

## The Netflix's "End Game" Reset & The Fed Pivot

- **Macro:** Dovish 2026 Fed guidance signals a tactical Small Cap breakout.
- **Netflix:** The \$83bn WBD deal secures long-term dominance and pricing power.
- **Pick:** SPCOM80 targets 10–15% returns via concentrated media exposure.

### FOMC Spotlight: Igniting the "January Effect"

This week's spotlight is firmly on the 10-Dec FOMC, where a **25bps cut to 3.75%** is largely priced in. The real market catalyst will be the updated "Dot Plot" and Powell's 2026 guidance, specifically whether they validate the consensus view—held by Bank of America—of a January pause with just two cuts in 2026, aiming for a 3.00%–3.25% terminal rate. Any hint of a deeper cutting cycle would be decisively bullish for **Small Caps**, with the rate-sensitive **Russell 2000** technically coiled for a breakout. Historically, Small Cap stocks outperform in Dec/Jan (the "January Effect").

### Netflix: The \$83 Billion "End Game" Reset

Netflix (NFLX80) has a strengthened its media landscape with the agreement to acquire **Warner Bros. Discovery's** studio and its HBO Max for **~\$83b** (26x 2026E EBITDA for Warner Bros), includes IP like Harry Potter, Game of Thrones, and the DC Universe. However, market reaction has been skeptical, driving shares down to **~\$100**, as the massive price tag (\$27.75/share for WBD) and regulatory risk is extremely high.

### The Contrarian View: The "Engagement Multiplier" Thesis

While the market largely views the **\$83b WBD deal as expensive and risky**, our view is the opposite. In the **short term**, sentiment may track consensus, **but long term, the deal materially strengthens Netflix's leadership** in global streaming. Netflix has a proven ability to **revive 'dead' library assets**—placing old titles on the homepage can instantly turn dormant IP into breakout hits. Crucially, Netflix remains **one of the cheapest services on a Price-Per-Hour-Consumed basis** (Exhibit 6), offering **~50% lower cost than HBO**, giving the platform **significant room for future price hikes** post-merger. And while critics focus on the headline price, it must be weighed against Netflix's **annual content spend of \$18–20b**—meaning the acquisition effectively secures **decades of premium IP at a relative discount**, while lifting the long-term quality of Netflix's content portfolio.

### The Synergy Test & The \$5.8bn Break Fee

We see Netflix's core strength in **streaming distribution and content acquisition**, not in the consistency of its original-content quality. That's why the key bear case centers on **whether Netflix can actually unlock synergy from WBD's library**. If Netflix fails to elevate content quality using WBD's assets, the deal's economics become far less compelling. Regulatory risk also remains a meaningful overhang: **if the transaction is blocked, Netflix must pay a \$5.8b break fee to WBD**, materially tightening the downside scenario.

### DR Pick: SPCOM80 – The "Media Super-Cycle" Play

We reiterate **SPCOM80** ([State Street® Communication Services index](#)) as our weekly DR pick. The ETF has delivered a **+20% YTD return**, outperforming the S&P500 (+17%) by capitalizing on a structurally strengthening media cycle. Its concentrated allocation features **Alphabet (20%)** as our preferred AI compounder and **Meta (13%)**, which is aggressively regaining momentum despite previous lags. Crucially, the fund holds **Warner Bros (6%)** and **Netflix (5%)**, offering direct exposure to the sector's consolidation; we expect this shifting landscape to reinforce Netflix's leadership. We view this basket of quality names as capable of delivering **10–15% long-term growth**.

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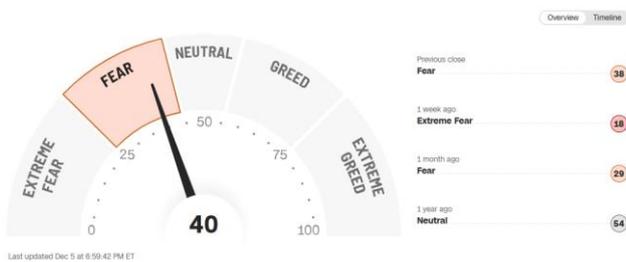
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### Exhibit 1: Fear & Greed Index

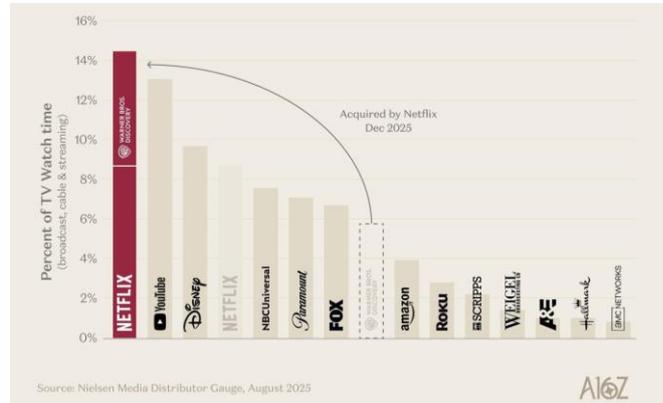
#### Fear & Greed Index

What emotion is driving the market now?  
[Learn more about the index](#)



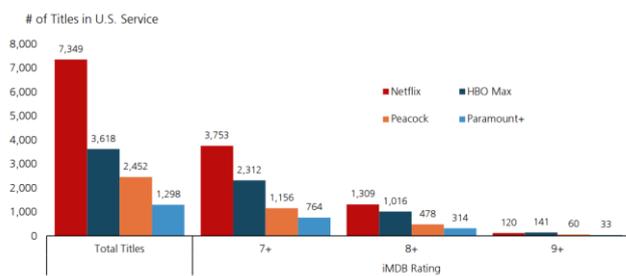
Sources: CNN

### Exhibit 2: Media company share of screen time



Sources: A16Z

### Exhibit 3: Streaming Library: Quantity and Quality



Sources: UBS, Justwatch

### Exhibit 4: Engagement of Top Titles and Audience Score



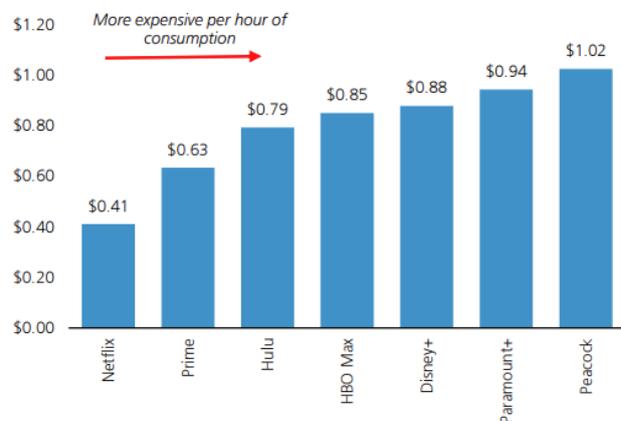
Sources: UBS, Nielsen, JustWatch

### Exhibit 5: WBTV Series Deliveries and Projects

Title	Platform	Release <sup>1</sup>	iMDB Rating
Harry Potter	HBO Max	2027	na
Unaccustomed Earth	Netflix	2026-27	na
Ted Lasso	Apple TV	2026	8.8
All American	CW	Feb-26	7.6
Shrinking	Apple TV	Jan-26	8.1
Memory of a Killer	Fox	Jan-26	na
The Pitt	HBO Max	Jan-26	8.9
Not Suitable for Work	Hulu	Dec-25	na
It: Welcome to Derry	HBO Max	Oct-25	7.7
George and Mandy's First Marriage	CBS	Oct-25	7.0
Abbott Elementary	ABC/Hulu	Oct-25	8.2
The Voice	NBC/Peacock	Sep-25	6.5
Peacemaker	HBO Max	Aug-25	8.3
Leanne	Netflix	Jul-25	7.1
Untamed	Netflix	Jul-25	7.1
You	Netflix	Apr-25	7.6
Running Point	Netflix	Feb-25	7.3
Brilliant Minds	NBC	Sep-24	7.1
The Penguin	HBO Max	Sep-24	8.6
Emperor of Ocean Park	MGM+	Jul-24	6.0
Presumed Innocent	Apple TV	Jun-24	7.7
Dead Boy Detectives	Netflix	Apr-24	7.5
Shining Vale	Starz	Oct-23	7.0
Manifest	Netflix	Jun-23	7.0
Mrs. Davis	Peacock	Apr-23	7.3

Sources: company data, iMDB

### Exhibit 6: Price Paid per Hour of Consumption



Sources: company data, Nielsen

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### Analyst Certification

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## RECOMMENDATION STRUCTURE

### Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

- BUY:** Expected return of 10% or more over the next 12 months.  
**HOLD:** Expected return between -10% and 10% over the next 12 months.  
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.  
**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.  
**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

### Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.