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Monthly Insights: May Outlook

Utilities Sector

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Sector Price Action & Performance Review: Utilities



Utilities stocks continue to outperform in 2025 as they move sideways while the S&P 500 corrects. April was a 3rd consecutive month of outperformance, though a pullback at month’s end hints at more potential rotation.

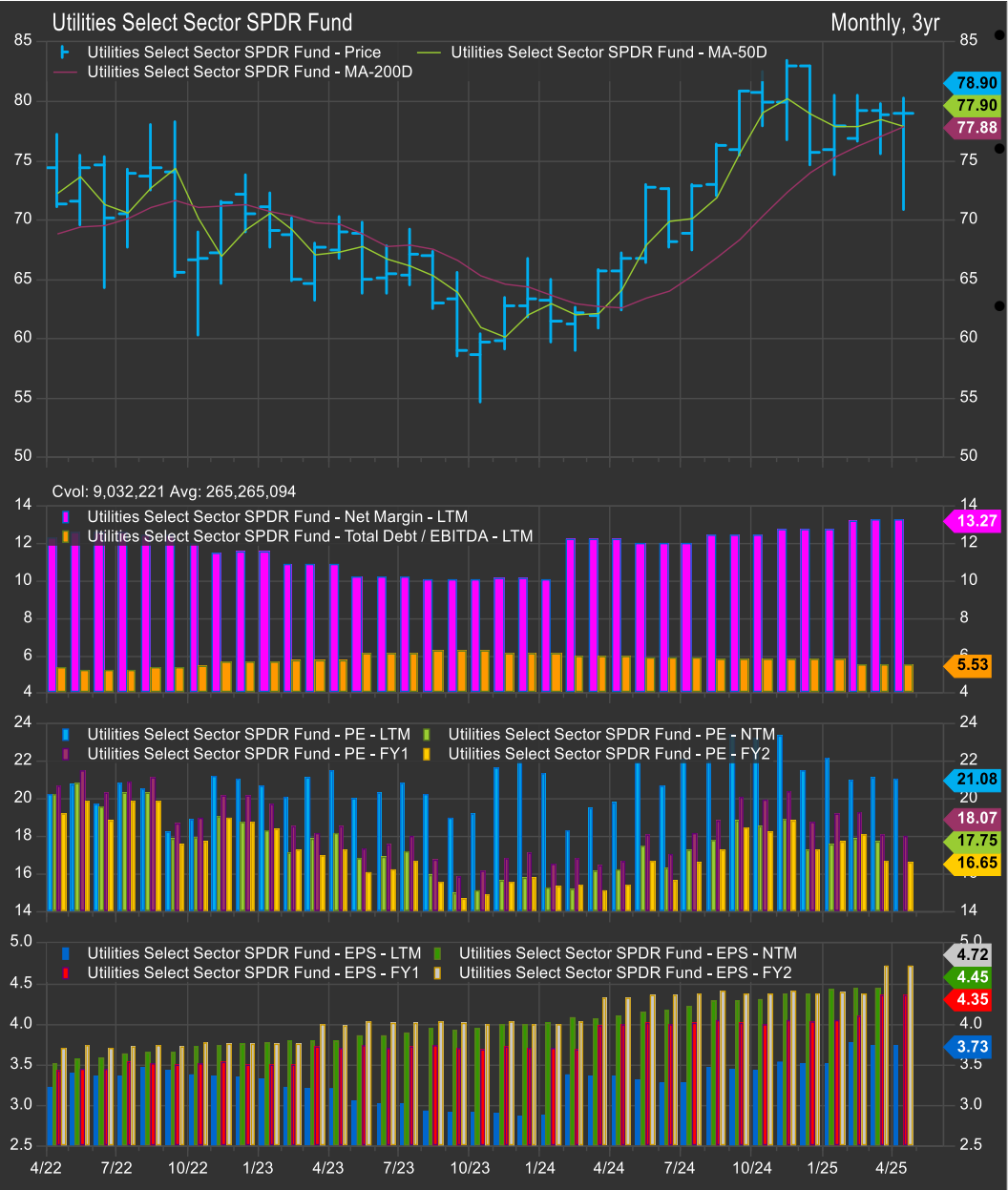
Oscillator studies are in a neutral position, and we expect performance will depend on whether equities continue to reflate or correct. The latter would likely benefit Utilities exposures relative to the broad market.

With consensus shifting from a bullish “soft landing” scenario to an economic picture with more uncertainty around inflation from trade policy and growing potential for recession, Utilities have a chance to continue outperforming in the near-term

It remains to be seen whether trade policy will create inflationary outcomes, but for the time being yields are moving lower as investors discount an increased probability of recession or stagnation from higher import/export costs.

We start March with an **OVERWEIGHT allocation to the Utilities Sector of **+1.78%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Utilities Sector

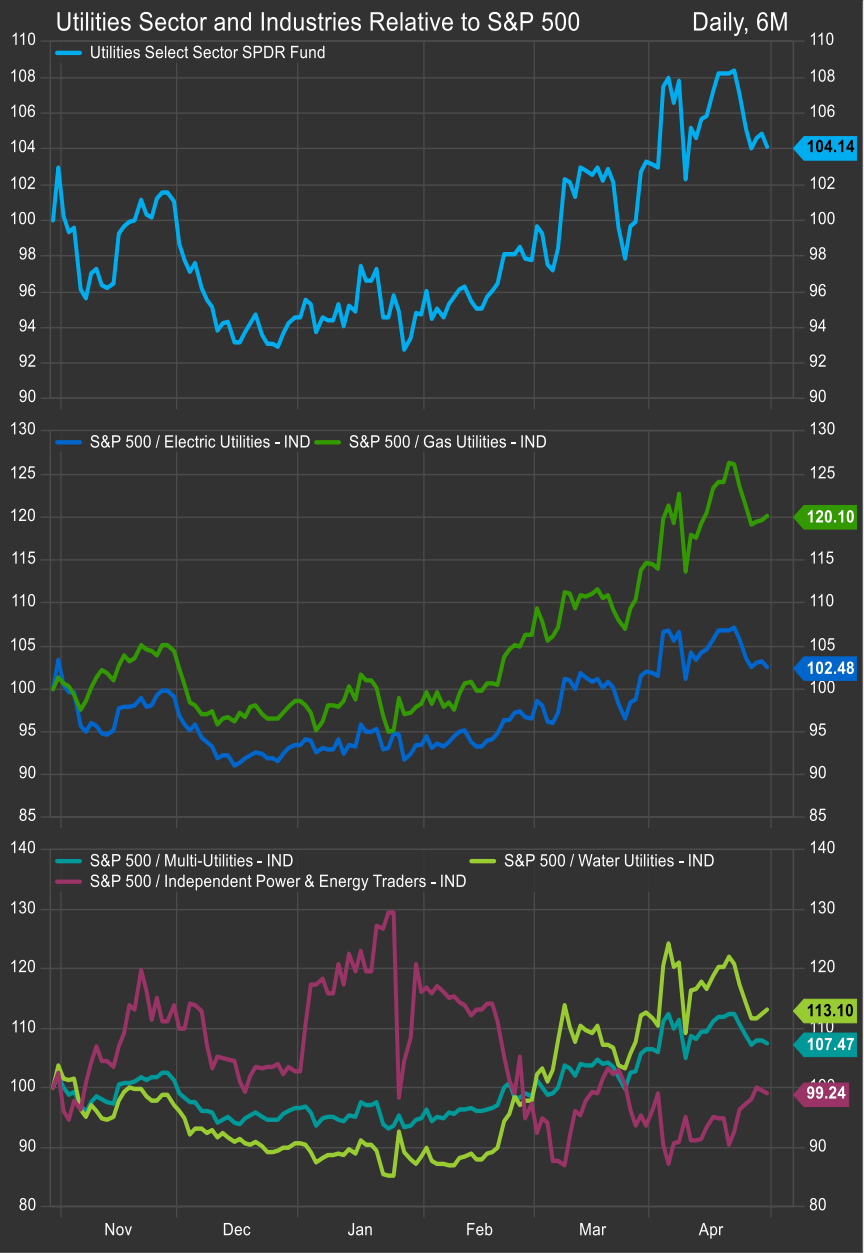


The chart (left) shows S&P 500 Utilities Sector Margins, Debt/EBITDA, Valuation and Earnings

The second half of 2024 saw net margins expand for the sector while debt burden relative to EBITDA has decreased (chart, panel 2)

Valuation (chart, panel 3) got lofty on a trailing 12-month basis as the sector spent 2024 trading at or above the S&P 500 multiple...however, projected earnings growth over the next 2 years is robust with a projected growth rate > 10% and corresponding forward valuations set to contract

Industry Performance and Breadth: Utilities



Utilities Industries (chart, left): The sector outperformed in April, but a pullback at month's end leave's the sector at a potential pivot entering May

Gas Utilities have been leadership while Water and Multi-line operators also continue in a bullish reversal pattern

Utilities Sector Internals (chart, right): Internal trends remain favorable for the sector as recessionary concerns have taken long rates lower adding a tailwind

Top 10/Bottom 10 Stock Level Performers: Utilities

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
NRG	NRG Energy, Inc.	Uptrend	22,307.6	0.58	26.6	1.1	15.3	NT OVERBOUGHT
CEG	Constellation Energy Corporation	Support	70,949.0	0.92	-5.3	0.5	10.5	
VST	Vistra Corp.	Bullish Reversal	43,992.5	0.76	12.2	0.5	8.9	
SRE	Sempra	Support	49,121.7	0.65	-1.3	2.3	8.3	
FE	FirstEnergy Corp.	Consolidation	24,856.8	0.67	9.8	2.7	7.8	
CNP	CenterPoint Energy, Inc.	Bullish Reversal	24,960.3	0.86	27.8	1.5	5.8	
EXC	Exelon Corporation	Bullish Reversal	47,296.7	0.69	22.4	2.3	5.1	
ATO	Atmos Energy Corporation	Bullish Reversal	25,347.3	0.86	20.1	1.4	5.0	
ED	Consolidated Edison, Inc.	Bullish Reversal	40,389.3	0.79	17.9	2.0	3.4	
EIX	Edison International	Consolidation	22,612.4	0.39	-9.6	3.7	2.8	

Bull market leaders CEG and VST return to the leader board

AES was a notable laggard while NEE fell out of a bullish reversal pattern

The bid remained strong for the sector, but we started seeing some rotation into riskier exposures at the end of April

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
AES	AES Corporation	Downtrend	7,382.5	0.19	-23.4	4.5	-16.2	NT OVERSOLD
NEE	NextEra Energy, Inc.	Consolidation	138,442.9	0.72	-5.0	2.2	-4.3	
LNT	Alliant Energy Corporation	Bullish Reversal	15,826.0	0.76	10.8	2.2	-2.8	
ES	Eversource Energy	Consolidation	21,812.0	0.50	1.5	3.3	-2.5	
D	Dominion Energy Inc	Consolidation	46,283.8	0.64	1.9	3.2	-1.0	
ETR	Entergy Corporation	Bullish Reversal	36,168.5	0.84	26.5	1.8	-0.8	
CMS	CMS Energy Corporation	Bullish Reversal	22,024.5	0.81	13.9	2.0	-0.5	
NI	NiSource Inc	Bullish Reversal	18,692.4	0.84	20.6	1.9	-0.2	
AEE	Ameren Corporation	Bullish Reversal	26,802.3	0.79	18.5	1.9	-0.2	
AWK	American Water Works Company, Inc.	Consolidation	28,444.3	1.00	15.2	1.5	0.0	

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Utilities Sector

1. Interest Rates & Yield Sensitivity: Tailwind from Lower Long-End Yields

Utilities were supported in April by:

A sustained **decline in Treasury yields**, with the 30Y dipping below 4.70% late in the month, after a steepening curve reversal early in April.

Market expectations for **~85 basis points of Fed rate cuts in 2025** remained intact, despite conflicting Fed commentary.

Cleveland Fed's Hammack and Governor Waller leaned dovish in late-April remarks, noting tariffs may delay the Fed's ability to react but expressing readiness to move if data weakens further.

Given utilities' sensitivity to borrowing costs and long-duration cash flows, this **fall in long-end yields served as a clear tailwind**—supporting valuation multiples and funding conditions for capital-intensive projects.

2. Inflation & Tariffs: Cost Pressures Creep into Operations

While largely spared from direct tariff exposure, utilities are not immune to:

Higher capital costs, as companies cited elevated prices for steel, copper, transformers, and imported components used in grid modernization and renewable infrastructure.

Tariff spillovers from industrial and materials sectors, raising the cost of procurement and maintenance for large utility networks.

Several April headlines hinted at **emerging energy infrastructure delays**, with reports that **port congestion and slower import activity** were beginning to ripple into the industrial supply base.

At the same time, **labor cost inflation remained a challenge**, with wage growth sticky and utility unions pushing for CPI-linked adjustments.

3. Regulation & Political Risk: Grid Modernization vs Fiscal Restraint

Political developments introduced new uncertainty:

Trump's administration emphasized energy reliability and U.S.-made components but provided **little clarity on new subsidies or infrastructure incentives**.

Some utilities flagged **regulatory lag** in passing cost inflation onto ratepayers,

especially in jurisdictions with political resistance to higher residential bills.

In Washington, reconciliation talks included **debates over tax credit phase-outs** for renewables and energy efficiency programs—key supports for diversified utilities.

While not yet material, the **potential rollback of IRA-related subsidies** could weigh on long-term renewables planning, particularly for companies investing heavily in grid decarbonization.

4. Demand Trends: Weather Mixed, Usage Stable

From a fundamentals standpoint:

Weather was a mild net negative for Q1/Q2 demand, particularly in the Northeast and Midwest, where a warm winter reduced heating load.

However, utilities with exposure to **data centers and industrial electrification trends** (e.g., through commercial load growth) remained upbeat.

Residential usage trends were flat to slightly lower, in line with weakening consumer sentiment and reduced discretionary usage.

5. April Earnings Highlights

Few major utilities reported in April, but sentiment was supported by solid guidance and commentary:

NextEra Energy (NEE) maintained FY guidance and said it was well-positioned to manage input cost pressures with existing hedges.

Dominion Energy (D) and **Southern Company (SO)** noted improved regulatory relationships and ongoing investment in grid hardening and renewables.

Digital Realty Trust (DLR), while technically a REIT, offered relevant color by flagging **strong utility-driven demand from data center clients**, which could support longer-term base load requirements in major U.S. grids.

On balance, guidance was either reaffirmed or modestly raised, with no major negative surprises from regulatory or operating performance.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.