold standard. However, a growing number of NFL players are retiring after only a few years in the league due to fears of permanent injury. Additionally, most of the stabilization in viewership over the last two years has been attributed to the return of the older demographic after the NFL began focusing less on politics and more on the game. Viewing declines continue among younger people who are interested in a broader array of sports and less likely to play high school football.

5. Autonomous vehicles may provide an extra hour a day for media consumption.

With smartphone adoption maturing in the developed world, we are approaching daily media consumption of 10 to 11 hours per person. Driverless cars could provide a major growth boost in the years ahead. Given that the average commute in the U.S. is about 30 minutes each way, that potentially frees up another hour per day of media consumption.

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1. WSJ.com, August 31, 2021
2. Twitter.com/EarningsScout, August 26, 2021. 490 companies S&P 500 companies reported through August 26.
3. WSJ.com, August 26, 2021
4. WSJ.com, August 27, 2021
5. CDC.gov, August 27, 2021

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Capital Group – Technology and Innovation - Nathan Meyer Equity Investment Analyst